Table of Contents

As filed with the Securities and Exchange Commission on May 29, 2008

Registration No. 333-

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

FORM N-2

(Check appropriate box or boxes)

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

☐ **Pre-Effective Amendment No. 1**

☐ **Post-Effective Amendment No.**

KOHLBERG CAPITAL CORPORATION

(Exact Name of Registrant as Specified in Charter)

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

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

Copy to:

Craig E. Marcus, Esq.
Ropes & Gray LLP
One International Place
Boston, Massachusetts 02110
Telephone: (617) 951-7000
Facsimile: (617) 951-7050

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

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

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee(1)
Common Stock, $0.01 par value(2)				
Preferred Stock, $0.01 par value(2)				
Warrants(3)				
Subscription Rights(4)				
Debt Securities(5)				
Total			$ 200,000,000(6)	$ 7,860

(1) Estimated pursuant to Rule 457 solely for the purposes of determining the registration fee. The Registrant previously paid $2,461 in connection with its Registration Statement on Form N-2 (Registration No. 333-146190), which was initially filed on September 20, 2007 and was withdrawn on October 22, 2007, of which $1,022 is offset against the currently due filing fee. The proposed maximum offering price per security will be determined, from time to time, by the Registrant in connection with the sale by the Registrant of the securities registered under this registration statement.

(2) Subject to Note 6 below, there is being registered hereunder an indeterminate number of shares of common stock or preferred stock as may be sold, from time to time.

(3) Subject to Note 6 below, there is being registered hereunder an indeterminate number of warrants as may be sold, from time to time, representing rights to purchase common stock, preferred stock or debt securities.

(4) Subject to Note 6 below, there is being registered hereunder an indeterminate number of subscription rights as may be sold, from time to time, representing rights to purchase common stock.

(5) Subject to Note 6 below, there is being registered hereunder an indeterminate principal amount of debt securities as may be sold, from time to time. If any debt securities are issued at an original issue discount, then the offering price shall be in such greater principal amount as shall result in an aggregate price to investors not to exceed $200,000,000.

(6) In no event will the aggregate offering price of all securities issued from time to time pursuant to this registration statement exceed $200,000,000.

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

Table of Contents

Subject to Completion
Preliminary Prospectus Dated May 29, 2008

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

PROSPECTUS

KOHLBERG
CAPITAL CORPORATION

Common Stock
Preferred Stock
Warrants
Subscription Rights
Debt Securities

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 of $10 million to $50 million and/or total debt of $25 million to $150 million. In addition to our middle market investment business, our wholly-owned portfolio company, Katonah Debt Advisors, L.L.C. ("Katonah Debt Advisors") manages collateralized loan obligation funds ("CLO Funds") that invest in broadly syndicated loans, high-yield bonds and other corporate credit instruments, and had approximately $2.3 billion of assets under management as of March 31, 2008. We acquired Katonah Debt Advisors and certain related assets prior to our initial public offering, from affiliates of Kohlberg & Co., L.L.C. ("Kohlberg & Co."), a leading private equity firm focused on middle market investing. We maintain a strategic relationship with Kohlberg & Co., which includes access to the expertise of certain executives of Kohlberg & Co. in middle market leveraged investing and a royalty-free license to use the "Kohlberg" name.

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

We may offer, from time to time, in one or more offerings or series, up to $200,000,000 of our common stock, preferred stock, subscription rights, debt securities or warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, separately or as units comprising any combination of the foregoing, which we refer to, collectively, as the "securities." The debt securities, preferred stock, warrants and subscription rights offered by means of this prospectus may be convertible or exchangeable into shares of our common stock. The securities may be offered at prices and on terms to be described in one or more supplements to this prospectus. In the event we offer common stock or warrants or rights to acquire such common stock hereunder, the offering price per share of our common stock less any underwriting commissions or discounts will not be less than the net asset value per share of our common stock at the time we make the offering except (1) in connection with the exercise of any warrants or rights in certain circumstances; (2) to the extent the holders of a majority of our outstanding voting securities and the holders of a majority of our outstanding voting securities that are not held by our affiliates approve such an offer at an annual meeting within one year of such an offer (we are currently seeking such approvals pursuant to a proxy statement dated April 23, 2008 in connection with our 2008 annual meeting of stockholders currently scheduled to be held on June 13, 2008); or (3) under such other circumstances as the Securities and Exchange Commission ("SEC") may permit. Note that, for 1940 Act purposes, a "majority" of outstanding securities consists of (i) 67% or more of the voting securities present at a stockholders' meeting if the holders of more than 50% of the outstanding voting securities of the Company are present or represented by proxy; or (ii) 50% of the outstanding voting securities of the Company, whichever is less.

Our common stock is traded on The Nasdaq Global Select Market under the symbol "KCAP." The net asset value per share of our common stock as of March 31, 2008 was $13.98, based on net assets of approximately $253 million as of March 31, 2008. **Shares of closed-end investment companies, including BDCs, frequently trade at a discount to their net asset value. If our shares trade at a discount to net asset value, it may increase the risk of loss for purchasers in this public offering. See "Shares of closed-end investment companies, including BDCs, frequently trade at a discount to their net asset value, and we cannot assure you that the market price of our common stock will not decline following an offering" on page 28 for more information.** On May 28, 2008 the last reported sale price of a share of our common stock on The Nasdaq Global Select Market was $12.50.

Investing in our securities involves significant risks. See " Risk Factors" beginning on page 15.

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

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

This prospectus may not be used to consummate sales of securities unless accompanied by a prospectus supplement.

The date of this prospectus is 2008.

Table of Contents

You should rely only on the information contained in this prospectus and any accompanying prospectus supplements. We have not authorized any dealer, salesperson or other person to provide you with different information or to make representations as to matters not stated in this prospectus and any accompanying prospectus supplements. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus or any accompanying prospectus supplement is not an offer to sell, or a solicitation of an offer to buy, any securities by any person in any jurisdiction where it is unlawful for that person to make such an offer or solicitation or to any person in any jurisdiction to whom it is unlawful to make such an offer or solicitation. The information in this prospectus and any accompanying prospectus supplements is accurate only as of the date of this prospectus or such prospectus supplement, as applicable, and under no circumstances should the delivery of this prospectus or any accompanying prospectus supplement or the sale of any securities imply that the information in this prospectus or such accompanying prospectus supplement is accurate as of any later date or that the affairs of Kohlberg Capital Corporation have not changed since the date hereof or thereof. We will update the information in these documents to reflect material changes only as required by law. Our business, financial condition, results of operations and prospectus may have changed since then.

TABLE OF CONTENTS

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we have filed with the SEC, using the "shelf" registration process. Under the shelf registration process, we may offer, from time to time, in one or more offerings or series, up to $200,000,000 of our common stock, preferred stock, subscription rights, debt securities or warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, separately or as units comprising any combination of the foregoing, on the terms to be determined at the time of the offering. The securities may be offered at prices and on terms described in one or more supplements to this prospectus. This prospectus provides you with a general description of the securities that we may offer. Each time we use this prospectus to offer securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. Please carefully read this prospectus and any prospectus supplement together with any exhibits and the additional information described under the headings "Risk Factors" and "Available Information" before you make an investment decision.

PROSPECTUS SUMMARY

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

OVERVIEW

We are an internally managed, non-diversified closed-end investment company that has elected to be regulated as a business development company ("BDC") under the Investment Company Act of 1940, as amended (the "1940 Act"). We originate, structure and invest in senior secured term loans, mezzanine debt and selected equity securities primarily in privately-held middle market companies. We define the middle market as comprising companies with earnings before interest, taxes, depreciation and amortization, which we refer to as "EBITDA," of $10 million to $50 million and/or total debt of $25 million to $150 million. In addition to our middle market investment business, our wholly-owned portfolio company, Katonah Debt Advisors, manages collateralized loan obligation funds ("CLO Funds") that invest in broadly syndicated loans, high-yield bonds and other corporate credit instruments. We acquired Katonah Debt Advisors and certain related assets prior to our initial public offering from affiliates of Kohlberg & Co., L.L.C. ("Kohlberg & Co."), a leading private equity firm focused on middle market investing. As of March 31, 2008, Katonah Debt Advisors had approximately $2.3 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 companies and do not include any asset-backed securities secured by commercial mortgages, residential mortgages or other consumer borrowings.

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

Recent Developments

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

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

Recent Company Developments. On December 20, 2007, we committed to make an investment in a new distressed investment platform organized by Steven Panagos and Jonathan Katz and named Panagos/Katz Situational Investing ("PKSI"). Mr. Panagos was most recently national practice leader of Kroll Zolfo Cooper's Corporate Advisory and Restructuring Practice, and Mr. Katz was the founding partner of Special Situations Investing Inc., a distressed investing vehicle of JPMorgan Chase & Co. ("JPMorgan"). We expect that funds managed by PKSI will invest in the debt and equity securities of companies that are restructuring due to financial or operational distress. We also expect that PKSI may selectively originate new credit facilities with borrowers that are otherwise unable to access traditional credit markets. We committed to invest up to $2.5 million directly in PKSI through an investment in its Class A securities. We have a 35% economic interest in PKSI through our investment in its Class B securities on which we will receive our pro rata share of its operating income and may make an investment of up to $25 million in funds managed by PKSI, on which we will receive our pro rata share of such funds' investment income. PKSI may also source distressed debt opportunities in which we may make direct investments. As of March 31, 2008, we had funded approximately $900,000 of our $2.5 million commitment to invest in Class A securities of PKSI.

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

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

On March 31, 2008, we announced the terms of a transferable rights offering ("transferable rights offering") for which we issued to shareholders of record as of March 31, 2008 transferable rights to subscribe for an aggregate of up to 3.1 million shares of our common stock (one right for every six shares owned as of the record date). On April 28, 2008, the expiration date of the transferable rights offering, we fixed the subscription price of $9.2666, which is equal to 95% of the volume-weighted average of the sales prices of our shares of common stock on the NASDAQ Global Select Market for the prior ten consecutive trading days. We received basic subscriptions for approximately 2.8 million shares with over-subscriptions of approximately 1.3 million shares which were allocated pro-rata among the record date stockholders in accordance with the procedures described in the transferable rights offering prospectus. No over-subscription shares were issued to holders of rights who were not record date stockholders. The issuance of the 3.1 million of shares offered through the transferable rights offering resulted in gross proceeds to us of approximately $29 million. We have used the net proceeds from the transferable rights offering to reduce existing indebtedness under our credit facility. However, such reduction of indebtedness is expected to be only temporary, and we expect to utilize our credit facility for additional borrowings in accordance with our investment objective and strategy and relevant legal rules applicable to BDCs.

OUR PORTFOLIO

Investment Securities

We invest in senior secured loans and mezzanine debt and, to a lesser extent, equity capital, of middle market companies in a variety of industries. We generally target companies that generate positive cash flows because we look to cash flows as the primary source for servicing debt. However, we may invest in other companies if we are presented with attractive opportunities. Our portfolio investments at fair value decreased from $505 million at December 31, 2007 to $488 million as of March 31, 2008. The net decrease in portfolio size relates primarily to unrealized mark-to-market fair value declines in our investment portfolio. Such decline relates primarily to illiquidity in the broader debt markets and not to credit issues in our portfolio. Our intention is to hold such assets to maturity and thus mitigate such unrealized losses. During the year ended December 31, 2007, we also sold some of our initial portfolio of primarily first lien loans that were accumulated prior to completion of our initial public offering in order to move towards our targeted portfolio mix of first and second lien loans, mezzanine finance and equity securities. First lien loan balances at fair value decreased to $216 million at March 31, 2008 from $260 million at December 31, 2007. Second lien, mezzanine loan and bond positions decreased to $147 million at March 31, 2008 from $151 million at December 31, 2007. We had equity securities, other than CLO equity securities, totaling $3.6 million and investments in CLO Fund securities of $57 million at fair value as of March 31, 2008. As of March 31, 2008, our investments in loans and debt securities had an annual weighted average interest rate of approximately 7.8%. For additional information regarding our investment portfolio and estimated net asset value as of March 31, 2008 see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview—Investment Securities."

Investment in CLO Fund Securities

We typically make a minority investment in the subordinated securities or preferred stock of CLO Funds raised and managed by Katonah Debt Advisors and may selectively invest in securities issued by CLO Funds managed by other asset management companies. The securities issued by CLO Funds managed by Katonah Debt Advisors are primarily held by third parties. As of March 31, 2008, we had $57 million invested in CLO Fund securities, including those issued by funds 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 any investment are generally diversified secured or unsecured corporate debt and exclude mortgage pools or mortgage securities (residential mortgage bonds, commercial mortgage backed securities, or related asset-backed securities), debt to companies providing mortgage lending and emerging markets investments. The CLO Funds

are leveraged funds and any excess cash flow or "excess spread" (interest earned by the underlying securities in the fund less payments made to senior bond holders and less fund expenses and management fees) is paid to the holders of the CLO Fund's subordinated securities or preferred stock. As of March 31, 2008, all of the CLO Funds in which we hold investments maintained the original issue credit ratings on all classes of their securities and were continuing to make cash payments to all classes of investors. As of March 31, 2008, our CLO Fund securities had an average annual cash yield of 28%.

Investment in Katonah Debt Advisors

Katonah Debt Advisors is our wholly-owned asset management company that manages CLO Funds that invest in broadly syndicated loans, high yield bonds and other credit instruments. As a manager of the CLO Funds, Katonah Debt Advisors expects to receive contractual and recurring management fees and any subsequent incentive management fees from the CLO Funds for its management and advisory services. The annual fees which Katonah Debt Advisors receives are generally based on a fixed percentage of assets under management, and Katonah Debt Advisors generates annual operating income equal to the amount by which its fee income exceeds it operating expenses. In future years, Katonah Debt Advisors may receive accrued incentive fees upon the liquidation of CLO Funds it manages, provided such CLO Funds have achieved a minimum investment return to holders of their subordinated securities or preferred stock. Katonah Debt Advisors also typically receives one-time structuring fees upon the creation of a new CLO Fund. The CLO Funds managed by Katonah Debt Advisors consist exclusively of credit instruments issued by corporations and do not invest in asset-backed securities such as those secured by residential mortgages or other consumer borrowings. As of March 31, 2008, Katonah Debt Advisors had approximately $2.3 billion of assets under management, and our 100% equity interest in the company was valued at approximately $63 million.

Portfolio Valuation

We carry our investments at fair value, as determined in good faith by our Board of Directors pursuant to procedures approved by our Board of Directors. Investments for which market quotations are readily available are valued at such market quotations ("marked to market"). The Board of Directors has retained an independent valuation firm to provide third-party valuation consulting services, which consist of certain limited procedures that we identify and request the independent valuation firm to perform. As of March 31, 2008, approximately 51% of our investments were investments that were marked to market or for which we utilized the valuation services provided by the independent valuation firm in connection with the determination of fair value by our Board of Directors. Investments for which there is not a readily available market value are valued at fair value as determined in good faith by our Board of Directors under a valuation policy and a valuation process which are intended to provide a consistent basis for determining the fair value of the portfolio. However, due to the inherent uncertainty of determining the fair value of investments that cannot be marked to market, the fair value of our investments may differ significantly from the values that would have been used had a market existed for such investments or from the values that would have been placed on such assets by other market participants, and the differences could be material. See "Risk Factors—Risks Related to Our Investments—Our portfolio investments for which there is no readily available market, including our investment in Katonah Debt Advisors, are recorded at fair value as determined in good faith by our Board of Directors. As a result, there is uncertainty as to the value of these investments" and "Determination of Net Asset Value."

OUR STRATEGIC RELATIONSHIP WITH KOHLBERG & CO.

We believe that we derive substantial benefits from our strategic relationship with Kohlberg & Co. The Chairman and co-managing partners of Kohlberg & Co., each of whom is a member of our Board of Directors, and, in the case of the co-managing partners, also members of our Investment Committee, each possesses on average more than 20 years of investment banking and middle market investing experience. Christopher Lacovara, one of the firm's two co-managing partners, serves as the Chairman of our Board of Directors and of

our Investment Committee. Through such participation, we have access to the expertise of these individuals in the middle market and leveraged investing, which we believe enhances our capital raising, due diligence, investment selection and credit analysis activities. Affiliates of Kohlberg & Co., including those who serve on our Board of Directors and on our Investment Committee, own, in the aggregate, approximately 15% of our outstanding common stock. Kohlberg & Co. is a leading U.S. private equity firm which manages investment funds that acquire middle market companies. Since its founding in 1987, Kohlberg & Co. has organized six private equity funds, through which it has raised approximately $3.5 billion of committed capital and completed more than 80 platform and add-on acquisitions with an aggregate value of approximately $7 billion.

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

COMPETITIVE ADVANTAGES

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

- **Internally managed structure and significant management resources**. We are internally managed by our executive officers under the supervision of our Board of Directors and do not depend on a third party investment advisor. As a result, we do not pay investment advisory fees and all of our income is available to pay our operating costs and to make distributions to our stockholders.
- **Multiple sourcing capabilities for assets**. We have multiple sources of loans, mezzanine investments and equity investments through our industry relationships, Katonah Debt Advisors and our strategic relationship with Kohlberg & Co. From January 1, 2007 through December 31, 2007, we reviewed 595 investment opportunities, which resulted in 50 completed transactions and a total gross investment of $374 million.
- **Disciplined investment process**. We employ a rigorous credit review process and due diligence intensive investment strategy which our senior management has developed over more than 20 years of lending. For each analyzed company, we develop our own underwriting case and multiple stress case scenarios and an event-specific financial model reflecting company, industry and market variables. Generally, both we and the CLO Funds managed by Katonah Debt Advisors have decided not to invest in highly leveraged or "covenant light" credit facilities.
- **Katonah Debt Advisors' credit platform**. Katonah Debt Advisors serves as a source of our direct investment opportunities and cash flow, and certain credit analysts employed by Katonah Debt Advisors who also serve as officers of the Company serve as a resource for credit analysis.
- **Investments in a wide variety of portfolio companies in a number of different industries with no exposure to mortgage-backed securities**. Our investment portfolio (excluding our investments in Katonah Debt Advisors and CLO Fund securities) is spread across 26 different industries and 86 different entities with an average balance per investment of approximately $4 million. Our investment portfolio as well as the investment portfolios of the CLO Funds in which we have invested and the investment portfolios of the CLO Funds managed by Katonah Debt Advisors consist exclusively of credit instruments and other securities issued by companies and do not include any asset-backed securities secured by commercial mortgages, residential mortgages or other consumer borrowings.

- **Strategic relationship with Kohlberg & Co**. We believe that Kohlberg & Co. is one of the oldest and most well-known private equity firms focused on the middle market, and we expect to continue to derive substantial benefits from our strategic relationship with Kohlberg & Co.
- **Significant equity ownership and alignment of incentives**. Our senior management team, the senior management team of Katonah Debt Advisors and affiliates of Kohlberg & Co. together have a significant equity interest in the Company, ensuring that their incentives are strongly aligned with those of our stockholders.

RISK FACTORS

Investing in Kohlberg & Co. involves significant risks. The following is a summary of certain risks that you should carefully consider before investing in our securities. For a further discussion of these risk factors, please see "Risk Factors" beginning on page 15.

Risks Related to Our Business

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

Risks Related to Our Investments

- Our investments may be risky, and you could lose all or part of your investment.
- Our portfolio investments for which there is no readily available market, including our investment in Katonah Debt Advisors, are recorded at fair value as determined in good faith by our Board of Directors. As a result, there is uncertainty as to the value of these investments.
- We are a non-diversified investment company within the meaning of the 1940 Act, and therefore we may invest a significant portion of our assets in a relatively small number of issuers, which subjects us to a risk of significant loss if any of these issuers defaults on its obligations under any of its debt instruments or as a result of a downturn in the particular industry.
- Economic recessions or downturns could negatively impact our portfolio companies and harm our operating results.
- Defaults by our portfolio companies could harm our operating results.
- When we are a debt or minority equity investor in a portfolio company, which generally is the case, we may not be in a position to control the entity, and its management may make decisions that could decrease the value of our investment.
- Prepayments of our debt investments by our portfolio companies could negatively impact our operating results.
- Our portfolio companies may incur debt that ranks equally with, or senior to, our investments in such companies.
- There may be circumstances where our debt investments could be subordinated to claims of other creditors or we could be subject to lender liability claims.
- Our investments in equity securities involve a substantial degree of risk.
- The lack of liquidity in our investments may adversely affect our business.
- We may not receive all or a portion of the income we expect to continue to receive from Katonah Debt Advisors.
- We may not receive any return on our investment in the CLO Funds in which we have invested and we may be unable to raise additional CLO Funds.

Risks Related to Our Operation as a BDC

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

Risks Related to Offerings Pursuant to This Prospectus

- There is a risk that investors in our equity securities may not receive dividends or that our dividends may not grow over time and that investors in our debt securities may not receive all of the interest income to which they are entitled.
- Investing in shares of our common stock may involve an above average degree of risk.
- Shares of closed-end investment companies, including BDCs, frequently trade at a discount to their net asset value, and we cannot assure you that the market price of our common stock will not decline following an offering.
- We may allocate the net proceeds from an offering, to the extent it is successful, in ways with which you may not agree.
- Our share price may be volatile and may fluctuate substantially.
- Your interest in us may be diluted if you do not fully exercise your subscription rights in any rights offering. In addition, if the subscription price is less than our net asset value per share, then you will experience an immediate dilution of the aggregate net asset value of your shares.
- Investors in offerings of our common stock may incur immediate dilution upon the closing of such offering.
- Stockholders will experience dilution in their ownership percentage if they do not participate in our dividend reinvestment plan.
- The trading market or market value of our publicly issued debt securities may fluctuate.
- Terms relating to redemption may materially adversely affect your return on the debt securities.
- Our credit ratings may not reflect all risks of an investment in the debt securities.
- If a substantial number of shares become available for sale and are sold in a short period of time, the market price of our common stock could decline.
- Our principal stockholders have substantial ownership in us, which could limit your ability to influence the outcome of key transactions, including a change of control. In addition, some of our stockholders may have interests in Kohlberg Capital that differ from yours.
- Certain provisions of the Delaware General Corporation Law and our certificate of incorporation and bylaws could deter takeover attempts and have an adverse impact on the price of our common stock.

OUR QUALIFICATION AS A REGULATED INVESTMENT COMPANY

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

represented our estimated net investment company income for the quarters ended March 31, 2007, June 30, 2007, September 30, 2007, December 31, 2007 and March 31, 2008, plus a portion of our undistributed 2006 net investment company income.

OUR CORPORATE INFORMATION

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

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

OFFERINGS

We may offer, from time to time, up to $200,000,000 of our common stock, preferred stock, subscription rights, debt securities or warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, separately or as units comprising any combination of the foregoing, on terms to be determined at the time of the offering. The debt securities, preferred stock, warrants and subscription rights offered by means of this prospectus may be convertible or exchangeable into shares of our common stock. We will offer our securities at prices and on terms to be set forth in one or more supplements to this prospectus. In the event we offer common stock or warrants or rights to acquire such common stock, the offering price per share of our common stock less any underwriting commissions or discounts will not be less than the net asset value per share of our common stock at the time we make the offering except (1) in connection with the exercise of any warrants or rights in certain circumstances; (2) to the extent the holders of a majority of our outstanding voting securities and the holders of a majority of our outstanding voting securities that are not held by our affiliates approve such an offer at an annual meeting within one year of such an offer (we are currently seeking such approvals pursuant to a proxy statement dated April 23, 2008 in connection with our 2008 annual meeting of stockholders currently scheduled to be held on June 13, 2008); or (3) under such other circumstances as the SEC may permit. Note that, for 1940 Act purposes, a “majority” of outstanding securities consists of (i) 67% or more of the voting securities present at a stockholders’ meeting if the holders of more than 50% of the outstanding voting securities of the Company are present or represented by proxy; or (ii) 50% of the outstanding voting securities of the Company, whichever is less.

We may offer our securities directly to one or more purchasers, including existing stockholders in a rights offering, through agents that we designate from time to time or to or through underwriters or dealers. The prospectus supplement relating to each offering will identify any agents or underwriters involved in the sale of our securities, and will set forth any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters or among our underwriters or the basis upon which such amount may be calculated. See “Plan of Distribution.” We may not sell any of our securities through agents, underwriters or dealers without delivery of a prospectus supplement describing the method and terms of the offering of our securities.

Set forth below is additional information regarding offerings of our securities:

Use of Proceeds	Unless otherwise specified in a prospectus supplement, we intend to use the net proceeds from the sale of our securities for general corporate purposes, which include investing in portfolio companies in accordance with our investment objective and strategies and current market conditions and repaying indebtedness. Any reduction of our indebtedness through the use of proceeds of an offering is expected to be only temporary, and we expect to utilize our credit facility for additional borrowings in accordance with our investment objective and strategy and relevant legal rules applicable to BDCs. Each prospectus supplement relating to an offering will more fully identify the use of the proceeds from such offering. See “Use of Proceeds.”
Listing	Our common stock is traded on The Nasdaq Global Select Market under the symbol “KCAP.”
Trading at a Discount	Shares of closed-end investment companies, including BDCs, frequently trade at discounts to their net asset values and our stock may also be discounted in the market. This characteristic of closed-end investment companies is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether shares of our common stock will trade above, at or below our net asset value.
Distributions	We intend to continue to pay quarterly dividends to our stockholders. Our quarterly dividends are determined by our Board of Directors. On March 13, 2007 we declared a dividend in the amount of $0.29 per share, which was paid on April 17, 2007 to stockholders of record on

	April 6, 2007, on June 8, 2007 we declared a dividend in the amount of $0.35, which was paid on July 23, 2007 to stockholders of record on July 9, 2007, on September 24, 2007 we declared a dividend in the amount of $0.37 per share, which was paid on October 26, 2007 to stockholders of record on October 10, 2007, on December 14, 2007 we declared a dividend in the amount of $0.39 per share, which was paid on January 24, 2008 to stockholders of record on December 24, 2007, and on March 14, 2008 we declared a dividend in the amount of $0.41 per share, which was paid on April 28, 2008 to stockholders of record on April 8, 2008. See "Distributions."
Dividend Reinvestment Plan	We have adopted a dividend reinvestment plan through which cash dividends are automatically reinvested in additional shares of our common stock, unless a stockholder opts out of the plan and elects to receive cash. Stockholders who receive distributions in the form of stock generally are subject to the same federal, state and local tax consequences as stockholders who elect to receive their distributions in cash. Those stockholders whose shares are held by a broker or other financial intermediary may receive distributions in cash by notifying their broker or other financial intermediary of their election. See "Dividend Reinvestment Plan."
Leverage	We borrow funds under our credit facility to make additional investments. This practice, which is known as "leverage," allows us to attempt to increase returns to our common stockholders. However, leverage involves significant risks. See "Risk Factors—Risks Related to Our Business—The debt we incur could increase the risk of investing in our Company." As a BDC, we generally are only allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing.
Risk Factors	Investing in our securities involves certain significant risks relating to our structure and our investment objective that you should consider before deciding whether to invest in our securities. See "Risk Factors" for a discussion of factors you should carefully consider before deciding whether to invest in our securities.
Certain Anti-Takeover Measures	Our charter and bylaws, as well as certain statutes and regulations, contain provisions that may have the effect of discouraging a third party from making an acquisition proposal for us. This could delay or prevent a transaction that could give our stockholders the opportunity to realize a premium over the price for their securities. See "Description of Our Common Stock."
Where You Can Find Additional Information	We have filed with the SEC a registration statement on Form N-2, which includes related exhibits, under the Securities Act, with respect to the shares of common stock offered by this prospectus. The registration statement contains additional information about us and the shares of common stock being offered by this prospectus.

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

FEES AND EXPENSES

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

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

Sales Load	—%(1)
Offering Expenses	—%(2)
Dividend Reinvestment Plan Fees	None(3)
Total Stockholder Transaction Expenses	—%

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

Operating Expenses	1.9%(5)
Interest Payments on Borrowed Funds	2.8%(6)
Total Annual Expenses	4.7%(7)

Example

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

	1 YEAR	3 YEARS	5 YEARS	10 YEARS
You would pay the following expenses on a $1,000 investment, assuming a 5% annual return(8)	$ 110	$ 197	$ 286	$ 509

(1) In the event that the securities to which this prospectus relates are sold to or through underwriters or dealer managers, a corresponding prospectus supplement will disclose the applicable sales load.

(2) The related prospectus supplement will disclose the estimated amount of offering expenses, the offering price and the offering expenses borne by us as a percentage of the offering price.

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

(4) "Net assets attributable to common stock" equals net assets (*i.e.*, total assets less total liabilities), which were approximately $253 million as of March 31, 2008 and approximately $280 million immediately following the completion of the transferable rights offering in May 2008 and as adjusted for expected increases as a result of this offering.

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

(footnotes continued on following page)

(6) "Interest Payments on Borrowed Funds" represents an estimate of our annual interest expense based on payments assumed to be made under our credit facility. This estimate assumes that we borrow for investment purposes an amount equal to 42% of our total assets at a per annum interest rate of approximately 4%. Actual interest payments may differ from the amount shown.
(7) "Total Annual Expenses" is the sum of "Operating Expenses" and "Interest Payments on Borrowed Funds."
(8) For illustrative purposes a 6% sales load with offering expenses of 0.6% is assumed. The actual sales load and offering expenses may differ.

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

SELECTED FINANCIAL AND OTHER DATA

The selected financial and other data beginning on page 37 of this prospectus should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our financial statements and notes thereto located elsewhere in this prospectus.

RISK FACTORS

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

Risks Related to Our Business

We have a limited operating history.

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

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

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

We operate in a highly competitive market for investment opportunities.

A large number of entities compete with us to make the types of investments that we plan to make in prospective portfolio companies. We compete with other BDCs, as well as a large number of investment funds, investment banks and other sources of financing, including traditional financial services companies, such as commercial banks and finance companies. Many of our competitors are substantially larger and have considerably greater financial, technical, marketing and other resources than we do. For example, some competitors may have a lower cost of funds and access to funding sources that are not available to us. This may enable some of our competitors to make commercial loans with interest rates that are comparable to or lower than the rates we typically offer. We may lose prospective portfolio investments if we do not match our competitors' pricing, terms and structure. If we do match our competitors' pricing, terms or structure, we may experience decreased net interest income and increased risk of credit losses. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of

investments, establish more relationships and build their market shares. Furthermore, many of our potential competitors have greater experience operating under, or are not subject to, the regulatory restrictions that the 1940 Act imposes on us as a BDC. As a result of this competition, there can be no assurance that we will be able to identify and take advantage of attractive investment opportunities or that we will be able to fully invest our available capital. If we are not able to compete effectively, our business and financial condition and results of operations will be adversely affected. Although Kohlberg & Co. has agreed to notify us of equity investment opportunities that are presented to Kohlberg & Co. but do not fit the investment profile of Kohlberg & Co. or its affiliates, no such referral to date has resulted in an investment by us or Katonah Debt Advisors.

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

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

There is a risk that we may not make distributions.

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

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

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

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

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

We and Katonah Debt Advisors have entered into "first loss" agreements in connection with warehouse credit lines established by Katonah Debt Advisors to fund the initial accumulation of loan investments for future CLO Funds that Katonah Debt Advisors will manage, and may enter into similar agreements in the future. Such agreements (referred to as "first loss agreements" or "first loss obligations" in this prospectus) relate to (i) losses as a result of individual loan investments being ineligible for purchase by the CLO Fund (typically due to a payment default on such loan) when such fund formation is completed or, (ii) if the CLO Fund has not been completed before the expiration of the warehouse credit line, the loss (if any, and net of any accumulated interest income) on the resale of such loans funded by the warehouse credit line. As a result, we may incur losses if loans and debt obligations that had been purchased in the warehouse facility become ineligible for inclusion in the CLO Fund or if a planned CLO Fund does not close. In connection with the closing of Katonah 2007 in January 2008, Katonah Debt Advisors' maximum first loss guarantee amount under its commitment letter with Bear Stearns was reduced from $22.5 million to $18 million. If the portfolio of remaining warehoused assets accumulated under the Bear Stearns warehouse credit facility had been liquidated on March 31, 2008, Katonah Debt Advisors' first loss obligation would have been $18 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Commitments and Off-Balance Sheet Arrangements."

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

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

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

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

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

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

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

As of March 31, 2008, we had $250 million of outstanding indebtedness, with available additional borrowing capacity of $25 million under our credit facility, which accrues interest based on prevailing commercial paper rates plus 0.85% (or, if the commercial paper market is at any time unavailable, prevailing LIBOR rates plus an applicable spread) and matures on October 1, 2012. Subsequent to March 31, 2008, we reduced existing indebtedness under our credit facility by approximately $30 million with the net proceeds of the transferable rights offering we completed in May 2008 to approximately $220 million. Any reduction of our indebtedness through the use of proceeds of the transferable rights offering or offerings pursuant to this prospectus is expected to be only temporary, and we expect to continue to utilize our credit facility for additional borrowings in accordance with our investment objective and strategy and relevant legal rules applicable to BDCs. We expect to continue to borrow from, and issue senior debt securities to, banks, insurance companies and other lenders, including pursuant to our credit facility. See “Obligations and Indebtedness.” Lenders have fixed dollar claims on our assets that are superior to the claims of our stockholders, and we may grant a security interest in our assets in connection with our borrowings. In the case of a liquidation event, those lenders would receive proceeds before our stockholders. In addition, borrowings, also known as leverage, magnify the potential for gain or loss on amounts invested and, therefore, increase the risks associated with investing in our securities. Leverage is generally considered a speculative investment technique. If the value of our assets increases, then leverage would cause the net asset value attributable to our common stock to increase more than it otherwise would have had we not leveraged. Conversely, if the value of our assets decreases, leverage would cause the net asset value attributable to our common stock to decline more than it otherwise would have had we not used leverage. Similarly, any increase in our revenue in excess of interest expense on our borrowed funds would cause our net income to increase more than it would without leverage. Any decrease in our revenue would cause our net income to decline more than it would have had we not borrowed funds and could negatively affect our ability to make distributions on our common stock. Our ability to service any debt that we incur will depend largely on our financial performance and will be subject to prevailing economic conditions and competitive pressures.

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

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

Assumed Return on our Portfolio (Net of Expenses)(1)	–10%	–5%	0%	5%	10%
Corresponding Return to Common Stockholder(2)	–20%	–12%	–3%	6%	15%

(1) The assumed portfolio return is required by SEC rules and is not a prediction of, and does not represent, our projected or actual performance. The table also assumes that we will maintain a constant level of leverage. The amount of leverage that we use will vary from time to time.

(2) Assumes (the following to be subsequently adjusted for expected increases as a result of this offering) (i) that we borrow an amount equal to 42% of our total assets, equal to approximately $514 million immediately following the completion of the transferable rights offering in May 2008, (ii) approximately $223 million in debt outstanding, (iii) approximately $280 million in stockholders' equity and (iv) an average cost of funds of approximately 3%. Actual interest payments may be different.

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

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

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

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

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

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

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

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

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

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

Risks Related to Our Investments

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

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

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

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

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

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

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

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

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

Our investments consist primarily of securities issued by privately-held companies, the fair value of which is not readily determinable. In addition, we are not permitted to maintain a general reserve for anticipated loan losses. Instead, we are required by the 1940 Act to specifically value each investment and record an unrealized gain or loss for any asset that we believe has increased or decreased in value. We value these securities at fair value as determined in good faith by our Board of Directors pursuant to procedures approved by our Board of Directors. These valuations are initially prepared by our management and reviewed by our Valuation Committee which utilizes its best judgment in arriving at the fair value of these securities. However, the Board of Directors retains ultimate authority as to the appropriate valuation of each investment. Where appropriate, our Board of Directors utilizes the services of an independent valuation firm to aid it in determining fair value, particularly in the case of our investments in CLO Funds and in Katonah Debt Advisors, which are valued quarterly, and investments in mezzanine and equity securities, which are valued regularly. The independent valuation firm provides third-party valuation consulting services, which consist of certain limited procedures that we identify and request the independent valuation firm to perform. The types of factors that may be considered in valuing our

investments include the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings, the markets in which the portfolio company does business, comparison to publicly-traded companies, discounted cash flow and other relevant factors. The value of our investment in Katonah Debt Advisors is determined based on a percentage of the assets under management and a multiple of its operating income, both of which are based, in part, on an analysis of the valuation of comparable asset management companies. Because such valuations, and particularly valuations of private investments and private companies, are inherently uncertain and may be based on estimates, our determinations of fair value may differ materially from the values that would be assessed if a ready market for these securities existed or from the valuations that would be placed on our assets by other market participants. Our net asset value could be adversely affected if our determinations regarding the fair value of our investments were materially higher than the values that we ultimately realize upon the disposal of such securities.

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

We are classified as a non-diversified investment company within the meaning of the 1940 Act, and therefore we may invest a significant portion of our assets in a relatively small number of issuers in a limited number of industries. As of March 31, 2008, our largest investment, our 100% equity interest in Katonah Debt Advisors, equaled approximately 13% of the fair value of our investments. Beyond the asset diversification requirements associated with our qualification as a RIC (as described further in "Certain U.S. Federal Income Tax Considerations"), we do not have fixed guidelines for diversification, and while we are not targeting any specific industries, relatively few industries may become significantly represented among our investments. In accordance with our current policy, we will not "concentrate" our investments, that is, invest 25% or more of our assets in any particular industry (determined at the time of investment). However, to the extent that we assume large positions in the securities of a small number of issuers, our net asset value may fluctuate to a greater extent than that of a diversified investment company as a result of changes in the financial condition or the market's assessment of the issuer or a downturn in any particular industry. We may also be more susceptible to any single economic or regulatory occurrence than a diversified investment company.

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

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

Defaults by our portfolio companies could harm our operating results.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As of March 31, 2008, we had $57 million invested in the subordinated securities or preferred shares issued by CLO Funds managed by Katonah Debt Advisors and certain other third party asset managers. In addition, in connection with the closing of Katonah 2007, Katonah Debt Advisor's most recent CLO Fund, on January 23, 2008, we invested approximately $29 million to acquire all of the shares of the most junior class of securities of that CLO Fund. We expect to continue to acquire subordinated securities in the future in CLO Funds managed by Katonah Debt Advisors and/or third party managers. These subordinated securities are the most junior class of securities issued by the CLO Funds and are subordinated in priority of payment to each other class of securities

issued by these CLO Funds. Therefore, they only receive cash distributions if the CLO Funds have made all cash interest payments to all other debt securities issued by the CLO Fund. The subordinated securities are also unsecured and rank behind all of the secured creditors, known or unknown, of the CLO Fund, including the holders of the senior securities issued by the CLO Fund. Consequently, to the extent that the value of a CLO Fund's loan investments has been reduced as a result of conditions in the credit markets, or as a result of default loans or individual fund assets, the value of the subordinated securities at their redemption could be reduced. Additionally, we may not be able to continue to complete new CLO Funds due to CLO market conditions or other factors. On March 16, 2008, JPMorgan announced that, subject to the receipt by Bear Stearns of stockholder approval and the satisfaction or waiver of other specified closing conditions, it has agreed to acquire Bear Stearns. There can be no assurance that the proposed acquisition will take place on the terms disclosed or at all. However, regardless of whether the transaction between JPMorgan and Bear Stearns is consummated, Katonah Debt Advisors' commitment letter from Bear Stearns will remain in effect in accordance with its terms. Katonah Debt Advisors is currently in discussions with Bear Stearns regarding the timing and structure of the remaining CLO Funds, and its ability to access the warehouse credit line contemplated by the Bear Stearns commitment letter.

Risks Related to Our Operation as a BDC

Our management team has limited experience managing a BDC.

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

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

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

We are prohibited under the 1940 Act from participating in certain transactions with certain of our affiliates without the prior approval of our independent directors and, in some cases, the SEC. Any person that owns, directly or indirectly, 5% or more of our outstanding voting securities is our affiliate for purposes of the 1940 Act, and we generally are prohibited from buying or selling any security from or to such affiliate, absent the prior approval of our independent directors. The 1940 Act also prohibits certain "joint" transactions with certain of our affiliates, which could include investments in the same portfolio company (whether at the same or different times), without prior approval of our independent directors and, in some cases, the SEC. If a person acquires more than 25% of our voting securities, we are prohibited from buying or selling any security from or to such person or certain of that person's affiliates, or entering into prohibited joint transactions with such persons, absent the prior approval of the SEC. Similar restrictions limit our ability to transact business with our officers or directors or their affiliates. As a result of these restrictions, we may be prohibited from buying or selling any security from or to any portfolio company of a private equity fund managed by Kohlberg & Co. without the prior

approval of the SEC. In addition, we may co-invest on a concurrent basis with Kohlberg & Co. or any of our affiliates, subject to compliance with existing regulatory guidance, applicable regulations and our allocation procedures. Certain types of negotiated co-investments may be made only if we receive an order from the SEC permitting us to do so. There can be no assurance that any such order will be obtained.

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

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

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

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

Changes in the laws or regulations or the interpretations of the laws and regulations that govern BDCs, RICs or non-depository commercial lenders, could significantly affect our operations and our cost of doing

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

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

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

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

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

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

Risks Related to Offerings Pursuant to This Prospectus

There is a risk that investors in our equity securities may not receive dividends or that our dividends may not grow over time and that investors in our debt securities may not receive all of the interest income to which they are entitled.

We intend to make distributions on a quarterly basis to our stockholders out of assets legally available for distribution. We cannot assure you that we will achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions. In addition, due to the asset coverage test applicable to us as a BDC, we may be limited in our ability to make distributions. Further, if we invest a greater amount of assets in equity securities that do not pay current dividends, it could reduce the amount available for distribution. See "Price Range of Common Stock" and "Distributions."

The above-referenced distribution requirement may also inhibit our ability to make required interest payments to holders of our debt securities, which may cause a default under the terms of our debt securities. Such a default could materially increase our cost of raising capital, as well as cause us to incur penalties under the terms of our debt securities.

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

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

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

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

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

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

Our share price may be volatile and may fluctuate substantially.

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

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

Your interest in us may be diluted if you do not fully exercise your subscription rights in any rights offering. In addition, if the subscription price is less than our net asset value per share, then you will experience an immediate dilution of the aggregate net asset value of your shares.

In the event we issue subscription rights, stockholders who do not fully exercise their rights should expect that they will, at the completion of a rights offering pursuant to this prospectus, own a smaller proportional interest in us than would otherwise be the case if they fully exercised their rights. Such dilution is not currently determinable because it is not known what proportion of the shares will be purchased as a result of such rights offering. Any such dilution will disproportionately affect nonexercising stockholders. If the subscription price per share is substantially less than the current net asset value per share, this dilution could be substantial.

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

Investors in offerings of our common stock may incur immediate dilution upon the closing of such offering.

We expect the public offering price for any offering of shares of our common stock to be higher than the book value per share of our outstanding common stock. Accordingly, investors purchasing shares of common stock in any such offering pursuant to this prospectus will pay a price per share that exceeds the tangible book value per share after such offering.

Stockholders will experience dilution in their ownership percentage if they do not participate in our dividend reinvestment plan.

All dividends payable to stockholders that are participants in our dividend reinvestment plan are automatically reinvested in shares of our common stock. As a result, stockholders that do not participate in the dividend reinvestment plan will experience dilution over time.

The trading market or market value of our publicly issued debt securities may fluctuate.

Upon issuance, our publicly issued debt securities will not have an established trading market. We cannot assure you that a trading market for our publicly issued debt securities will ever develop or, if developed, will be maintained. In addition to our creditworthiness, many factors may materially adversely affect the trading market for, and market value of, our publicly issued debt securities. These factors include:

- the time remaining to the maturity of these debt securities;
- the outstanding principal amount of debt securities with terms identical to these debt securities;
- the supply of debt securities trading in the secondary market, if any;
- the redemption or repayment features, if any, of these debt securities;
- the level, direction and volatility of market interest rates generally; and
- market rates of interest higher or lower than rates borne by the debt securities.

You should also be aware that there may be a limited number of buyers when you decide to sell your debt securities. This too may materially adversely affect the market value of the debt securities or the trading market for the debt securities.

Terms relating to redemption may materially adversely affect your return on the debt securities.

If your debt securities are redeemable at our option, we may choose to redeem your debt securities at times when prevailing interest rates are lower than the interest rate paid on your debt securities. In addition, if your debt securities are subject to mandatory redemption, we may be required to redeem your debt securities also at times when prevailing interest rates are lower than the interest rate paid on your debt securities. In this circumstance, you may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as your debt securities being redeemed.

Our credit ratings may not reflect all risks of an investment in the debt securities.

Our credit ratings are an assessment by third parties of our ability to pay our obligations. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of our debt securities. Our credit ratings, however, may not reflect the potential impact of risks related to market conditions generally or other factors discussed above on the market value of or trading market for the publicly issued debt securities.

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

As of May 21, 2008, we had 21,234,482 shares of common stock outstanding. Sales of substantial amounts of our common stock, or the availability of shares for sale, including those offered hereby, could adversely affect the prevailing market price of our common stock. If this occurs and continues, it could impair our ability to raise additional capital through the sale of equity securities should we desire to do so.

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

Individuals and entities affiliated with Kohlberg & Co. beneficially own, in the aggregate, approximately 15% of the outstanding shares of our common stock. James A. Kohlberg, the Vice-Chairman of our Board of Directors, is a founder and the Chairman of Kohlberg & Co. Christopher Lacovara, who serves as the Chairman of our Board of Directors and Investment Committee, and Samuel P. Frieder, who serves as a member of our Board of Directors and our Investment Committee, are co-managing partners of Kohlberg & Co. Our Board of Directors and our Investment Committee must approve of the acquisition and disposition of our investments. As a result, these individuals may be able to exert influence over our management and policies. Affiliates of Kohlberg & Co. may also acquire additional shares of our equity securities in the future. This concentration of ownership may have the effect of delaying, preventing or deterring a change of control of our Company, deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our Company or may ultimately affect the market price of our common stock. Mr. Kratzman, who serves on our Investment Committee, is also employed by Katonah Debt Advisors and is compensated, in part, based upon the performance of Katonah Debt Advisors. As a result, Mr. Kratzman may have interests in Katonah Debt Advisors that differ from yours as a stockholder of Kohlberg Capital.

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

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

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

USE OF PROCEEDS

Unless otherwise specified in a prospectus supplement, we intend to use the net proceeds from the sale of our securities for general corporate purposes, which include investing in portfolio companies in accordance with our investment objective and strategies and current market conditions. We also expect to use the net proceeds of offerings pursuant to this prospectus to repay outstanding indebtedness under our credit facility, which had an outstanding principal balance of $250 million as of March 31, 2008 and available additional borrowing capacity of $25 million as of such date, accrues interest based on prevailing commercial paper rates plus 0.85% (or, if the commercial paper market is at any time unavailable, prevailing LIBOR rates plus an applicable spread), and matures on October 1, 2012. Subsequent to March 31, 2008, we reduced existing indebtedness under our credit facility by approximately $30 million with the net proceeds of the transferable rights offering we completed in May 2008 to approximately $220 million. Any reduction of our indebtedness through the use of proceeds of the transferable rights offering or offerings pursuant to this prospectus is expected to be only temporary, and we expect to utilize our credit facility for additional borrowings in accordance with an investment objective and strategy and relevant legal rules applicable to BDCs. The prospectus supplement relating to an offering may more fully identify the use of the proceeds from such offering. We anticipate that substantially all of the net proceeds of an offering of securities pursuant to this prospectus and its related prospectus supplement will be used for the above purposes within 12 months of any such offering, depending on the availability of appropriate investment opportunities consistent with our investment objective and strategies and market conditions.

We invest primarily in senior secured term loans, mezzanine debt and selected equity investments issued by middle market companies. We may invest up to 30% of our investment portfolio in opportunistic investments in high-yield bonds, debt and equity securities in CLO Funds, distressed debt or equity securities of public companies. We expect that these public companies generally will have debt that is non-investment grade. We also may invest in debt of middle market companies located outside of the United States, which investments are not anticipated to be in excess of 10% of our investment portfolio at the time such investments are made.

Pending the uses described above, we intend to invest the net proceeds of an offering in cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment. These securities may earn yields substantially lower than the income that we anticipate receiving once we are fully invested in accordance with our investment objective. As a result, we may not be able to achieve our investment objective and pay any dividends during this period or, if we are able to do so, such dividends may be substantially lower than the dividends that we expect to pay when our portfolio is fully invested. If we do not realize yields in excess of our expenses, we may incur operating losses and the market price of our shares may decline. See “Regulation—Temporary Investments” for additional information about temporary investments we may make while waiting to make longer-term investments in pursuit of our investment objective.

PRICE RANGE OF COMMON STOCK

Our common stock is traded on The Nasdaq Global Select Market under the symbol "KCAP." We completed the initial public offering of our common stock in December 2006 at an initial public offering price of $15.00 per share. Prior to such initial public offering, there was no public market for our common stock. On March 31, 2008, the last reported closing price of our stock was $10.38 per share, which represented a discount of approximately 26% to the net asset value per share reported by us as of March 31, 2008. As of May 21, 2008, we had 18 stockholders of record.

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

	NAV(1)	Price Range		Premium/ Discount of High Sales Price to NAV	Premium/ Discount of Low Sales Price to NAV
		High	Low		
2006					
Fourth Quarter (December 11, 2006 through December 31, 2006)	$14.29	$17.45	$15.79	122.1%	110.5%
2007					
First quarter (January 1, 2007 through March 31, 2007)	$14.78	$18.00	$15.05	121.8%	101.8%
Second quarter (April 1, 2007 through June 30, 2007)	$15.39	$19.68	$15.75	127.9%	102.3%
Third quarter (July 1, 2007 through September 30, 2007)	$14.77	$19.10	$13.65	129.3%	92.4%
Fourth quarter (October 1, 2007 through December 31, 2007)	$14.38	$15.49	$10.00	107.7%	69.5%
2008					
First quarter (January 1, 2008 through March 31, 2008)	$13.98	$12.99	$ 9.56	92.9%	68.4%
Second quarter (April 1, 2008 through May 28, 2008)	(2)	$12.50	$ 9.41	(2)	(2)

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

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

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

DISTRIBUTIONS

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

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

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

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

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

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

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

SELECTED FINANCIAL DATA

The following selected financial and other data for the period from December 11, 2006, the date of inception, through December 31, 2007 is derived from our financial statements and financial highlights which have been audited by Deloitte & Touche LLP, an independent registered public accounting firm whose report thereon is included within this prospectus, and the following selected financial and other data from the three-month period ended March 31, 2008 is derived from our unaudited financial statements. The data should be read in conjunction with our financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations," which are included in this prospectus. The historical data is not necessarily indicative of results to be expected for any future period.

	For the Three Months Ended March 31, 2008 (unaudited)	Year Ended December 31, 2007	December 11, 2006 (inception) through December 31, 2006
Income Statement Data			
Dividends from affiliate asset manager	$ 350,000	$ 500,000	$ —
Total investment income	$ 14,332,842	$ 38,479,014	$ 1,151,903
Net realized and unrealized gains (losses) on investments	$ (8,581,019)	$ 3,383,036	$ 4,181,077
Total expenses	$ 5,556,571	$ (15,720,065)	$ (641,278)
Excise taxes		—	$ (21,162)
Net increase in stockholders' equity resulting from operations	$ 195,252	$ 26,141,985	$ 4,670,540
Per Common Share Data			
Net investment income—Basic and Diluted	$ 0.49	$ 1.27	$ 0.03
Net investment income and net realized gains—Basic and Diluted	$ 0.45	$ 1.28	$ 0.03
Cash dividend declared	$ 0.41	$ 1.40	$ —
Net increase in stockholder's equity resulting from operations (Basic and Diluted)	$ 0.01	$ 1.45	$ 0.26
Net asset value per common share	$ 13.98	$ 14.38	$ 14.29

	March 31, 2008 (unaudited)	December 31, 2007	December 31, 2006
Select Period-End Balances			
Total assets	$ 514,219,841	$ 533,141,959	$ 282,375,847
Total debt	$ 250,000,000	$ 255,000,000	—
Total stockholders' equity	$ 252,893,283	$ 259,068,164	$ 256,400,423
Other Data			
Number of investments at period end	138	145	86
Number of portfolio companies at period end	98	102	66
Principal amount of investments purchased	$ 42,130,395	$ 361,061,094	$ 169,112,759
Principal amount of investments sold and repayments	$ 45,077,565	$ 90,743,885	$ 533,315
Weighted average yield of income producing debt investments(2)	7.8%	9.5%	9.0%
Fair value of CLO equity investments	$ 57,409,236	$ 31,020,000	$ 20,870,000
Fair value of investment in asset management companies	$ 64,045,602	$ 58,585,360	$ 37,574,995
Assets under management of Katonah Debt Advisors	$ 2,296,130,815	$2,127,649,000	$1,366,376,291
Total return based on market value	(10.1)%	(22.5)%	15.3%

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

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

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

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

OVERVIEW

We are an internally managed, non-diversified closed-end investment company that has elected to be regulated as a BDC under the 1940 Act. We originate, structure and invest in senior secured term loans, mezzanine debt and selected equity securities primarily in privately-held middle market companies. We define the middle market as comprising companies with EBITDA of $10 million to $50 million and/or total debt of $25 million to $150 million. In addition to our middle market investment business, our wholly-owned portfolio company, Katonah Debt Advisors, manages CLO Funds that invest in broadly syndicated loans, high-yield bonds and other corporate credit instruments. We acquired Katonah Debt Advisors and certain related assets prior to our initial public offering from affiliates of Kohlberg & Co., a leading private equity firm focused on middle market investing. As of March 31, 2008, Katonah Debt Advisors had approximately $2.3 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 companies and do not include any asset backed securities secured by commercial mortgages, residential mortgages or other consumer borrowings.

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

Investment Securities

We invest in senior secured loans and mezzanine debt and, to a lesser extent, equity capital, of middle market companies in a variety of industries. We generally target companies that generate positive cash flows because we look to cash flows as the primary source for servicing debt. However, we may invest in other companies if we are presented with attractive opportunities. Our portfolio investments at fair value decreased from $505 million at December 31, 2007 to $488 million as of March 31, 2008. The net decrease in portfolio size relates primarily to unrealized mark-to-market fair value declines in our investment portfolio. Such decline relates primarily to illiquidity in the broader debt markets and not credit issues in our portfolio. Our intention is to hold such assets to maturity and thus mitigate such unrealized losses. During the year ended December 31, 2007, we also sold some of our initial portfolio of primarily first lien loans that were accumulated prior to completion of our initial public offering in order to move towards our targeted portfolio mix of first and second lien loans, mezzanine finance and equity securities. First lien loan balances at fair value decreased to $216 million at March 31, 2008 from $260 million at December 31, 2007. Second lien, mezzanine loan and bond positions decreased to $147 million at March 31, 2008 from $151 million at December 31, 2007. We had equity securities, other than CLO equity securities, totaling $3.6 million and investments in CLO Fund securities of $57 million at fair value as of March 31, 2008. In addition, in connection with the closing of Katonah 2007, Katonah

Debt Advisor's most recent CLO Fund, on January 23, 2008, we invested approximately $29 million to acquire all of the shares of the most junior class of securities of that CLO Fund. As of March 31, 2008, our investments in loans and debt securities had an annual weighted average interest rate of approximately 7.8%.

Our investment portfolio (excluding our investment in Katonah Debt Advisors and CLO Funds) at March 31, 2008 was spread across 26 different industries and 86 different entities with an average balance per investment of approximately $4 million. As of March 31, 2008, one issuer representing 1% of total investments at fair value was considered in default. Our portfolio, including the CLO Funds in which we invest, and the CLO Funds managed by Katonah Debt Advisors, consist exclusively of credit instruments issued by corporations and do not include investments in asset-backed securities, such as those secured by commercial mortgages, residential mortgages or other consumer borrowings.

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

Investment in CLO Fund Securities

We typically make a minority investment in the subordinated securities or preferred stock of CLO Funds raised and managed by Katonah Debt Advisors and may selectively invest in securities issued by CLO Funds managed by other asset management companies. The securities issued by CLO Funds managed by Katonah Debt Advisors are primarily held by third parties. As of March 31, 2008, we had $57 million invested in CLO Fund securities, including those issued by funds managed by Katonah Debt Advisors. In addition, in connection with the closing of Katonah 2007, Katonah Debt Advisor's most recent CLO Fund, on January 23, 2008, we invested approximately $29 million to acquire all of the shares of the most junior class of securities of that CLO Fund.

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

Our investments in CLO Fund securities are carried at fair value, which is based 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 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 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 bonds or preferred shares to those in which the Company has invested. We recognize unrealized appreciation or depreciation on our investments in CLO Fund securities as comparable yields in the market change and/or based on changes in net asset values or estimated cash flows resulting from changes in prepayment or loss assumptions in the underlying collateral pool. As each investment in CLO Fund securities ages, the expected amount of losses and the expected timing of recognition of such losses in the underlying collateral pool are updated and the revised cash flows are used in determining the fair value of the CLO Investment. We determine the fair value of our investments in CLO Fund securities on an individual security-by-security basis.

Investment in Katonah Debt Advisors

Katonah Debt Advisors is our wholly-owned asset management company that manages CLO Funds that invest in broadly syndicated loans, high yield bonds and other credit instruments. As a manager of the CLO Funds, Katonah Debt Advisors expects to receive contractual and recurring management fees and any subsequent incentive management fees from the CLO Funds for its management and advisory services. The annual fees which Katonah Debt Advisors receives are generally based on a fixed percentage of assets under management, and Katonah Debt Advisors generates annual operating income equal to the amount by which its fee income exceeds it operating expenses. In future years, Katonah Debt Advisors may receive accrued incentive fees upon the liquidation of CLO Funds it manages, provided such CLO Funds have achieved a minimum investment return to holders of their subordinated securities or preferred stock. Katonah Debt Advisors also typically receives one-time structuring fees upon the creation of a new CLO Fund. The CLO Funds managed by Katonah Debt Advisors consist exclusively of credit instruments issued by corporations and do not invest in asset-backed securities secured by commercial mortgages, residential mortgages or other consumer borrowings. As of March 31, 2008, Katonah Debt Advisors had approximately $2.3 billion of assets under management, and was valued at approximately $63 million.

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

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

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

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

Portfolio Valuation

We carry our investments at fair value, as determined in good faith by our Board of Directors pursuant to procedures approved by our Board of Directors. Investments for which market quotations are readily available

are valued at such market quotations. The Board of Directors has retained an independent valuation firm to provide third-party valuation consulting services, which consist of certain limited procedures that we identify and request the independent valuation firm to perform. As of March 31, 2008, approximately 51% of our investments were investments that were marked to market or for which we utilized the valuation services provided by the independent valuation firm in connection with the determination of fair value by our Board of Directors. Investments for which there is not a readily available market value are valued at fair value as determined in good faith by our Board of Directors under a valuation policy and a consistently applied valuation process. However, due to the inherent uncertainty of determining the fair value of investments that cannot be marked to market, the fair value of our investments may differ significantly from the values that would have been used had a ready market existed for such investments or from the values that would have been placed on our assets by other market participants, and the differences could be material. See "Risk Factors—Risks Related to Our Investments—Our portfolio investments for which there is no readily available market, including our investment in Katonah Debt Advisors, are recorded at fair value as determined in good faith by our Board of Directors. As a result, there is uncertainty as to the value of these investments" and "Determination of Net Asset Value." In addition, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the valuations that are assigned. The types of factors that we may take into account in fair value pricing of our investments include, as relevant, the nature and realizable value of any collateral, third party valuations, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly-traded securities, recent sales of or offers to buy comparable companies, and other relevant factors.

Our Board of Directors is ultimately and solely responsible for determining the fair value of portfolio investments on a quarterly basis in good faith. Duff & Phelps, LLC, an independent valuation firm, provided, third party valuation consulting services to our Board of Directors, which consisted of certain limited procedures that our Board of Directors identified and requested them to perform. For the twelve months ended March 31, 2008, our Board of Directors asked Duff & Phelps, LLC to perform the limited procedures on 31 investments comprising approximately 45% of the total investments at fair value for which market quotations are not readily available as of March 31, 2008. Upon completion of the limited procedures, Duff & Phelps, LLC concluded that the fair value of those investments subjected to the limited procedures did not appear to be unreasonable. In the future, our Board of Directors may continue to utilize the services of Duff & Phelps, LLC or may use another third party valuation provider.

RECENT DEVELOPMENTS

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

The decrease in debt capital available to both corporate borrowers and private equity firms has increased the interest rates (generally measured as a "spread" over LIBOR or the Prime Rate) which they must pay for new loans. We believe that this will have a favorable impact on both our middle market investment business and on Katonah Debt Advisors, because higher interest spreads on loans will increase future interest income available for distributions to our stockholders and to investors in CLO Funds. In addition the reassessment of corporate

credit risk has caused lenders to require greater structural protection on new loans, such as lower overall financial leverage and maintenance financial covenants. We believe this trend is also favorable to our business because it increases the opportunities for us to invest, because, generally both we and the CLO Funds managed by Katonah Debt Advisors have decided not to invest in highly leveraged or "covenant light" credit facilities. However, we expect that the interest spread on debt issued by future CLO Funds managed by Katonah Debt Advisors will need to be higher than that on debt of its existing CLO Funds, and that Katonah Debt Advisors may need to evaluate other fund structures to continue the growth in its assets under management and fee income. Current CLO market conditions delayed the completion of several CLO Funds which Katonah Debt Advisors had expected to complete during 2007 and may delay the completion of CLO Funds scheduled to be completed during 2008.

As of March 31, 2008, our investment in CLO Funds, at $57 million, represented less than 12% of our total assets. These CLO Funds invested in by us and/or managed by Katonah Debt Advisors and certain third party managers were all distributing cash flows and performing in line with expectations as of March 31, 2008, and none were in breach of any material covenant. The securities in our investment portfolio are spread across 26 different industries and multiple corporate sponsors and, as of March 31, 2008, one issuer representing 1% of total investments at fair value was on non-accrual status. Through March 31, 2008, we had a mark-to-market loss in our investment portfolio, excluding our investment in Katonah Debt Advisors, of approximately $30 million. As of March 31, 2008, we had excess liquidity of over $38 million of cash and available borrowing capacity under our existing credit facility, and neither Kohlberg Capital nor Katonah Debt Advisors was subject to margin calls on any borrowings or warehouse facilities.

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

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

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

securities. We have a 35% economic interest in PKSI through our investment in its Class B securities on which we will receive our pro rata share of its operating income and may make an investment of up to $25 million in funds managed by PKSI, on which we will receive our pro rata share of such funds' investment income. PKSI may also source distressed debt opportunities in which we may make direct investments. As of March 31, 2008, we had funded approximately $900,000 of our $2.5 million commitment to invest in Class A securities of PKSI.

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

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

On March 31, 2008, we announced the terms of a transferable rights offering for which we issued to shareholders of record as of March 31, 2008 transferable rights to subscribe for an aggregate of up to 3.1 million shares of our common stock (one right for every six shares owned as of the record date). On April 28, 2008, the expiration date of the transferable rights offering, we fixed the subscription price of $9.2666, which is equal to 95% of the volume-weighted average of the sales prices of our shares of common stock on the NASDAQ Global Select Market for the prior ten consecutive trading days. We received basic subscriptions for approximately 2.8 million shares with over-subscriptions of approximately 1.3 million shares which were allocated pro-rata among the record date shareholders in accordance with the procedures described in the transferable rights offering prospectus. No over-subscription shares were issued to holders of rights who were not record date stockholders. The issuance of 3.1 million of shares offered through the transferable rights offering resulted in gross proceeds to us of approximately $29 million. We have used the net proceeds from the transferable rights offering to reduce existing indebtedness under our credit facility. However, such reduction of indebtedness is expected to be only temporary, and we expect to utilize our credit facility for additional borrowings in accordance with our investment objective and strategy and relevant legal rules applicable to BDCs.

CRITICAL ACCOUNTING POLICIES

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

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States. The financial statements reflect all adjustments and reclassifications which, in the opinion of management, are necessary for the fair presentation of the Company's results of operations and financial condition for the periods presented. Furthermore, the financial statements are based on the selection and application of critical accounting policies which may require

management to make significant estimates and assumptions. Actual results could differ from those estimates. Critical accounting policies are those that are important to the presentation of our financial condition and results of operations that require management's most difficult, complex or subjective judgments.

Valuation of Portfolio Investments

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

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

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

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

Interest Income

Interest income, adjusted for amortization of premium and accretion of discount, is recorded on the accrual basis to the extent that such amounts are expected to be collected. We generally place a loan on non-accrual status and cease recognizing interest income on such loan or security when a loan or security becomes 90 days or more past due or if we otherwise do not expect the debtor to be able to service its debt obligations. Non-accrual loans remain in such status until the borrower has demonstrated the ability and intent to pay contractual amounts due or such loans become current. As of March 31, 2008, one issuer representing 1% of total investments was on non-accrual status; on December 31, 2006, no loans or debt securities were greater than 90 days past due or on non-accrual status.

Dividend Income from CLO Fund Securities

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

Dividends from Affiliate Asset Manager

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

Payment in Kind Interest

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

Fee Income

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

Management Compensation

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

U.S. Federal Income Taxes

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

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

Dividends

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

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

PORTFOLIO AND INVESTMENT ACTIVITY

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

Total portfolio investment activity for the three months ended March 31, 2008 and for the years ended December 31, 2007 and December 31, 2006 was as follows:

	Debt Securities	CLO Fund Securities	Equity Securities	Affiliate Asset Managers	Total Portfolio
2006 Activity:					
Purchases / originations /draws	$ 191,706,724	$ 20,870,000	$ —	$ 33,394,995	$ 245,971,719
Pay-downs / pay-offs / sales	(533,315)	—	—	(72,710)	(606,025)
Net amortized discount	(406,025)	—	—	—	(406,025)
Increase in fair value	—	—	—	4,252,710	4,252,710
Fair Value at December 31, 2006	$ 190,767,384	$ 20,870,000	$ —	$ 37,574,995	$ 249,212,379
2007 Activity:					
Purchases / originations /draws	$ 336,182,774	$ 14,775,000	$ 5,043,950	$ 75,000	$ 356,076,724
Pay-downs / pay-offs / sales	(104,037,559)	—	—	—	(104,037,559)
Net amortized premium	260,848	416,264	—	—	677,112
Net realized gains	266,317	—	—	—	266,317
Increase (decrease) in fair value	(12,485,682)	(5,041,264)	(291,700)	20,935,365	3,116,719
Fair Value at December 31, 2007	$ 410,954,082	$ 31,020,000	$ 4,752,250	$ 58,585,360	$ 505,311,692
Year to Date 2008 Activity:					
Purchases / originations /draws	$ 5,730,309	$ 28,859,236	$ 52,348	$ 1,583,502	$ 36,225,395
Pay-downs / pay-offs / sales	(45,077,565)	—	—	—	(45,077,565)
Net accretion of discount	128,116	324,623	—	—	452,739
Net realized losses	(726,313)	—	—	—	(726,313)
Increase (decrease) in fair value	(7,745,977)	(2,794,623)	(1,190,846)	3,876,740	(7,854,706)
Fair Value at March 31, 2008	$ 363,262,652	$ 57,409,236	$ 3,613,752	$ 64,045,602	$ 488,331,242

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

Prior to our initial public offering, we issued an aggregate of 1,258,000 common shares, having a value of approximately $19 million, to affiliates of Kohlberg & Co. to acquire certain subordinated securities and preferred stock securities issued by CLO Funds (Katonah III, Ltd., Katonah IV, Ltd., Katonah V, Ltd., Katonah VII CLO, Ltd., and Katonah VIII CLO, Ltd.) managed by Katonah Debt Advisors and two other asset managers. Subsequent to our initial public offering, we purchased approximately $13 million of CLO Fund securities issued by other CLOs managed by Katonah Debt Advisors and approximately $4 million of CLO Fund securities managed by a third party asset manager. Our total investment in CLO Fund securities at fair value was approximately $57 million as of March 31, 2008. In addition, in connection with the closing of Katonah 2007, Katonah Debt Advisor's most recent CLO Fund, on January 23, 2008, we invested approximately $29 million to acquire all of the shares of the most junior class of securities of that CLO Fund.

Prior to our initial public offering, we issued an aggregate of 2,226,333 common shares, having a value of approximately $33 million, to affiliates of Kohlberg & Co. to acquire Katonah Debt Advisors. As a result, Katonah Debt Advisors is a wholly-owned portfolio company that manages CLO Funds which invest in broadly syndicated loans, high-yield bonds and other credit instruments. As of March 31, 2008, Katonah Debt Advisors had approximately $2.3 billion of assets under management. Katonah Debt Advisors had after-tax net income of approximately $945,000 for the three months ended March 31, 2008 and a dividend to us of $350,000. As of March 31, 2008, Katonah Debt Advisors had accumulated undistributed net income of approximately $2.8 million which will be distributed in the form of a dividend to us and thus recognized as income to be distributed to our shareholders in the future.

Both Katonah Debt Advisors and PKSI are considered affiliate investments. As of March 31, 2008, our affiliate asset manager investments at fair value were approximately $64 million.

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

RESULTS OF OPERATIONS

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

Set forth below is a discussion of our results of operations for the three months ended March 31, 2008 and for the year ended December 31, 2007.

Investment Income

Investment income for the three months ended March 31, 2008 was approximately $14 million. Of this amount, approximately $9 million was attributable to interest income on our loan and bond investments. For the three months ended March 31, 2008 approximately $465,000 of investment income was attributable to interest on assets accumulated for future CLO issuances on which we entered into a first loss agreement in connection with loan warehouse arrangements for Katonah Debt Advisors CLO Funds. Approximately $3 million of investment income is attributable to dividends earned on CLO equity investments.

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

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

Dividends from Affiliate Asset Manager

As of March 31, 2008, our investment in Katonah Debt Advisors was approximately $63 million. For the three months ended March 31, 2008, Katonah Debt Advisors had GAAP net income of approximately $945,000 million. Katonah Debt Advisors distributed $350,000 of its approximately $945,000 million of net income during the first quarter of 2008. Distributions of Katonah Debt Advisors' net income are recorded as dividends from affiliate asset manager. As of March 31, 2008, Katonah Debt Advisors had accumulated undistributed net income of approximately $2.8 million which will be distributed in the form of a dividend to us and thus recognized as income to be distributed to our shareholders in the future.

As of December 31, 2007, our investment in Katonah Debt Advisors was approximately $59 million. For the year ended December 31, 2007, Katonah Debt Advisors had GAAP net income of approximately $3 million. Katonah Debt Advisors distributed $500,000 of its approximately $3 million of net income during 2007. Distributions of Katonah Debt Advisors' net income are recorded as dividends from affiliate asset manager. The Company intends to distribute the accumulated net income of Katonah Debt Advisors in the future.

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

Expenses

Total expenses for the three months ended March 31, 2008 were approximately $6 million. Interest expense and amortization on debt issuance costs for the period, which includes facility and program fees on the unused loan balance, was approximately $3 million on average debt outstanding of $255 million. Approximately $1 million of expenses were attributable to employment compensation, including salaries, bonuses and stock option expense for the period. Other expenses included approximately $615,000 in professional fees primarily attributable to legal costs related to public filings (proxy statement, Form 10-K, etc.), legal costs attributable to certain other regulatory and compliance matters, Sarbanes-Oxley Act compliance preparation, testing and reporting and recruiting fees. Administrative and other costs totaled approximately $420,000 and include occupancy expense, insurance, technology and other office expenses.

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

Interest and compensation expense are generally expected to be our largest expenses each period. Interest expense is dependent on the average outstanding principal balance on our revolving credit facility and the base

index rate for the period. Compensation expense includes base salaries, bonuses, stock compensation, employee benefits and employer related payroll costs. The largest components of total compensation costs are base salaries and bonuses; generally, base salaries are expensed as incurred and bonus expenses are estimated and accrued since bonuses are paid annually.

Net Unrealized Appreciation on Investments

During the three months ended March 31, 2008, our investments had a decrease in net unrealized appreciation of approximately $8 million. Katonah Debt Advisors had unrealized appreciation of approximately $4 million offset by unrealized losses of approximately $12 million on debt securities, equity securities and CLO Fund securities in our investment portfolio.

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

The increase in the unrealized value of Katonah Debt Advisors is primarily as a result of an increase in Katonah Debt Advisors' assets under management from $1.2 billion prior to our initial public offering to $2.1 billion at December 31, 2007 and $2.3 billion as of March 31, 2008. During the three months ended March 31, 2008, Katonah Debt Advisors increased its assets under management through the completion of the formation of Katonah 2007-I, which included approximately $315 million in assets. In addition, as of December 31, 2007, Katonah Debt Advisors had aggregated assets of approximately $277 million for new funds it expects to complete during 2008.

Net Increase in Stockholders' Equity Resulting From Operations

The net increase in stockholders' equity resulting from operations for the three months ended March 31, 2008 was approximately $195,000, or $0.01 per outstanding share.

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

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

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

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

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

As of March 31, 2008 and December 31, 2007 the fair value of investments and cash and cash equivalents were as follows:

	Investments at Fair Value	
Security Type	March 31, 2008	December 31, 2007
Cash and cash equivalents	$ 12,891,722	$ 12,088,529
Senior Secured Loan	216,134,353	260,138,674
Junior Secured Loan	110,598,378	113,259,293
Mezzanine Investment	32,488,031	33,066,115
Senior Subordinated Bond	2,041,890	2,490,000
Senior Unsecured Bond	2,000,000	2,000,000
CLO Fund Securities	57,409,236	31,020,000
Equity Securities	3,613,752	4,752,250
Affiliate Asset Managers	64,045,602	58,585,360
Total	$ 501,222,964	$ 517,400,221

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

As of March 31, 2008, the outstanding balance on the credit facility was $250 million, with available additional borrowing capacity of $25 million. As of March 31, 2008, we had restricted cash balances of approximately $7 million, which we maintained in accordance with the terms of our credit facility. A portion of these funds, approximately $3 million, were released to us in April 2008.

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

COMMITMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

We are a party to financial instruments with off-balance sheet risk in the normal course of business in order to meet the needs of our portfolio companies. Such instruments include commitments to extend credit and may involve, in varying degrees, elements of credit risk in excess of amounts recognized on our balance sheet. Prior to extending such credit, we attempt to limit our credit risk by conducting extensive due diligence, obtaining collateral where necessary and negotiating appropriate financial covenants. As of March 31, 2008 and December 31, 2007, we had committed to make a total of approximately $3 million and $4 million, respectively, of investments in various revolving senior secured loans, of which approximately $565,000 had been funded as of

March 31, 2008 and $865,000 had been funded as of December 31, 2007. As of March 31, 2008 and December 31, 2007, we had committed to make a total of approximately 7 and $8 million, respectively, of investments in delayed draw senior secured loans, of which approximately $5 million had been funded as of March 31, 2008 and $5 million had been funded as of December 31, 2007.

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

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

As of March 31, 2008, Katonah 2007 and Katonah 2008-I had acquired an aggregate of approximately $153 million and $124 million in assets, respectively, determined on the basis of the par value of such assets. On January 23, 2008, Katonah Debt Advisors closed Katonah 2007 in accordance with the terms of the Bear Stearns engagement. Katonah Debt Advisors received a structuring fee upon closing and expects to earn an ongoing asset management fee based on the par amount of the underlying investments in Katonah 2007. Approximately $212 million of assets were transferred from the loan warehouse into Katonah 2007 and are no longer subject to a first loss guarantee. Securities issued by CLO Funds managed by Katonah Debt Advisors are primarily held by third parties. Kohlberg Capital invested approximately $29 million to acquire all of the shares of the most junior class of securities of Katonah 2007. Approximately $269 million in par value of acquired assets remained in the Bear Stearns warehouse credit facility following the closing of Katonah 2007. If the portfolio of remaining warehoused assets had been liquidated on March 31, 2008, Katonah Debt Advisors’ first loss obligation would have been $18 million. On March 16, 2008, JPMorgan announced that, subject to the receipt by Bear Stearns of stockholder approval and the satisfaction or waiver of other specified closing conditions, it has agreed to acquire Bear Stearns. There can be no assurance that the proposed acquisition will take place on the terms disclosed or at all. However, regardless of whether the transaction between JPMorgan and Bear Stearns is consummated, Katonah Debt Advisors expects that its commitment letter from Bear Stearns will remain in effect in accordance with its terms. Katonah Debt Advisors is currently in discussions with Bear Stearns regarding the timing and structure of the remaining CLO Funds, and its ability to access the warehouse credit line contemplated by the Bear Stearns commitment letter.

On March 12, 2007, Kohlberg Capital and Katonah Debt Advisors engaged Lehman Commercial Paper Inc. (“Lehman”) to structure and raise a CLO Fund to invest in senior secured middle market corporate loans, to be named Ardsley CLO 2007-1 Ltd. and to be managed by Katonah Debt Advisors, and entered into a warehouse credit agreement and ancillary agreements with Lehman to fund the initial accumulation of assets for Ardsley. Under the warehouse credit agreement, Kohlberg Capital, as the first loss provider, was obligated to reimburse Lehman for (i) certain losses (if any) incurred on loans acquired for Ardsley with advances under the warehouse

credit facility prior to the completion of the CLO Fund, or (ii) if the CLO Fund failed to close at the expiration of the engagement on December 19, 2007, a portion of the losses (if any) on the resale of the warehoused assets. On October 3, 2007, Kohlberg Capital, Katonah Debt Advisors and Ardsley agreed with Lehman to terminate the engagement, the warehouse credit facility and Kohlberg Capital's first loss obligation upon payment to Lehman of a payoff amount equal to the amount owed under the warehouse credit facility as of the payoff date minus $1 million, to reflect the estimated current value of the warehoused loans. As part of the termination, Kohlberg Capital purchased all of Ardsley's assets for an aggregate purchase price of approximately $72 million. Approximately $14 million in aggregate principal amount of such assets were purchased and subsequently sold in market transactions with third parties, and the remaining approximately $58 million of debt securities from Ardsley were retained in our investment portfolio. Ardsley used the proceeds from its sale of these loans to us to repay the outstanding obligations under the warehouse credit facility. All outstanding amounts under the warehouse credit facility have been paid off in full, as a result of which the warehouse credit facility and Kohlberg Capital's first loss obligations thereunder have terminated. No losses were incurred by Kohlberg Capital upon the termination of Ardsley.

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

As of March 31, 2008, we had funded approximately $900,000 of our $2.5 million total commitment to PKSI, which is an investment in PKSI's Class A securities.

CONTRACTUAL OBLIGATIONS

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

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

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

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

Interest rate risk is defined as the sensitivity of our current and future earnings to interest rate volatility, variability of spread relationships, the difference in re-pricing intervals between our assets and liabilities and the

effect that interest rates may have on our cash flows. Changes in the general level of interest rates can affect our net interest income, which is the difference between the interest income earned on interest earning assets and our interest expense incurred in connection with our interest bearing debt and liabilities. Changes in interest rates can also affect, among other things, our ability to acquire and originate loans and securities and the value of our investment portfolio.

Our investment income is affected by fluctuations in various interest rates, including LIBOR and prime rates. As of March 31, 2008, approximately 93% of our loans at fair value in our portfolio were at floating rates with a spread to an interest rate index such as LIBOR or the prime rate. We generally expect that future portfolio investments will predominately be floating rate investments. As of March 31, 2008, we had $250 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 March 31, 2008 were to remain constant and no actions were taken to alter the existing interest rate sensitivity, a hypothetical increase or decrease of a 1% change in interest rates would correspondingly affect net interest income proportionately by approximately 1% over a one-year period. Correspondingly, a hypothetical increase or decrease of a 1% change in interest rates would correspondingly affect net interest expense proportionately by approximately 1% over a one-year period. Because most of our investments at March 31, 2008 were floating rate with a spread to an index similar to our financing facility, we would not expect a significant impact on our net interest spread.

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

We did not hold any derivative financial instruments for hedging purposes as of March 31, 2008. In connection with the credit facility established on February 14, 2007 (as amended on October 1, 2007), KCAP Funding, our special purpose subsidiary may be required under certain circumstances to enter into interest rate swap agreements or other interest rate hedging transactions.

Portfolio Valuation

We carry our investments at fair value, as determined in good faith by our Board of Directors pursuant to procedures approved by our Board of Directors. Investments for which market quotations are readily available are valued at such market quotations. The Board of Directors has retained an independent valuation firm to provide third-party valuation consulting services, which consist of certain limited procedures that we identify and request the independent valuation firm to perform. As of March 31, 2008, approximately 51% of our investments were investments that were marked to market or for which we utilized the valuation services provided by the independent valuation firm in connection with the determination of fair value by our Board of Directors. Investments for which there is not a readily available market value are valued at fair value as determined in good faith by our Board of Directors under a valuation policy and a consistently applied valuation process. However, due to the inherent uncertainty of determining the fair value of investments that cannot be marked to market, the fair value of our investments may differ significantly from the values that would have been used had a ready

market existed for such investments or from the values that would have been placed on our assets by other market participants, and the differences could be material. See “Risk Factors—Risks Related to Our Investments—Our portfolio investments for which there is no readily available market, including our investment in Katonah Debt Advisors, are recorded at fair value as determined in good faith by our Board of Directors. As a result, there is uncertainty as to the value of these investments” and “Determination of Net Asset Value.” In addition, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the valuations that are assigned. The types of factors that we may take into account in fair value pricing of our investments include, as relevant, the nature and realizable value of any collateral, third party valuations, the portfolio company’s ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly-traded securities, recent sales of or offers to buy comparable companies, and other relevant factors.

Our Board of Directors is ultimately and solely responsible for determining the fair value of portfolio investments on a quarterly basis in good faith. Duff & Phelps, LLC, an independent valuation firm, provided third party valuation consulting services to our Board of Directors, which consisted of certain limited procedures that our Board of Directors identified and requested them to perform. For the twelve months ended March 31, 2008, our Board of Directors asked Duff & Phelps, LLC to perform the limited procedures on 31 investments comprising approximately 45% of the total investments at fair value for which market quotations are not readily available as of March 31, 2008. Upon completion of the limited procedures, Duff & Phelps, LLC concluded that the fair value of those investments subjected to the limited procedures did not appear to be unreasonable. In the future, our Board of Directors may continue to utilize the services of Duff & Phelps, LLC or may use another third party valuation provider.

OBLIGATIONS AND INDEBTEDNESS

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

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

As of March 31, 2008, we had $250 million of outstanding indebtedness, with available additional borrowing capacity of $25 million. Subsequent to March 31, 2008, we reduced existing indebtedness under our credit facility by approximately $30 million with the net proceeds from the transferable rights offering we completed in May 2008 to approximately $220 million.

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

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

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

BUSINESS

We are an internally managed, non-diversified closed-end investment company that has elected to be regulated as a BDC under the 1940 Act. We originate, structure and invest in senior secured term loans, mezzanine debt and selected equity securities primarily in privately-held middle market companies. We define the middle market as comprising companies with EBITDA of $10 million to $50 million and/or total debt of $25 million to $150 million. In addition to our middle market investment business, our wholly-owned portfolio company, Katonah Debt Advisors, manages CLO Funds that invest in broadly syndicated loans, high-yield bonds and other corporate credit instruments. We acquired Katonah Debt Advisors and certain related assets prior to our initial public offering from affiliates of Kohlberg & Co., a leading private equity firm focused on middle market investing. As of March 31, 2008, Katonah Debt Advisors had approximately $2.3 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 companies and do not include any asset-backed securities secured by commercial mortgages, residential mortgages or other consumer borrowings.

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

INVESTMENT PORTFOLIO

Investment Securities

We invest in senior secured loans and mezzanine debt and, to a lesser extent, equity capital, of middle market companies in a variety of industries. We generally target companies that generate positive cash flows because we look to cash flows as the primary source for servicing debt. However, we may invest in other companies if we are presented with attractive opportunities. Our portfolio investments at fair value decreased from $505 million at December 31, 2007 to $488 million as of March 31, 2008. The net decrease in portfolio size relates primarily to unrealized mark-to-market fair value declines in our investment portfolio. Such decline relates primarily to illiquidity in the broader debt markets and not to credit issues in our portfolio. Our intention is to hold such assets to maturity and thus mitigate such unrealized losses. During the year ended December 31, 2007, we also sold some of our initial portfolio of primarily first lien loans that were accumulated prior to completion of our initial public offering in order to move towards our targeted portfolio mix of first and second lien loans, mezzanine finance and equity securities. First lien loan balances at fair value decreased to $216 million at March 31, 2008 from $260 million at December 31, 2007. Second lien, mezzanine loan and bond positions decreased to $147 million at March 31, 2008 from $151 million at December 31, 2007. We had equity securities, other than CLO equity securities, totaling $3.6 million and investments in CLO Fund securities of $57 million at fair value as of March 31, 2008. As of March 31, 2008, our investments in loans and debt securities had an annual weighted average interest rate of approximately 7.8%.

The unaudited characteristics of our investment securities at fair value, excluding CLO equity securities, are presented in the following table as of each quarter end from December 31, 2006 through March 31, 2008:

	1Q08		4Q07		3Q07		2Q07		1Q07		4Q06	
Security Type ($ in millions)	**$**	**%**	**$**	**%**	**$**	**%**	**$**	**%**	**$**	**%**	**$**	**%**
First Lien	$216.1	59%	$260.1	63%	$190.2	55%	$164.3	59%	$150.4	69%	$163.3	86%
Second Lien/Mezzanine/Bond	147.1	40	150.8	36	148.6	43	110.8	40	64.3	30	27.5	14
Equity	3.6	1	4.8	1	5.0	2	3.0	1	3.0	1	—	—
Total	$366.8	100%	$415.7	100%	$343.8	100%	$278.1	100%	$217.7	100%	$190.8	100%

The unaudited industry concentrations, based on the fair value of our investment portfolio as of March 31, 2008 and December 31, 2007, were as follows:

	March 31, 2008			December 31, 2007		
Security Type	**Cost**	**Fair Value**	**% (1)**	**Cost**	**Fair Value**	**% (1)**
Aerospace and Defense	$33,097,914	$32,810,682	13%	$32,583,716	$32,481,819	13%
Asset Management Companies(2)	35,053,497	64,045,602	25	33,469,995	58,585,360	23
Automobile	4,917,504	4,574,680	2	5,286,731	5,147,010	2
Beverage, Food and Tobacco	—	—	—	—	—	—
Broadcasting and Entertainment	2,979,896	2,782,500	1	2,978,999	2,782,500	1
Buildings and Real Estate(3)	37,895,281	30,191,050	12	37,726,396	34,944,226	13
Cargo Transport	12,947,635	12,928,299	5	14,967,369	14,958,789	6
Chemicals, Plastics and Rubber	3,958,338	3,220,000	1	3,956,582	3,220,000	1
CLO Fund Securities	65,245,123	57,409,236	23	36,061,264	31,020,000	12
Containers, Packaging and Glass	8,892,726	8,892,726	4	8,895,059	8,895,059	3
Diversified/Conglomerate Manufacturing	5,910,185	5,778,903	2	8,931,343	8,718,855	3
Diversified/Conglomerate Service	15,939,074	15,215,338	6	17,962,721	17,303,969	7
Ecological	3,928,517	3,928,517	2	3,937,850	3,937,850	2
Electronics	12,017,843	10,821,684	4	15,830,382	15,158,502	6
Farming and Agriculture	4,796,894	3,937,875	2	4,800,651	4,058,835	2
Finance	9,208,911	8,508,778	3	11,590,697	11,209,824	4
Healthcare, Education and Childcare	37,883,503	37,555,186	15	46,715,870	46,637,705	18
Home and Office Furnishings, Housewares, and Durable Consumer Goods	22,605,963	21,283,367	8	24,091,185	23,265,816	9
Hotels, Motels, Inns and Gaming	7,646,033	7,116,696	3	9,364,165	9,091,041	4
Insurance	16,017,785	15,757,861	6	24,346,884	23,941,763	9
Leisure, Amusement, Motion Pictures, Entertainment	18,385,533	18,385,533	7	18,402,600	18,402,600	7
Machinery (Non-Agriculture, Non-Construction, Non-Electronic)	37,242,046	36,756,252	15	39,573,338	39,483,418	15
Mining, Steel, Iron and Non-Precious Metals	15,326,487	14,986,325	6	16,338,446	16,069,759	6
Oil and Gas	5,997,971	5,870,000	2	5,997,874	5,960,000	2
Personal and Non Durable Consumer Products (Mfg. Only)	16,210,065	13,234,349	5	17,315,776	14,750,095	6
Personal, Food and Miscellaneous Services	14,044,450	13,889,970	5	13,918,651	13,765,201	5
Personal Transportation	—	—	—	—	—	—
Printing and Publishing	20,407,804	19,655,421	8	21,622,999	21,236,473	8

Security Type	March 31, 2008 Cost	March 31, 2008 Fair Value	March 31, 2008 %(1)	December 31, 2007 Cost	December 31, 2007 Fair Value	December 31, 2007 %(1)
Retail Stores	3,952,519	3,833,943	2	4,962,500	4,813,625	2
Utilities	16,379,732	14,960,469	6	16,384,930	15,471,598	6
Total	$488,889,229	$488,331,242	193%	$498,014,973	$505,311,692	195%

(1) Calculated as a percentage of net asset value at fair value.
(2) Represents Katonah Debt Advisors and affiliate asset managers.
(3) Buildings and real estate relate to real estate ownership, builders, managers and developers and excludes mortgage debt investments and mortgage lenders or originators. As of March 31, 2008 and December 31, 2007, 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.

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

Our investment portfolio (excluding our investment in Katonah Debt Advisors and CLO Funds) at March 31, 2008 was spread across 26 different industries and 86 different entities with an average balance per investment of approximately $4 million. As of March 31, 2008, one issuer representing 1% of total investments at fair value was considered in default. Our portfolio, including the CLO Funds in which we invest, and the CLO Funds managed by Katonah Debt Advisors, consist exclusively of credit instruments issued by companies and do not include investments in asset-backed securities, such as those secured by commercial mortgages, residential mortgages or other consumer borrowings.

We may invest up to 30% of our investment portfolio in opportunistic investments in high-yield bonds, debt and equity securities in CLO Funds, distressed debt or equity securities of public companies. We expect that these public companies generally will have debt that is non-investment grade. We also may invest in debt of middle market companies located outside of the United States, which investments are not anticipated to be in excess of 10% of our investment portfolio at the time such investments are made. At March 31, 2008, approximately 15% 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.

As of March 31, 2008, our ten largest portfolio companies represented approximately 35% of the total fair value of our investments. Our largest investment, Katonah Debt Advisors, which is our wholly-owned portfolio company, represented 13% of the total fair value of our investments. Excluding Katonah Debt Advisors and CLO Fund securities, our ten largest portfolio companies represent approximately 18% of the total fair value of our investments.

Investment in CLO Fund Securities

We typically make a minority investment in the subordinated securities or preferred stock of CLO Funds raised and managed by Katonah Debt Advisors and may selectively invest in securities issued by CLO Funds managed by other asset management companies. The securities issued by CLO Funds managed by Katonah Debt Advisors are primarily held by third parties. As of March 31, 2008, we had $57 million invested in CLO Fund securities, including those issued by funds managed by Katonah Debt Advisors. In addition, in connection with the closing of Katonah 2007, Katonah Debt Advisor's most recent CLO Fund, on January 23, 2008, we invested approximately $29 million to acquire all of the shares of the most junior class of securities of that CLO Fund. The CLO Funds managed by Katonah Debt Advisors invest primarily in broadly syndicated non-investment grade loans, high-yield bonds and other credit instruments of corporate issuers. The underlying assets in each of the CLO Funds in which we have any investment are generally diversified secured or unsecured corporate debt and exclude mortgage pools or mortgage securities (residential mortgage bonds, commercial mortgage backed securities, or related asset-backed securities), debt to companies providing mortgage lending and emerging markets investments. The CLO Funds are leveraged funds and any excess cash flow or "excess spread" (interest earned by the underlying securities in the fund less payments made to senior bond holders and less fund expenses and management fees) is paid to the holders of the CLO Fund's subordinated securities or preferred stock.

As of March 31, 2008, all of the CLO Funds in which we hold investments maintained the original issue credit ratings on all rated classes of their securities, were distributing cash flows to all classes of investors and were performing in line with expectations with no breach of any material covenants. During the year ended December 31, 2007, our CLO Fund securities for which we had a full year's payments returned an average 28% cash-on-cash return. Our CLO Fund securities as of March 31, 2008 and December 31, 2007 are as follows:

			March 31, 2008		December 31, 2007	
CLO Fund Securities	Investment	%(1)	Cost	Fair Value	Cost	Fair Value
Grant Grove CLO, Ltd.	Subordinated Securities	22.2%	$ 4,468,959	$ 4,250,000	$ 4,415,580	$ 4,250,000
Katonah III, Ltd.	Preferred Shares	23.1	4,500,000	1,390,000	4,500,000	2,810,000
Katonah IV, Ltd.	Mezzanine Investment	17.1	3,150,000	1,250,000	3,150,000	2,420,000
Katonah V, Ltd.	Preferred Shares	26.7	3,320,000	919,000	3,320,000	420,000
Katonah VII CLO Ltd.(2)	Subordinated Securities	16.4	4,500,000	3,738,000	4,500,000	3,950,000
Katonah VIII CLO Ltd.(2)	Subordinated Securities	10.3	3,400,000	3,128,000	3,400,000	3,290,000
Katonah IX CLO Ltd.(2)	Preferred Shares	6.9	2,000,000	2,000,000	2,000,000	2,000,000
Katonah X CLO Ltd.(2)	Subordinated Securities	33.3	10,916,643	11,875,000	10,775,684	11,880,000
Katonah 2007-1 CLO Ltd.(2)	Subordinated Securities	100.0	28,989,521	28,859,236	—	—
Total			$ 65,245,123	$ 57,409,236	$ 36,061,264	$ 31,020,000

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

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

The table below summarizes certain attributes of each CLO Fund as per their March 2008 trustee report:

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.	241	178	33	$ 1,191,763	$ 1,613,566
Katonah III, Ltd.	290	205	29	1,257,740	1,779,242
Katonah IV, Ltd.	330	233	29	1,033,085	1,463,168
Katonah V, Ltd.	370	252	30	626,697	920,150
Katonah VII CLO Ltd.	233	175	32	1,455,749	1,938,226
Katonah VIII CLO Ltd	229	177	31	1,666,032	2,155,487
Katonah IX CLO Ltd	224	174	33	1,752,072	2,255,541
Katonah X CLO Ltd	221	169	33	2,020,415	2,642,081
Katonah 2007-1 CLO Ltd	171	137	30	1,682,930	2,100,592

(1) All data from Trustee reports except for Katonah 2007-1, for which no Trustee report has yet been published and for which such information was compiled by the fund manager.

Investment in Katonah Debt Advisors

Katonah Debt Advisors is our wholly-owned asset management company that manages CLO Funds that invest in broadly syndicated loans, high yield bonds and other credit instruments. As a manager of the CLO Funds, Katonah Debt Advisors expects to continue to receive contractual and recurring management fees and any subsequent incentive management fees from the CLO Funds for its management and advisory services. The annual fees which Katonah Debt Advisors receives are generally based on a fixed percentage of assets under management, and Katonah Debt Advisors generates annual operating income equal to the amount by which its fee income exceeds it operating expenses. In future years, Katonah Debt Advisors may receive accrued incentive fees upon the liquidation of CLO Funds it manages, provided such CLO Funds have achieved a minimum investment return to holders of their subordinated securities or preferred stock. Katonah Debt Advisors also typically receives one-time structuring fees upon the creation of a new CLO Fund. The CLO Funds managed by Katonah Debt Advisors consist exclusively of credit instruments issued by corporations and do not invest in asset-backed securities such as those secured by residential mortgages or other consumer borrowings. As of March 31, 2008, Katonah Debt Advisors had approximately $2.3 billion of assets under management, and was valued at approximately $63 million.

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

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

As a separately taxable corporation, Katonah Debt Advisors is taxed at normal corporate rates. For tax purposes, any distributions of taxable net income earned by Katonah Debt Advisors to us would generally need to be distributed to our stockholders. Katonah Debt Advisors' taxable net income differs from GAAP net income for both deferred tax timing adjustments and permanent tax adjustments. Deferred tax timing adjustments may include differences between lease cash payments to GAAP straight line expense and adjustments for the

recognition and timing of depreciation, bonuses to employees, stock option expense, and interest rate caps. Permanent differences may include adjustments, limitations or disallowances for meals and entertainment expenses, penalties and tax goodwill amortization.

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

Portfolio Valuation

We carry our investments at fair value, as determined in good faith by our Board of Directors pursuant to procedures approved by our Board of Directors. Investments for which market quotations are readily available are valued at such market quotations. The Board of Directors has retained an independent valuation firm to provide third-party valuation consulting services, which consist of certain limited procedures that we identify and request the independent valuation firm to perform. As of March 31, 2008, approximately 51% of our investments were investments that were marked to market or for which we utilized the valuation services provided by the independent valuation firm in connection with the determination of fair value by our Board of Directors. Investments for which there is not a readily available market value are valued at fair value as determined in good faith by our Board of Directors under a valuation policy and a consistently applied valuation process. However, due to the inherent uncertainty of determining the fair value of investments that cannot be marked to market, the fair value of our investments may differ significantly from the values that would have been used had a ready market existed for such investments or from the values that would have been placed on our assets by other market participants, and the differences could be material. In addition, changes in the market environment and other events that may occur over the life of the investments may cause the gains or losses ultimately realized on these investments to be different than the valuations that are assigned. The types of factors that we may take into account in fair value pricing of our investments include, as relevant, the nature and realizable value of any collateral, third party valuations, the portfolio company’s ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly-traded securities, recent sales of or offers to buy comparable companies, and other relevant factors.

Our Board of Directors is ultimately and solely responsible for determining the fair value of portfolio investments on a quarterly basis in good faith. Duff & Phelps, LLC, an independent valuation firm, provided third party valuation consulting services to our Board of Directors, which consisted of certain limited procedures that our Board of Directors identified and requested them to perform. For the twelve months ended March 31, 2008, our Board of Directors asked Duff & Phelps, LLC to perform the limited procedures on 31 investments comprising approximately 45% of the total investments at fair value for which market quotations are not readily available as of March 31, 2008. Upon completion of the limited procedures, Duff & Phelps, LLC concluded that the fair value of those investments subjected to the limited procedures did not appear to be unreasonable. In the future, our Board of Directors may continue to utilize the services of Duff & Phelps, LLC or may use another third party valuation provider.

BACKGROUND

In 1999, affiliates of Kohlberg & Co. formed a lending platform called Katonah Capital, L.L.C. (“Katonah Capital”) to capitalize on the experience of Kohlberg & Co. in arranging and structuring debt financing for its own portfolio companies. From its inception through 2005, Katonah Capital organized six CLO Funds that raised in excess of $2 billion in capital to invest in below-investment-grade broadly syndicated loans, bonds and other credit instruments. In 2005, affiliates of Kohlberg & Co. organized Katonah Debt Advisors as a new platform to

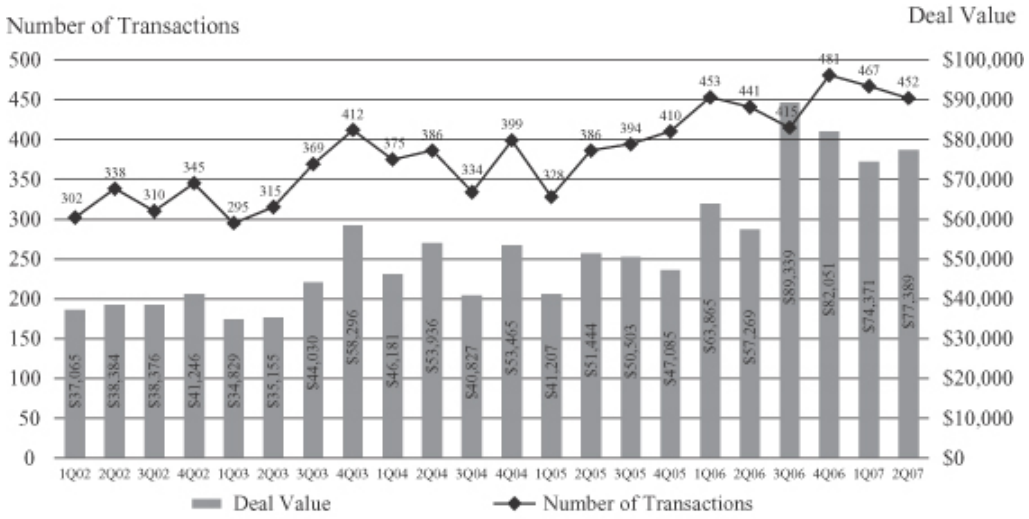
continue to manage CLO Funds investing in broadly syndicated loans and high-yield bonds and to diversify into lending to middle market companies and investing in other types of credit instruments, and the operations of Katonah Capital were discontinued. Prior to our acquisition of Katonah Debt Advisors and our initial public offering in December 2006, Katonah Debt Advisors raised three CLO Funds with approximately $1.2 billion in assets under management and assembled a $185 million portfolio of primarily middle market loans.

MARKET OPPORTUNITY

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

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

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



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

STRATEGY

Our investment objective is to generate current income and capital appreciation from our middle market investments and from our investment in Katonah Debt Advisors. We intend to grow our portfolio of assets by raising additional capital, including through the prudent use of leverage available to us. We primarily invest in first and second lien term loans which, because of their priority in a company's capital structure, we expect will have lower default rates and higher rates of recovery of principal if there is a default and which we expect will create a stable stream of interest income. While our primary investment focus is on making loans to, and selected equity investments in, privately-held middle market companies, we may also invest in other investments such as loans to larger, publicly-traded companies, high-yield bonds and distressed debt securities. We may also receive warrants or options to purchase common stock in connection with our debt investments. In addition, we may also

invest in debt and equity securities issued by CLO Funds managed by Katonah Debt Advisors or by other asset managers. However, our investment strategy is to limit the value of our investments in the debt or equity securities issued by CLO Funds to not more than 10% of the value of our total investment portfolio. We invest exclusively in credit instruments issued by corporations and do not invest in asset-backed securities such as those secured by commercial mortgages, residential mortgages or other consumer borrowings.

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

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

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

MIDDLE MARKET BUSINESS

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

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

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

KATONAH DEBT ADVISORS

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

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

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

return to investors. We anticipate that the CLO Funds managed by the Structured Products Group of Katonah Debt Advisors will continue to typically invest only in credit instruments issued by corporations and not to invest in asset-backed securities secured by commercial mortgages, residential mortgages or other consumer borrowings.

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

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

OUR STRATEGIC RELATIONSHIP WITH KOHLBERG & CO.

We believe that we derive substantial benefits from our strategic relationship with Kohlberg & Co., as evidenced by the participation of its Chairman and co-managing partners on our Board of Directors and of its co-managing partners on our Investment Committee. Through such participation, we have access to the expertise of these individuals in the middle market and leveraged investing, which we believe enhances our capital raising, due diligence, investment selection and credit analysis activities. In addition, affiliates of Kohlberg & Co., including those who serve on our Board of Directors and on our Investment Committee, own, in the aggregate, approximately 15% of our outstanding common stock. We have entered into a License and Referral Agreement with Kohlberg & Co. pursuant to which Kohlberg & Co. has agreed to notify us of equity investment opportunities that are presented to Kohlberg & Co. but that it has determined in its sole discretion are not appropriate for any investment funds managed by Kohlberg & Co. or any of its affiliates, typically due to the small size or non-control nature of the investment, prior to making such investment opportunity available to any third party although no referral from Kohlberg & Co. to date has resulted in an investment by us or our Katonah Debt Advisors. Kohlberg & Co. has also granted us a royalty-free license to use the "Kohlberg" name, which we believe is one of the most widely recognized names in middle market investing, and is providing certain administrative services to us on a transitional basis.

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

Because we are an internally managed BDC, we do not pay any fees to Kohlberg & Co. or any of its affiliates. Under the 1940 Act, we may be prohibited from buying or selling any security from or to any portfolio company of a private equity fund managed by Kohlberg & Co. without the prior approval of the SEC. In addition, we may co-invest on a concurrent basis with Kohlberg & Co. or any of our affiliates, subject to

compliance with existing regulatory guidance, applicable regulations and our allocation procedures. Certain types of negotiated co-investments may be made only if we receive an order from the SEC permitting us to do so. There can be no assurance that any such order will be obtained.

COMPETITIVE ADVANTAGES

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

Internally managed structure and significant management resources

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

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

Multiple sourcing capabilities for assets

We have multiple sources of loans, mezzanine investments and equity investments. Through industry relationships, we believe that we will continue to have the ability to participate in loans originated by other capital providers to middle market companies as well as to source assets directly from private equity sponsors and regional banks. Through Katonah Debt Advisors, we have the ability to acquire participations in selected syndicated secured and second lien term loans whose borrowers and investment returns meet our investment criteria. Through Katonah Debt Advisors, we also have the opportunity to invest in selected equity and mezzanine securities issued by CLO Funds, including those managed by Katonah Debt Advisors. Through our strategic relationship with Kohlberg & Co., we expect to continue to have access to a variety of equity investments and mezzanine and other lending opportunities which are presented to Kohlberg & Co. but do not meet Kohlberg & Co.'s applicable investment criteria for reasons such as the small size or non-control nature of the investment. To date, no referral from Kohlberg & Co. has resulted in an investment by us or Katonah Debt Advisors. From January 1, 2007 through December 31, 2007, we reviewed 702 investment opportunities, which resulted in 50 completed transactions and a total gross investment of $402 million.

Disciplined investment process

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

Katonah Debt Advisors' credit platform

Katonah Debt Advisors serves as a source of direct investment opportunities and cash flow. In addition, certain credit analysts employed by Katonah Debt Advisors who also serve as officers of the Company serve as sources of credit analysis. Katonah Debt Advisor's credit team employs a highly rigorous process in selecting and reviewing investment opportunities for CLO Funds managed by Katonah Debt Advisors. We have the opportunity to make investments in CLO Funds managed by Katonah Debt Advisors, which we expect to generate regular cash dividends or interest income. Katonah Debt Advisors also generates revenue through the fees it receives for managing CLO Funds, and may distribute its income, after paying the expenses associated with its operations, including compensation of its employees and taxes, if any, to us. Further we co-invest with CLO Funds managed by Katonah Debt Advisors when we believe it will be advantageous for us to do so. As of March 31, 2008, we had invested at cost $50 million in CLO Funds managed by Katonah Debt Advisors.

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

Our investment portfolio (excluding our investment in Katonah Debt Advisors and CLO Funds) is spread across 26 different industries and 86 different entities with an average balance per investment of approximately $4 million. Our investment portfolio as well as the investment portfolios of the CLO Funds in which we have invested and the investment portfolios of the CLO Funds managed by Katonah Debt Advisors consist exclusively of credit instruments and other securities issued by companies and do not include any asset-backed securities secured by commercial mortgages, residential mortgages or other consumer borrowings.

Strategic relationship with Kohlberg & Co.

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

royalty-free license to use the “Kohlberg” name, which we believe is one of the most widely recognized names in middle market investing.

Significant equity ownership and alignment of incentives

Our senior management team, the senior management team of Katonah Debt Advisors and affiliates of Kohlberg & Co. together have a significant equity interest in the Company, ensuring that their incentives are strongly aligned with those of our stockholders. Affiliates of Kohlberg & Co., including the Chairman and co-managing partners of Kohlberg & Co. who serve on our Board of Directors and, in the case of its co-managing partners, on our Investment Committee, owned in the aggregate approximately 15% of our outstanding common stock as of May 21, 2008 and prior to giving effect to any sale of securities pursuant to this prospectus, which they received, in lieu of cash, as consideration for the contribution to the Company of 100% of the equity of Katonah Debt Advisors and certain subordinated securities investments in CLO Funds managed by Katonah Debt Advisors and two other asset managers or purchased in the open market. We have also issued to our senior management team options to purchase shares of our common stock under our Equity Incentive Plan.

INVESTMENTS AND OPERATIONS

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

As of March 31, 2008, we had a portfolio that included first and second lien senior loans. Our investments generally averaged between $1 million to $10 million, although particular investments may be larger or smaller. We expect that the size of investment will grow as our available capital grows. After the acquisition of assets subsequent to our initial public offering and consistent with our investment strategy, we have begun to reposition the investment portfolio to focus increasingly on second lien senior loans and mezzanine loans.

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

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

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

Mezzanine debt generally earns a higher return than senior secured debt due to its higher risk profile and usually less restrictive covenants. The warrants associated with mezzanine debt are typically detachable, which allows lenders to receive repayment of their principal on an agreed amortization schedule while retaining their equity interest in the borrower. Mezzanine debt also may include a "put" feature, which permits the holder to sell its equity interest back to the borrower at a price determined through an agreed formula.

As of March 31, 2008, we had invested approximately $32 million in mezzanine debt investments.

CREDIT AND INVESTMENT PROCESS

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

We focus on lending and investing opportunities in:

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

We expect to continue to source investment opportunities from:

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

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

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

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

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

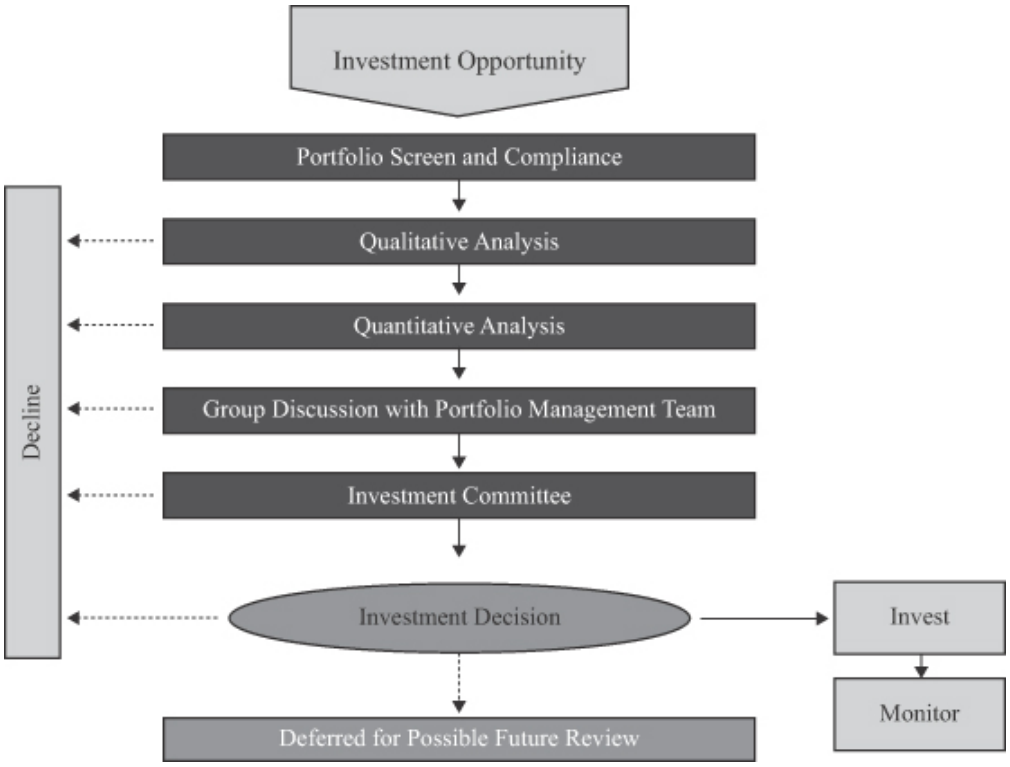
Elements of the *quantitative analysis* we use in evaluating investment opportunities include the following:

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

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

Approval Process

The following chart illustrates our screening and approval process:



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

CREDIT MONITORING

Our management team has significant experience monitoring portfolios of middle market investments, and this is enhanced by the credit monitoring procedures of Katonah Debt Advisors. Our CEO was responsible

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

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

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

OUR PEOPLE

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

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

COMPETITION

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

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

OUR CORPORATE INFORMATION

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

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

LEGAL PROCEEDINGS

We are not a party to any pending legal proceedings.

PORTFOLIO COMPANIES

The following tables set forth certain information as of March 31, 2008 regarding each of our investments in portfolio companies. Unless otherwise noted in these tables, the only relationship between us and each portfolio company is our investment in such portfolio company. No single investment (other than our investment in Katonah Debt Advisors) represents more than 5% of our total assets. While we may make loans to or additional investments in these companies, we have no present plans to make any such loans or investments that would raise our investment in any other of these companies above 5% of total assets. Any such loans and investments will be made in accordance with our investment policies and procedures.

Debt Securities and Bond Portfolio

Portfolio Company / Principal Business	Address	Investment Interest Rate(1) / Maturity	Principal	Cost	Value(2)
Advanced Lighting Technologies, Inc.(6) *Home and Office Furnishings, Housewares, and Durable Consumer Products*	3200 Aurora Road Solon, OH 44139	Senior Secured Loan—Deferred Draw Term Loan (First Lien) 5.4%, Due 6/13	$ 359,515	$ 359,515	$ 359,515
Advanced Lighting Technologies, Inc. *Home and Office Furnishings, Housewares, and Durable Consumer Products*	3200 Aurora Road Solon, OH 44139	Senior Secured Loan—Revolving Loan 5.4%, Due 6/13	400,000	391,320	398,264
Advanced Lighting Technologies, Inc.(6) *Home and Office Furnishings, Housewares, and Durable Consumer Products*	3200 Aurora Road Solon, OH 44139	Junior Secured Loan—Second Lien Term Loan Note 8.9%, 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*	3200 Aurora Road Solon, OH 44139	Senior Secured Loan—Term Loan (First Lien) 5.6%, Due 6/13	1,970,439	1,970,439	1,970,439
Aero Products International, Inc.(6) *Personal and Non Durable Consumer Products (Mfg. Only)*	1834 Walden Office Square 3rd Floor Schaumberg, IL 60173	Senior Secured Loan—Term Loan 8.3%, Due 4/12	3,600,000	3,600,000	3,600,000
Aerostructures Acquisition LLC(6) *Aerospace and Defense*	18008A N. Black Canyon Hwy Phoenix, AZ 85053	Senior Secured Loan—Delayed Draw Term Loan 5.8%, Due 3/13	500,000	500,000	497,500

Portfolio Company / Principal Business	Address	Investment Interest Rate(1) / Maturity	Principal	Cost	Value(2)
Aerostructures Acquisition LLC(6) *Aerospace and Defense*	18008A N. Black Canyon Hwy Phoenix, AZ 85053	Senior Secured Loan—Term Loan 5.7%, Due 3/13	$6,337,500	$6,337,500	$6,337,500
AGA Medical Corporation(6) *Healthcare, Education and Childcare*	682 Mendelssohn Avenue Golden Valley, MN 55427	Senior Secured Loan—Tranche B Term Loan 5.1%, Due 4/13	3,832,209	3,829,477	3,487,310
AGS LLC(6) *Hotels, Motels, Inns, and Gaming*	c/o Alpine Investors 3 Embarcadero Center, Suite 2330 San Francisco, CA 94111-4016	Senior Secured Loan—Delayed Draw Term Loan 5.7%, Due 5/13	445,399	434,725	423,129
AGS LLC(6) *Hotels, Motels, Inns, and Gaming*	c/o Alpine Investors 3 Embarcadero Center, Suite 2330 San Francisco, CA 94111-4016	Senior Secured Loan—Initial Term Loan 5.7%, Due 5/13	3,183,441	3,139,302	3,024,269
Allen-Vanguard Corporation(3) *Aerospace and Defense*	5459 Canotek Road Ottawa, Ontario K1J 9M3	Senior Secured Loan—Term Loan 11.0%, Due 9/12	1,600,478	1,579,011	1,680,502
AmerCable Incorporated(6) *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	350 Bailey Road El Dorado, AR 71730	Senior Secured Loan—Initial Term Loan 6.3%, Due 6/14	5,945,038	5,945,038	5,945,038
Astoria Generating Company Acquisitions, LLC(6) *Utilities*	c/o US Power Generating Company 400 Madison Avenue New York, NY 10017	Junior Secured Loan—Second Lien Term Loan C 6.4%, Due 8/13	4,000,000	4,047,248	3,900,000
Atlantic Marine Holding Company(6) *Cargo Transport*	8500 Heckscher Drive Jacksonville, FL 32226	Senior Secured Loan—Term Loan 6.9%, Due 3/14	1,735,084	1,745,744	1,726,408
Aurora Diagnostics, LLC(6) *Healthcare, Education and Childcare*	11360 North Jog Road, Suite 103 Palm Beach Gardens, FL 33418	Senior Secured Loan—Tranche A Term Loan (First Lien) 7.8%, Due 12/12	4,502,000	4,455,015	4,459,695

Portfolio Company / Principal Business	Address	Investment Interest Rate(1) / Maturity	Principal	Cost	Value(2)
Awesome Acquisition Company (CiCi's Pizza)(6) *Personal, Food and Miscellaneous Services*	1080 West Bethel Road Coppell, TX 75019	Junior Secured Loan—Term Loan (Second Lien) 7.7%, Due 6/14	$ 4,000,000	$ 3,974,480	$ 3,820,000
AZ Chem US Inc.(6) *Chemicals, Plastics and Rubber*	Building 100 4600 Touchton Road E. Suite 1500 Jacksonville, FL 32246	Junior Secured Loan—Second Lien Term Loan 8.6%, Due 2/14	4,000,000	3,958,338	3,220,000
Bankruptcy Management Solutions, Inc.(6) *Diversified/Conglomerate Service*	8 Corporate Park, Suite 210 Irvine, CA 92606	Senior Secured Loan—First Lien Term Loan 6.7%, Due 7/12	1,970,000	1,981,385	1,773,000
Bankruptcy Management Solutions, Inc.(6) *Diversified/Conglomerate Service*	8 Corporate Park, Suite 210 Irvine, CA 92606	Junior Secured Loan—Loan (Second Lien) 9.0%, Due 7/13	2,462,500	2,497,664	1,982,313
Bay Point Re Limited(3)(6) *Insurance*	c/o Conyers Dill & Pearman Clarendon House 2 Church Street Hamilton, Ontario, Canada	Senior Secured Loan—Loan 7.4%, Due 12/10	3,000,000	3,017,867	3,017,867
Bicent Power LLC(6) *Utilities*	103 North Washington St Easton, MD 21601	Junior Secured Loan—Advance (Second Lien) 6.7%, Due 12/14	4,000,000	4,000,000	3,730,000
Caribe Information Investments Incorporated(6) *Printing and Publishing*	c/o Welsh, Carson, Anderson & Stowe 320 Park Avenue, Suite 2500 New York, NY 10022-6815	Senior Secured Loan—Term Loan 5.7%, Due 3/13	1,775,207	1,767,791	1,597,687
Cast & Crew Payroll, LLC (Payroll Acquisition)(6) *Leisure, Amusement, Motion Pictures, Entertainment*	100 East Tujunga Avenue Second Floor Burbank, CA 91502-1955	Senior Secured Loan—Initial Term Loan 5.7%, Due 9/12	10,608,400	10,645,533	10,645,533

Portfolio Company / Principal Business	Address	Investment Interest Rate(1) / Maturity	Principal	Cost	Value(2)
CEI Holdings, Inc. (Cosmetic Essence)(6) *Personal and Non Durable Consumer Products (Mfg. Only)*	2182 Route 35 South Holmdel, NJ 07733	Senior Secured Loan —Term Loan 7.0%, Due 3/14	$ 1,845,391	$ 1,751,071	$ 1,660,852
Centaur, LLC(6) *Hotels, Motels, Inns, and Gaming*	10 W Market St, Suite 200 Indianapolis, IN 46204	Senior Secured Loan —Delayed Draw Term Loan 6.7%, Due 10/12	—	—	—
Centaur, LLC(6) *Hotels, Motels, Inns, and Gaming*	10 W Market St, Suite 200 Indianapolis, IN 46204	Senior Secured Loan —Term Loan (First Lien) 6.7%, Due 10/12	4,122,807	4,072,006	3,669,295
Charlie Acquisition Corp. *Personal, Food and Miscellaneous Services*	1450 US Highway 22 Mountainside, NJ 07092	Mezzanine Investment—Senior Subordinated Notes 15.5%, Due 6/13	10,243,966	10,069,970	10,069,970
Clarke American Corp.(6) *Printing and Publishing*	10931 Laureate Drive San Antonio, TX 78249-3312	Senior Secured Loan —Tranche B Term Loan 5.7%, Due 6/14	2,977,500	2,977,500	2,408,798
Clayton Holdings, Inc(6) *Finance*	2 Corporate Drive Shelton, CT 06484	Senior Secured Loan —Term Loan 6.1%, Due 12/11	299,480	300,590	299,480
CoActive Technologies, Inc.(6) *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Room 1007-8 10/F, Harcourt House 39 Gloucester Road Wan Chai, Hong Kong	Senior Secured Loan —Term Loan (First Lien) 5.7%, Due 7/14	3,990,000	3,971,758	3,971,758
CoActive Technologies, Inc.(6) *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Room 1007-8 10/F, Harcourt House 39 Gloucester Road Wan Chai, Hong Kong	Junior Secured Loan —Term Loan (Second Lien) 9.4%, Due 1/15	2,000,000	1,962,612	1,961,246
Coastal Concrete Southeast, LLC *Buildings and Real Estate 4*	7 Plantation Drive Bluffton, SC 29910	Mezzanine Investment—Mezzanine Term Loan 10.0%, Due 3/13	8,242,290	7,852,868	7,418,061

Portfolio Company / Principal Business	Address	Investment Interest Rate(1) / Maturity	Principal	Cost	Value(2)
CST Industries, Inc.(6) *Diversified/Conglomerate Manufacturing*	5400 Kansas Avenue Kansas City, KS 66106	Senior Secured Loan—Term Loan 6.5%, Due 8/13	$ 985,000	$ 987,977	$ 987,977
DaimlerChrysler Financial Services Americas LLC(6) *Finance*	27777 Inkster Road Farmington Hills, MI 48334-5326	Senior Secured Loan—Term Loan (First Lien) 6.8%, Due 8/12	1,990,000	1,903,395	1,651,392
Dealer Computer Services, Inc. (Reynolds & Reynolds)(6) *Electronics*	6700 Hollister Houston, TX 77040	Junior Secured Loan—Term Loan (Second Lien) 8.2%, Due 10/13	1,000,000	1,009,135	990,000
Dealer Computer Services, Inc. (Reynolds & Reynolds)(6) *Electronics*	6700 Hollister Houston, TX 77040	Junior Secured Loan—Term Loan (Third Lien) 10.2%, Due 4/14	3,500,000	3,536,354	3,491,250
Delta Educational Systems, Inc.(6) *Healthcare, Education and Childcare*	144 Business Park Drive Suite 201 Virginia Beach, VA 23462	Senior Secured Loan—Term Loan 6.3%, Due 6/12	2,844,080	2,844,080	2,844,080
Dresser, Inc.(6) *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	15455 Dallas Parkway, Suite 1100 Addison, TX 75001	Junior Secured Loan—Term Loan (Second Lien) 8.8%, Due 5/15	3,000,000	2,960,422	2,689,980
Edgestone CD Acquisition Corp. (Custom Direct)(6) *Printing and Publishing*	1802 Fashion Court Joppa, MD 21085	Junior Secured Loan—Loan (Second Lien) 8.7%, Due 12/14	5,000,000	5,000,000	5,000,000
Edgestone CD Acquisition Corp. (Custom Direct)(6) *Printing and Publishing*	1802 Fashion Court Joppa, MD 21085	Senior Secured Loan—Term Loan (First Lien) 5.4%, Due 12/13	4,823,960	4,829,376	4,829,376

Portfolio Company / Principal Business	Address	Investment Interest Rate(1) / Maturity	Principal	Cost	Value(2)
eInstruction Corporation(6) *Healthcare, Education and Childcare*	308 N. Carroll Blvd. Denton , TX 76201	Senior Secured Loan—Initial Term Loan (Dec. 2007) 6.7%, Due 7/13	$ 4,957,550	$ 4,957,550	$ 4,957,550
eInstruction Corporation(6) *Healthcare, Education and Childcare*	308 N. Carroll Blvd. Denton , TX 76201	Junior Secured Loan—Term Loan (Second Lien) 10.2%, Due 7/14	10,000,000	10,000,000	10,000,000
Emerson Reinsurance Ltd.(3) *Insurance*	c/o HSBC Financial Services (Cayman) Limited PO Box 1109 90 North Church St Strathvale House Grand Cayman KY1-1102 Cayman Islands	Senior Secured Loan—Series C Loan 8.1%, Due 12/11	1,000,000	1,000,000	1,000,000
Endeavor Energy Resources, L.P. *Oil and Gas*	Attn: Autry C. Stephens 110 N. Marienfeld, Suite 200 Midland, TX 79701-4412	Junior Secured Loan—Second Lien Term Loan 7.4%, Due 3/12	4,000,000	4,000,000	4,000,000
Fasteners For Retail, Inc.(6) *Diversified/Conglomerate Manufacturing*	c/o Cortec Management III, LLC 200 Park Avenue, 20th Floor New York, NY 10166	Senior Secured Loan—Term Loan 5.6%, Due 12/12	4,913,769	4,922,209	4,790,924
FD Alpha Acquisition LLC (Fort Dearborn)(6) *Printing and Publishing*	1530 Morse Avenue Elk Grove, Illinois 60007	Senior Secured Loan—US Term Loan 7.4%, Due 11/12	905,120	905,120	891,543
First American Payment Systems, L.P.(6) *Finance*	201 Main Street, suite 1000 Fort Worth, TX 76102	Senior Secured Loan—Term Loan 6.2%, Due 10/13	3,652,000	3,652,000	3,560,700
Flatiron Re Ltd.(3)(6) *Insurance*	2 Church Street Hamilton HM 11, Bermuda	Senior Secured Loan—Closing Date Term Loan 7.0%, Due 12/10	1,454,169	1,464,058	1,464,058

Portfolio Company / Principal Business	Address	Investment Interest Rate(1) / Maturity	Principal	Cost	Value(2)
Flatiron Re Ltd.(3)(6) *Insurance*	2 Church Street Hamilton HM 11, Bermuda	Senior Secured Loan—Delayed Draw Term Loan 7.0%, Due 12/10	$ 704,363	$ 709,153	$ 709,153
Ford Motor Company(6) *Automobile*	One American Road Dearborn, MI 48126	Senior Secured Loan—Term Loan 5.8%, Due 12/13	1,984,925	1,982,635	1,636,660
Freescale Semiconductor, Inc. *Electronics*	6501 William Cannon Dr. Austin, TX 78735	Senior Subordinated Bond—10.1%, Due 12/16	3,000,000	3,008,973	2,041,890
Frontier Drilling USA, Inc.(6) *Oil and Gas*	1000 Louisiana Street Suite 1210 Houston, TX 77002-5031	Senior Secured Loan—Term B Advance 6.4%, Due 6/13	2,000,000	1,997,971	1,870,000
Ginn LA Conduit Lender, Inc. *Buildings and Real Estate(4)*	1 Hammock Beach Parkway Palm Coast, FL 32127	Senior Secured Loan—First Lien Tranche A Credit-Linked Deposit 6.2%, Due 6/11	1,257,143	1,221,330	951,657
Ginn LA Conduit Lender, Inc. *Buildings and Real Estate(4)*	1 Hammock Beach Parkway Palm Coast, FL 32127	Senior Secured Loan—First Lien Tranche B Term Loan 6.2%, Due 6/11	2,694,857	2,618,088	2,040,007
Ginn LA Conduit Lender, Inc. *Buildings and Real Estate(4)*	1 Hammock Beach Parkway Palm Coast, FL 32127	Junior Secured Loan—Second Lien Term Loan 10.2%, Due 6/12	3,000,000	2,698,234	1,925,010
Gleason Works, The(6) *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	1000 University Avenue P.O. Box 22970 Rochester, NY 14607-1239	Senior Secured Loan—New US Term Loan 5.4%, Due 6/13	2,437,280	2,444,476	2,077,782

Portfolio Company / Principal Business	Address	Investment Interest Rate(1) / Maturity	Principal	Cost	Value(2)
Hawkeye Renewables, LLC(6) *Farming and Agriculture*	21050 140th Street Iowa Falls, IA 50126	Senior Secured Loan—Term Loan (First Lien) 7.2%, Due 6/12	$2,954,887	$2,890,637	$2,225,680
HMSC Corporation (aka Swett and Crawford)(6) *Insurance*	3715 Northside Parkway N.W. Building 200, Suite 800 Atlanta, GA 30327	Junior Secured Loan—Loan (Second Lien) 9.5%, Due 10/14	5,000,000	4,809,924	4,550,000
Huish Detergents Inc.(6) *Personal and Non Durable Consumer Products (Mfg. Only)*	15 West South Temple, Suite 1400 Salt Lake City, UT 84101-1535	Junior Secured Loan—Loan (Second Lien) 7.0%, Due 10/14	1,000,000	1,000,000	811,660
Hunter Fan Company(6) *Home and Office Furnishings, Housewares, and Durable Consumer Products*	c/o MidOcean Partners, LP 270 Park Avenue, 17th Floor New York, NY 10017	Senior Secured Loan—Initial Term Loan (First Lien) 5.6%, Due 4/14	4,161,071	3,974,689	3,297,649
Hunter Fan Company(6) *Home and Office Furnishings, Housewares, and Durable Consumer Products*	c/o MidOcean Partners, LP 270 Park Avenue, 17th Floor New York, NY 10017	Junior Secured Loan—Loan (Second Lien) 9.8%, Due 10/14	3,000,000	3,000,000	2,347,500
IAL Acquisition Co. (International Aluminum Corporation)(6) *Mining, Steel, Iron and Non-Precious Metals*	Four Embarcadero Center Suite 1900 San Francisco, CA 94111	Senior Secured Loan—Term Loan 5.4%, Due 3/13	3,032,063	3,032,063	3,032,063
Infiltrator Systems, Inc.(6) *Ecological*	6 Business Park Road Old Saybrook, CT 06475	Senior Secured Loan—Term Loan 6.2%, Due 9/12	3,940,000	3,928,517	3,928,517
Inmar, Inc.(6) *Retail Stores*	2601 Pilgrim Court Road Winston-Salem, NC 27106	Senior Secured Loan—Term Loan 5.2%, Due 4/13	3,952,519	3,952,519	3,833,943

Portfolio Company / Principal Business	Address	Investment Interest Rate(1) / Maturity	Principal	Cost	Value(2)
Intrapac Corporation/Corona Holdco(6) *Containers, Packaging and Glass*	125 Mural Street, Suite 200 Richmond Hill Ontario L4B 1M4 Canada	Senior Secured Loan—1st Lien Term Loan 6.7%, Due 5/12	$ 5,850,000	$ 5,871,834	$ 5,871,834
Intrapac Corporation/Corona Holdco(6) *Containers, Packaging and Glass*	125 Mural Street, Suite 200 Richmond Hill Ontario L4B 1M4 Canada	Junior Secured Loan—Term Loans (Second Lien) 10.7%, Due 5/13	3,000,000	3,020,892	3,020,892
Jones Stephens Corp.(6) *Buildings and Real Estate(4)*	c/o Cortec Management IV, L.L.C. 200 Park Avenue, 20th Floor New York, NY 10166	Senior Secured Loan—Term Loan 7.5%, Due 9/12	10,206,721	10,180,157	10,180,157
JW Aluminum Company(6) *Mining, Steel, Iron and Non-Precious Metals*	435 Old Mt. Holly Road Mt. Holly, SC 29445	Junior Secured Loan—Term Loan (2nd Lien) 8.9%, Due 12/13	5,371,429	5,389,559	5,210,286
Kepler Holdings Limited(3)(6) *Insurance*	c/o Reid Management Ltd. Argyle House 41A Cedar Avenue Hamilton, Ontario	Senior Secured Loan—Loan 8.3%, Due 6/09	5,000,000	5,016,783	5,016,783
KIK Custom Products Inc.(6) *Personal and Non Durable Consumer Products (Mfg. Only)*	33 MacIntosh Blvd. Concord, Ontario L4K 4L5	Junior Secured Loan—Loan (Second Lien) 7.6%, Due 12/14	5,000,000	5,000,000	3,400,000
La Paloma Generating Company, LLC(6) *Utilities*	1221 Lamar, Suite 1020 Houston, TX 77101	Junior Secured Loan—Loan (Second Lien) 6.2%, Due 8/13	2,000,000	2,016,439	1,890,000
LBREP/L-Suncal Master I LLC(6)(10) *Buildings and Real Estate(4)*	c/o SunCal Companies 2392 Morse Avenue Irvine, CA 92614-6234	Senior Secured Loan—Term Loan (First Lien) 7.5%, Due 1/10	3,920,000	3,851,470	2,626,400

Portfolio Company / Principal Business	Address	Investment Interest Rate(1) / Maturity	Principal	Cost	Value(2)
LBREP/L-Suncal Master I LLC(6)(10) *Buildings and Real Estate(4)*	c/o SunCal Companies 2392 Morse Avenue Irvine, CA 92614-6234	Junior Secured Loan—Term Loan (Second Lien) 10.5%, Due 1/11	$2,000,000	$1,924,684	$1,100,000
LBREP/L-Suncal Master I LLC(10) *Buildings and Real Estate(4)*	c/o SunCal Companies 2392 Morse Avenue Irvine, CA 92614-6234	Junior Secured Loan—Term Loan (Third Lien) 11.7%, Due 2/12	2,332,868	2,332,868	1,283,078
Legacy Cabinets, Inc.(6) *Home and Office Furnishings, Housewares, and Durable Consumer Products*	100 Legacy Blvd. P.O. Box 730 Eastaboga, AL 36260-8009	Senior Secured Loan—First Lien Term Loan 6.5%, Due 8/12	2,947,500	2,947,500	2,947,500
Levlad, LLC & Arbonne International, LLC(6) *Personal and Non Durable Consumer Products (Mfg. Only)*	c/o Harvest Partners, Inc. 280 Park Avenue New York, NY 10017	Senior Secured Loan—Term Loan 5.2%, Due 3/14	2,891,150	2,891,150	1,821,425
LN Acquisition Corp. (Lincoln Industrial)(6) *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	One Lincoln Way St. Louis, MI 63120	Junior Secured Loan—Initial Term Loan (Second Lien) 8.7%, Due 1/15	2,000,000	2,000,000	1,970,000
LPL Holdings, Inc.(6) *Finance*	9785 Towne Centre Drive San Diego, CA 92121-1968	Senior Secured Loan—Tranche D Term Loan 4.7%, Due 6/13	3,330,229	3,352,925	2,997,206
MCCI Group Holdings, LLC(6) *Healthcare, Education and Childcare*	c/o Medical Care Consortium, Inc. 4960 SW 72nd Street, Suite 406 Miami, FL 33143-6050	Senior Secured Loan—Term Loan (First Lien) 7.3%, Due 12/12	5,944,995	5,926,035	5,926,035
MCCI Group Holdings, LLC(6) *Healthcare, Education and Childcare*	c/o Medical Care Consortium, Inc. 4960 SW 72nd Street, Suite 406 Miami, FL 33143-6050	Junior Secured Loan—Term Loan (Second Lien) 10.3%, Due 6/13	1,000,000	1,000,000	1,000,000

Portfolio Company / Principal Business	Address	Investment Interest Rate(1) / Maturity	Principal	Cost	Value(2)
Murray Energy Corporation(6) *Mining, Steel, Iron and Non-Precious Metals*	29325 Chagrin Boulevard Suite 300 Pepper Pike, OH 44122	Senior Secured Loan—Tranche B Term Loan (First Lien) 7.9%, Due 1/10	$1,964,557	$1,973,192	$1,812,304
National Interest Security Company, L.L.C.(6) *Aerospace and Defense*	c/o D.C. Capital Partners 975 F St. NW, Suite 1050 Washington, DC 20004	Senior Secured Loan—Term Loan —1st Lien 7.8%, Due 12/12	8,393,750	8,393,750	8,393,750
Northeast Biofuels, LP(6) *Farming and Agriculture*	1850 County Route 57 Fulton, NY 13069	Senior Secured Loan—Construction Term Loan 7.8%, Due 6/13	1,365,854	1,368,594	1,229,268
Northeast Biofuels, LP(6) *Farming and Agriculture*	1850 County Route 57 Fulton, NY 13069	Senior Secured Loan—Synthetic LC Term Loan 5.9%, Due 6/13	536,585	537,662	482,927
PAS Technologies Inc. *Aerospace and Defense*	c/o Gridiron Capital, LLC 39 Locust Avenue, Suite 204 New Canaan, CT 06840-4783	Senior Secured Loan—Incremental Term Loan Add On 7.4%, Due 6/11	828,651	828,651	828,651
PAS Technologies Inc. *Aerospace and Defense*	c/o Gridiron Capital, LLC 39 Locust Avenue, Suite 204 New Canaan, CT 06840-4783	Senior Secured Loan—Term Loan 8.4%, Due 6/11	4,097,222	4,075,220	4,075,220
Pegasus Solutions, Inc. *Leisure, Amusement, Motion Pictures, Entertainment*	Campbell Centre 1 8350 North Central Expressway Suite 1900 Dallas, TX 75206-1613	Senior Unsecured Bond—10.5%, Due 4/15	2,000,000	2,000,000	2,000,000
Pegasus Solutions, Inc.(6) *Leisure, Amusement, Motion Pictures, Entertainment*	Campbell Centre 1 8350 North Central Expressway Suite 1900 Dallas, TX 75206-1613	Senior Secured Loan—Term Loan 6.0%, Due 4/13	5,740,000	5,740,000	5,740,000

Portfolio Company / Principal Business	Address	Investment Interest Rate(1) / Maturity	Principal	Cost	Value(2)
Primus International Inc.(6) *Aerospace and Defense*	15000 N.E. 8th Street Suite 1910 Bellevue, WA 98004	Senior Secured Loan—Term Loan 5.6%, Due 6/12	$1,256,100	$1,258,501	$1,130,490
QA Direct Holdings, LLC(6) *Printing and Publishing*	30 East 33rd St New York, NY 10016	Senior Secured Loan—Term Loan 7.2%, Due 8/14	4,974,937	4,928,017	4,928,017
Resco Products, Inc.(6) *Mining, Steel, Iron and Non-Precious Metals*	Penn Center West Two, Suite 430 Pittsburgh, PA 15276	Junior Secured Loan—Term Loan (Second Lien) 11.1%, Due 6/14	5,000,000	4,931,673	4,931,673
Rhodes Companies, LLC, The(6) *Buildings and Real Estate(4)*	4730 South Fort Apache Road, Suite 300 Las Vegas, NV 89147	Senior Secured Loan—First Lien Term Loan 6.2%, Due 11/10	1,818,182	1,730,974	1,400,000
Rhodes Companies, LLC, The(6) *Buildings and Real Estate(4)*	4730 South Fort Apache Road, Suite 300 Las Vegas, NV 89147	Junior Secured Loan—Second Lien Term Loan 10.4%, Due 11/11	2,000,000	2,010,468	1,266,680
San Juan Cable, LLC(6) *Broadcasting and Entertainment*	c/o MidOcean Partners, LP 270 Park Avenue, 17th Floor New York, NY 10022	Junior Secured Loan—Second Lien Term Loan 8.5%, Due 10/13	3,000,000	2,979,896	2,782,500
Schneller LLC(6) *Aerospace and Defense*	c/o Graham Partners II, L.P 3811 West Chester Pike, Building 2, Suite 200 Newtown Square, PA 19073	Senior Secured Loan—Term Loan 6.6%, Due 6/13	4,962,500	4,917,634	4,937,688
Seismic Micro-Technology, Inc. (SMT)(6) *Electronics*	528 Ramona St Palo Alto, CA 94301	Senior Secured Loan—Term Loan 6.0%, Due 6/12	992,500	990,175	990,175

Portfolio Company / Principal Business	Address	Investment Interest Rate(1) / Maturity	Principal	Cost	Value(2)
Seismic Micro-Technology, Inc. (SMT)(6) *Electronics*	528 Ramona St Palo Alto, CA 94301	Senior Secured Loan—Term Loan 6.0%, Due 6/12	$1,488,750	$1,485,263	$1,485,263
Specialized Technology Resources, Inc.(6) *Diversified/Conglomerate Service*	10 Water Street Enfield, CT 06082-4899	Junior Secured Loan—Loan (Second Lien) 9.7%, Due 12/14	7,500,000	7,500,000	7,500,000
Specialized Technology Resources, Inc.(6) *Diversified/Conglomerate Service*	10 Water Street Enfield, CT 06082-4899	Senior Secured Loan—Term Loan (First Lien) 5.2%, Due 6/14	3,960,025	3,960,025	3,960,025
Standard Steel, LLC(6) *Cargo Transport*	c/o Trimaran Fund II, L.L.C. 622 Third Avenue, 35th Floor New York, NY 10017-6779	Senior Secured Loan—Delayed Draw Term Loan 5.1%, Due 7/12	823,619	828,919	828,919
Standard Steel, LLC(6) *Cargo Transport*	c/o Trimaran Fund II, L.L.C. 622 Third Avenue, 35th Floor New York, NY 10017-6779	Senior Secured Loan—Initial Term Loan 5.2%, Due 7/12	4,086,899	4,113,197	4,113,197
Standard Steel, LLC(6) *Cargo Transport*	c/o Trimaran Fund II, L.L.C. 622 Third Avenue, 35th Floor New York, NY 10017-6779	Junior Secured Loan—Loan (Second Lien) 8.7%, Due 7/13	1,750,000	1,759,776	1,759,776
Stolle Machinery Company(6) *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	6949 S. Potomac Street Centennial, CO 80112	Senior Secured Loan—First Lien Term Loan 7.9%, Due 9/12	972,537	977,260	957,949

Portfolio Company / Principal Business	Address	Investment Interest Rate(1) / Maturity	Principal	Cost	Value(2)
Stolle Machinery Company(6) *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	6949 S. Potomac Street Centennial, CO 80112	Junior Secured Loan —Loan (Second Lien) 9.2%, Due 9/13	$ 700,000	$ 710,122	$ 682,500
TPF Generation Holdings, LLC(6) *Utilities*	1044 North 115th Street, Suite 400 Omaha, NE 68154-4410	Junior Secured Loan —Second Lien Term Loan 6.9%, Due 12/14	2,000,000	2,031,910	1,890,000
TransAxle LLC *Automobile*	Route 73 and O'Donnell Lane Cinnaminson, NJ 08077	Senior Secured Loan —Revolver 8.0%, Due 8/11	163,636	159,869	163,020
TransAxle LLC(6) *Automobile*	Route 73 and O'Donnell Lane Cinnaminson, NJ 08077	Senior Secured Loan —Term Loan 7.1%, Due 9/12	2,775,000	2,775,000	2,775,000
TUI University, LLC(6) *Healthcare, Education and Childcare*	c/o Summit Partners, L.P., 499 Hamilton Avenue Palo Alto, California 94301	Senior Secured Loan —Term Loan 6.0%, Due 10/14	3,980,000	3,791,729	3,800,900
Twin-Star International, Inc.(6) *Home and Office Furnishings, Housewares, and Durable Consumer Products*	115 S.E. 4th Avenue Delray Beach, FL 33483	Senior Secured Loan —Term Loan 5.6%, Due 4/13	4,962,500	4,962,500	4,962,500
United Maritime Group, LLC (fka Teco Transport Corporation) (6) *Cargo Transport*	702 N. Franklin St, Plaza 9 Tampa, FL 33605	Junior Secured Loan —Term Loan (Second Lien) 10.2%, Due 12/13	4,500,000	4,500,000	4,500,000
Water PIK, Inc.(6) *Personal and Non Durable Consumer Products (Mfg. Only)*	6000 Condor Drive Moorpark, CA 93021	Senior Secured Loan —Loan (First Lien) 6.1%, Due 6/13	1,980,013	1,967,843	1,940,412
Wesco Aircraft Hardware Corp.(6) *Aerospace and Defense*	27727 Avenue Scott Valencia, CA 91355	Junior Secured Loan —Second Lien Term Loan 8.5%, Due 3/14	4,132,887	4,165,106	3,895,246

Portfolio Company / Principal Business	Address	Investment Interest Rate(1) / Maturity	Principal	Cost	Value(2)
WireCo WorldGroup Inc.(6) *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	609 N. 2nd Street Saint Joseph, MO 64501	Mezzanine Investment — 11.0%, Due 2/15	$ 10,000,000	$ 10,000,000	$ 10,000,000
WireCo WorldGroup Inc. *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	609 N. 2nd Street Saint Joseph, MO 64501	Mezzanine Investment —11.0%, Due 2/15	5,000,000	4,770,360	5,000,000
Wolf Hollow I, LP(6) *Utilities*	9201 Wolf Hollow Court Granbury, TX 76048	Senior Secured Loan—Acquisition Term Loan 4.9%, Due 6/12	781,891	771,392	674,381
Wolf Hollow I, LP(6) *Utilities*	9201 Wolf Hollow Court Granbury, TX 76048	Senior Secured Loan—Synthetic Letter of Credit 5.0%, Due 6/12	668,412	659,437	551,440
Wolf Hollow I, LP(6) *Utilities*	9201 Wolf Hollow Court Granbury, TX 76048	Senior Secured Loan—Synthetic Revolver Deposits 4.9%, Due 6/12	167,103	164,859	137,860
Wolf Hollow I, LP(6) *Utilities*	9201 Wolf Hollow Court Granbury, TX 76048	Junior Secured Loan—Term Loan (Second Lien) 7.2%, Due 12/12	2,683,177	2,688,446	2,186,789
X-Rite, Incorporated(6) *Electronics*	3100 44th Street SW Grandville, MI 49418	Junior Secured Loan—Loan (Second Lien) 10.5%, Due 10/13	1,000,000	1,000,000	910,000
X-Rite, Incorporated(6) *Electronics*	3100 44th Street SW Grandville, MI 49418	Senior Secured Loan—Term Loan (First Lien) 6.4%, Due 10/12	992,506	987,943	913,106
Total Investment in Debt Securities and Bonds (144% of net asset value at fair value)			**$385,888,085**	**$383,494,311**	**$363,262,652**

Equity Portfolio

Portfolio Company / Principal Business	Address	Investment	Percentage Interest	Cost	Value(2)
Aerostructures Holdings L.P.(7) *Aerospace and Defense*	18008A N. Black Canyon Hwy Phoenix, AZ 85053	Partnership Interests	1.2%	$1,000,000	$1,000,000
Allen-Vanguard Corporation(3)(7) *Aerospace and Defense*	5459 Canotek Road Ottawa, Ontario K1J 9M3	Common Shares	0.0%	42,542	34,135
Coastal Concrete Southeast, LLC(7)(8) *Buildings and Real Estate(4)*	7 Plantation Drive Bluffton, SC 29910	Warrants	3.5%	474,140	—
eInstruction Acquisition, LLC(7) *Healthcare, Education and Childcare*	308 N. Carroll Blvd. Denton, TX 76201	Membership Units	1.1%	1,079,616	1,079,617
FP WRCA Coinvestment Fund VII, Ltd.(3)(7) *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	609 N. 2nd Street Saint Joseph, MO 64501	Class A Shares	0.7%	1,500,000	1,500,000
Park Avenue Coastal Holding, LLC(7) *Buildings and Real Estate(4)*	399 Park Avenue, Suite 3204 New York, NY 10022	Common Interests	0.0%	1,000,000	—
Total Investment in Equity Securities (1% of net asset value at fair value)				**$5,096,298**	**$3,613,752**

CLO Fund Securities

Portfolio Company / Principal Business	Address	Investment	Percentage Interest	Cost	Value(2)
Grant Grove CLO, Ltd.(3)	c/o Maples Finance Limited P.O. Box 1093 GT Queensgate House, South Church Street George Town, Grand Cayman, Cayman Islands	Subordinated Securities	22.2%	$ 4,468,959	$ 4,250,000
Katonah III, Ltd.(3)	c/o M & C Corporate Services Limited P.O. Box 309 GT, Ugland House, South Church Street George Town, Grand Cayman, Cayman Islands	Preferred Shares	23.1%	4,500,000	1,390,000
Katonah IV, Ltd.(3)	c/o M & C Corporate Services Limited P.O. Box 309 GT, Ugland House, South Church Street George Town, Grand Cayman, Cayman Islands	Preferred Shares	17.1%	3,150,000	1,250,000
Katonah V, Ltd.(3)	c/o M & C Corporate Services Limited P.O. Box 309 GT, Ugland House, South Church Street George Town, Grand Cayman, Cayman Islands	Preferred Shares	26.7%	3,320,000	919,000
Katonah VII CLO Ltd(3)(9)	c/o Maples Finance Limited P.O. Box 1093 GT, Queensgate House, South Church Street George Town, Grand Cayman, Cayman Islands	Subordinated Securities	16.4%	4,500,000	3,738,000
Katonah VIII CLO Ltd(3)(9)	c/o Maples Finance Limited P.O. Box 1093 GT, Queensgate House, South Church Street George Town, Grand Cayman, Cayman Islands	Subordinated Securities	10.3%	3,400,000	3,128,000
Katonah IX CLO Ltd(3)(9)	c/o Maples Finance Limited P.O. Box 1093 GT, Queensgate House, South Church Street George Town, Grand Cayman, Cayman Islands	Preferred Shares	6.9%	2,000,000	2,000,000
Katonah X CLO Ltd(3)(9)	c/o Maples Finance Limited P.O. Box 1093 GT, Queensgate House, South Church Street George Town, Grand Cayman, Cayman Islands	Subordinated Securities	33.3%	10,916,643	11,875,000
Katonah 2007-I CLO Ltd(3)(9)	c/o Maples Finance Limited P.O. Box 1093, Boundary Hall, Cricket Square Grand Cayman KY1-1102, Cayman Islands	Preferred Shares	100.0%	28,989,521	28,859,236
Total Investment in CLO Fund Securities (23% of net asset value at fair value)				**$65,245,123**	**$57,409,236**

Affiliate Investments

Portfolio Company / Principal Business	Address	Investment	Percentage Interest	Cost	Value[2](2)
Katonah Debt Advisors *Asset Management Company*	295 Madison Avenue 6th Floor New York, NY 10017	Membership Interests	100.0%	$ 34,151,495	$ 63,143,600
PKSI *Distressed Investments*	295 Madison Avenue 6th Floor New York, NY 10017	Class A Shares	100.0%	898,502	898,502
PKSI *Distressed Investments*	295 Madison Avenue 6th Floor New York, NY 10017	Class B Shares	35.0%	3,500	3,500
Total Investment in affiliates (25% of net asset value at fair value)				**$ 35,053,497**	**$ 64,045,602**
Total Investments(5) (193% of net asset value at fair value)				**$488,889,229**	**$488,331,242**

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

(2) Reflects the fair market value of all existing investments as of March 31, 2008, as determined by our Board of Directors.

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

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

(5) The aggregate cost of investments for federal income tax purposes is approximately $489 million. The aggregate gross unrealized appreciation is approximately $30 million and the aggregate gross unrealized depreciation is approximately $31 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 or its affiliate.

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

MANAGEMENT

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

Directors and Executive Officers

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

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

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

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

Independent Directors

C. Turney Stevens

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

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

Albert G. Pastino

Mr. Pastino has served on Kohlberg Capital's Board since December 2006 and is the Chair of the Audit Committee of the Board. Mr. Pastino is also the Senior Managing Director at Amper Investment Banking ("AIB"), a NASD member investment bank focusing on private transactions for middle market companies. He founded AIB in 2004. AIB focuses on capital formation, mergers and acquisitions and strategic advisory assignments. After leaving an affiliate of Kohlberg & Co. in June 1997, Mr. Pastino worked as an investor, CFO and Chief Operating Officer at a variety of companies and was involved in all aspects of financial and general management, reporting and fundraising for a variety of companies, including Aptegrity, Inc., Bolt, Inc., AmTec, Inc. and Square Earth, Inc. From 1976 to 1986, he was a partner at Deloitte & Touche LLP and was in charge of its Emerging Business Practice. Mr. Pastino is a member of the Board of Directors of Critical Homecare Solutions Holdings, Inc. and a member of the Board of Directors and Finance Committee of New Eyes for the Needy, a not-for-profit organization headquartered in New Jersey. Mr. Pastino is a graduate of Saint Joseph's University and received an Executive M.B.A. degree from Fairleigh Dickinson University. He also attended the Harvard Business School Executive Management Program for Small Business and is a certified public accountant.

C. Michael Jacobi

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

Gary Cademartori

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

Non-Independent Directors

Christopher Lacovara

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

James A. Kohlberg

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

Samuel P. Frieder

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

Executive Officers

Dayl W. Pearson, President and CEO

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

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

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

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

R. Jon Corless, Chief Investment Officer

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

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

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

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

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

Board of Directors

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

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

Committees of the Board of Directors

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

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

value of these securities. In fiscal 2007, Duff & Phelps, LLC, an independent valuation firm, provided third party valuation consulting services to our Board of Directors, which consisted of certain limited procedures that the Board identified and requested them to perform. Our Board of Directors is ultimately and solely responsible for determining the fair value of portfolio investments. The Valuation Committee Charter, as approved by the Board, can be found in the Corporate Governance section of the Company's website at *www.kohlbergcap.com*. The Valuation Committee met four times during fiscal year 2007, and each of the meetings was attended by the full Valuation Committee.

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

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Overview

Determination of Executive Compensation Pre-Initial Public Offering

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

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

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

Primary Objectives

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

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

Benchmarking of Compensation

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

Pay-for-Performance Philosophy

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

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

Setting and Assessment of Performance Goals; Role of CEO

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

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

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

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

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

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

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

Compensation Components

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

Base Salary

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

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

Annual Bonus

Our compensation program includes eligibility for an annual performance-based cash bonus in the case of all executives and certain senior, non-executive employees. The amount of the cash bonus depends on the level of achievement of the stated corporate and individual performance goals. As set forth in their employment agreements, Messrs. Pearson and Corless are currently eligible for annual performance-based cash bonuses of up to $450,000 and $250,000, respectively; Mr. Wirth is currently eligible for an annual performance-based cash bonus of no less than $300,000; and Mr. Kratzman was eligible in 2007 for annual performance-based cash bonus from Katonah Debt Advisors of no less than $500,000 and no more than $1,000,000; and Mr. Stack is eligible for target annual performance-based cash bonus from Katonah Debt Advisors of $175,000. The amounts of the annual cash bonuses paid to Messrs. Pearson, Wirth and Corless are determined by the Compensation Committee of our Board of Directors. The amount of the annual cash bonuses paid to Messrs. Kratzman

and Stack is determined by the Management Committee of Katonah Debt Advisors. In each case, the annual bonus award will be based on the individual performance of each of Messrs. Pearson, Wirth, Corless, Kratzman and Stack and on the performance of the Company against goals established annually by our Board of Directors, in the case of Messrs. Pearson, Wirth and Corless, and by the Management Committee of Katonah Debt Advisors, in the case of Messrs. Kratzman and Stack, after consultation with the individual. All bonuses are subject to an annual increase, solely at the discretion of our Board of Directors, and in its discretion, the Compensation Committee may award bonus payments to our executives above or below the amounts specified in their respective employment agreements.

Long-Term Incentives

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

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

Annual stock option awards. Our practice is to make annual stock option awards as part of our overall performance management program (in fiscal 2007, however, no such award was made to the executive officers named in the Summary Compensation Table, with the exception of Mr. Stack). The Compensation Committee believes that stock options provide management with a strong link to long-term corporate performance and the creation of stockholder value. We intend that the annual aggregate value of these awards be set near competitive median levels for companies represented in the compensation data we review. As is the case when the amounts of base salary and initial equity awards are determined, a review of all components of the executive's compensation is conducted when determining annual equity awards to ensure that an executive's total compensation conforms to our overall philosophy and objectives. A pool of options is reserved for executives and other officers based on setting a target grant level for each employee category, with the higher ranked employees being eligible for a higher target grant. The Compensation Committee meets in the fourth quarter of each year to evaluate, review and recommend for our Board of Directors' approval the annual stock option award design, level of award and prospective grant date of such award for each named executive officer and the CEO. For promotions or new hires, the Compensation Committee approves the award in advance of the grant date, and the stock option grant is awarded on the determined date at the Company's closing market price per share. We use a Binary Option Pricing Model (American, call option) valuation model to establish the expected value of all stock option grants.

Restricted Stock. If our stockholders approve the amendment and restatement of our Equity Incentive Plan to allow for the issuance of restricted stock awards, we will be permitted to issue restricted stock on such terms

and conditions as our Board of Directors deems appropriate. Our Board of Directors will determine the time or times at which such shares of restricted stock will become exercisable and the terms on which such shares will remain exercisable. Such grants of restricted stock shall not be transferable other than by will or by the laws of descent and distribution. Any shares of restricted stock for which forfeiture restrictions have not lapsed at the point at which the participant terminates his employment will terminate immediately and such shares will be returned to us and will be available for future awards under our Equity Incentive Plan.

Other Compensation

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

Termination-Based Compensation

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

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

Actions Taken After Year-End or Effective After Year End

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

Effective January 1, 2008, the employment agreements between Mr. Kratzman and the Company and Katonah Debt Advisors, respectively, were amended as described under "—Employment Agreements—

Employment Agreements with E.A. Kratzman and John M. Stack" and "Potential Payments Upon Termination or Change of Control—Termination of Employment and Change of Control Arrangements—Termination of Employment Provisions in Employment Agreements" below.

Conclusion

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

Summary Compensation Table

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

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

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

(2) Represents actual cash salaries paid during 2006.

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

(4) Amounts reflect the dollar amount recognized for financial statement reporting purposes for the fiscal years ended December 31, 2007 and 2006, respectively, of the grant date fair value of stock options granted in those years in accordance with Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* ("SFAS 123R"). Grant date fair value is based on the Binary Option Pricing Model (American, call option) pricing model for use in

(footnotes continued on following page)

valuing stock options. Assumptions used in the calculation of these amounts are shown in Note 10, Stock Options, to our audited consolidated financial statements included in our 2007 Annual Report on Form 10-K, filed with the SEC on March 14, 2008 and Note 9, Stock Options, to our audited consolidated financial statements included in our 2006 Annual Report on Form 10-K, filed with the SEC on March 29, 2007.

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

(6) Represents amounts received pursuant to the Katonah Debt Advisors Money Purchase Pension Plan (the "Pension Plan") and the Katonah Debt Advisors Employee Savings and Profit Sharing Plan (the "Savings Plan"). Under the Pension Plan, Messrs. Pearson, Wirth, Kratzman, Corless and Stack received compensation of $25,268 each in 2007 and $24,771, $—, $24,771, $17,376 and $24,771, respectively, in 2006; and under the Savings Plan, these individuals received compensation of $4,466 each in 2007 and $4,400, $—, $4,400, $3,321 and $4,400, respectively, in 2006. The Pension Plan and the Savings Plan are defined benefit plans, and the Company matches an individual's contribution up to a pre-set amount according to a specific formula.

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

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

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

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

(11) Represents actual cash salaries paid during 2007.

Grants of Plan-Based Awards in Fiscal Year 2007

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

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

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

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

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

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

Employment Agreements

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

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

Each of the employment agreements with Messrs. Pearson, Wirth and Corless provides for a term ending on December 31, 2008, and automatic, successive one-year renewal terms beginning on January 1 of each successive year unless either party to the employment agreement provides at least 30 days prior written notice of its decision not to extend the term of the employment agreement. Under their respective employment agreements, Messrs. Pearson, Wirth and Corless were entitled to receive an annual base salary of $300,000, $300,000 and $200,000, respectively, which amounts were increased to $350,000, $325,000 and $250,000, respectively, effective January 1, 2008. Messrs. Pearson and Corless are currently eligible for annual performance-based cash bonuses of up to $450,000 and $250,000, respectively, and Mr. Wirth is currently eligible for an annual performance-based cash bonus of no less than $300,000. Pursuant to their employment agreements, Messrs. Pearson, Wirth and Corless received one-time grants of options to purchase 250,000, 150,000 and 100,000 shares of our common stock, respectively. These options vest in four equal annual installments; the first installment vested on December 11, 2007, the first anniversary date of the pricing of our initial public offering. See "—Outstanding Equity Awards at 2007 Fiscal Year-End" below for further information regarding vesting. Each employment agreement also contains non-competition covenants and provisions governing termination, death and disability.

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

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

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

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

Outstanding Equity Awards at 2007 Fiscal Year-End

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

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

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

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

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

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

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

Option Exercises and Stock Vested in Fiscal Year 2007

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

Pension Benefits

We do not have any benefit plans, other than qualified defined contribution plans or nonqualified defined contribution plans.

Nonqualified Deferred Compensation

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

Potential Payments Upon Termination or Change of Control

Termination of Employment and Change of Control Arrangements

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

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

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

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

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

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

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

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

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

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

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

Termination of Employment Provisions in Employment Agreements

Each of the executive officers named in the Summary Compensation Table has an employment agreement pursuant to which we, in the case of Messrs. Pearson, Wirth and Corless, or Katonah Debt Advisors, in the case of Messrs. Kratzman and Stack, must make payments and provide certain benefits upon termination of employment. If any of the executive officers named in the Summary Compensation Table is terminated other than for cause (as defined below) or, in the case of Mr. Kratzman, terminates his employment for good reason, such officer is entitled to the continued payment of his base salary and the employer portion of his health care premiums for the remainder of the term of his employment, in the case of Messrs. Pearson, Wirth, Corless or Kratzman, or for a period of no less than six months, in the case of Mr. Stack, plus (i) any accrued but unpaid

base salary and bonus (no less than $650,000 in the case of Mr. Kratzman) and (ii) payment for any accrued and unused vacation time. Notwithstanding the above, if the Company, in the case of Messrs. Pearson, Wirth or Corless, or Katonah Debt Advisors, in the case of Mr. Kratzman, waives the non-competition provisions in the applicable employment agreement at any point after six months (one month in the case of Mr. Kratzman) from the date of termination, then the continued salary and benefits payments cease. All severance payments are conditioned on the execution of a signed release of claims in the form provided by the Company, in the case of Messrs. Pearson, Wirth and Corless, or by Katonah Debt Advisors, in the case of Messrs. Kratzman and Stack, and upon that release not being subsequently revoked.

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

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

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

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

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

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

(footnotes on following page)

* Reflects changes to the executive officer's compensation and benefits effective January 1, 2008.

(1) Accrued and unused vacation time is a range of minimum and maximum amounts payable, depending on the amount of vacation time used at the time of termination.

(2) Insurance benefits are based on the December 2007 monthly payment for health and dental coverage.

(3) Effective January 1, 2008, Mr. Kratzman employment agreements with the Company and Katonah Debt Advisors, respectively, were amended as described under "—Employment Agreements—Employment Agreements with E.A. Kratzman and John M. Stack" and "—Termination of Employment Provisions in Employment Agreements" above. As the table assumes a termination on December 31, 2007, it reflects estimated payment obligations to Mr. Kratzman as of December 31, 2007 and does not give effect to the amendments.

Director Compensation in Fiscal Year 2007

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

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

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

Director Compensation Policy

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

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

Employee Benefit Plans

2006 Equity Incentive Plan

Our Equity Incentive Plan was approved by the Board of Managers of Kohlberg Capital, LLC on November 27, 2006 and by the members of Kohlberg Capital, LLC on December 11, 2006, prior to the conversion of Kohlberg Capital, LLC into Kohlberg Capital Corporation. Under this plan, we may grant options to acquire shares and, to the extent permitted by exemptive or other relief that may be granted by the SEC or its

staff, other share-based awards, including without limitation restricted shares and options to acquire restricted shares. There are 1,500,000 shares of common stock currently reserved for issuance under our Equity Incentive Plan. As of May 21, 2008, no options had been exercised, 1,315,000 shares were subject to outstanding options under our Equity Incentive Plan, 305,000 shares were subject to exercisable options and 185,000 shares were available for future grant under our Equity Incentive Plan.

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

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

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

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

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

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

Equity Compensation Plan Information

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

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

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

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

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

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

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

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

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

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

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

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

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

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

CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS

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

The following table sets forth, as of May 21, 2008, information with respect to the beneficial ownership of our common stock by:

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

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the securities. Common stock subject to options that are currently exercisable or exercisable within 60 days of May 21, 2008 are deemed to be outstanding and beneficially owned by the person holding such options. Such shares, however, are not deemed outstanding for the purposes of computing the percentage ownership of any other person. Percentage of beneficial ownership is based on 21,234,482 shares of common stock outstanding as of May 21, 2008.

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

Name and Address	Number of Shares	Percentage of Class	Dollar Range of Equity Securities(1)
Principal Stockholders:			
Franklin Resources, Inc.(2) One Franklin Parkway, San Mateo, California 94403-1906	1,290,181	6.1%	
Systematic Financial Management, L.P.(3) 300 Frank W. Burr Blvd., Glenpointe East, 7th Floor, Teaneck, New Jersey 07666	1,011,521	4.8%	
T. Rowe Price Associates, Inc.(4) 100 E. Pratt Street, Baltimore, Maryland 21202	1,560,700	7.3%	
Directors and Executive Officers:			
Independent Directors			
C. Michael Jacobi	14,167	*	>$100,000
Albert G. Pastino	2,170	*	$10,001-$50,000
C. Turney Stevens	1,500	*	$10,001-$50,000
Gary Cademartori	1,997	*	$10,001-$50,000
Non-Independent Directors(5)			
James A. Kohlberg(6)(8)	2,082,927	9.8%	>$100,000
Christopher Lacovara(7)(8)	652,134	3.1%	>$100,000
Samuel P. Frieder(7)(8)	494,634	2.3%	>$100,000
Executive Officers			
E.A. Kratzman(8)	94,272	*	>$100,000
Michael I. Wirth(8)(9)	46,559	*	>$100,000
Dayl W. Pearson(8)(10)	66,919	*	>$100,000
R. Jon Corless(8)	40,452	*	>$100,000
John M. Stack(8)	14,635	*	>$100,000
Directors and Executive Officers as a Group (12 persons)	3,512,366	16.3%	>$100,000

(footnotes on the following page)

* Less than 1%.

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

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

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

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

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

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

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

(8) Includes shares of common stock issuable pursuant to options granted under our Equity Incentive Plan that are exercisable within 60 days of May 21, 2008, as follows: 125,000, 62,500, 50,000, 37,500, 25,000, 12,500, 2,500 and 2,500 shares to Messrs. Lacovara, Pearson, Kratzman, Wirth, Corless, Stack, Kohlberg and Frieder, respectively.

(9) Includes 280 shares of common stock held by Mr. Wirth, as custodian for his son and daughter under the Uniform Gifts to Minors Act (the “UGMA”), and 876 shares of common stock held by Mr. Wirth’s wife, for which Mr. Wirth disclaims beneficial ownership.

(10) Includes 118 shares of common stock held by Mr. Pearson, as custodian, for his daughter under the UGMA, for which Mr. Pearson disclaims beneficial ownership. Excludes 118 shares of common stock held by Mr. Pearson’s son, for which Mr. Pearson disclaims beneficial ownership.

DETERMINATION OF NET ASSET VALUE

We determine the net asset value per share of our common stock quarterly. The net asset value per share is equal to the value of our total assets minus liabilities and any preferred stock outstanding divided by the total number of shares of common stock outstanding. As of May 21, 2008, we did not have any preferred stock outstanding.

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

Because of the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments determined under our procedures may differ significantly from the values that would have been used had a ready market existed for the investments or from the values that would have been placed on our assets by other market participants, and the differences could be material.

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

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

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

Our investments in CLO Fund securities are carried at fair value, which is based on a discounted cash flow model that utilizes prepayment and loss assumptions based on historical experience and projected

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

Determinations In Connection With Offerings

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

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

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

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

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

DIVIDEND REINVESTMENT PLAN

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

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

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

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

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

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

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

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

REGULATION

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

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

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

Qualifying Assets

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

- Securities of an "eligible portfolio company" purchased in transactions not involving any public offering. An "eligible portfolio company" is defined in the 1940 Act as any issuer which:
  - (a) is organized under the laws of, and has its principal place of business in, the United States;
  - (b) is not an investment company (other than a small business investment company wholly-owned by the BDC) or a company that would be an investment company but for certain exclusions under the 1940 Act; and
  - (c) satisfies any of the following:
    - (i) does not have outstanding any class of securities with respect to which a broker or dealer may extend margin credit;
    - (ii) is controlled by a BDC or a group of companies including a BDC and the BDC has an affiliated person who is a director of the eligible portfolio company;
    - (iii) is a small and solvent company having total assets of not more than $4 million and capital and surplus of not less than $2 million;
    - (iv) does not have any class of securities listed on a national securities exchange; or
    - (v) effective July 21, 2008, has a class of securities listed on a national securities exchange, but has an aggregate market value of outstanding voting and non-voting common equity of less than $250 million.
- Securities of any eligible portfolio company that we control;

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

Significant Managerial Assistance

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

Temporary Investments

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

Senior Securities; Coverage Ratio

We are permitted, under specified conditions, to issue multiple classes of indebtedness and one class of stock senior to our common stock if our asset coverage, as defined in the 1940 Act, is at least equal to 200% immediately after each such issuance. In addition, with respect to certain types of senior securities, we must make provisions to prohibit any dividend distribution to our stockholders or the repurchase of certain of our securities, unless we meet the applicable asset coverage ratios at the time of the dividend distribution or

repurchase. We may also borrow amounts up to 5% of the value of our total assets for temporary purposes. For a discussion of the risks associated with the resulting leverage, see "Risk Factors—Risks Related to Our Business—The debt we incur could increase the risk of investing in our Company."

Limitations on Acquisition of Our Securities

As a BDC, we are subject to certain limitations related to the ownership of our securities contained in the 1940 Act that prohibit any investment company (including investment companies exempt from the definition of investment company pursuant to Section 3(c)(1) or 3(c)(7) of the 1940 Act), and any companies controlled by such company, from purchasing or otherwise acquiring, or any principal underwriter or broker or dealer from knowingly selling, any security issued by us if immediately after such a transaction they would own in the aggregate more than 3% of our total outstanding voting stock.

Code of Ethics

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

Privacy Principles

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

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

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

Proxy Voting Policies and Procedures

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

Our proxy voting decisions are made by our Investment Committee, which is responsible for monitoring each of our investments. To ensure that our vote is not the product of a conflict of interest, we require that

(1) anyone involved in the decision making process disclose to our CCO any potential conflict that he or she is aware of and any contact that he or she has had with any interested party regarding a proxy vote; and (2) employees involved in the decision making process or vote administration are prohibited from revealing how we intend to vote on a proposal to reduce any attempted influence from interested parties.

Other

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

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

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

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

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

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

This summary does not discuss the consequences of an investment in our common stock, preferred stock, subscription rights, debt securities or warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, separately or as units in combination with such securities. The U.S. federal income tax consequences of such an investment will be discussed in a relevant prospectus supplement.

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

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

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

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

Election to be Taxed as a Regulated Investment Company

As a BDC, we have elected to be treated as a RIC under Subchapter M of the Code commencing with our taxable year ended December 31, 2006. As a RIC, we generally will not have to pay corporate-level taxes on any

income or gains that we distribute to our stockholders as dividends. To qualify for treatment as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements (as described below). In addition, to qualify for treatment as a RIC, we must distribute to our stockholders, for each taxable year, at least 90% of our "net investment company income," which is generally the sum of our net investment income plus the excess, if any, of realized net short-term capital gains over realized net long-term capital losses (the "Annual Distribution Requirement").

Taxation as a Regulated Investment Company

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

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

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

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

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

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

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

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

Gain or loss realized by us from the sale or exchange of warrants acquired by us as well as any loss attributable to the lapse of such warrants generally will be treated as capital gain or loss. Such gain or loss generally will be long-term or short-term, depending on how long we held a particular warrant. Our transactions in options, futures contracts, hedging transactions and forward contracts will be subject to special tax rules, the effect of which may be to accelerate income to us, defer losses, cause adjustments to the holding periods of our investments, convert long-term capital gains into short-term capital gains, convert short-term capital losses into

long-term capital losses or have other tax consequences. These rules could affect the amount, timing and character of distributions to stockholders. We do not currently intend to engage in these types of transactions.

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

Failure to Qualify as a Regulated Investment Company

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

Taxation of U.S. Stockholders

For U.S. federal income tax purposes, distributions by us generally are taxable to U.S. stockholders as ordinary income or capital gains. Distributions of our "investment company taxable income" (which is, generally, our ordinary income plus net realized short-term capital gains in excess of net realized long-term capital losses) will be taxable as ordinary income to U.S. stockholders to the extent of our current or accumulated earnings and profits, whether paid in cash or reinvested in additional common stock through our dividend reinvestment plan. For taxable years beginning before January 1, 2011, to the extent such distributions paid by us are attributable to dividends from U.S. corporations and certain qualified foreign corporations, such distributions may be designated by us as "qualified dividend income" eligible to be taxed in the hands of non-corporate

stockholders at the rates applicable to long-term capital gains, provided holding period and other requirements are met at both the stockholder and company levels. In this regard, it is anticipated that distributions paid by us generally will not be attributable to dividends and, therefore, generally will not be qualified dividend income. Distributions of our net capital gains (which is generally our realized net long-term capital gains in excess of realized net short-term capital losses) properly designated by us as "capital gain dividends" will be taxable to a U.S. stockholder as long-term capital gains (currently at a maximum rate of 15% in the case of individuals, trusts or estates), regardless of the U.S. stockholder's holding period for his, her or its common stock and regardless of whether paid in cash or reinvested in additional common stock. Distributions in excess of our current and accumulated earnings and profits first will reduce a U.S. stockholder's adjusted tax basis in such stockholder's common stock and, after the adjusted basis is reduced to zero, will constitute capital gains to such U.S. stockholder.

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

For purposes of determining (1) whether the Annual Distribution Requirement is satisfied for any year and (2) the amount of capital gain dividends paid for that year, we may, under certain circumstances, elect to treat a dividend that is paid during the following taxable year as if it had been paid during the taxable year in question. If we make such an election, the U.S. stockholder will still be treated as receiving the dividend in the taxable year in which the distribution is made. However, any dividend declared by us in October, November or December of any calendar year, payable to stockholders of record on a specified date in such a month and actually paid during January of the following year, will be treated as if it had been received by our U.S. stockholders on December 31 of the year in which the dividend was declared. A U.S. stockholder generally will recognize taxable gain or loss if the U.S. stockholder sells or otherwise disposes of his, her or its shares of our common stock. Any gain arising from such sale or disposition generally will be treated as long-term capital gain or loss if the U.S. stockholder has held his, her or its shares for more than one year. Otherwise, it will be classified as short-term capital gain or loss. However, any capital loss arising from the sale or disposition of shares of our common stock held for six months or less will be treated as long-term capital loss to the extent of the amount of capital gain dividends received, or undistributed capital gain deemed received, with respect to such shares. In addition, all or a portion of any loss recognized upon a disposition of shares of our common stock may be disallowed if other shares of our common stock are purchased (whether through reinvestment of distributions or otherwise) within 30 days before or after the disposition. In such a case, the basis of the newly purchased shares will be adjusted to reflect the disallowed loss. For taxable years beginning before January 1, 2011, individual U.S. stockholders are subject to a

maximum U.S. federal income tax rate of 15% on their net capital gain (*i.e.*, the excess of realized net long-term capital gain over realized net short-term capital loss for a taxable year) including any long-term capital gain derived from an investment in our shares. Such rate is lower than the maximum rate on ordinary income currently payable by individuals. Corporate U.S. stockholders currently are subject to U.S. federal income tax on net capital gain at the maximum 35% rate also applied to ordinary income. Non-corporate stockholders with net capital losses for a year (*i.e.*, capital losses in excess of capital gains) generally may deduct up to $3,000 of such losses against their ordinary income each year ($1,500 for married individuals filing separately); any net capital losses of a non-corporate stockholder in excess of $3,000 ($1,500 for married individuals filing separately) generally may be carried forward and used in subsequent years as provided in the Code. Corporate stockholders generally may not deduct any net capital losses for a year, but may carry back such losses for three years or carry forward such losses for five years.

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

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

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

Taxation of Non-U.S. Stockholders

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

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

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

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

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

DESCRIPTION OF SECURITIES

This prospectus contains a summary of the common stock, preferred stock, subscription rights, debt securities and warrants. These summaries are not meant to be a complete description of each security. However, this prospectus and the accompanying prospectus supplement will contain the material terms and conditions for each security.

Any of the securities described herein and in any prospectus supplement may be issued separately or as part of a unit consisting of two or more securities, which may or may not be separable from one another.

DESCRIPTION OF OUR COMMON STOCK

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

Common Stock

Our authorized capital stock consists of 100,000,000 shares of common stock, par value $0.01 per share, of which 21,234,482 shares were outstanding as of May 21, 2008, and 5,000,000 shares of preferred stock, par value $0.01 per share, of which none were outstanding as of May 21, 2008. Our common stock is traded on The Nasdaq Global Select Market under the symbol "KCAP." A total of 1,500,000 shares of our common stock have been authorized for issuance under our Equity Incentive Plan. Under Delaware law, our stockholders are not personally liable for our debts or obligations solely based on their ownership of our common stock.

Set forth below is a chart describing the shares of our common stock outstanding as of May 21, 2008:

(1) Title of Class	(2) Amount Authorized	(3) Amount Held by Us or for Our Account	(4) Amount Outstanding Exclusive of Amount Under Column (3)
Common Stock	100,000,000	—	21,234,482
Preferred Stock	5,000,000	—	—

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

Registration Rights

Prior to our initial public offering, we entered into a registration rights agreement with certain affiliates of Kohlberg & Co. who hold shares of our common stock. Pursuant to the registration rights agreement, we have agreed that, upon demand by the holders of a specified percentage of these shares, we will file a registration statement to cover resales of the shares of common stock held by the requesting stockholders. In addition, pursuant to the registration rights agreement, we have agreed to grant these holders piggyback registration rights to include the shares held by these holders in any registration statement that we file for newly issued shares of our common stock, subject to certain exceptions. All expenses incurred in connection with these registrations will be borne by us. Holders of approximately 3,404,333 shares of our common stock are entitled to have such shares included in any such registration statement.

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

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

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

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

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

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

Our certificate of incorporation permits us to secure insurance on behalf of any person who is or was or has agreed to become a director or officer of our company or is or was serving at our request as a director or officer of another enterprise for any liability arising out of his or her actions, regardless of whether the Delaware

General Corporation Law would permit indemnification. We have obtained liability insurance for our officers and directors.

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

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

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

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

Our certificate of incorporation and bylaws also provide that:

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

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

Delaware's law generally provides that the affirmative vote of a majority of the shares entitled to vote on any matter is required to amend a corporation's certificate of incorporation or bylaws, unless a corporation's certificate of incorporation or bylaws requires a greater percentage. Under our certificate of incorporation and bylaws, the affirmative vote of the holders of at least 75% of the shares of our capital stock entitled to vote is required to amend or repeal any of the provisions of our bylaws. Moreover, our bylaws provide that generally, a majority of the shares of our capital stock issued and outstanding and entitled to vote may amend our certificate of incorporation. However, the vote of at least 75% of the shares of our capital stock then outstanding and entitled to vote in the election of directors, voting together as a single class, is required to amend or repeal any provision of the certificate of incorporation pertaining to the Board of Directors, limitation of liability,

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

DESCRIPTION OF OUR PREFERRED STOCK

In addition to shares of common stock, our charter authorizes the issuance of preferred stock. If we offer preferred stock under this prospectus, we will issue an appropriate prospectus supplement. Under the terms of our certificate of incorporation, our Board of Directors is authorized to issue shares of preferred stock in one or more series without stockholder approval. Our Board of Directors has the discretion to determine the rights, preferences, privileges and restrictions, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences of each series of preferred stock.

Set forth below is a chart describing our preferred stock as of May 21, 2008:

(1) Title of Class	(2) Amount Authorized	(3) Amount Held by Us or for our Account	(4) Amount Outstanding Exclusive of Amount Under Column (3)
Preferred Stock	5,000,000	—	—

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

For any series of preferred stock that we may issue, our Board of Directors will determine, and the prospectus supplement relating to such series will describe:

- the designation and number of shares of such series;
- the rate and time at which, and the preferences and conditions under which, any dividends will be paid on shares of such series, which dividends are cumulative and not participating;
- any provisions relating to convertibility or exchangeability of the shares of such series;
- the rights and preferences, if any, of holders of shares of such series upon our liquidation, dissolution or winding up of our affairs;
- the voting powers, if any, of the holders of shares of such series;
- any provisions relating to the redemption of the shares of such series;
- any limitations on our ability to pay dividends or make distributions on, or acquire or redeem, other securities while shares of such series are outstanding;
- any conditions or restrictions on our ability to issue additional shares of such series or other securities;
- if applicable, a discussion of certain U.S. federal income tax considerations; and
- any other relative power, preferences and participating, optional or special rights of shares of such series, and the qualifications, limitations or restrictions thereof.

Shares of preferred stock must be issued in one or more series with such particular terms as may be fixed by our Board of Directors, provided that no series shall have preference or priority over any other series upon the distribution of our assets or in respect of payment of interest or dividends.

DESCRIPTION OF OUR SUBSCRIPTION RIGHTS

General

We may issue subscription rights to our stockholders to purchase common stock. Subscription rights may be issued independently or together with any other offered security and may or may not be transferable by the person purchasing or receiving the subscription rights. In connection with a subscription rights offering to our stockholders, we would distribute certificates evidencing the subscription rights and a prospectus supplement to our stockholders on the record date that we set for receiving subscription rights in such subscription rights offering.

The applicable prospectus supplement would describe the following terms of subscription rights in respect of which this prospectus is being delivered:

- the period of time the offering would remain open;
- the title of such subscription rights;
- the exercise price for such subscription rights (or method of calculation thereof);
- the ratio of the offering;
- the number of such subscription rights issued to each stockholder;
- the extent to which such subscription rights are transferable and the market on which they may be traded if they are transferable;
- if applicable, a discussion of the material U.S. federal income tax considerations applicable to the issuance or exercise of such subscription rights;
- the date on which the right to exercise such subscription rights shall commence, and the date on which such right shall expire (subject to any extension);
- the extent to which such subscription rights include an over-subscription privilege with respect to unsubscribed securities and the terms of such over-subscription privilege;
- any termination right we may have in connection with such subscription rights offering; and
- any other terms of such subscription rights, including exercise, settlement and other procedures and limitations relating to the transfer and exercise of such subscription rights.

Exercise of Subscription Rights

Each subscription right would entitle the holder of the subscription right to purchase for cash such amount of shares of common stock at such exercise price as shall in each case be set forth in, or be determinable as set forth in, the prospectus supplement relating to the subscription rights offered thereby. Subscription rights may be exercised at any time up to the close of business on the expiration date for such subscription rights set forth in the prospectus supplement. After the close of business on the expiration date, all unexercised subscription rights would become void.

Subscription rights may be exercised as set forth in the prospectus supplement relating to the subscription rights offered thereby. Upon receipt of payment and the subscription rights certificate properly completed and duly executed at the corporate trust office of the subscription rights agent or any other office indicated in the prospectus supplement we will forward, as soon as practicable, the shares of common stock purchasable upon such exercise. To the extent permissible under applicable law, we may determine to offer any unsubscribed offered securities directly to persons other than stockholders, to or through agents, underwriters or dealers or through a combination of such methods, as set forth in the applicable prospectus supplement.

Under the 1940 Act, we may generally only offer subscription rights (other than rights to subscribe expiring not later than 120 days after their issuance and issued exclusively and ratably to a class or classes of our security holders) on the condition that (1) the subscription rights expire by their terms within ten years; (2) the exercise price is not less than the current market value at the date of issuance; (3) our stockholders authorize the proposal to issue such subscription rights, and a "required" majority of our Board of Directors approves of such issuance on the basis that the issuance is in the best interests of Kohlberg Capital and our stockholders; and (4) if the subscription rights are accompanied by other securities, the subscription rights are not separately transferable unless no class of such subscription rights and the securities accompanying them has been publicly distributed. A "required" majority of our Board of Directors is a vote of both a majority of our directors who have no financial interest in the transaction and a majority of the directors who are not interested persons of the company. The 1940 Act also provides that the amount of our voting securities that would result from the exercise of all outstanding warrants, options and subscription rights at the time of issuance may not exceed 25% of our outstanding voting securities (which limit shall be 20% if the voting securities that would result from the exercise of all outstanding warrants, options and rights issued to our directors, officers and employees pursuant to certain of our executive compensation plans exceed 15% of our outstanding voting securities).

DESCRIPTION OF OUR WARRANTS

The following is a general description of the terms of the warrants we may issue from time to time. Particular terms of any warrants we offer will be described in the prospectus supplement relating to such warrants.

We may issue warrants to purchase shares of our common stock, preferred stock or debt securities. Such warrants may be issued independently or together with shares of common stock or other equity or debt securities and may be attached or separate from such securities. We will issue each series of warrants under a separate warrant agreement to be entered into between us and a warrant agent. The warrant agent will act solely as our agent and will not assume any obligation or relationship of agency for or with holders or beneficial owners of warrants.

A prospectus supplement will describe the particular terms of any series of warrants we may issue, including the following:

- the title of such warrants;
- the aggregate number of such warrants;
- the price or prices at which such warrants will be issued;
- the currency or currencies, including composite currencies, in which the price of such warrants may be payable;
- if applicable, the designation and terms of the securities with which the warrants are issued and the number of warrants issued with each such security or each principal amount of such security;
- in the case of warrants to purchase debt securities, the principal amount of debt securities purchasable upon exercise of one warrant and the price at which and the currency or currencies, including composite currencies, in which this principal amount of debt securities may be purchased upon such exercise;
- in the case of warrants to purchase common stock or preferred stock, the number of shares of common stock or preferred stock, as the case may be, purchasable upon exercise of one warrant and the price at which and the currency or currencies, including composite currencies, in which these shares may be purchased upon such exercise;
- the date on which the right to exercise such warrants shall commence and the date on which such right will expire;
- whether such warrants will be issued in registered form or bearer form;
- if applicable, the minimum or maximum amount of such warrants which may be exercised at any one time;
- if applicable, the date on and after which such warrants and the related securities will be separately transferable;
- information with respect to book-entry procedures, if any;
- the terms of the securities issuable upon exercise of the warrants;
- if applicable, a discussion of certain U.S. federal income tax considerations; and
- any other terms of such warrants, including terms, procedures and limitations relating to the exchange and exercise of such warrants.

We and the warrant agent may amend or supplement the warrant agreement for a series of warrants without the consent of the holders of the warrants issued thereunder to effect changes that are not inconsistent with the provisions of the warrants and that do not materially and adversely affect the interests of the holders of the warrants.

Prior to exercising their warrants, holders of warrants will not have any of the rights of holders of the securities purchasable upon such exercise, including, in the case of warrants to purchase debt securities, the right to receive principal, premium, if any, or interest payments, on the debt securities purchasable upon exercise or to enforce covenants in the applicable indenture or, in the case of warrants to purchase common stock or preferred stock, the right to receive dividends, if any, or payments upon our liquidation, dissolution or winding up or to exercise any voting rights.

Under the 1940 Act, we may generally only offer warrants (except for warrants expiring not later than 120 days after issuance and issued exclusively and ratably to a class of our security holders) on the condition that (1) the warrants expire by their terms within ten years; (2) the exercise or conversion price is not less than the current market value at the date of issuance; (3) our stockholders authorize the proposal to issue such subscription rights, (we are currently seeking such an approval pursuant to a proxy statement dated April 23, 2008 in connection with our 2008 annual meeting of stockholders currently scheduled to be held on June 13, 2008) and a "required" majority of our Board of Directors approves such issuance on the basis that the issuance is in the best interests of Kohlberg Capital and our stockholders; and (4) if the warrants are accompanied by other securities, the warrants are not separately transferable unless no class of such warrants and the securities accompanying them has been publicly distributed. A "required" majority of our Board of Directors is a vote of both a majority of our directors who have no financial interest in the transaction and a majority of the directors who are not interested persons of the company. The 1940 Act also provides that the amount of our voting securities that would result from the exercise of all outstanding warrants, options and subscription rights at the time of issuance may not exceed 25% of our outstanding voting securities (which limit shall be 20% if the voting securities that would result from the exercise of all outstanding warrants, options and rights issued to our directors, officers and employees pursuant to certain of our executive compensation plans exceed 15% of the outstanding voting securities).

DESCRIPTION OF OUR DEBT SECURITIES

We may issue debt securities in one or more series. The specific terms of each series of debt securities will be described in the particular prospectus supplement relating to that series. The prospectus supplement may or may not modify the general terms found in this prospectus and will be filed with the SEC. For a complete description of the terms of a particular series of debt securities, you should read both this prospectus and the prospectus supplement relating to that particular series.

As required by federal law for all bonds and notes of companies that are publicly offered, the debt securities are governed by a document called an "indenture." An indenture is a contract between us and the financial institution acting as trustee on your behalf, and is subject to and governed by the Trust Indenture Act of 1939, as amended. The trustee has two main roles. First, the trustee can enforce your rights against us if we default. There are some limitations on the extent to which the trustee acts on your behalf, described in the second paragraph under "—Events of Default." Second, the trustee performs certain administrative duties for us, such as sending interest and principal payments to holders.

Because this section is a summary, it does not describe every aspect of the debt securities and the indenture. We urge you to read the indenture because it, and not this description, defines your rights as a holder of debt securities. For example, in this section, we use capitalized words to signify terms that are specifically defined in the indenture. Some of the definitions are repeated in this prospectus, but for the rest you will need to read the indenture. The form of the indenture has been filed with the SEC. See "Available Information" for information on how to obtain a copy of the indenture.

The prospectus supplement, which will accompany this prospectus, will describe the particular series of debt securities being offered by including:

- the designation or title of the series of debt securities;
- the total principal amount of the series of debt securities;
- the percentage of the principal amount at which the series of debt securities will be offered;
- the date or dates on which principal will be payable;
- the rate or rates (which may be either fixed or variable) and/or the method of determining such rate or rates of interest, if any;
- the date or dates from which any interest will accrue, or the method of determining such date or dates, and the date or dates on which any interest will be payable;
- the terms for redemption, extension or early repayment, if any;
- the currencies in which the series of debt securities are issued and payable;
- whether the amount of payments of principal, premium or interest, if any, on a series of debt securities will be determined with reference to an index, formula or other method (which could be based on one or more currencies, commodities, equity indices or other indices) and how these amounts will be determined;
- the place or places, if any, other than or in addition to The City of New York, of payment, transfer, conversion and/or exchange of the debt securities;
- the denominations in which the offered debt securities will be issued;
- the provision for any sinking fund;
- any restrictive covenants;
- any Events of Default (as defined in "Events of Default" below);

- whether the series of debt securities are issuable in certificated form;
- any provisions for defeasance or covenant defeasance;
- any special federal income tax implications, including, if applicable, federal income tax considerations relating to original issue discount;
- whether and under what circumstances we will pay additional amounts in respect of any tax, assessment or governmental charge and, if so, whether we will have the option to redeem the debt securities rather than pay the additional amounts (and the terms of this option);
- any provisions for convertibility or exchangeability of the debt securities into or for any other securities;
- whether the debt securities are subject to subordination and the terms of such subordination;
- the listing, if any, on a securities exchange; and
- any other terms.

The debt securities may be secured or unsecured obligations. Unless the prospectus supplement states otherwise, principal (and premium, if any) and interest, if any, will be paid by us in immediately available funds.

We are permitted, under specified conditions, to issue multiple classes of indebtedness if our asset coverage, as defined in the 1940 Act, is at least equal to 200% immediately after each such issuance. In addition, while any indebtedness and senior securities remain outstanding, we must make provisions to prohibit the distribution to our stockholders or the repurchase of such securities or shares unless we meet the applicable asset coverage ratios at the time of the distribution or repurchase. We may also borrow amounts up to 5% of the value of our total assets for temporary or emergency purposes without regard to asset coverage. For a discussion of the risks associated with leverage, see “Risk Factors—Risks Relating to Our Operation as a BDC—Regulations governing our operation as a BDC will affect our ability to, and the way in which we, raise additional capital.”

General

We expect that any indenture will provide that any debt securities proposed to be sold under this prospectus and the attached prospectus supplement (“offered debt securities”) and any debt securities issuable upon the exercise of warrants or upon conversion or exchange of other offered securities (“underlying debt securities”) may be issued under the indenture in one or more series.

For purposes of this prospectus, any reference to the payment of principal of, or premium or interest, if any, on, debt securities will include additional amounts if required by the terms of the debt securities.

The indenture limits the amount of debt securities that may be issued thereunder from time to time. Debt securities issued under the indenture, when a single trustee is acting for all debt securities issued under the indenture, are called the “indenture securities.” The indenture also provides that there may be more than one trustee thereunder, each with respect to one or more different series of indenture securities. See “—Resignation of Trustee” below. At a time when two or more trustees are acting under the indenture, each with respect to only certain series, the term “indenture securities” means the one or more series of debt securities with respect to which each respective trustee is acting. In the event that there is more than one trustee under the indenture, the powers and trust obligations of each trustee described in this prospectus will extend only to the one or more series of indenture securities for which it is trustee. If two or more trustees are acting under the indenture, then the indenture securities for which each trustee is acting would be treated as if issued under separate indentures.

The indenture does not contain any provisions that give you protection in the event we issue a large amount of debt or we are acquired by another entity.

We refer you to the prospectus supplement for information with respect to any deletions from, modifications of or additions to the Events of Default or our covenants that are described below, including any addition of a covenant or other provision providing event risk or similar protection.

We have the ability to issue indenture securities with terms different from those of indenture securities previously issued and, without the consent of the holders thereof, to reopen a previous issue of a series of indenture securities and issue additional indenture securities of that series unless the reopening was restricted when that series was created.

Conversion and Exchange

If any debt securities are convertible into or exchangeable for other securities, the prospectus supplement will explain the terms and conditions of the conversion or exchange, including the conversion price or exchange ratio (or the calculation method), the conversion or exchange period (or how the period will be determined), if conversion or exchange will be mandatory or at the option of the holder or us, provisions for adjusting the conversion price or the exchange ratio and provisions affecting conversion or exchange in the event of the redemption of the underlying debt securities. These terms may also include provisions under which the number or amount of other securities to be received by the holders of the debt securities upon conversion or exchange would be calculated according to the market price of the other securities as of a time stated in the prospectus supplement.

Issuance of Securities in Registered Form

We may issue the debt securities in registered form, in which case we may issue them either in book-entry form only or in “certificated” form. Debt securities issued in book-entry form will be represented by global securities. We expect that we will issue debt securities in book-entry only form represented by global securities.

We also will have the option of issuing debt securities in non-registered form as bearer securities if we issue the securities outside the United States to non-U.S. persons. In that case, the prospectus supplement will set forth the mechanics for holding the bearer securities, including the procedures for receiving payments, for exchanging the bearer securities, including the procedures for receiving payments, for exchanging the bearer securities for registered securities of the same series, and for receiving notices. The prospectus supplement will also describe the requirements with respect to our maintenance of offices or agencies outside the United States and the applicable U.S. federal tax law requirements.

Book-Entry Holders

We will issue registered debt securities in book-entry form only, unless we specify otherwise in the applicable prospectus supplement. This means debt securities will be represented by one or more global securities registered in the name of a depositary that will hold them on behalf of financial institutions that participate in the depositary’s book-entry system. These participating institutions, in turn, hold beneficial interests in the debt securities held by the depositary or its nominee. These institutions may hold these interests on behalf of themselves or customers.

Under the indenture, only the person in whose name a debt security is registered is recognized as the holder of that debt security. Consequently, for debt securities issued in book-entry form, we will recognize only the depositary as the holder of the debt securities and we will make all payments on the debt securities to the depositary. The depositary will then pass along the payments it receives to its participants, which in turn will pass the payments along to their customers who are the beneficial owners. The depositary and its participants do so under agreements they have made with one another or with their customers; they are not obligated to do so under the terms of the debt securities.

As a result, investors will not own debt securities directly. Instead, they will own beneficial interests in a global security, through a bank, broker or other financial institution that participates in the depositary's book-entry system or holds an interest through a participant. As long as the debt securities are represented by one or more global securities, investors will be indirect holders, and not holders, of the debt securities.

Street Name Holders

In the future, we may issue debt securities in certificated form or terminate a global security. In these cases, investors may choose to hold their debt securities in their own names or in "street name." Debt securities held in street name are registered in the name of a bank, broker or other financial institution chosen by the investor, and the investor holds a beneficial interest in those debt securities through the account he or she maintains at that institution.

For debt securities held in street name, we will recognize only the intermediary banks, brokers and other financial institutions in whose names the debt securities are registered as the holders of those debt securities, and we will make all payments on those debt securities to them. These institutions will pass along the payments they receive to their customers who are the beneficial owners, but only because they agree to do so in their customer agreements or because they are legally required to do so. Investors who hold debt securities in street name will be indirect holders, and not holders, of the debt securities.

Legal Holders

Our obligations, as well as the obligations of the applicable trustee and those of any third parties employed by us or the applicable trustee, run only to the legal holders of the debt securities. We do not have obligations to investors who hold beneficial interests in global securities, in street name or by any other indirect means. This will be the case whether an investor chooses to be an indirect holder of a debt security or has no choice because we are issuing the debt securities only in book-entry form.

For example, once we make a payment or give a notice to the holder, we have no further responsibility for the payment or notice even if that holder is required, under agreements with depositary participants or customers or by law, to pass it along to the indirect holders but does not do so. Similarly, if we want to obtain the approval of the holders for any purpose (for example, to amend an indenture or to relieve us of the consequences of a default or of our obligation to comply with a particular provision of an indenture), we would seek the approval only from the holders, and not the indirect holders, of the debt securities. Whether and how the holders contact the indirect holders is up to the holders.

When we refer to you, we mean those who invest in the debt securities being offered by this prospectus, whether they are the holders or only indirect holders of those debt securities. When we refer to your debt securities, we mean the debt securities in which you hold a direct or indirect interest.

Special Considerations for Indirect Holders

If you hold debt securities through a bank, broker or other financial institution, either in book-entry form or in street name, we urge you to check with that institution to find out:

- how it handles securities payments and notices;
- whether it imposes fees or charges;
- how it would handle a request for the holders' consent, if ever required;
- whether and how you can instruct it to send you debt securities registered in your own name so you can be a holder, if that is permitted in the future for a particular series of debt securities;

- how it would exercise rights under the debt securities if there were a default or other event triggering the need for holders to act to protect their interests; and
- if the debt securities are in book-entry form, how the depositary's rules and procedures will affect these matters.

Global Securities

As noted above, we expect that we will issue debt securities as registered securities in book-entry form only. A global security represents one or any other number of individual debt securities. Generally, all debt securities represented by the same global securities will have the same terms.

Each debt security issued in book-entry form will be represented by a global security that we deposit with and register in the name of a financial institution or its nominee that we select. The financial institution that we select for this purpose is called the depositary. Unless we specify otherwise in the applicable prospectus supplement, The Depository Trust Company, New York, New York, known as DTC, will be the depositary for all debt securities issued in book-entry form.

A global security may not be transferred to or registered in the name of anyone other than the depositary or its nominee, unless special termination situations arise. We describe those situations below under "—Special Situations when a Global Security Will Be Terminated." As a result of these arrangements, the depositary, or its nominee, will be the sole registered owner and holder of all debt securities represented by a global security, and investors will be permitted to own only beneficial interests in a global security. Beneficial interests must be held by means of an account with a broker, bank or other financial institution that in turn has an account with the depositary or with another institution that has an account with the depositary. Thus, an investor whose security is represented by a global security will not be a holder of the debt security, but only an indirect holder of a beneficial interest in the global security.

Special Considerations for Global Securities

As an indirect holder, an investor's rights relating to a global security will be governed by the account rules of the investor's financial institution and of the depositary, as well as general laws relating to securities transfers. The depositary that holds the global security will be considered the holder of the debt securities represented by the global security.

If debt securities are issued only in the form of a global security, an investor should be aware of the following:

- an investor cannot cause the debt securities to be registered in his or her name and cannot obtain certificates for his or her interest in the debt securities, except in the special situations we describe below;
- an investor will be an indirect holder and must look to his or her own bank or broker for payments on the debt securities and protection of his or her legal rights relating to the debt securities, as we describe under "—Issuance of Securities in Registered Form" above;
- an investor may not be able to sell interests in the debt securities to some insurance companies and other institutions that are required by law to own their securities in non-book-entry form;
- an investor may not be able to pledge his or her interest in a global security in circumstances where certificates representing the debt securities must be delivered to the lender or other beneficiary of the pledge in order for the pledge to be effective;
- the depositary's policies, which may change from time to time, will govern payments, transfers, exchanges and other matters relating to an investor's interest in a global security, and we and the

trustee have no responsibility for any aspect of the depositary's actions or for its records of ownership interests in a global security, nor do we or the trustee supervise the depositary in any way;

- if we redeem less than all the debt securities of a particular series being redeemed, DTC's practice is to determine by lot the amount to be redeemed from each of its participants holding that series;
- an investor is required to give notice of exercise of any option to elect repayment of its debt securities, through its participant, to the applicable trustee and to deliver the related debt securities by causing its participant to transfer its interest in those debt securities, on DTC's records, to the applicable trustee;
- DTC requires that those who purchase and sell interests in a global security deposited in its book-entry system use immediately available funds, and your broker or bank may also require you to use immediately available funds when purchasing or selling interests in a global security; and
- financial institutions that participate in the depositary's book-entry system, and through which an investor holds its interest in a global security, may also have their own policies affecting payments, notices and other matters relating to the debt securities; there may be more than one financial intermediary in the chain of ownership for an investor, and we do not monitor and are not responsible for the actions of any of those intermediaries.

Special Situations when a Global Security Will Be Terminated

In a few special situations described below, a global security will be terminated and interests in it will be exchanged for certificates in non-book-entry form (certificated securities). After that exchange, the choice of whether to hold the certificated debt securities directly or in street name will be up to the investor. Investors must consult their own banks or brokers to find out how to have their interests in a global security transferred on termination to their own names, so that they will be holders. We have described the rights of holders and street name investors under "—Holders of Registered Debt Securities" above.

The special situations for termination of a global security are as follows:

- if the depositary notifies us that it is unwilling, unable or no longer qualified to continue as depositary for that global security, and we are unable to appoint another institution to act as depositary;
- if we notify the trustee that we wish to terminate that global security; or
- if an event of default has occurred with regard to the debt securities represented by that global security and has not been cured or waived (we discuss defaults later under "—Events of Default").

The prospectus supplement may list situations for terminating a global security that would apply only to the particular series of debt securities covered by the prospectus supplement. If a global security is terminated, only the depositary, and not we or the applicable trustee, is responsible for deciding the names of the institutions in whose names the debt securities represented by the global security will be registered and, therefore, who will be the holders of those debt securities.

Payment and Paying Agents

We will pay interest to the person listed in the applicable trustee's records as the owner of the debt security at the close of business on a particular day in advance of each due date for interest, even if that person no longer owns the debt security on the interest due date. That day, generally about two weeks in advance of the interest due date, is called the "record date." Because we will pay all the interest for an interest period to the holders on the record date, holders buying and selling debt securities must work out between themselves the appropriate purchase price. The most common manner is to adjust the sales price of the debt securities to prorate interest fairly between buyer and seller based on their respective ownership periods within the particular interest period. This prorated interest amount is called "accrued interest."

Payments on Global Securities

We will make payments on a global security in accordance with the applicable policies of the depositary as in effect from time to time. Under those policies, we will make payments directly to the depositary, or its nominee, and not to any indirect holders who own beneficial interests in the global security. An indirect holder's right to those payments will be governed by the rules and practices of the depositary and its participants, as described under "—Global Securities."

Payments on Certificated Securities

We will make payments on a certificated debt security as follows. We will pay interest that is due on an interest payment date by check mailed on the interest payment date to the holder at his or her address shown on the trustee's records as of the close of business on the regular record date. We will make all payments of principal and premium, if any, by check at the office of the applicable trustee in New York, New York and/or at other offices that may be specified in the prospectus supplement or in a notice to holders against surrender of the debt security.

Alternatively, if the holder asks us to do so, we will pay any amount that becomes due on the debt security by wire transfer of immediately available funds to an account at a bank in the City of New York, on the due date. To request payment by wire, the holder must give the applicable trustee or other paying agent appropriate transfer instructions at least 15 business days before the requested wire payment is due. In the case of any interest payment due on an interest payment date, the instructions must be given by the person who is the holder on the relevant regular record date. Any wire instructions, once properly given, will remain in effect unless and until new instructions are given in the manner described above.

Payment When Offices Are Closed

If any payment is due on a debt security on a day that is not a business day, we will make the payment on the next day that is a business day. Payments made on the next business day in this situation will be treated under the indenture as if they were made on the original due date, except as otherwise indicated in the attached prospectus supplement. Such payment will not result in a default under any debt security or the indenture, and no interest will accrue on the payment amount from the original due date to the next day that is a business day.

Book-entry and other indirect holders should consult their banks or brokers for information on how they will receive payments on their debt securities.

Events of Default

You will have rights if an Event of Default occurs in respect of the debt securities of your series and is not cured, as described later in this subsection.

The term "Event of Default" in respect of the debt securities of your series means any of the following (unless the prospectus supplement relating to such debt securities states otherwise):

- we do not pay the principal of, or any premium on, a debt security of the series within five days of its due date, and do not cure this default within 5 days;
- we do not pay interest on a debt security of the series when due, and such default is not cured within 30 days of its due date;
- we do not deposit any sinking fund payment in respect of debt securities of the series on its due date, and do not cure this default within five days;
- we remain in breach of a covenant in respect of debt securities of the series for 60 days after we receive a written notice of default stating we are in breach (the notice must be sent by either the trustee or holders of at least 25% of the principal amount of debt securities of the series);

- we file for bankruptcy or certain other events of bankruptcy, insolvency or reorganization occur and remain undischarged or unstayed for a period of 60 days; or
- any other Event of Default in respect of debt securities of the series described in the prospectus supplement occurs.

An Event of Default for a particular series of debt securities does not necessarily constitute an Event of Default for any other series of debt securities issued under the same or any other indenture. The trustee may withhold notice to the holders of debt securities of any default, except in the payment of principal, premium or interest, if it considers the withholding of notice to be in the best interests of the holders.

Remedies if an Event of Default Occurs

If an Event of Default has occurred and has not been cured or waived, the trustee or the holders of not less than 66.66% in principal amount of the debt securities of the affected series may declare the entire principal amount of all the debt securities of that series to be due and immediately payable. This is called a declaration of acceleration of maturity. A declaration of acceleration of maturity may be canceled by the holders of a majority in principal amount of the debt securities of the affected series if the default is cured or waived and certain other conditions are satisfied.

Except in cases of default, where the trustee has some special duties, the trustee is not required to take any action under the indenture at the request of any holders unless the holders offer the trustee reasonable protection from expenses and liability (called an “indemnity”). If reasonable indemnity is provided, the holders of a majority in principal amount of the outstanding debt securities of the relevant series may direct the time, method and place of conducting any lawsuit or other formal legal action seeking any remedy available to the trustee. The trustee may refuse to follow those directions in certain circumstances. No delay or omission in exercising any right or remedy will be treated as a waiver of that right, remedy or Event of Default.

Before you are allowed to bypass your trustee and bring your own lawsuit or other formal legal action or take other steps to enforce your rights or protect your interests relating to the debt securities, the following must occur:

- you must give the trustee written notice that an Event of Default has occurred and remains uncured;
- the holders of at least 25% in principal amount of all outstanding debt securities of the relevant series must make a written request that the trustee take action because of the default and must offer reasonable indemnity to the trustee against the cost and other liabilities of taking that action;
- the trustee must not have taken action for 60 days after receipt of the above notice and offer of indemnity; and
- the holders of a majority in principal amount of the debt securities must not have given the trustee a direction inconsistent with the above notice during that 60-day period.

However, you are entitled at any time to bring a lawsuit for the payment of money due on your debt securities on or after the due date.

Book-entry and other indirect holders should consult their banks or brokers for information on how to give notice or direction to or make a request of the trustee and how to declare or cancel an acceleration of maturity.

Each year, we will furnish to each trustee a written statement of certain of our officers certifying that to their knowledge we are in compliance with the indenture and the debt securities, or else specifying any default.

Waiver of Default

The holders of a majority in principal amount of the relevant series of debt securities may waive a default for all the relevant series of debt securities, in which case the default will be treated as if it had not occurred, other than:

- the payment of principal, any premium or interest; or
- in respect of a covenant that cannot be modified or amended without the consent of each holder.

Merger or Consolidation

Under the terms of the indenture, we are generally permitted to consolidate or merge with another entity. We are also permitted to sell all or substantially all of our assets to another entity. However, unless the prospectus supplement relating to certain debt securities states otherwise, we may not take any of these actions unless all the following conditions are met:

- if we do not survive such transaction or we convey, transfer or lease our properties and assets substantially as an entirety, the resulting entity must agree to be legally responsible for our obligations under the debt securities;
- immediately after giving effect to such transaction no default or Event of Default will exist;
- we must deliver certain certificates and documents to the trustee; and
- we must satisfy any other requirements specified in the prospectus supplement relating to a particular series of debt securities.

Modification or Waiver

There are three types of changes we can make to the indenture and the debt securities issued thereunder.

Changes Requiring Your Approval

First, there are changes that we cannot make to your debt securities without your specific approval. The following is a list of those types of changes:

- change the stated maturity of the principal of or interest on a debt security;
- reduce any amounts due on a debt security;
- reduce the amount of principal payable upon acceleration of the maturity of a security following a default;
- at any time after a change of control has occurred, reduce the premium payable upon a change of control;
- adversely affect any right of repayment at the holder’s option;
- change the place or currency of payment on a debt security (except as otherwise described in the prospectus or prospectus supplement);
- impair your right to sue for payment;
- adversely affect any right to convert or exchange a debt security in accordance with its terms;
- modify the subordination provisions in the indenture in a manner that is adverse to holders of the debt securities;
- reduce the percentage of holders of debt securities whose consent is needed to modify or amend the indenture;

- reduce the percentage of holders of debt securities whose consent is needed to waive compliance with certain provisions of the indenture or to waive certain defaults;
- modify any other aspect of the provisions of the indenture dealing with supplemental indentures, modification and waiver of past defaults, changes to the quorum or voting requirements or the waiver of certain covenants; and
- change any obligation we have to pay additional amounts.

Changes Not Requiring Approval

The second type of change does not require any vote by the holders of the debt securities. This type is limited to clarifications and certain other changes that would not adversely affect holders of the outstanding debt securities in any material respect. We also do not need any approval to make any change that affects only debt securities to be issued under the indenture after the change takes effect.

Changes Requiring Majority Approval

Any other change to the indenture and the debt securities would require the following approval:

- if the change affects only one series of debt securities, it must be approved by the holders of a majority in principal amount of that series; and
- if the change affects more than one series of debt securities issued under the same indenture, it must be approved by the holders of a majority in principal amount of all of the series affected by the change, with all affected series voting together as one class for this purpose.

The holders of a majority in principal amount of all of the series of debt securities issued under an indenture, voting together as one class for this purpose, may waive our compliance with some of our covenants in that indenture. However, we cannot obtain a waiver of a payment default or of any of the matters covered by the bullet points included above under "—Changes Requiring Your Approval."

Further Details Concerning Voting

When taking a vote, we will use the following rules to decide how much principal to attribute to a debt security:

- for original issue discount securities, we will use the principal amount that would be due and payable on the voting date if the maturity of these debt securities were accelerated to that date because of a default;
- for debt securities whose principal amount is not known (for example, because it is based on an index), we will use a special rule for that debt security described in the prospectus supplement; and
- for debt securities denominated in one or more foreign currencies, we will use the U.S. dollar equivalent.

Debt securities will not be considered outstanding, and therefore not eligible to vote, if we have deposited or set aside in trust money for their payment or redemption. Debt securities will also not be eligible to vote if they have been fully defeased as described later under "—Defeasance—Full Defeasance."

We will generally be entitled to set any day as a record date for the purpose of determining the holders of outstanding indenture securities that are entitled to vote or take other action under the indenture. If we set a record date for a vote or other action to be taken by holders of one or more series, that vote or action may be taken only by persons who are holders of outstanding indenture securities of those series on the record date and must be taken within eleven months following the record date.

Book-entry and other indirect holders should consult their banks or brokers for information on how approval may be granted or denied if we seek to change the indenture or the debt securities or request a waiver.

Defeasance

The following provisions will be applicable to each series of debt securities unless we state in the applicable prospectus supplement that the provisions of covenant defeasance and full defeasance will not be applicable to that series.

Covenant Defeasance

Under current U.S. federal tax law, we can make the deposit described below and be released from some of the restrictive covenants in the indenture under which the particular series was issued. This is called "covenant defeasance." In that event, you would lose the protection of those restrictive covenants but would gain the protection of having money and government securities set aside in trust to repay your debt securities. If applicable, you also would be released from the subordination provisions described under "—Indenture Provisions—Subordination" below. In order to achieve covenant defeasance, we must do the following:

- if the debt securities of the particular series are denominated in U.S. dollars, we must deposit in trust for the benefit of all holders of such debt securities a combination of money and U.S. government or U.S. government agency notes or bonds that will generate enough cash to make interest, principal and any other payments on the debt securities on their various due dates; and
- we may be required to deliver to the trustee a legal opinion of our counsel confirming that, under current U.S. federal income tax law, we may make the above deposit without causing you to be taxed on the debt securities any differently than if we did not make the deposit and just repaid the debt securities ourselves at maturity.

We must deliver to the trustee a legal opinion of our counsel stating that the above deposit does not require registration by us under the 1940 Act and a legal opinion and officers' certificate stating that all conditions precedent to covenant defeasance have been complied with.

If we accomplish covenant defeasance, you can still look to us for repayment of the debt securities if there were a shortfall in the trust deposit or the trustee is prevented from making payment. For example, if one of the remaining Events of Default occurred (such as our bankruptcy) and the debt securities became immediately due and payable, there might be a shortfall. Depending on the event causing the default, you may not be able to obtain payment of the shortfall.

Full Defeasance

If there is a change in U.S. federal tax law, as described below, we can legally release ourselves from all payment and other obligations on the debt securities of a particular series (called "full defeasance") if we put in place the following other arrangements for you to be repaid:

- if the debt securities of the particular series are denominated in U.S. dollars, we must deposit in trust for the benefit of all holders of such debt securities a combination of money and U.S. government or U.S. government agency notes or bonds that will generate enough cash to make interest, principal and any other payments on the debt securities on their various due dates;
- we may be required to deliver to the trustee a legal opinion confirming that there has been a change in current U.S. federal tax law or an IRS ruling that allows us to make the above deposit without causing you to be taxed on the debt securities any differently than if we did not make the deposit and just repaid the debt securities ourselves at maturity, as under current U.S. federal tax law the deposit and our legal release from the debt securities would be treated as though we paid you your share of the cash and

notes or bonds at the time the cash and notes or bonds were deposited in trust in exchange for your debt securities and you would recognize gain or loss on the debt securities at the time of the deposit; and

- we must deliver to the trustee a legal opinion of our counsel stating that the above deposit does not require registration by us under the 1940 Act and a legal opinion and officers' certificate stating that all conditions precedent to defeasance have been complied with.

If we ever did accomplish full defeasance, as described above, you would have to rely solely on the trust deposit for repayment of the debt securities. You could not look to us for repayment in the unlikely event of any shortfall. Conversely, the trust deposit would most likely be protected from claims of our lenders and other creditors if we ever became bankrupt or insolvent. If applicable, you would also be released from the subordination provisions described later under "—Indenture Provisions—Subordination."

Form, Exchange and Transfer of Certificated Registered Securities

If registered debt securities cease to be issued in book-entry form, they will be issued:

- only in fully registered certificated form;
- without interest coupons; and
- unless we indicate otherwise in the prospectus supplement, in denominations of $1,000 and amounts that are multiples of $1,000.

Holders may exchange their certificated securities for debt securities of smaller denominations or combined into fewer debt securities of larger denominations, as long as the total principal amount is not changed.

Holders may exchange or transfer their certificated securities at the office of their trustee. We may appoint the trustee to act as our agent for registering debt securities in the names of holders transferring debt securities, and may appoint another entity to perform these functions or perform them ourselves.

Holders will not be required to pay a service charge to transfer or exchange their certificated securities, but they may be required to pay any tax or other governmental charge associated with the transfer or exchange. The transfer or exchange will be made only if our transfer agent is satisfied with the holder's proof of legal ownership.

If we have designated additional transfer agents for your debt security, they will be named in the prospectus supplement. We may appoint additional transfer agents or cancel the appointment of any particular transfer agent. We may also approve a change in the office through which any transfer agent acts.

If any certificated securities of a particular series are redeemable and we redeem less than all the debt securities of that series, we may block the transfer or exchange of those debt securities during the period beginning 15 days before the day we mail the notice of redemption and ending on the day of that mailing, in order to freeze the list of holders to prepare the mailing. We may also refuse to register transfers or exchanges of any certificated securities selected for redemption, except that we will continue to permit transfers and exchanges of the unredeemed portion of any debt security that will be partially redeemed.

If a registered debt security is issued in book-entry form, only the depositary will be entitled to transfer and exchange the debt security as described in this subsection, since it will be the sole holder of the debt security.

Resignation of Trustee

Each trustee may resign or be removed with respect to one or more series of indenture securities provided that a successor trustee is appointed to act with respect to these series. In the event that two or more persons are acting as trustee with respect to different series of indenture securities under the indenture, each of the trustees will be a trustee of a trust separate and apart from the trust administered by any other trustee.

Indenture Provisions—Subordination

Upon any distribution of our assets upon our dissolution, winding up, liquidation or reorganization, the payment of the principal of (and premium, if any) and interest, if any, on any indenture securities denominated as subordinated debt securities is to be subordinated to the extent provided in the indenture in right of payment to the prior payment in full of all Senior Indebtedness, but our obligation to you to make payment of the principal of (and premium, if any) and interest, if any, on such subordinated debt securities will not otherwise be affected. In addition, no payment on account of principal (or premium, if any), sinking fund or interest, if any, may be made on such subordinated debt securities at any time unless full payment of all amounts due in respect of the principal (and premium, if any), sinking fund and interest on Senior Indebtedness has been made or duly provided for in money or money's worth.

In the event that, notwithstanding the foregoing, any payment by us is received by the trustee in respect of subordinated debt securities or by the holders of any of such subordinated debt securities before all Senior Indebtedness is paid in full, the payment or distribution must be paid over to the holders of the Senior Indebtedness or on their behalf for application to the payment of all the Senior Indebtedness remaining unpaid until all the Senior Indebtedness has been paid in full, after giving effect to any concurrent payment or distribution to the holders of the Senior Indebtedness. Subject to the payment in full of all Senior Indebtedness upon this distribution by us, the holders of such subordinated debt securities will be subrogated to the rights of the holders of the Senior Indebtedness to the extent of payments made to the holders of the Senior Indebtedness out of the distributive share of such subordinated debt securities.

By reason of this subordination, in the event of a distribution of our assets upon our insolvency, certain of our senior creditors may recover more, ratably, than holders of any subordinated debt securities. The indenture provides that these subordination provisions will not apply to money and securities held in trust under the defeasance provisions of the indenture.

Senior Indebtedness is defined in the indenture as the principal of (and premium, if any) and unpaid interest on:

- our indebtedness (including indebtedness of others guaranteed by us), whenever created, incurred, assumed or guaranteed, for money borrowed (other than indenture securities issued under the indenture and denominated as subordinated debt securities), unless in the instrument creating or evidencing the same or under which the same is outstanding it is provided that this indebtedness is not senior or prior in right of payment to the subordinated debt securities; and
- renewals, extensions, modifications and refinancings of any of this indebtedness.

If this prospectus is being delivered in connection with the offering of a series of indenture securities denominated as subordinated debt securities, the accompanying prospectus supplement will set forth the approximate amount of our Senior Indebtedness outstanding as of a recent date.

The Trustee Under the Indenture

We intend to use a nationally recognized financial institution to serve as the trustee under the indenture.

SHARES ELIGIBLE FOR FUTURE SALE

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

As of May 21, 2008, we had 21,234,482 shares of our common stock outstanding, of which 3,404,333 shares were "restricted" securities within the meaning of Rule 144 promulgated under the Securities Act and may not be sold in the absence of registration under the Securities Act unless an exemption from registration is available, including under the safe harbor provisions contained in Rule 144. Pursuant to a registration rights agreement, we have agreed to file one or more registration statements in respect of the shares of common stock that are restricted securities.

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

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

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

Stock Options

As of May 21, 2008, there were options to purchase 1,315,000 shares of our common stock outstanding under our Equity Incentive Plan and 386,250 shares were subject to exercisable options. All of these shares will be eligible for sale in the public market from time to time, subject to vesting provisions, Rule 144 volume limitations applicable to our affiliates.

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

BROKERAGE ALLOCATION AND OTHER PRACTICES

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

PLAN OF DISTRIBUTION

We may offer, from time to time, in one or more offerings or series, up to $200,000,000 of our common stock, preferred stock, subscription rights, debt securities or warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, separately or as units comprising any combination of the foregoing, on the terms to be determined at the time of the offering. The debt securities, preferred stock, warrants and subscription rights offered by means of this prospectus may be convertible or exchangeable into shares of our common stock. We may sell the securities through underwriters or dealers, directly to one or more purchasers, including existing stockholders in a rights offering, through agents or through a combination of any such methods of sale. In the case of a rights offering, the applicable prospectus supplement will set forth the number of shares of our common stock issuable upon the exercise of each right and the other terms of such rights offering. Any underwriter or agent involved in the offer and sale of the securities will be named in the applicable prospectus supplement.

The distribution of the securities may be effected from time to time in one or more transactions at a fixed price or prices, which may be changed, at prevailing market prices at the time of sale, at prices related to such prevailing market prices, or at negotiated prices; *provided*, *however*, that the offering price per share of our common stock, less any underwriting commissions or discounts, must equal or exceed the net asset value per share of our common stock at the time of the offering except (i) in connection with a rights offering to our existing stockholders, (ii) with the consent of the majority of our common stockholders or (iii) under such circumstances as the SEC may permit.

In connection with the sale of the securities, underwriters or agents may receive compensation from us or from purchasers of the securities, for whom they may act as agents, in the form of discounts, concessions or commissions. Underwriters may sell the securities to or through dealers and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agents. Underwriters, dealers and agents that participate in the distribution of the securities may be deemed to be underwriters under the Securities Act, and any discounts and commissions they receive from us and any profit realized by them on the resale of the securities may be deemed to be underwriting discounts and commissions under the Securities Act. Any such underwriter or agent will be identified and any such compensation received from us will be described in the applicable prospectus supplement. The maximum commission or discount to be received by any member of the Financial Industry Regulatory Authority (“FINRA”) or independent broker-dealer will not be greater than 8% for the sale of any securities being registered.

We may sell the securities through agents from time to time. The prospectus supplement will name any agent involved in the offer or sale of the securities and any commissions we pay to them. Generally, any agent will be acting on a best efforts basis for the period of its appointment.

Any securities sold pursuant to a prospectus supplement may be traded on The NASDAQ Global Select Market, or another exchange on which the securities are traded.

Under agreements that we may enter, underwriters, dealers and agents who participate in the distribution of shares of our securities may be entitled to indemnification by us against certain liabilities, including liabilities under the Securities Act. Underwriters, dealers and agents may engage in transactions with, or perform services for, us in the ordinary course of business.

If so indicated in the applicable prospectus supplement, we will authorize underwriters or other persons acting as our agents to solicit offers by certain institutions to purchase shares of our securities from us pursuant to contracts providing for payment and delivery on a future date. Institutions with which such contracts may be made include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions and others, but in all cases such institutions must be approved by us. The obligations of any purchaser under any such contract will be subject to the condition that the purchase of our securities shall not at the time of delivery be prohibited under the laws of the jurisdiction to which such purchaser

is subject. The underwriters and such other agents will not have any responsibility in respect of the validity or performance of such contracts. Such contracts will be subject only to those conditions set forth in the prospectus supplement, and the prospectus supplement will set forth the commission payable for solicitation of such contracts.

We may enter into derivative transactions with third parties, or sell securities not covered by this prospectus to third parties in privately negotiated transactions. If the applicable prospectus supplement indicates, in connection with those derivatives, the third parties may sell securities covered by this prospectus and the applicable prospectus supplement, including in short sale transactions. If so, the third party may use securities pledged by us or borrowed from us or others to settle those sales or to close out any related open borrowings of stock, and may use securities received from us in settlement of those derivatives to close out any related open borrowings of stock. The third parties in such sale transactions will be underwriters and, if not identified in this prospectus, will be identified in the applicable prospectus supplement.

In order to comply with the securities laws of certain states, if applicable, our securities offered hereby will be sold in such jurisdictions only through registered or licensed brokers or dealers.

CUSTODIAN, TRANSFER AND DIVIDEND PAYING AGENT AND REGISTRAR

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

LEGAL MATTERS

Certain legal matters regarding the securities offered by this prospectus will be passed upon for us by Ropes & Gray LLP, Boston, Massachusetts. Certain legal matters in connection with an offering will be passed upon for the underwriters or dealer managers, if any, by the counsel named in the prospectus supplement.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

AVAILABLE INFORMATION

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

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

I NDEX TO FINANCIAL STATEMENTS

UNAUDITED FINANCIAL STATEMENTS

AUDITED FINANCIAL STATEMENTS

KOHLBERG CAPITAL CORPORATION

BALANCE SHEETS

	As of March 31, 2008 (unaudited)	As of December 31, 2007
ASSETS		
Investments at fair value:		
Investments in debt securities (cost: 2008—$383,494,311; 2007—$423,439,764)	$ 363,262,652	$ 410,954,082
Investments in CLO fund securities managed by non-affiliates (cost: 2008—$15,438,959; 2007—$15,385,580)	7,809,000	9,900,000
Investments in CLO fund securities managed by affiliate (cost: 2008—$49,806,164; 2007—$20,675,684)	49,600,236	21,120,000
Investments in equity securities (cost: 2008—$5,096,298; 2007—$5,043,950)	3,613,752	4,752,250
Investments in asset manager affiliates (cost: 2008—$35,053,497; 2007—$33,469,995)	64,045,602	58,585,360
Total investments at fair value	488,331,242	505,311,692
Cash and cash equivalents	12,891,722	12,088,529
Restricted cash	6,961,518	7,114,364
Interest and dividends receivable	3,785,875	5,592,637
Due from affiliates	149,721	540,773
Other assets	2,099,763	2,493,964
Total assets	$ 514,219,841	$ 533,141,959
LIABILITIES		
Borrowings	250,000,000	255,000,000
Payable for open trades	—	5,905,000
Accounts payable and accrued expenses	3,907,893	6,141,892
Dividend payable	7,418,665	7,026,903
Total liabilities	$ 261,326,558	$ 274,073,795
Commitments and contingencies (note 8)		
STOCKHOLDERS' EQUITY		
Common stock, par value $.01 per share, 100,000,000 common shares authorized; 18,094,306 and 18,017,699 common shares issued and outstanding at March 31, 2008 and December 31, 2007, respectively	180,943	180,177
Capital in excess of par value	254,300,918	253,253,152
Distribution in excess of net investment income	(304,278)	(1,661,884)
Accumulated net realized losses	(726,313)	—
Net unrealized appreciation (depreciation) on investments	(557,987)	7,296,719
Total stockholders' equity	252,893,283	259,068,164
Total liabilities and stockholders' equity	$ 514,219,841	$ 533,141,959
NET ASSET VALUE PER SHARE	$ 13.98	$ 14.38

See accompanying notes to financial statements.

KOHLBERG CAPITAL CORPORATION

STATEMENTS OF OPERATIONS

(unaudited)

	Three Months Ended March 31,	
	2008	**2007**
Investment Income:		
Interest from investments in debt securities	$ 9,699,836	$ 4,444,001
Interest from cash and cash equivalents	86,603	137,143
Dividends from investments in CLO fund securities managed by non-affiliates	1,538,207	1,115,555
Dividends from investments in CLO fund securities managed by affiliate	1,523,082	649,674
Dividends from affiliate asset manager	350,000	—
Capital structuring service fees	1,135,114	188,194
Total investment income	14,332,842	6,534,567
Expenses:		
Interest and amortization of debt issuance costs	3,344,422	148,341
Compensation	1,176,838	817,662
Professional fees	616,648	423,386
Insurance	73,437	39,223
Administrative and other	345,226	299,282
Total expenses	5,556,571	1,727,894
Net Investment Income	**8,776,271**	**4,806,673**
Realized And Unrealized Gains (Losses) On Investments:		
Net realized gains (losses) from investment transactions	(726,313)	86,234
Net change in unrealized gains (losses) on debt securities	(7,745,977)	802,991
Net change in unrealized loss on equity securities	(1,190,846)	—
Net change in unrealized gains on affiliate asset manager investments	3,876,740	9,083,110
Net change in unrealized losses on CLO fund securities managed by non-affiliates	(2,144,379)	(830,000)
Net change in unrealized losses on CLO fund securities managed by affiliate	(650,244)	—
Net realized and unrealized gains (losses) on investments	(8,581,019)	9,142,335
Net Increase In Stockholders' Equity Resulting From Operations	$ 195,252	$ 13,949,008
Earnings Per Common Share—Basic and Diluted	$ 0.01	$ 0.78
Net Investment Income Per Common Share—Basic and Diluted	$ 0.49	$ 0.27
Net Investment Income and Net Realized Gains Per Common Share—Basic and Diluted	$ 0.45	$ 0.27
Weighted Average Shares of Common Stock Outstanding—Basic	18,074,944	17,946,333
Weighted Average Shares of Common Stock Outstanding—Diluted	18,074,944	17,957,602

See accompanying notes to financial statements.

KOHLBERG CAPITAL CORPORATION

STATEMENTS OF CHANGES IN NET ASSETS

(unaudited)

	Three Months Ended March 31,	
	2008	2007
Operations:		
Net investment income	$ 8,776,271	$ 4,806,673
Net realized gains (loss) from investment transactions	(726,313)	86,234
Net change in unrealized gains (losses) on investments	(7,854,706)	9,056,101
Net increase in net assets resulting from operations	195,252	13,949,008
Shareholder distributions:		
Dividends from net investment income	(7,418,665)	(4,806,673)
Dividends in excess of net investment income	—	(310,452)
Distributions from realized gains	—	(87,311)
Net decrease in net assets resulting from shareholder distributions	(7,418,665)	(5,204,436)
Capital share transactions:		
Issuance of common stock under dividend reinvestment plan	892,471	—
Stock based compensation	156,061	147,000
Net increase in net assets resulting from capital share transactions	1,048,532	147,000
Net assets at beginning of period	259,068,164	256,400,423
Net assets at end of period (including accumulated distributions in excess of net investment income of $304,278 in 2008 and accumulated undistributed net investment income of $179,011 in 2007)	$ 252,893,283	$ 265,291,995
Net asset value per common share	$ 13.98	$ 14.78
Common shares outstanding at end of period	18,094,306	17,946,333

See accompanying notes to financial statements.

KOHLBERG CAPITAL CORPORATION

STATEMENTS OF CASH FLOWS

(unaudited)

	Three Months Ended March 31,	
	2008	2007
OPERATING ACTIVITIES:		
Net increase in stockholders' equity resulting from operations	$ 195,252	$ 13,949,008
Adjustments to reconcile net increase in stockholders' equity resulting from operations:		
Net realized loss (gain) on investment transactions	726,313	(86,234)
Net unrealized loss (gain) on investments	7,854,706	(9,056,101)
Net accretion of discount on securities	(452,739)	(31,413)
Purchases of investments	(41,813,752)	(66,446,106)
Payment-in-kind interest	(316,643)	(23,933)
Proceeds from sale and redemption of investments	45,077,565	23,540,502
Stock based compensation expense	156,061	147,000
Equity in income of affiliate	—	—
Changes in operating assets and liabilities:		
Decrease (increase) in interest and dividends receivable	1,806,762	(1,363,399)
Decrease (increase) in other assets	394,201	(1,196,295)
Decrease (increase) in due from affiliate	391,052	(601,307)
Increase in due to affiliate	—	(87,832)
Decrease (increase) in accounts payable and accrued expenses	(2,233,999)	43,547
Net cash provided by (used in) operating activities	11,784,779	(41,212,563)
FINANCING ACTIVITIES:		
Dividends paid in cash	(6,134,432)	—
Borrowings (repayment) of debt	(5,000,000)	15,000,000
Decrease (increase) in restricted cash	152,846	(933,376)
Net cash provided by (used in) financing activities	(10,981,586)	14,066,624
CHANGE IN CASH AND CASH EQUIVALENTS	803,193	(27,145,939)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	12,088,529	32,404,493
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 12,891,722	$ 5,258,554
Supplemental Information:		
Interest paid during the period	$ 2,279,549	$ —
Non-cash dividends paid during the period under dividend reinvestment plan	$ 892,471	$ —
Cash restricted during the period under terms of secured revolving credit facility	$ 6,940,419	$ 933,376

See accompanying notes to financial statements.

KOHLBERG CAPITAL CORPORATION

SCHEDULES OF INVESTMENTS

As of March 31, 2008

(unaudited)

Debt Securities and Bond 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) 5.4%, Due 6/13	$ 359,515	$ 359,515	$ 359,515
Advanced Lighting Technologies, Inc. *Home and Office Furnishings, Housewares, and Durable Consumer Products*	Senior Secured Loan—Revolving Loan 5.4%, Due 6/13	400,000	391,320	398,264
Advanced Lighting Technologies, Inc.[6] *Home and Office Furnishings, Housewares, and Durable Consumer Products*	Junior Secured Loan—Second Lien Term Loan Note 8.9%, 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) 5.6%, Due 6/13	1,970,439	1,970,439	1,970,439
Aero Products International, Inc.[6] *Personal and Non Durable Consumer Products (Mfg. Only)*	Senior Secured Loan—Term Loan 8.3%, Due 4/12	3,600,000	3,600,000	3,600,000
Aerostructures Acquisition LLC[6] *Aerospace and Defense*	Senior Secured Loan—Delayed Draw Term Loan 5.8%, Due 3/13	500,000	500,000	497,500
Aerostructures Acquisition LLC[6] *Aerospace and Defense*	Senior Secured Loan—Term Loan 5.7%, Due 3/13	6,337,500	6,337,500	6,337,500
AGA Medical Corporation[6] *Healthcare, Education and Childcare*	Senior Secured Loan—Tranche B Term Loan 5.1%, Due 4/13	3,832,209	3,829,477	3,487,310
AGS LLC[6] *Hotels, Motels, Inns, and Gaming*	Senior Secured Loan—Delayed Draw Term Loan 5.7%, Due 5/13	445,399	434,725	423,129
AGS LLC[6] *Hotels, Motels, Inns, and Gaming*	Senior Secured Loan—Initial Term Loan 5.7%, Due 5/13	3,183,441	3,139,302	3,024,269
Allen-Vanguard Corporation[3] *Aerospace and Defense*	Senior Secured Loan—Term Loan 11.0%, Due 9/12	1,600,478	1,579,011	1,680,502
AmerCable Incorporated[6] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Senior Secured Loan—Initial Term Loan 6.3%, Due 6/14	5,945,038	5,945,038	5,945,038
Astoria Generating Company Acquisitions, LLC[6] *Utilities*	Junior Secured Loan—Second Lien Term Loan C 6.4%, Due 8/13	4,000,000	4,047,248	3,900,000

Table of Contents

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 6.9%, Due 3/14	$ 1,735,084	$ 1,745,744	$ 1,726,408
Aurora Diagnostics, LLC[6] *Healthcare, Education and Childcare*	Senior Secured Loan—Tranche A Term Loan (First Lien) 7.8%, Due 12/12	4,502,000	4,455,015	4,459,695
Awesome Acquisition Company (CiCi's Pizza)[6] *Personal, Food and Miscellaneous Services*	Junior Secured Loan—Term Loan (Second Lien) 7.7%, Due 6/14	4,000,000	3,974,480	3,820,000
AZ Chem US Inc.[6] *Chemicals, Plastics and Rubber*	Junior Secured Loan—Second Lien Term Loan 8.6%, Due 2/14	4,000,000	3,958,338	3,220,000
Bankruptcy Management Solutions, Inc.[6] *Diversified/Conglomerate Service*	Senior Secured Loan—First Lien Term Loan 6.7%, Due 7/12	1,970,000	1,981,385	1,773,000
Bankruptcy Management Solutions, Inc.[6] *Diversified/Conglomerate Service*	Junior Secured Loan—Loan (Second Lien) 9.0%, Due 7/13	2,462,500	2,497,664	1,982,313
Bay Point Re Limited[3,6] *Insurance*	Senior Secured Loan—Loan 7.4%, Due 12/10	3,000,000	3,017,867	3,017,867
Bicent Power LLC[6] *Utilities*	Junior Secured Loan—Advance (Second Lien) 6.7%, Due 12/14	4,000,000	4,000,000	3,730,000
Caribe Information Investments Incorporated[6] *Printing and Publishing*	Senior Secured Loan—Term Loan 5.7%, Due 3/13	1,775,207	1,767,791	1,597,687
Cast & Crew Payroll, LLC (Payroll Acquisition)[6] *Leisure, Amusement, Motion Pictures, Entertainment*	Senior Secured Loan—Initial Term Loan 5.7%, Due 9/12	10,608,400	10,645,533	10,645,533
CEI Holdings, Inc. (Cosmetic Essence)[6] *Personal and Non Durable Consumer Products (Mfg. Only)*	Senior Secured Loan—Term Loan 7.0%, Due 3/14	1,845,391	1,751,071	1,660,852
Centaur, LLC[6] *Hotels, Motels, Inns, and Gaming*	Senior Secured Loan—Delayed Draw Term Loan 6.7%, Due 10/12	—	—	—
Centaur, LLC[6] *Hotels, Motels, Inns, and Gaming*	Senior Secured Loan—Term Loan (First Lien) 6.7%, Due 10/12	4,122,807	4,072,006	3,669,295
Charlie Acquisition Corp. *Personal, Food and Miscellaneous Services*	Mezzanine Investment—Senior Subordinated Notes 15.5%, Due 6/13	10,243,966	10,069,970	10,069,970
Clarke American Corp.[6] *Printing and Publishing*	Senior Secured Loan—Tranche B Term Loan 5.7%, Due 6/14	2,977,500	2,977,500	2,408,798

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
Clayton Holdings, Inc[6] *Finance*	Senior Secured Loan—Term Loan 6.1%, Due 12/11	$ 299,480	$ 300,590	$ 299,480
CoActive Technologies, Inc.[6] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Senior Secured Loan—Term Loan (First Lien) 5.7%, Due 7/14	3,990,000	3,971,758	3,971,758
CoActive Technologies, Inc.[6] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Junior Secured Loan—Term Loan (Second Lien) 9.4%, Due 1/15	2,000,000	1,962,612	1,961,246
Coastal Concrete Southeast, LLC *Buildings and Real Estate[4]*	Mezzanine Investment—Mezzanine Term Loan 10.0%, Due 3/13	8,242,290	7,852,868	7,418,061
CST Industries, Inc.[6] *Diversified/Conglomerate Manufacturing*	Senior Secured Loan—Term Loan 6.5%, Due 8/13	985,000	987,977	987,977
DaimlerChrysler Financial Services Americas LLC[6] *Finance*	Senior Secured Loan—Term Loan (First Lien) 6.8%, Due 8/12	1,990,000	1,903,395	1,651,392
Dealer Computer Services, Inc. (Reynolds & Reynolds)[6] *Electronics*	Junior Secured Loan—Term Loan (Second Lien) 8.2%, Due 10/13	1,000,000	1,009,135	990,000
Dealer Computer Services, Inc. (Reynolds & Reynolds)[6] *Electronics*	Junior Secured Loan—Term Loan (Third Lien) 10.2%, Due 4/14	3,500,000	3,536,354	3,491,250
Delta Educational Systems, Inc.[6] *Healthcare, Education and Childcare*	Senior Secured Loan—Term Loan 6.3%, Due 6/12	2,844,080	2,844,080	2,844,080
Dresser, Inc.[6] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Junior Secured Loan—Term Loan (Second Lien) 8.8%, Due 5/15	3,000,000	2,960,422	2,689,980
Edgestone CD Acquisition Corp. (Custom Direct)[6] *Printing and Publishing*	Junior Secured Loan—Loan (Second Lien) 8.7%, Due 12/14	5,000,000	5,000,000	5,000,000
Edgestone CD Acquisition Corp. (Custom Direct)[6] *Printing and Publishing*	Senior Secured Loan—Term Loan (First Lien) 5.4%, Due 12/13	4,823,960	4,829,376	4,829,376
eInstruction Corporation[6] *Healthcare, Education and Childcare*	Senior Secured Loan—Initial Term Loan (Dec. 2007) 6.7%, Due 7/13	4,957,550	4,957,550	4,957,550
eInstruction Corporation[6] *Healthcare, Education and Childcare*	Junior Secured Loan—Term Loan (Second Lien) 10.2%, Due 7/14	10,000,000	10,000,000	10,000,000

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
Emerson Reinsurance Ltd.[3] *Insurance*	Senior Secured Loan—Series C Loan 8.1%, Due 12/11	$ 1,000,000	$ 1,000,000	$ 1,000,000
Endeavor Energy Resources, L.P. *Oil and Gas*	Junior Secured Loan—Second Lien Term Loan 7.4%, Due 3/12	4,000,000	4,000,000	4,000,000
Fasteners For Retail, Inc.[6] *Diversified/Conglomerate Manufacturing*	Senior Secured Loan—Term Loan 5.6%, Due 12/12	4,913,769	4,922,209	4,790,924
FD Alpha Acquisition LLC (Fort Dearborn)[6] *Printing and Publishing*	Senior Secured Loan—US Term Loan 7.4%, Due 11/12	905,120	905,120	891,543
First American Payment Systems, L.P.[6] *Finance*	Senior Secured Loan—Term Loan 6.2%, Due 10/13	3,652,000	3,652,000	3,560,700
Flatiron Re Ltd.[3,6] *Insurance*	Senior Secured Loan—Closing Date Term Loan 7.0%, Due 12/10	1,454,169	1,464,058	1,464,058
Flatiron Re Ltd.[3, 6] *Insurance*	Senior Secured Loan—Delayed Draw Term Loan 7.0%, Due 12/10	704,363	709,153	709,153
Ford Motor Company[6] *Automobile*	Senior Secured Loan—Term Loan 5.8%, Due 12/13	1,984,925	1,982,635	1,636,660
Freescale Semiconductor, Inc. *Electronics*	Senior Subordinated Bond—10.1%, Due 12/16	3,000,000	3,008,973	2,041,890
Frontier Drilling USA, Inc.[6] *Oil and Gas*	Senior Secured Loan—Term B Advance 6.4%, Due 6/13	2,000,000	1,997,971	1,870,000
Ginn LA Conduit Lender, Inc. *Buildings and Real Estate[4]*	Senior Secured Loan—First Lien Tranche A Credit-Linked Deposit 6.2%, Due 6/11	1,257,143	1,221,330	951,657
Ginn LA Conduit Lender, Inc. *Buildings and Real Estate[4]*	Senior Secured Loan—First Lien Tranche B Term Loan 6.2%, Due 6/11	2,694,857	2,618,088	2,040,007
Ginn LA Conduit Lender, Inc. *Buildings and Real Estate[4]*	Junior Secured Loan—Second Lien Term Loan 10.2%, Due 6/12	3,000,000	2,698,234	1,925,010
Gleason Works, The[6] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Senior Secured Loan—New US Term Loan 5.4%, Due 6/13	2,437,280	2,444,476	2,077,782
Hawkeye Renewables, LLC[6] *Farming and Agriculture*	Senior Secured Loan—Term Loan (First Lien) 7.2%, Due 6/12	2,954,887	2,890,637	2,225,680

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) 9.5%, Due 10/14	$ 5,000,000	$ 4,809,924	$ 4,550,000
Huish Detergents Inc.[6] *Personal and Non Durable Consumer Products (Mfg. Only)*	Junior Secured Loan—Loan (Second Lien) 7.0%, Due 10/14	1,000,000	1,000,000	811,660
Hunter Fan Company[6] *Home and Office Furnishings, Housewares, and Durable Consumer Products*	Senior Secured Loan—Initial Term Loan (First Lien) 5.6%, Due 4/14	4,161,071	3,974,689	3,297,649
Hunter Fan Company[6] *Home and Office Furnishings, Housewares, and Durable Consumer Products*	Junior Secured Loan—Loan (Second Lien) 9.8%, Due 10/14	3,000,000	3,000,000	2,347,500
IAL Acquisition Co. (International Aluminum Corporation)[6] *Mining, Steel, Iron and Non-Precious Metals*	Senior Secured Loan—Term Loan 5.4%, Due 3/13	3,032,063	3,032,063	3,032,063
Infiltrator Systems, Inc.[6] *Ecological*	Senior Secured Loan—Term Loan 6.2%, Due 9/12	3,940,000	3,928,517	3,928,517
Inmar, Inc.[6] *Retail Stores*	Senior Secured Loan—Term Loan 5.2%, Due 4/13	3,952,519	3,952,519	3,833,943
Intrapac Corporation/Corona Holdco[6] *Containers, Packaging and Glass*	Senior Secured Loan—1st Lien Term Loan 6.7%, Due 5/12	5,850,000	5,871,834	5,871,834
Intrapac Corporation/Corona Holdco[6] *Containers, Packaging and Glass*	Junior Secured Loan—Term Loans (Second Lien) 10.7%, Due 5/13	3,000,000	3,020,892	3,020,892
Jones Stephens Corp.[6] *Buildings and Real Estate[4]*	Senior Secured Loan—Term Loan 7.5%, Due 9/12	10,206,721	10,180,157	10,180,157
JW Aluminum Company[6] *Mining, Steel, Iron and Non-Precious Metals*	Junior Secured Loan—Term Loan (2nd Lien) 8.9%, Due 12/13	5,371,429	5,389,559	5,210,286
Kepler Holdings Limited[3,6] *Insurance*	Senior Secured Loan—Loan 8.3%, Due 6/09	5,000,000	5,016,783	5,016,783
KIK Custom Products Inc.[6] *Personal and Non Durable Consumer Products (Mfg. Only)*	Junior Secured Loan—Loan (Second Lien) 7.6%, Due 12/14	5,000,000	5,000,000	3,400,000

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
La Paloma Generating Company, LLC[6] *Utilities*	Junior Secured Loan—Loan (Second Lien) 6.2%, Due 8/13	$ 2,000,000	$ 2,016,439	$ 1,890,000
LBREP/L-Suncal Master I LLC[6,10] *Buildings and Real Estate[4]*	Senior Secured Loan—Term Loan (First Lien) 7.5%, Due 1/10	3,920,000	3,851,470	2,626,400
LBREP/L-Suncal Master I LLC[6,10] *Buildings and Real Estate[4]*	Junior Secured Loan—Term Loan (Second Lien) 10.5%, Due 1/11	2,000,000	1,924,684	1,100,000
LBREP/L-Suncal Master I LLC[10] *Buildings and Real Estate [4]*	Junior Secured Loan—Term Loan (Third Lien) 11.7%, Due 2/12	2,332,868	2,332,868	1,283,078
Legacy Cabinets, Inc.[6] *Home and Office Furnishings, Housewares, and Durable Consumer Products*	Senior Secured Loan—First Lien Term Loan 6.5%, Due 8/12	2,947,500	2,947,500	2,947,500
Levlad, LLC & Arbonne International, LLC[6] *Personal and Non Durable Consumer Products (Mfg. Only)*	Senior Secured Loan—Term Loan 5.2%, Due 3/14	2,891,150	2,891,150	1,821,425
LN Acquisition Corp. (Lincoln Industrial)[6] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Junior Secured Loan—Initial Term Loan (Second Lien) 8.7%, Due 1/15	2,000,000	2,000,000	1,970,000
LPL Holdings, Inc.[6] *Finance*	Senior Secured Loan—Tranche D Term Loan 4.7%, Due 6/13	3,330,229	3,352,925	2,997,206
MCCI Group Holdings, LLC[6] *Healthcare, Education and Childcare*	Senior Secured Loan—Term Loan (First Lien) 7.3%, Due 12/12	5,944,995	5,926,035	5,926,035
MCCI Group Holdings, LLC[6] *Healthcare, Education and Childcare*	Junior Secured Loan—Term Loan (Second Lien) 10.3%, 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) 7.9%, Due 1/10	1,964,557	1,973,192	1,812,304
National Interest Security Company, L.L.C.[6] *Aerospace and Defense*	Senior Secured Loan—Term Loan - 1st Lien 7.8%, Due 12/12	8,393,750	8,393,750	8,393,750
Northeast Biofuels, LP[6] *Farming and Agriculture*	Senior Secured Loan —Construction Term Loan 7.8%, Due 6/13	1,365,854	1,368,594	1,229,268
Northeast Biofuels, LP[6] *Farming and Agriculture*	Senior Secured Loan—Synthetic LC Term Loan 5.9%, Due 6/13	536,585	537,662	482,927

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 7.4%, Due 6/11	$ 828,651	$ 828,651	$ 828,651
PAS Technologies Inc. *Aerospace and Defense*	Senior Secured Loan—Term Loan 8.4%, Due 6/11	4,097,222	4,075,220	4,075,220
Pegasus Solutions, Inc. *Leisure, Amusement, Motion Pictures, Entertainment*	Senior Unsecured Bond—10.5%, Due 4/15	2,000,000	2,000,000	2,000,000
Pegasus Solutions, Inc.[6] *Leisure, Amusement, Motion Pictures, Entertainment*	Senior Secured Loan—Term Loan 6.0%, Due 4/13	5,740,000	5,740,000	5,740,000
Primus International Inc.[6] *Aerospace and Defense*	Senior Secured Loan—Term Loan 5.6%, Due 6/12	1,256,100	1,258,501	1,130,490
QA Direct Holdings, LLC[6] *Printing and Publishing*	Senior Secured Loan—Term Loan 7.2%, Due 8/14	4,974,937	4,928,017	4,928,017
Resco Products, Inc.[6] *Mining, Steel, Iron and Non-Precious Metals*	Junior Secured Loan—Term Loan (Second Lien) 11.1%, Due 6/14	5,000,000	4,931,673	4,931,673
Rhodes Companies, LLC, The[6] *Buildings and Real Estate[4]*	Senior Secured Loan—First Lien Term Loan 6.2%, Due 11/10	1,818,182	1,730,974	1,400,000
Rhodes Companies, LLC, The[6] *Buildings and Real Estate[4]*	Junior Secured Loan—Second Lien Term Loan 10.4%, Due 11/11	2,000,000	2,010,468	1,266,680
San Juan Cable, LLC[6] *Broadcasting and Entertainment*	Junior Secured Loan—Second Lien Term Loan 8.5%, Due 10/13	3,000,000	2,979,896	2,782,500
Schneller LLC[6] *Aerospace and Defense*	Senior Secured Loan—Term Loan 6.6%, Due 6/13	4,962,500	4,917,634	4,937,688
Seismic Micro-Technology, Inc. (SMT)[6] *Electronics*	Senior Secured Loan—Term Loan 6.0%, Due 6/12	992,500	990,175	990,175
Seismic Micro-Technology, Inc. (SMT)[6] *Electronics*	Senior Secured Loan—Term Loan 6.0%, Due 6/12	1,488,750	1,485,263	1,485,263
Specialized Technology Resources, Inc.[6] *Diversified/Conglomerate Service*	Junior Secured Loan—Loan (Second Lien) 9.7%, 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) 5.2%, Due 6/14	3,960,025	3,960,025	3,960,025
Standard Steel, LLC[6] *Cargo Transport*	Senior Secured Loan—Delayed Draw Term Loan 5.1%, Due 7/12	823,619	828,919	828,919
Standard Steel, LLC[6] *Cargo Transport*	Senior Secured Loan—Initial Term Loan 5.2%, Due 7/12	4,086,899	4,113,197	4,113,197
Standard Steel, LLC[6] *Cargo Transport*	Junior Secured Loan—Loan (Second Lien) 8.7%, Due 7/13	1,750,000	1,759,776	1,759,776

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
Stolle Machinery Company[6] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Senior Secured Loan—First Lien Term Loan 7.9%, Due 9/12	$ 972,537	$ 977,260	$ 957,949
Stolle Machinery Company[6] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Junior Secured Loan—Loan (Second Lien) 9.2%, Due 9/13	700,000	710,122	682,500
TPF Generation Holdings, LLC[6] *Utilities*	Junior Secured Loan—Second Lien Term Loan 6.9%, Due 12/14	2,000,000	2,031,910	1,890,000
TransAxle LLC *Automobile*	Senior Secured Loan—Revolver 8.0%, Due 8/11	163,636	159,869	163,020
TransAxle LLC[6] *Automobile*	Senior Secured Loan—Term Loan 7.1%, Due 9/12	2,775,000	2,775,000	2,775,000
TUI University, LLC[6] *Healthcare, Education and Childcare*	Senior Secured Loan—Term Loan 6.0%, Due 10/14	3,980,000	3,791,729	3,800,900
Twin-Star International, Inc.[6] *Home and Office Furnishings, Housewares, and Durable Consumer Products*	Senior Secured Loan—Term Loan 5.6%, Due 4/13	4,962,500	4,962,500	4,962,500
United Maritime Group, LLC (fka Teco Transport Corporation)[6] *Cargo Transport*	Junior Secured Loan—Term Loan (Second Lien) 10.2%, Due 12/13	4,500,000	4,500,000	4,500,000
Water PIK, Inc.[6] *Personal and Non Durable Consumer Products (Mfg. Only)*	Senior Secured Loan—Loan (First Lien) 6.1%, Due 6/13	1,980,013	1,967,843	1,940,412
Wesco Aircraft Hardware Corp.[6] *Aerospace and Defense*	Junior Secured Loan—Second Lien Term Loan 8.5%, Due 3/14	4,132,887	4,165,106	3,895,246
WireCo WorldGroup Inc.[6] *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. *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Mezzanine Investment —11.0%, Due 2/15	5,000,000	4,770,360	5,000,000
Wolf Hollow I, LP[6] *Utilities*	Senior Secured Loan—Acquisition Term Loan 4.9%, Due 6/12	781,891	771,392	674,381
Wolf Hollow I, LP[6] *Utilities*	Senior Secured Loan—Synthetic Letter of Credit 5.0%, Due 6/12	668,412	659,437	551,440

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
Wolf Hollow I, LP[6] *Utilities*	Senior Secured Loan —Synthetic Revolver Deposits 4.9%, Due 6/12	$ 167,103	$ 164,859	$ 137,860
Wolf Hollow I, LP[6] *Utilities*	Junior Secured Loan—Term Loan (Second Lien) 7.2%, Due 12/12	2,683,177	2,688,446	2,186,789
X-Rite, Incorporated[6] *Electronics*	Junior Secured Loan—Loan (Second Lien) 10.5%, Due 10/13	1,000,000	1,000,000	910,000
X-Rite, Incorporated[6] *Electronics*	Senior Secured Loan—Term Loan (First Lien) 6.4%, Due 10/12	992,506	987,943	913,106
Total Investment in Debt Securities and Bonds (144% of net asset value at fair value)		$ 385,888,085	$ 383,494,311	$ 363,262,652

Equity Portfolio

Portfolio Company / Principal Business	Investment	Percentage Interest	Cost	Value[2]
Aerostructures Holdings L.P.[7] *Aerospace and Defense*	Partnership Interests	1.2%	$1,000,000	$1,000,000
Allen-Vanguard Corporation[3,7] *Aerospace and Defense*	Common Shares	0.0%	42,542	34,135
Coastal Concrete Southeast, LLC[7,8] *Buildings and Real Estate[4]*	Warrants	3.5%	474,140	—
eInstruction Acquisition, LLC[7] *Healthcare, Education and Childcare*	Membership Units	1.1%	1,079,616	1,079,617
FP WRCA Coinvestment Fund VII, Ltd.[3,7] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Class A Shares	0.7%	1,500,000	1,500,000
Park Avenue Coastal Holding, LLC[7] *Buildings and Real Estate[4]*	Common Interests	0.0%	1,000,000	—
Total Investment in Equity Securities (1% of net asset value at fair value)			**$5,096,298**	**$3,613,752**

CLO Fund Securities

Portfolio Company / Principal Business	Investment	Percentage Interest	Cost	Value[2]
Grant Grove CLO, Ltd.[3]	Subordinated Securities	22.2%	$ 4,468,959	$ 4,250,000
Katonah III, Ltd.[3]	Preferred Shares	23.1%	4,500,000	1,390,000
Katonah IV, Ltd.[3]	Preferred Shares	17.1%	3,150,000	1,250,000
Katonah V, Ltd.[3]	Preferred Shares	26.7%	3,320,000	919,000
Katonah VII CLO Ltd.[3, 9]	Subordinated Securities	16.4%	4,500,000	3,738,000
Katonah VIII CLO Ltd[3, 9]	Subordinated Securities	10.3%	3,400,000	3,128,000
Katonah IX CLO Ltd[3, 9]	Prefered Shares	6.9%	2,000,000	2,000,000
Katonah X CLO Ltd [3, 9]	Subordinated Securities	33.3%	10,916,643	11,875,000
Katonah 2007-I CLO Ltd.[3, 9]	Preferred Shares	100.0%	28,989,521	28,859,236
Total Investment in CLO Fund Securities (23% of net asset value at fair value)			**$ 65,245,123**	**$ 57,409,236**

Affiliate Investments

Portfolio Company / Principal Business	Investment	Percentage Interest	Cost	Value[2]
Katonah Debt Advisors *Asset Management Company*	Membership Interests	100.0%	$ 34,151,495	$ 63,143,600
PKSI *Distressed Investments*	Class A Shares	100.0%	898,502	898,502
PKSI *Distressed Investments*	Class B Shares	35.0%	3,500	3,500
Total Investment in affiliates (25% of net asset value at fair value)			**$ 35,053,497**	**$ 64,045,602**
Total Investments[5] (193% of net asset value at fair value)			**$488,889,229**	**$488,331,242**

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

2 Reflects the fair market value of all existing investments as of March 31, 2008, as determined by our Board of Directors.

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

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

5 The aggregate cost of investments for federal income tax purposes is approximately $489 million. The aggregate gross unrealized appreciation is approximately $30 million and the aggregate gross unrealized depreciation is approximately $31 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 or its affiliate.

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

KOHLBERG CAPITAL CORPORATION

SCHEDULES OF INVESTMENTS

As of December 31, 2007

Debt Securities and Bond Portfolio

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

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
AmerCable Incorporated[6] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Senior Secured Loan—Initial Term Loan 8.4%, Due 6/14	$ 6,965,000	$ 6,965,000	$ 6,965,000
Astoria Generating Company Acquisitions, LLC[6] *Utilities*	Junior Secured Loan—Second Lien Term Loan C 8.7%, Due 8/13	4,000,000	4,049,430	3,900,000
Atlantic Marine Holding Company[6] *Cargo Transport*	Senior Secured Loan—Term Loan 7.1%, Due 3/14	1,739,465	1,750,599	1,730,768
Aurora Diagnostics, LLC[6] *Healthcare, Education and Childcare*	Senior Secured Loan—Tranche A Term Loan (First Lien) 9.0%, Due 12/12	4,060,000	4,010,521	4,019,823
Awesome Acquisition Company (CiCi's Pizza)[6] *Personal, Food and Miscellaneous Services*	Junior Secured Loan—Term Loan (Second Lien) 9.8%, Due 6/14	4,000,000	3,973,451	3,820,000
AZ Chem US Inc.[6] *Chemicals, Plastics and Rubber*	Junior Secured Loan—Second Lien Term Loan 10.6%, Due 2/14	4,000,000	3,956,582	3,220,000
Bankruptcy Management Solutions, Inc.[6] *Diversified/Conglomerate Service*	Senior Secured Loan—First Lien Term Loan 7.6%, Due 7/12	1,975,000	1,987,070	1,846,625
Bankruptcy Management Solutions, Inc.[6] *Diversified/Conglomerate Service*	Junior Secured Loan—Loan (Second Lien) 11.1%, Due 7/13	2,468,750	2,505,651	1,987,344
Bay Point Re Limited[3] [6] *Insurance*	Senior Secured Loan—Loan 9.6%, Due 12/10	3,000,000	3,019,487	3,019,487
Bicent Power LLC[6] *Utilities*	Junior Secured Loan—Advance (Second Lien) 8.8%, Due 12/14	4,000,000	4,000,000	3,730,000
Byram Healthcare Centers, Inc. *Healthcare, Education and Childcare*	Senior Secured Loan—Term Loan A 10.1%, Due 11/11	3,733,691	3,733,691	3,733,691
Byram Healthcare Centers, Inc. *Healthcare, Education and Childcare*	Senior Secured Loan—Revolving Loan 9.7%, Due 11/10	375,000	375,000	375,000
Caribe Information Investments Incorporated[6] *Printing and Publishing*	Senior Secured Loan—Term Loan 7.3%, Due 3/13	2,815,534	2,803,185	2,709,951
Cast & Crew Payroll, LLC (Payroll Acquisition) [6] *Leisure, Amusement, Motion Pictures, Entertainment*	Senior Secured Loan—Initial Term Loan 7.8%, Due 9/12	10,608,400	10,647,600	10,647,600

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
CEI Holdings, Inc. (Cosmetic Essence)[6] *Personal and Non Durable Consumer Products (Mfg. Only)*	Senior Secured Loan—Term Loan 7.5%, Due 3/14	$ 1,850,051	$ 1,751,546	$ 1,665,046
Centaur, LLC[6] *Hotels, Motels, Inns, and Gaming*	Senior Secured Loan—Term Loan (First Lien) 8.8%, Due 10/12	4,122,807	4,069,243	3,978,509
Centaur, LLC[6] *Hotels, Motels, Inns, and Gaming*	Senior Secured Loan—Delayed Draw Term Loan 8.7%, Due 10/12	—	—	—
Charlie Acquisition Corp. *Personal, Food and Miscellaneous Services*	Mezzanine Investment—Senior Subordinated Notes 15.5%, Due 6/13	10,127,500	9,945,201	9,945,201
Clarke American Corp.[6] *Printing and Publishing*	Senior Secured Loan—Tranche B Term Loan 7.3%, Due 6/14	2,985,000	2,985,000	2,693,963
Clayton Holdings, Inc[6] *Finance*	Senior Secured Loan—Term Loan 7.0%, Due 12/11	614,320	616,752	552,888
Coastal Concrete Southeast, LLC *Buildings and Real Estate[4]*	Mezzanine Investment—Mezzanine Term Loan 15.0%, Due 3/13	8,120,914	7,711,760	8,120,914
Concord Re Limited[3] *Insurance*	Senior Secured Loan—Term Loan 9.2%, Due 2/12	3,000,000	3,024,013	3,000,000
CST Industries, Inc.[6] *Diversified/Conglomerate Manufacturing*	Senior Secured Loan—Term Loan 7.9%, Due 8/13	987,500	990,623	990,623
DaimlerChrysler Financial Services Americas LLC[6] *Finance*	Senior Secured Loan—Term Loan (First Lien) 9.0%, Due 8/12	1,995,000	1,903,193	1,923,519
Dealer Computer Services, Inc. (Reynolds & Reynolds)[6] *Electronics*	Junior Secured Loan—Term Loan (Third Lien) 12.3%, Due 4/14	3,500,000	3,537,846	3,491,250
Dealer Computer Services, Inc. (Reynolds & Reynolds)[6] *Electronics*	Junior Secured Loan—Term Loan (Second Lien) 10.3%, Due 10/13	1,000,000	1,009,544	990,000
Delta Educational Systems, Inc.[6] *Healthcare, Education and Childcare*	Senior Secured Loan—Term Loan 8.3%, Due 6/12	2,876,053	2,876,053	2,876,053
DeltaTech Controls, Inc.[6] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Senior Secured Loan—Term Loan (First Lien) 8.0%, Due 7/14	4,000,000	3,980,991	3,980,991

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
DeltaTech Controls, Inc.[6] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Junior Secured Loan—Term Loan (Second Lien) 11.7%, Due 1/15	$ 2,000,000	$ 1,961,246	$ 1,961,246
Dresser, Inc.[6] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Junior Secured Loan—Term Loan (Second Lien) 11.1%, Due 5/15	3,000,000	2,959,031	2,861,250
Edgestone CD Acquisition Corp. (Custom Direct)[6] *Printing and Publishing*	Junior Secured Loan—Loan (Second Lien) 10.8%, Due 12/14	5,000,000	5,000,000	5,000,000
Edgestone CD Acquisition Corp. (Custom Direct)[6] *Printing and Publishing*	Senior Secured Loan—Term Loan (First Lien) 7.6%, Due 12/13	4,975,000	4,980,828	4,980,828
eInstruction Corporation[6] *Healthcare, Education and Childcare*	Junior Secured Loan—Second Lien Term Loan (Dec. 2007) 12.5%, Due 7/14	10,000,000	10,000,000	10,000,000
eInstruction Corporation[6] *Healthcare, Education and Childcare*	Senior Secured Loan—Initial Term Loan (Dec. 2007) 9.0%, Due 7/13	4,970,013	4,970,013	4,970,013
Emerson Reinsurance Ltd.[3] *Insurance*	Senior Secured Loan—Series C Loan 10.2%, Due 12/11	3,000,000	3,000,000	2,985,000
Endeavor Energy Resources, L.P. *Oil and Gas*	Junior Secured Loan—Second Lien Term Loan 9.6%, Due 3/12	4,000,000	4,000,000	4,000,000
Fasteners For Retail, Inc.[6] *Diversified/Conglomerate Manufacturing*	Senior Secured Loan—Term Loan 7.9%, Due 12/12	7,926,391	7,940,720	7,728,231
FD Alpha Acquisition LLC (Fort Dearborn)[6] *Printing and Publishing*	Senior Secured Loan—US Term Loan 8.3%, Due 11/12	915,400	915,400	901,669
First American Payment Systems, L.P.[6] *Finance*	Senior Secured Loan—Term Loan 8.2%, Due 10/13	3,694,000	3,694,000	3,601,650
Flatiron Re Ltd.[3] *Insurance*	Senior Secured Loan—Closing Date Term Loan 9.1%, Due 12/10	3,664,488	3,691,697	3,646,165
Flatiron Re Ltd.[3] *Insurance*	Senior Secured Loan—Delayed Draw Term Loan 9.1%, Due 12/10	1,774,986	1,788,166	1,766,111
Ford Motor Company[6] *Automobile*	Senior Secured Loan—Term Loan 8.0%, Due 12/13	1,989,950	1,987,554	1,845,678
Freescale Semiconductor, Inc. *Electronics*	Senior Subordinated Bond—10.125% - 12/2016 - 35687MAP2 10.1%, Due 12/16	3,000,000	3,009,230	2,490,000

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
Frontier Drilling USA, Inc.[6] *Oil and Gas*	Senior Secured Loan—Term B Advance 8.7%, Due 6/13	$ 2,000,000	$ 1,997,874	$ 1,960,000
Ginn LA Conduit Lender, Inc. *Buildings and Real Estate*[4]	Senior Secured Loan—First Lien Tranche A Credit-Linked Deposit 8.2%, Due 6/11	1,257,143	1,218,578	1,026,143
Ginn LA Conduit Lender, Inc. *Buildings and Real Estate*[4]	Senior Secured Loan—First Lien Tranche B Term Loan 8.3%, Due 6/11	2,701,714	2,618,835	2,205,274
Ginn LA Conduit Lender, Inc. *Buildings and Real Estate*[4]	Junior Secured Loan—Second Lien Term Loan 12.3%, Due 6/12	3,000,000	2,680,274	1,925,010
Gleason Works, The[6] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Senior Secured Loan—New US Term Loan 6.8%, Due 6/13	2,437,280	2,444,818	2,324,556
Hawkeye Renewables, LLC[6] *Farming and Agriculture*	Senior Secured Loan—Term Loan (First Lien) 9.0%, Due 6/12	2,962,406	2,894,213	2,346,640
HealthSouth Corporation *Healthcare, Education and Childcare*	Senior Secured Loan—Term Loan 7.7%, Due 3/13	1,262,594	1,266,540	1,208,403
HMSC Corporation (aka Swett and Crawford)[6] *Insurance*	Junior Secured Loan—Loan (Second Lien) 10.7%, Due 10/14	5,000,000	4,803,383	4,550,000
Huish Detergents Inc.[6] *Personal and Non Durable Consumer Products (Mfg. Only)*	Junior Secured Loan—Loan (Second Lien) 9.1%, Due 10/14	1,000,000	1,000,000	811,660
Hunter Fan Company[6] *Home and Office Furnishings, Housewares, and Durable Consumer Products*	Senior Secured Loan—Initial Term Loan (First Lien) 7.4%, Due 4/14	4,161,071	3,947,013	3,682,548
Hunter Fan Company[6] *Home and Office Furnishings, Housewares, and Durable Consumer Products*	Junior Secured Loan—Loan (Second Lien) 11.6%, Due 10/14	3,000,000	3,000,000	2,430,000
Hunter Fan Company[6] *Home and Office Furnishings, Housewares, and Durable Consumer Products*	Senior Secured Loan—Delayed Draw Term Loan 7.2%, Due 4/14	—	—	—
IAL Acquisition Co. (International Aluminum Corporation)[6] *Mining, Steel, Iron and Non-Precious Metals*	Senior Secured Loan—Term Loan 7.6%, Due 3/13	4,039,700	4,039,700	4,039,700
Infiltrator Systems, Inc.[6] *Ecological*	Senior Secured Loan—Term Loan 8.4%, Due 9/12	3,950,000	3,937,850	3,937,850

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
Inmar, Inc.[6] *Retail Stores*	Senior Secured Loan—Term Loan 7.3%, Due 4/13	$ 4,962,500	$ 4,962,500	$ 4,813,625
Intrapac Corporation/Corona Holdco[6] *Containers, Packaging and Glass*	Senior Secured Loan—1st Lien Term Loan 8.5%, Due 5/12	5,850,000	5,873,152	5,873,152
Intrapac Corporation/Corona Holdco[6] *Containers, Packaging and Glass*	Junior Secured Loan—Term Loans (Second Lien) 12.5%, Due 5/13	3,000,000	3,021,907	3,021,907
Jones Stephens Corp.[6] *Buildings and Real Estate*[4]	Senior Secured Loan—Term Loan 8.8%, Due 9/12	10,245,530	10,217,367	10,217,367
JW Aluminum Company[6] *Mining, Steel, Iron and Non-Precious Metals*	Junior Secured Loan—Term Loan (2nd Lien) 11.1%, Due 12/13	5,371,429	5,390,350	5,210,286
Kepler Holdings Limited[3] *Insurance*	Senior Secured Loan—Loan 10.3%, Due 6/09	3,000,000	3,000,000	2,985,000
Kepler Holdings Limited[3, 6] *Insurance*	Senior Secured Loan—Loan 10.3%, Due 6/09	2,000,000	2,020,139	1,990,000
KIK Custom Products Inc.[6] *Personal and Non Durable Consumer Products (Mfg. Only)*	Junior Secured Loan—Loan (Second Lien) 9.8%, Due 12/14	5,000,000	5,000,000	3,400,000
La Paloma Generating Company, LLC *Utilities*	Junior Secured Loan—Loan (Second Lien) 8.3%, Due 8/13	2,000,000	2,017,210	1,890,000
LBREP/L-Suncal Master I LLC *Buildings and Real Estate*[4]	Junior Secured Loan—Term Loan (Third Lien) 13.8%, Due 2/12	2,254,068	2,254,068	2,006,120
LBREP/L-Suncal Master I LLC[6] *Buildings and Real Estate*[4]	Senior Secured Loan—Term Loan (First Lien) 8.2%, Due 1/10	3,920,000	3,842,022	3,567,200
LBREP/L-Suncal Master I LLC[6] *Buildings and Real Estate*[4]	Junior Secured Loan—Term Loan (Second Lien) 12.2%, Due 1/11	2,000,000	1,918,000	1,780,000
Legacy Cabinets, Inc. *Home and Office Furnishings, Housewares, and Durable Consumer Products*	Senior Secured Loan—First Lien Term Loan 8.6%, Due 8/12	2,955,000	2,955,000	2,955,000
Levlad, LLC & Arbonne International, LLC[6] *Personal and Non Durable Consumer Products (Mfg. Only)*	Senior Secured Loan—Term Loan 7.2%, Due 3/14	2,898,451	2,898,451	2,266,589

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
LN Acquisition Corp. (Lincoln Industrial)[6] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Junior Secured Loan—Initial Term Loan (Second Lien) 10.9%, Due 1/15	$ 2,000,000	$ 2,000,000	$ 1,970,000
LPL Holdings, Inc.[6] *Finance*	Senior Secured Loan—Tranche D Term Loan 6.8%, Due 6/13	5,338,639	5,376,752	5,131,767
MCCI Group Holdings, LLC[6] *Healthcare, Education and Childcare*	Junior Secured Loan—Term Loan (Second Lien) 12.7%, Due 6/13	1,000,000	1,000,000	1,000,000
MCCI Group Holdings, LLC[6] *Healthcare, Education and Childcare*	Senior Secured Loan—Term Loan (First Lien) 9.4%, Due 12/12	5,960,018	5,940,018	5,960,018
Murray Energy Corporation[6] *Mining, Steel, Iron and Non-Precious Metals*	Senior Secured Loan—Tranche B Term Loan (First Lien) 7.9%, Due 1/10	1,969,620	1,979,459	1,890,835
National Interest Security Company, L.L.C.[6] *Aerospace and Defense*	Senior Secured Loan—Term Loan 9.7%, Due 12/12	5,000,000	5,000,000	5,000,000
Northeast Biofuels, LP[6] *Farming and Agriculture*	Senior Secured Loan—Construction Term Loan 8.5%, Due 6/13	1,365,854	1,368,725	1,229,268
Northeast Biofuels, LP[6] *Farming and Agriculture*	Senior Secured Loan—Synthetic LC Term Loan 8.1%, Due 6/13	536,585	537,713	482,927
PAS Technologies Inc. *Aerospace and Defense*	Senior Secured Loan—Incremental Term Loan Add On 8.5%, Due 6/11	856,741	856,741	856,741
PAS Technologies Inc. *Aerospace and Defense*	Senior Secured Loan—Term Loan 8.4%, Due 6/11	4,236,111	4,211,616	4,211,616
Pegasus Solutions, Inc. *Leisure, Amusement, Motion Pictures, Entertainment*	Senior Unsecured Bond—10.500% - 04/2015 - 705908AA9 10.5%, Due 4/15	2,000,000	2,000,000	2,000,000
Pegasus Solutions, Inc.[6] *Leisure, Amusement, Motion Pictures, Entertainment*	Senior Secured Loan—Term Loan 8.1%, Due 4/13	5,755,000	5,755,000	5,755,000
Primus International Inc.[6] *Aerospace and Defense*	Senior Secured Loan—Term Loan 7.7%, Due 6/12	3,259,279	3,265,878	3,177,797
QA Direct Holdings, LLC[6] *Printing and Publishing*	Senior Secured Loan—Term Loan 9.6%, Due 8/14	4,987,469	4,938,587	4,950,063
Resco Products, Inc.[6] *Mining, Steel, Iron and Non-Precious Metals*	Junior Secured Loan—2nd Lien Term Loan 13.1%, Due 6/14	5,000,000	4,928,938	4,928,938
Rhodes Companies, LLC, The[6] *Buildings and Real Estate[4]*	Senior Secured Loan—First Lien Term Loan 8.3%, Due 11/10	1,878,788	1,780,166	1,647,077

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
Rhodes Companies, LLC, The[6] *Buildings and Real Estate[4]*	Junior Secured Loan—Second Lien Term Loan 12.6%, Due 11/11	$ 2,000,000	$ 2,011,185	$ 1,266,680
San Juan Cable, LLC[6] *Broadcasting and Entertainment*	Junior Secured Loan—Second Lien Term Loan 10.7%, Due 10/13	3,000,000	2,978,999	2,782,500
Schneller LLC[6] *Aerospace and Defense*	Senior Secured Loan—First Lien Term Loan 8.7%, Due 6/13	4,975,000	4,927,882	4,950,125
Seismic Micro-Technology, Inc. (SMT)[6] *Electronics*	Senior Secured Loan—Term Loan 7.6%, Due 6/12	995,000	992,532	992,532
Seismic Micro-Technology, Inc. (SMT)[6] *Electronics*	Senior Secured Loan—Term Loan 7.6%, Due 6/12	1,492,500	1,488,798	1,488,798
Sorenson Communications, Inc.[6] *Electronics*	Senior Secured Loan—Tranche C Term Loan 7.4%, Due 8/13	2,791,551	2,807,105	2,720,897
Specialized Technology Resources, Inc.[6] *Diversified/Conglomerate Service*	Senior Secured Loan—Term Loan (First Lien) 7.3%, Due 6/14	5,970,000	5,970,000	5,970,000
Specialized Technology Resources, Inc.[6] *Diversified/Conglomerate Service*	Junior Secured Loan—Loan (Second Lien) 11.8%, Due 12/14	7,500,000	7,500,000	7,500,000
Standard Steel, LLC[6] *Cargo Transport*	Senior Secured Loan—Delayed Draw Term Loan 7.4%, Due 7/12	825,699	831,324	831,324
Standard Steel, LLC[6] *Cargo Transport*	Senior Secured Loan—Initial Term Loan 7.3%, Due 7/12	4,097,298	4,125,208	4,125,208
Standard Steel, LLC[6] *Cargo Transport*	Junior Secured Loan—Loan (Second Lien) 10.8%, Due 7/13	1,750,000	1,760,240	1,760,240
Stolle Machinery Company[6] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Junior Secured Loan—Loan (Second Lien) 11.4%, Due 9/13	1,000,000	1,015,115	975,000
Stolle Machinery Company[6] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Senior Secured Loan—First Lien Term Loan 7.9%, Due 9/12	1,975,000	1,985,124	1,945,375
TLC Funding Corp.[6] *Healthcare, Education and Childcare*	Senior Secured Loan—Term Loan (First Lien) 9.9%, Due 5/12	3,930,000	3,850,590	3,959,475
TPF Generation Holdings, LLC[6] *Utilities*	Junior Secured Loan—Second Lien Term Loan 9.1%, Due 12/14	2,000,000	2,033,096	1,890,000
TransAxle LLC *Automobile*	Senior Secured Loan—Revolver 8.2%, Due 8/11	490,909	486,678	488,832
TransAxle LLC[6] *Automobile*	Senior Secured Loan—Term Loan 9.2%, Due 9/12	2,812,500	2,812,500	2,812,500

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
TUI University, LLC[6] *Healthcare, Education and Childcare*	Senior Secured Loan—Term Loan (First Lien) 8.1%, Due 10/14	$ 3,990,000	$ 3,794,292	$ 3,810,450
Twin-Star International, Inc.[6] *Home and Office Furnishings, Housewares, and Durable Consumer Products*	Senior Secured Loan—Term Loan 7.8%, Due 4/13	4,975,000	4,975,000	4,975,000
United Maritime Group, LLC (fka Teco Transport Corporation)[6] *Cargo Transport*	Junior Secured Loan—Term Loan (Second Lien) 12.8%, Due 12/13	4,500,000	4,500,000	4,511,250
United Maritime Group, LLC (fka Teco Transport Corporation)[6] *Cargo Transport*	Senior Secured Loan—1st Lien Term Loan 9.0%, Due 12/12	2,000,000	2,000,000	2,000,000
Water PIK, Inc.[6] *Personal and Non Durable Consumer Products (Mfg. Only)*	Senior Secured Loan—Loan (First Lien) 8.2%, Due 6/13	2,985,000	2,965,778	2,925,300
Wesco Aircraft Hardware Corp.[6] *Aerospace and Defense*	Junior Secured Loan—Second Lien Term Loan 10.6%, Due 3/14	4,132,887	4,166,447	4,132,887
WireCo WorldGroup Inc. *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Mezzanine Investment—11.000% - 02/2015 - 97654JAB9 11.0%, Due 2/15	5,000,000	4,762,014	5,000,000
WireCo WorldGroup Inc. *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Mezzanine Investment—11.000%—02/2015—97654JAA1 11.0%, Due 2/15	10,000,000	10,000,000	10,000,000
Wolf Hollow I, LP[6] *Utilities*	Junior Secured Loan—Term Loan (Second Lien) 9.3%, Due 12/12	2,683,177	2,688,724	2,555,726
Wolf Hollow I, LP[6] *Utilities*	Senior Secured Loan—Acquisition Term Loan 7.1%, Due 6/12	783,980	772,832	733,021
Wolf Hollow I, LP[6] *Utilities*	Senior Secured Loan—Synthetic Letter of Credit 7.1%, Due 6/12	668,412	658,900	618,280
Wolf Hollow I, LP[6] *Utilities*	Senior Secured Loan—Synthetic Revolver Deposits 7.1%, Due 6/12	167,103	164,727	154,570
X-Rite, Incorporated[6] *Electronics*	Senior Secured Loan—Term Loan (First Lien) 8.5%, Due 10/12	1,995,000	1,985,328	1,985,025
X-Rite, Incorporated[6] *Electronics*	Junior Secured Loan—Loan (Second Lien) 12.4%, Due 10/13	1,000,000	1,000,000	1,000,000
Total Investment in Debt Securities and Bonds (158% of net asset value at fair value)		**$ 426,014,170**	**$ 423,439,764**	**$ 410,954,082**

Equity Portfolio

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

CLO Fund Securities

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

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

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

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

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

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

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

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

7 Non-income producing.

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

9 An affiliate CLO Fund managed by Katonah Debt Advisors.

KOHLBERG CAPITAL CORPORATION

FINANCIAL HIGHLIGHTS

(unaudited)
($ per share)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Per Share Data:		
Net asset value, at beginning of period	$ 14.38	$ 14.29
Net investment income[1]	0.49	0.27
Net realized gains	(0.04)	—
Net change in unrealized appreciation on investments	(0.50)	0.50
Net increase in net assets resulting from operations	$ (0.05)	$ 0.77
Distribution from net investment income and realized gains	(0.41)	(0.29)
Issuance of common stock under dividend reinvestment plan	0.05	0.00
Stock based compensation expense	0.01	0.01
Net asset value, end of period	$ 13.98	$ 14.78
Total net asset value return[2]	0.1%	5.5%
Ratio/Supplemental Data:		
Per share market value at beginning of period	$ 12.00	$ 17.30
Per share market value at end of period	$ 10.38	$ 16.00
Total market return[3]	(10.1)%	(5.8)%
Shares outstanding at end of period	18,094,306	17,946,333
Net assets at end of period	$ 252,893,283	$ 265,291,995
Portfolio turnover rate[4]	9.1%	8.9%
Average debt outstanding	$ 254,945,055	$ 3,833,333
Average debt outstanding per share	$ 14.09	$ 0.21
Ratio of net investment income to average net assets[5]	13.7%	7.4%
Ratio of interest expense to average net assets[5]	5.2%	0.2%
Ratio of non-interest expenses to average net assets[5]	3.5%	2.4%
Ratio of total expenses to average net assets[5]	8.7%	2.6%

(1) Based on weighted average number of common shares outstanding for the period.
(2) Total net asset value return (not annualized) equals the change in the net asset value per share over the beginning of period net asset value per share plus dividends, divided by the beginning net asset value per share.
(3) Total market return (not annualized) equals the change in the ending market value over the beginning of period price per share plus dividends, divided by the beginning price.
(4) Not annualized.
(5) Annualized.

See accompanying notes to financial statements.

KOHLBERG CAPITAL CORPORATION

NOTES TO FINANCIAL STATEMENTS
(unaudited)

1. ORGANIZATION

Kohlberg Capital Corporation ("Kohlberg Capital" or the "Company") is an internally managed, non-diversified closed-end investment company that is regulated as a business development company ("BDC") under the Investment Company Act of 1940. The Company originates, structures and invests in senior secured term loans, mezzanine debt and selected equity securities primarily in privately-held middle market companies. The Company defines the middle market as comprising companies with earnings before interest, taxes, depreciation and amortization ("EBITDA"), of $10 million to $50 million and/or total debt of $25 million to $150 million. The Company was formed as a Delaware LLC on August 8, 2006 and, prior to the issuance of shares of the Company's common stock in its initial public offering, converted to a corporation incorporated in Delaware on December 11, 2006. Prior to its initial public offering ("IPO"), the Company did not have material operations. The Company's IPO of 14,462,000 shares of common stock raised net proceeds of approximately $200 million. Prior to the IPO, the Company issued 3,484,333 shares to affiliates of Kohlberg & Co., LLC ("Kohlberg & Co."), a leading middle market private equity firm, in exchange for the contribution of their ownership interests in Katonah Debt Advisors and in securities issued by collateralized loan obligation funds ("CLO Funds") managed by Katonah Debt Advisors and two other asset managers to the Company. Katonah Debt Advisors manages CLO Funds which invest in broadly syndicated loans, high-yield bonds and other credit instruments. As of March 31, 2008, Katonah Debt Advisors had approximately $2.3 billion of assets under management.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

The 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, 2007, 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. 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.

Investments

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

Loans and Debt Securities. For loans and debt securities for which market quotations are readily available, such as broadly syndicated term loans and bonds, fair value generally is equal to the market price for those loans and securities. For loans and debt securities for which a market quotation is not readily available, such as middle market term loans, second lien term loans and mezzanine debt investments, fair value is determined by evaluating the borrower's enterprise value and other methodologies generally used to determine fair value. The analysis of enterprise value or overall financial condition or other factors or methodologies may lead to a determination of fair value at a different amount other than cost; as a general rule, the Company will value such loans or debt securities at cost, however such loans and debt securities will be subject to fair value write-downs when the asset is considered impaired.

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

CLO Fund Securities. The securities issued by CLO Funds managed by Katonah Debt Advisors are primarily held by third parties. The Company typically makes a minority investment in the most junior class of securities of CLO Funds raised and managed by Katonah Debt Advisors and may selectively invest in securities issued by funds managed by other asset management companies (collectively "CLO Investments"). The Company distinguishes CLO funds managed by Katonah Debt Advisors as "CLO fund securities managed by affiliate." The Company's CLO Investments relate exclusively to credit instruments issued by corporations and do not include any asset-backed securities secured by commercial mortgages, residential mortgages, or consumer borrowings. It is the Company's intention that its aggregate CLO Investments generally not exceed 10% of the Company's total investment portfolio. As of March 31, 2008, CLO Investments represented approximately 12% of the Company's investment portfolio.

The Company's investments in CLO Fund securities are carried at fair value, which is based either on (i) the 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 bonds or preferred shares to those in which the Company has invested. The Company recognizes unrealized appreciation or depreciation on our investments in CLO Fund securities as comparable yields in the market change and/or based on changes in net asset values or estimated cash flows resulting from changes in prepayment or loss assumptions in the underlying collateral pool. As each investment in CLO Fund securities ages, the expected amount of losses and the expected timing of recognition of such losses in the underlying collateral pool 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 our investments in CLO Fund securities on an individual security-by-security basis.

Valuation of Portfolio Investments. Kohlberg Capital's Board of Directors is ultimately and solely responsible for making a good faith determination of the fair value of portfolio investments on a quarterly basis. Duff & Phelps, LLC, an independent valuation firm, provided third party valuation consulting services to the Company's Board of Directors which consisted of certain limited procedures that the Company's Board of Directors identified and requested them to perform. For the preceding twelve months ended March 31, 2008, the Company's Board of Directors asked Duff & Phelps, LLC to perform the limited procedures on 31 investments comprising approximately 45% of the total investments at fair value as of March 31, 2008 for which market or third party quotations are not readily available. For the year ended December 31, 2007, the Company's Board of Directors asked Duff & Phelps, LLC to perform the limited procedures on 21 investments comprising approximately 44% of the total investments at fair value as of December 31, 2007 for which market or third party quotations were not readily available. Upon completion of the limited procedures, Duff & Phelps, LLC concluded that the fair value of those investments subjected to the limited procedures did not appear to be unreasonable.

The Board of Directors may consider other methods of valuation than those set forth above to determine the fair value of investments as appropriate in conformity with GAAP. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may differ significantly from the values that would have been used had a ready market existed for such investments, and the differences could be material.

Cash and Cash Equivalents. The Company defines cash equivalents as demand deposits. Cash and cash equivalents are carried at cost which approximates fair value.

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

Interest Income. Interest income, adjusted for amortization of premium and accretion of discount, is recorded on the accrual basis to the extent that such amounts are expected to be collected. The Company generally places a loan 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 March 31, 2008, one issuer representing 1% of total investments at fair value was considered in default.

Dividends from Affiliate Asset Manager. The Company records dividend income from its affiliate asset manager on the declaration date.

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

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

Debt Issuance Costs. Debt issuance costs represent fees and other direct costs incurred in connection with the Company's borrowings. These amounts are capitalized and amortized ratably over the contractual term of the borrowing. At March 31, 2008, there was an unamortized debt issuance cost of approximately $2 million included in other assets in the accompanying balance sheet. Amortization expense for the three months ended March 31, 2008 and 2007 was approximately $105,000 and $31,000, respectively.

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

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

3. EARNINGS PER SHARE

The following information sets forth the computation of basic and diluted net increase in stockholders' equity per share for the three months ended March 31, 2008 and 2007:

	Three Months Ended March 31,	
	2008 (Unaudited)	2007 (Unaudited)
Numerator for basic and diluted net increase in stockholders' equity resulting from operations per share:	$ 195,252	$ 13,949,008
Denominator for basic weighted average shares:	18,074,944	17,946,333
Dilutive effect of stock options:	—	11,269
Denominator for diluted weighted average shares:[1]	18,074,944	17,957,602
Basic net increase in stockholders' equity resulting from operations per share:	$ 0.01	$ 0.78
Diluted net increase in stockholders' equity resulting from operations per share:	$ 0.01	$ 0.78

[1] All stock options outstanding are anti-dilutive.

4. INVESTMENTS

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

The following table shows the Company's portfolio by security type at March 31, 2008 and December 31, 2007:

	March 31, 2008 (unaudited)			December 31, 2007		
Security Type	Cost	Fair Value	%[1]	Cost	Fair Value	%[1]
Senior Secured Loan	$ 225,375,892	$ 216,134,353	85%	$ 265,390,844	$ 260,138,674	100%
Junior Secured Loan	120,416,250	110,598,378	44	120,620,715	113,259,293	44
Mezzanine Investment	32,693,197	32,488,031	13	32,418,975	33,066,115	12
Senior Subordinated Bond	3,008,972	2,041,890	1	3,009,230	2,490,000	1
Senior Unsecured Bond	2,000,000	2,000,000	1	2,000,000	2,000,000	1
CLO Fund Securities	65,245,123	57,409,236	23	36,061,264	31,020,000	12
Equity Securities	5,096,298	3,613,752	1	5,043,950	4,752,250	2
Affiliate Asset Managers	35,053,497	64,045,602	25	33,469,995	58,585,360	23
Total	$ 488,889,229	$ 488,331,242	193%	$ 498,014,973	$ 505,311,692	195%

1 Calculated as a percentage of net asset value at fair value.

The unaudited industry concentrations, based on the fair value of the Company's investment portfolio as of March 31, 2008 and December 31, 2007, were as follows:

	March 31, 2008			December 31, 2007		
Security Type	Cost	Fair Value	%[1]	Cost	Fair Value	%[1]
Aerospace and Defense	$ 33,097,914	$ 32,810,682	13%	$ 32,583,716	$ 32,481,819	13%
Asset Management Companies[2]	35,053,497	64,045,602	25	33,469,995	58,585,360	23
Automobile	4,917,504	4,574,680	2	5,286,731	5,147,010	2
Beverage, Food and Tobacco	—	—	—	—	—	—
Broadcasting and Entertainment	2,979,896	2,782,500	1	2,978,999	2,782,500	1
Buildings and Real Estate[3]	37,895,281	30,191,050	12	37,726,396	34,944,226	13
Cargo Transport	12,947,635	12,928,299	5	14,967,369	14,958,789	6
Chemicals, Plastics and Rubber	3,958,338	3,220,000	1	3,956,582	3,220,000	1
CLO Fund Securities	65,245,123	57,409,236	23	36,061,264	31,020,000	12
Containers, Packaging and Glass	8,892,726	8,892,726	4	8,895,059	8,895,059	3
Diversified/Conglomerate Manufacturing	5,910,185	5,778,903	2	8,931,343	8,718,855	3
Diversified/Conglomerate Service	15,939,074	15,215,338	6	17,962,721	17,303,969	7
Ecological	3,928,517	3,928,517	2	3,937,850	3,937,850	2
Electronics	12,017,843	10,821,684	4	15,830,382	15,158,502	6
Farming and Agriculture	4,796,894	3,937,875	2	4,800,651	4,058,835	2
Finance	9,208,911	8,508,778	3	11,590,697	11,209,824	4
Healthcare, Education and Childcare	37,883,503	37,555,186	15	46,715,870	46,637,705	18
Home and Office Furnishings, Housewares, and Durable Consumer Goods	22,605,963	21,283,367	8	24,091,185	23,265,816	9
Hotels, Motels, Inns and Gaming	7,646,033	7,116,696	3	9,364,165	9,091,041	4
Insurance	16,017,785	15,757,861	6	24,346,884	23,941,763	9
Leisure, Amusement, Motion Pictures, Entertainment	18,385,533	18,385,533	7	18,402,600	18,402,600	7
Machinery (Non-Agriculture, Non-Construction, Non-Electronic)	37,242,046	36,756,252	15	39,573,338	39,483,418	15
Mining, Steel, Iron and Non-Precious Metals	15,326,487	14,986,325	6	16,338,446	16,069,759	6
Oil and Gas	5,997,971	5,870,000	2	5,997,874	5,960,000	2
Personal and Non Durable Consumer Products (Mfg. Only)	16,210,065	13,234,349	5	17,315,776	14,750,095	6
Personal, Food and Miscellaneous Services	14,044,450	13,889,970	5	13,918,651	13,765,201	5
Personal Transportation	—	—	—	—	—	—
Printing and Publishing	20,407,804	19,655,421	8	21,622,999	21,236,473	8
Retail Stores	3,952,519	3,833,943	2	4,962,500	4,813,625	2
Utilities	16,379,732	14,960,469	6	16,384,930	15,471,598	6
Total	$ 488,889,229	$ 488,331,242	193%	$ 498,014,973	$ 505,311,692	195%

1 Calculated as a percentage of net asset value at fair value.
2 Represents Katonah Debt Advisors and affiliate asset managers.
3 Buildings and real estate relate to real estate ownership, builders, managers and developers and excludes mortgage debt investments and mortgage lenders or originators. As of March 31, 2008 and December 31, 2007, 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 March 31, 2008 and December 31, 2007, approximately 15% and 11%, 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 6% of its portfolio on such dates).

At March 31, 2008 and December 31, 2007, the Company's ten largest portfolio companies represented approximately 35% and 29%, 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 13% and 12% of the total fair value of the Company's investments at March 31, 2008 and December 31, 2007, respectively. Excluding Katonah Debt Advisors and CLO Fund securities, our ten largest portfolio companies represent approximately 18% and 17% of the total fair value of our investments at March 31, 2008 and December 31, 2007, 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 10% of the Company's total investment portfolio. Preferred shares or subordinated securities issued by CLO Funds are entitled to recurring dividend distributions which generally equal the net remaining cash flow of the payments made by the underlying CLO Fund's securities less contractual payments to senior bond holders and CLO Fund expenses. CLO Funds managed by Katonah Debt Advisors ("CLO fund securities managed by affiliate") invest primarily in broadly syndicated non-investment grade loans, high-yield bonds and other credit instruments of corporate issuers. The underlying assets in each of the CLO Funds in which we have any investment are generally diversified secured or unsecured corporate debt and exclude mortgage pools or mortgage securities (residential mortgage bonds, commercial mortgage backed securities, or related asset-backed securities), debt to companies providing mortgage lending and emerging markets investments. The CLO Funds are leveraged funds and any excess cash flow or "excess spread" (interest earned by the underlying securities in the fund less payments made to senior bond holders and less fund expenses and management fees) is paid to the holders of the CLO Fund's subordinated securities or preferred stock.

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

As of March 31, 2008, all of the CLO Funds in which the Company holds investments maintained the original issue credit ratings on all rated classes of their securities and were continuing to make cash payments to all classes of investors. As of March 31, 2008, the Company's seasoned CLO Fund securities had an average annual cash yield of approximately 28%.

The subordinated securities and preferred stock securities are considered equity positions in the CLO Funds and, as of March 31, 2008 and December 31, 2007, the Company had approximately $57 million and $31 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 March 31, 2008 was approximately $65 million and aggregate unrealized losses on the CLO Fund securities totaled approximately $8 million. The cost basis of the Company's investment in CLO Fund equity securities as of December 31, 2007 was approximately $36 million and aggregate unrealized losses on the CLO Fund securities totaled approximately $5 million.

Fair Value Measurements

The Company adopted SFAS No. 157 as of January 1, 2008, which among other matters, requires enhanced disclosures about investments that are measured and reported at fair value. SFAS No. 157 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.

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

Level I—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. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and 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 March 31, 2008:

	Level I	Level II	Level III	Total
Debt securities	$ —	$ —	$ 363,262,652	$ 363,262,652
CLO fund securities	—	—	57,409,236	57,409,236
Equity securities	—	—	3,613,752	3,613,752
Asset manager affiliates	—	—	64,045,602	64,045,602

The following table summarizes the Level III investments by valuation methodology as of March 31, 2008:

Fair Value Based on	Debt Securities	CLO Fund Securities	Equity Securities	Asset Manager Affiliates	Total
Third party pricing service	11%	— %	— %	— %	11%
Public / private company comparables	63	—	—	13	76
Discounted cash flow	—	12	—	—	12
Residual enterprise value	—	—	1	—	1
Total	74%	12%	1%	13%	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 generally 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-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-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:

	Three Months Ended March 31, 2008				
	Debt Securities	CLO Fund Securities	Equity Securities	Asset Manager Affiliates	Total
Balance, December 31, 2007	$ 410,954,082	$ 31,020,000	$ 4,752,250	$ 58,585,360	$ 505,311,692
Transfers in/out of Level 3	—	—	—	—	—
Net accretion of discount	128,116	324,623	—	—	452,739
Purchases (sales), net	(39,347,256)	28,859,236	52,348	1,583,502	(8,852,170)
Total gain (loss) realized and unrealized included in earnings	(8,472,290)	(2,794,623)	(1,190,846)	3,876,740	(8,581,019)
Balance, March 31, 2008	$ 363,262,652	$ 57,409,236	$ 3,613,752	$ 64,045,602	$ 488,331,242
Changes in unrealized gains (losses) included in earnings related to investments still held at reporting date	$ (7,745,977)	$ (2,794,623)	$ (1,190,846)	$ 3,876,740	$ (7,854,706)

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 March 31, 2008, Katonah Debt Advisors and its affiliates had approximately $2.3 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 March 31, 2008, Katonah Debt Advisors had approximately $2.3 billion of assets under management and the Company's 100% equity interest in Katonah Debt Advisors was valued at approximately $63 million. As a manager of the CLO Funds, Katonah Debt Advisors receives contractual and recurring management fees as well as a one-time structuring fee from the CLO Funds for its management and advisory services. The annual fees which Katonah Debt Advisors receives are generally based on a fixed percentage of assets under management, and Katonah Debt Advisors generates annual operating income equal to the amount by which its fee income exceeds it operating expenses. In future years, Katonah Debt Advisors may receive accrued incentive fees upon the liquidation of CLO Funds it manages, provided such CLO Funds have achieved a minimum investment return to holders of their subordinated securities or preferred stock.

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

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

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

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

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

At March 31, 2008 and at December 31, 2007 a net amount due from affiliates totaled approximately $150,000 and approximately $541,000, respectively.

Summarized financial information for Katonah Debt Advisors follows:

	As of March 31, 2008 (Unaudited)	As of December 31, 2007 (Unaudited)
Assets:		
Current assets	$ 5,725,255	$ 7,035,155
Noncurrent assets	2,015,523	396,111
Total assets	$ 7,740,778	$ 7,431,266
Liabilities:		
Current liabilities	3,213,466	4,254,202
Total liabilities	$ 3,213,466	$ 4,254,202

	Three Months Ended March 31, 2008 (Unaudited)	Three Months Ended March 31, 2007 (Unaudited)
Gross revenue	$ 4,035,199	$ 2,168,664
Total expenses	(3,090,877)	(1,680,949)
Net income (loss)	$ 944,322	$ 487,715
Dividends declared	$ 350,000	$ —
Cumulative undistributed net income	$ 2,779,466	$ 415,005

The Company intends to distribute the accumulated net income of Katonah Debt Advisors in the future.

Distressed Debt Platform

In December 2007, the Company committed to make an investment in a new distressed investment platform organized by Steven Panagos and Jonathan Katz named Panagos and Katz Situational Investing ("PKSI"). Mr. Panagos was most recently national practice leader of Kroll Zolfo Cooper's Corporate Advisory and Restructuring Practice and Mr. Katz was the founding partner of Special Situations Investing, a distressed investing vehicle of JP Morgan. The Company expects that funds managed by PKSI will invest in the debt and equity securities of companies that are restructuring due to financial or operational distress. The Company also expects that PKSI may selectively originate new credit facilities with borrowers that are otherwise unable to access traditional credit markets. The Company has committed to invest up to $2.5 million directly in PKSI through an investment in Class A shares. The Company has a 35% economic interest in PKSI through its investment in Class B shares on which it will receive its pro rata share of PKSI's operating income and may make an investment of up to $25 million in the funds managed by PKSI on which the Company will receive investment income. PKSI may also source distressed debt opportunities in which we may make direct investments. As of March 31, 2008, the Company funded approximately $900,000 of its $2.5 million total commitment to PKSI which is an investment in the Class A shares of PKSI. As of March 31, 2008, PKSI had no significant operations.

6. BORROWINGS

The Company's debt obligations consist of the following:

	As of March 31, 2008 (unaudited)	As of December 31, 2007
Secured revolving credit facility, $275 million commitment due October 1, 2012	$ 250,000,000	$ 255,000,000

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

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

The weighted average daily debt balance for the three months ended March 31, 2008 and 2007 was approximately $255 million and $4 million, respectively. For the three months ended March 31, 2008 and 2007, the weighted average interest rate on weighted average outstanding borrowings was approximately 4.1% and 5.4%, respectively, which excludes the amortization of deferred financing costs and facility and program fees on unfunded balances. The Company is in compliance with all its debt covenants. As of March 31, 2008, the Company had restricted cash balances of approximately $7 million which it maintained in accordance with the terms of the Facility. A portion of these funds, approximately $3 million, was released to the Company in April 2008.

7. DISTRIBUTABLE TAX INCOME

The Company intends to distribute quarterly dividends to its stockholders. The Company's quarterly dividends, if any, will be determined by the Board of Directors. To maintain its RIC status, the Company must

timely distribute an amount equal to at least 90% of its taxable ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, reduced by deductible expenses, out of the assets legally available for distribution, for each year. Depending on the level of taxable income earned in a tax year, the Company may choose to carry forward taxable income in excess of current year distributions into the next tax year and pay a 4% excise tax on such income, to the extent required. At December 31, 2007, the Company had no current or accumulated undistributed taxable income.

For the quarter ended March 31, 2008, the Company declared a dividend on March 14, 2008 of $0.41 per share for a total of approximately $7 million. The record date was April 8, 2008 and the dividend was distributed on April 28, 2008.

The following reconciles net increase in stockholders' equity resulting from operations to taxable income for the three months ended March 31, 2008:

	Three Months Ended March 31, 2008 (Unaudited)
Pre-tax net increase in stockholders' equity resulting from operations	$ 195,252
Net unrealized losses on investments transactions not taxable	7,854,706
Expenses not currently deductible	(207,280)
Taxable income before deductions for distributions	$ 7,842,678
Taxable income before deductions for distributions per outstanding share	$ 0.43

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 March 31, 2008 and December 31, 2007, the Company had committed to make a total of approximately $3 million and $4 million, respectively, of investments in various revolving senior secured loans, of which approximately $560,000 was funded as of March 31, 2008 and $865,000 was funded as of December 31, 2007. As of March 31, 2008 and December 31, 2007, the Company had committed to make a total of approximately $7 million and $8 million, respectively, of investments in a delayed draw senior secured loans of which approximately $5 million was funded as of March 31, 2008 and $5 million was funded as of December 31, 2007.

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

Katonah Debt Advisors has engaged Bear Stearns to structure and raise three CLO Funds, to be named Katonah 2007-I CLO Ltd. ("Katonah 2007"), Katonah 2008-I CLO Ltd. ("Katonah 2008-I") and Katonah 2008-II

CLO Ltd. (“Katonah 2008-II”), and to be managed by Katonah Debt Advisors (directly or indirectly through a services contract with an affiliate of Katonah Debt Advisors). The Katonah 2007-I CLO Ltd. was completed in January 2008. As part of these engagements, Katonah Debt Advisors entered into warehouse credit lines with Bear Stearns to fund the initial accumulation of assets for Katonah 2007, 2008-I and Katonah 2008-II, which provided for a first loss obligation of Katonah Debt Advisors, requiring it to reimburse Bear Stearns for (i) certain losses (if any) incurred on the remaining assets warehoused for Katonah 2008-I and Katonah 2008-II prior to their completion, or (ii) if one or all of these CLO Funds failed to close at the expiration of the engagement (i.e. December 31, 2008), a portion of the losses (if any) on the resale of the warehoused assets. In connection with the closing of Katonah 2007 in January 2008 discussed below, Katonah Debt Advisors’ maximum first loss guarantee amount under its commitment letter with Bear Stearns was reduced from $22.5 million to $18 million.

On January 23, 2008, Katonah Debt Advisors closed Katonah 2007 in accordance with the terms of the Bear Stearns engagement. The Company received a structuring fee upon closing and expects to earn an ongoing asset management fee based on the par amount of the underlying investments in Katonah 2007. Approximately $212 million of assets were transferred from the loan warehouse into Katonah 2007 and are no longer subject to a first loss guarantee. Securities issued by CLO Funds managed by Katonah Debt Advisors are primarily held by third parties. Kohlberg Capital invested approximately $29 million to acquire all of the shares of the most junior class of securities of Katonah 2007.

On March 16, 2008, JPMorgan announced that, subject to the receipt by Bear Stearns of stockholder approval and the satisfaction or waiver of other specified closing conditions, it has agreed to acquire Bear Stearns. There can be no assurance that the proposed acquisition will take place on the terms disclosed or at all. However, regardless of whether the transaction between JPMorgan and Bear Stearns is consummated, Katonah Debt Advisors’ commitment letter from Bear Stearns will remain in effect in accordance with its terms. Katonah Debt Advisors is currently in discussions with Bear Stearns regarding the timing and structure of the remaining CLO Funds, and its ability to access the warehouse credit line contemplated by the Bear Stearns commitment letter. As of March 31, 2008, Katonah 2008-I and Katonah 2008-II had acquired an aggregate of approximately $277 million determined on the basis of the par value of such assets.

The warehouse credit line with Bear Stearns pursuant to the engagement letter dated October 12, 2007 is the only guarantee arrangement to which the Company is a party with respect to the business of Katonah Debt Advisors.

As of March 31, 2008, the Company funded approximately $900,000 of our $2.5 million total commitment to PKSI which is an investment in the Class A shares of PKSI.

9. STOCKHOLDERS’ EQUITY

On December 11, 2006, the Company completed its IPO of 14,462,000 shares of common stock at $15.00 per share, less an underwriting discount and IPO expenses paid by the Company totaling $1.22 per share for net proceeds of approximately $200 million. Prior to its IPO, the Company issued to affiliates of Kohlberg & Co. a total of 3,484,333 shares of its common stock for the acquisition of certain subordinated securities issued by CLO Funds and for the acquisition of Katonah Debt Advisors. During the year ended December 31, 2007, the Company issued 71,366 shares of common stock under its dividend reinvestment plan. During the three months ended March 31, 2008, the Company issued 76,607 shares of common stock under its dividend reinvestment plan. The total number of shares outstanding as of March 31, 2008 and as of December 31, 2007 was 18,094,306 and 18,017,699, respectively.

10. STOCK OPTIONS

During 2006, the Company established a stock option plan (the “Plan”) and reserved 1,500,000 shares of common stock for issuance under the Plan. The purpose of the Plan is to provide officers and prospective

employees of the Company with additional incentives and align the interests of its employees with those of its shareholders. Options are exercisable at a price equal to the fair market value (market closing price) of the shares on the day the option is granted.

On December 11, 2006, concurrent with the completion of the Company's IPO, options to purchase a total of 910,000 shares of common stock were granted to the Company's executive officers and directors with an exercise price per share of $15.00 (the public offering price of the common stock). Such options vest equally over two, three or four years from the date of grant and have a ten-year exercise period. During the year ended December 31, 2007, the Company granted 495,000 options to its employees with a weighted average exercise price per share of $16.63, with a risk-free rate ranging between 4.6% to 5.3%, with volatility rates ranging between 20.5% to 22.4% and for which 25% of such options vest on each of the subsequent four grant date anniversaries and have a ten-year exercise period. No options were granted or forfeited during the three months ended March 31, 2008. During the year ended December 31, 2007, 90,000 options granted to employees were forfeited. As of March 31, 2008, 1,315,000 total options were outstanding, 386,250 of which were exercisable. The options have an estimated remaining contractual life of 8 years and 9 months.

During the year ended December 31, 2007, the weighted average grant date fair value per share for options granted during the period was $1.90. For both the year ended December 31, 2007, the weighted average grant date fair value per share for options forfeited during the period was $1.81. Information with respect to options granted, exercised and forfeited under the Plan for the year ended March 31, 2008 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, 2008	1,315,000	$ 15.52		
Granted	—	$ —		
Exercised	—			
Forfeited	—	$ —		
Outstanding at March 31, 2008	1,315,000	$ 15.52	8.8	$ —
Total vested at March 31, 2008	386,250	$ 15.29	2.2	

[1] Represents the difference between the market value of the options at March 31, 2008 and the cost for the option holders to exercise the options.

The Company uses a Binary Option Pricing Model (American, call option) as its valuation model to establish the expected value of all stock option grants. For the three months ended March 31, 2008 total stock option expense of approximately $156,000 was recognized and expensed at the Company; of this amount approximately $124,000 was expensed at the Company and approximately $32,000 was expensed at Katonah Debt Advisors. At March 31, 2008, the Company had approximately $1.3 million of compensation cost related to unvested stock-based awards the cost for which is expected to be recognized and allocated between the Company and Katonah Debt Advisors over a weighted average period of 2.3 years.

11. OTHER EMPLOYEE COMPENSATION

The Company adopted a 401(k) plan ("401K Plan") effective January 1, 2007. The 401K Plan is open to all full time employees. The Plan permits an employee to defer a portion of their total annual compensation up to the Internal Revenue Service annual maximum based on age and eligibility. The Company makes contributions to the 401K Plan of up to 2.67% of the employee's first 74.9% of maximum eligible compensation, which fully vest at the time of contribution. For the three months ended March 31, 2008 and 2007, the Company accrued contributions to the 401K Plan of approximately $8,600 and $0, 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 contributes to the Pension Plan 1) 8.0% of all compensation up to the Internal Revenue Service annual maximum and 2) 5.7% excess contributions on any incremental amounts above the social security wage base limitation and up to the Internal Revenue Service annual maximum. Employees vest 100% in the Pension Plan after five years of service. For the three months ended March 31, 2008 and 2007, the Company accrued contributions to the Pension Plan of approximately $47,500 and $0, respectively.

12. IMPACT OF NEW ACCOUNTING STANDARDS

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (“SFAS 159”), which provides companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS 159 is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS 159 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect of a company’s choice to use fair value on its earnings. SFAS 159 also requires entities to display the fair value of the selected assets and liabilities on the face of the balance sheet. SFAS 159 does not eliminate disclosure requirements of other accounting standards, including fair value measurement disclosures in SFAS 157. This statement is effective as of the beginning of an entity’s first fiscal year beginning after November 15, 2007. The Company has determined that adoption of SFAS 159 does not have an impact on the Company’s financial position or results of operations.

13. SUBSEQUENT EVENTS

On March 31, 2008, the Company announced the terms of a transferable rights offering for which it issued to shareholders of record as of March 31, 2008 transferable rights to subscribe for an aggregate of up to 3.1 million shares of the Company’s common stock (one right for every six shares owned as of the record date). On April 28, 2008, the expiration date of the transferable rights offering the Company fixed the subscription price of $9.666 which is equal to 95% of the volume weighted average of the sales prices of the Company’s shares of common stock on the NASDAQ Global Select Market for the prior ten consecutive trading days. The Company received subscriptions for approximately 2.8 million shares with over-subscriptions of approximately 1.3 million shares which were allocated pro-rata in accordance with the procedures described in the transferable rights offering prospectus. No over-subscription shares were issued to holders of rights who were not record date stockholders. The issuance of 3.1 million of shares offered through the transferable rights offering resulted in gross proceeds of approximately $29 million. The Company used the net proceeds from the transferable offering to reduce existing indebtedness under its credit facility. However, any such reduction of indebtedness is expected to be only temporary, and the Company expects to utilize its credit facility for additional borrowings in accordance with its investment objective and strategy and relevant legal rules applicable to BDCs.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of
Kohlberg Capital Corporation

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

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

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

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

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

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of
Kohlberg Capital Corporation:

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

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

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

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

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

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

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

KOHLBERG CAPITAL CORPORATION

BALANCE SHEETS

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

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

KOHLBERG CAPITAL CORPORATION

STATEMENTS OF OPERATIONS

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

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

KOHLBERG CAPITAL CORPORATION
STATEMENTS OF CHANGES IN NET ASSETS

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

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

KOHLBERG CAPITAL CORPORATION

STATEMENTS OF CASH FLOWS

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

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

KOHLBERG CAPITAL CORPORATION

SCHEDULES OF INVESTMENTS

As of December 31, 2007

Debt Securities and Bond Portfolio

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

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

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

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

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

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

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

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

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

Equity Portfolio

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

CLO Fund Securities

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

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

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

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

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

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

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

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

7 Non-income producing.

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

9 An affiliate CLO Fund managed by Katonah Debt Advisors.

KOHLBERG CAPITAL CORPORATION

SCHEDULES OF INVESTMENTS

As of December 31, 2006

Debt Securities and Bond Portfolio

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

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
Dealer Computer Services, Inc. (Reynolds & Reynolds) *Electronics*	Junior Secured Loan—Second Lien Term Loan 10.9%, Due 10/13	$ 1,000,000	$ 1,011,187	$ 1,011,187
Dealer Computer Services, Inc. (Reynolds & Reynolds) *Electronics*	Junior Secured Loan—Third Lien Term Loan 12.9%, Due 4/14	1,500,000	1,518,652	1,518,652
Delta Educational Systems, Inc. *Healthcare, Education and Childcare*	Senior Secured Loan—Term Loan 8.9%, Due 6/12	2,985,987	2,985,987	2,985,987
Fasteners For Retail, Inc. *Diversified/Conglomerate Manufacturing*	Senior Secured Loan—Term Loan 8.1%, Due 12/12	5,000,000	5,000,000	5,000,000
First American Payment Systems, L.P. *Finance*	Senior Secured Loan—Term Loan 8.6%, Due 10/13	3,990,000	3,990,000	3,990,000
Flatiron Re Ltd.[2] *Insurance*	Senior Secured Loan—Closing Date Term Loan 9.6%, Due 12/10	4,042,105	4,082,142	4,082,142
Flatiron Re Ltd.[2] *Insurance*	Senior Secured Loan—Delayed Draw Term Loan 9.6%, Due 12/10	1,957,895	1,977,287	1,977,287
Gentiva Health Services, Inc. *Healthcare, Education and Childcare*	Senior Secured Loan—Term Loan 7.7%, Due 3/13	1,848,649	1,848,649	1,848,649
Ginn LA Conduit Lender, Inc. *Buildings and Real Estate*[4]	Senior Secured Loan—First Lien Tranche A Credit-Linked Deposit 5.3%, Due 6/11	1,257,143	1,207,290	1,207,290
Ginn LA Conduit Lender, Inc. *Buildings and Real Estate*[4]	Senior Secured Loan—First Lien Tranche B Term Loan 8.4%, Due 6/11	2,729,143	2,620,917	2,620,917
Ginn LA Conduit Lender, Inc. *Buildings and Real Estate*[4]	Junior Secured Loan—Second Lien Term Loan 12.4%, Due 6/12	1,000,000	851,051	851,051
Gleason Works *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Senior Secured Loan—First Lien US Term Loan 7.9%, Due 6/13	1,878,788	1,888,127	1,888,127
Hawkeye Renewables, LLC *Farming and Agriculture*	Senior Secured Loan—First Lien Term Loan 9.4%, Due 6/12	2,992,481	2,908,240	2,908,240
HCA Inc. *Healthcare, Education and Childcare*	Senior Secured Loan—Tranche B Term Loan 8.1%, Due 11/13	4,000,000	4,037,307	4,037,307
HealthSouth Corporation *Healthcare, Education and Childcare*	Senior Secured Loan—Term Loan B 8.6%, Due 3/13	2,985,000	2,996,125	2,996,125
Infiltrator Systems, Inc. *Ecological*	Senior Secured Loan—Term Loan 8.9%, Due 9/12	4,000,000	3,985,099	3,985,099
Intrapac Corporation/Corona Holdco *Containers, Packaging and Glass*	Senior Secured Loan—1st Lien Term Loan 8.4%, Due 5/12	3,854,545	3,864,114	3,864,114

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
Intrapac Corporation/Corona Holdco *Containers, Packaging and Glass*	Junior Secured Loan—2nd Lien Term Loan 12.4%, Due 5/13	$ 1,000,000	$ 1,004,970	$ 1,004,970
IPC Systems, Inc. *Diversified/Conglomerate Service*	Junior Secured Loan—Second Lien Term Loan 11.9%, Due 9/14	2,500,000	2,500,000	2,500,000
Jones Stephens Corp. *Buildings and Real Estate*[4]	Senior Secured Loan—Term Loan 9.2%, Due 9/12	7,000,000	6,965,235	6,965,235
JW Aluminum Company *Mining, Steel, Iron and Non-Precious Metals*	Junior Secured Loan—Term Loan (2nd Lien) 11.6%, Due 12/13	2,000,000	2,000,000	2,000,000
La Paloma Generating Company, LLC *Utilities*	Junior Secured Loan—Second Lien Term Loan 8.9%, Due 8/13	2,000,000	2,000,000	2,000,000
LBREP/L-Suncal Master I LLC *Buildings and Real Estate*[4]	Senior Secured Loan—1st Lien 8.6%, Due 1/10	3,960,000	3,842,676	3,842,676
LBREP/L-Suncal Master I LLC *Buildings and Real Estate*[4]	Junior Secured Loan—2nd Lien 12.6%, Due 1/11	2,000,000	1,891,032	1,891,032
Legacy Cabinets, Inc. *Home and Office Furnishings, Housewares, and Durable Consumer*	Senior Secured Loan—First Lien Term Loan 9.2%, Due 8/12	2,985,000	2,985,000	2,985,000
Levlad LLC & Arbonne International LLC *Personal and Non Durable Consumer Products (Mfg. Only)*	Senior Secured Loan—First Lien Term Loan 8.4%, Due 6/13	1,946,667	1,956,351	1,956,351
Longyear Canada, ULC (Boart Longyear)[3] *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Senior Secured Loan—1st Lien Canadian Borrower Term Loan 8.6%, Due 10/12	245,603	245,603	245,603
Longyear Global Holdings, Inc. (Boart Longyear) *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Senior Secured Loan—First DrillCorp (DDTL) 8.6%, Due 10/12	264,495	264,495	264,495
Longyear Global Holdings, Inc. (Boart Longyear) *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Senior Secured Loan—First Lien US Term Loan 8.6%, Due 10/12	2,450,264	2,450,264	2,450,264
LPL Holdings, Inc. *Finance*	Senior Secured Loan—Tranche C Term Loan 8.1%, Due 6/13	5,392,462	5,414,881	5,414,881
LSP Kendall Energy, LLC *Utilities*	Senior Secured Loan—Term Loan 7.4%, Due 10/13	1,922,988	1,913,428	1,913,428
MCCI Group Holdings, LLC *Healthcare, Education and Childcare*	Junior Secured Loan—Second Lien Term Loan 14.3%, Due 6/13	1,000,000	1,000,000	1,000,000
MCCI Group Holdings, LLC *Healthcare, Education and Childcare*	Senior Secured Loan—Term Loan 10.8%, Due 12/12	4,000,000	4,000,000	4,000,000

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
Metaldyne Corporation *Automobile*	Senior Secured Loan—Term D 10.1%, Due 12/09	$ 1,997,475	$ 1,997,475	$ 1,997,475
Michaels Stores, Inc. *Retail Stores*	Senior Secured Loan—Term Loan 8.4%, Due 10/13	1,958,333	1,958,333	1,958,333
Mirant North America, LLC *Utilities*	Senior Secured Loan—Term Loan 7.1%, Due 1/13	3,960,000	3,950,163	3,950,163
Murray Energy Corporation *Mining, Steel, Iron and Non-Precious Metals*	Senior Secured Loan—Tranche B Term Loan 8.4%, Due 1/10	1,989,873	2,004,614	2,004,614
Northeast Biofuels, LLC *Farming and Agriculture*	Senior Secured Loan—Construction Term Loan 8.6%, Due 6/13	1,365,854	1,369,248	1,369,248
Northeast Biofuels, LLC *Farming and Agriculture*	Senior Secured Loan—Synthetic LC 8.6%, Due 6/13	634,146	635,722	635,722
PAS Technologies Inc. *Aerospace and Defense*	Senior Secured Loan—Term Loan 8.6%, Due 6/11	4,756,944	4,721,569	4,721,569
Primus International Inc. *Aerospace and Defense*	Senior Secured Loan—Term Loan 7.9%, Due 6/12	3,292,188	3,300,360	3,300,360
Rhodes Companies, LLC (The) *Buildings and Real Estate*[4]	Junior Secured Loan—Second Lien Term Loan 12.9%, Due 11/11	2,000,000	1,910,700	1,910,700
Sorenson Communications, Inc. *Electronics*	Senior Secured Loan—Tranche B Term Loan 8.4%, Due 8/13	2,978,525	2,997,041	2,997,041
Standard Steel, LLC *Cargo Transport*	Senior Secured Loan—Delayed Draw Term Loan 1.0%, Due 6/12	—	4,965	4,965
Standard Steel, LLC *Cargo Transport*	Senior Secured Loan—Initial Term Loan 7.9%, Due 6/12	3,316,667	3,341,369	3,341,369
Standard Steel, LLC *Cargo Transport*	Junior Secured Loan—Second Lien Term Loan 11.4%, Due 6/13	1,000,000	1,009,941	1,009,941
Stolle Machinery Company *Machinery (Non-Agriculture, Non-Construction, Non-Electronic)*	Senior Secured Loan—First Lien Term Loan 7.9%, Due 9/12	1,995,000	2,007,386	2,007,386
Stratus Technologies, Inc. *Electronics*	Senior Secured Loan—First Lien Term Loan 8.4%, Due 3/11	1,990,000	1,985,070	1,985,070
Thermal North America, Inc. *Utilities*	Senior Secured Loan—Credit Linked Deposit 8.1%, Due 10/08	400,000	401,469	401,469
Thermal North America, Inc. *Utilities*	Senior Secured Loan—Term Loan 8.1%, Due 10/08	3,600,000	3,617,627	3,617,627
TLC Funding Corp. *Healthcare, Education and Childcare*	Senior Secured Loan—First Lien Term Loan 12.3%, Due 5/12	3,970,000	3,871,451	3,871,451
TransAxle LLC *Automobile*	Senior Secured Loan—Revolver 8.9%, Due 9/12	—	—	—
TransAxle LLC *Automobile*	Senior Secured Loan—Term Loan 8.9%, Due 9/12	2,962,500	2,962,500	2,962,500

Portfolio Company / Principal Business	Investment Interest Rate[1] / Maturity	Principal	Cost	Value[2]
United Air Lines, Inc. *Personal Transportation*	Senior Secured Loan—Delayed Draw Tranche B Loan 9.1%, Due 2/12	$ 750,000	$ 750,000	$ 750,000
United Air Lines, Inc. *Personal Transportation*	Senior Secured Loan—Tranche B Term Loan 9.1%, Due 2/12	3,250,000	3,250,000	3,250,000
Valleycrest Holding Co. (VCC Holdco) *Diversified/Conglomerate Service*	Junior Secured Loan—Second Lien Term Loan 10.9%, Due 4/14	1,000,000	1,007,461	1,007,461
Water Pik Technologies, Inc. *Personal and Non Durable Consumer Products (Mfg. Only)*	Senior Secured Loan—First Lien Term Loan 7.6%, Due 6/13	902,313	902,313	902,313
Water Pik Technologies, Inc. *Personal and Non Durable Consumer Products (Mfg. Only)*	Junior Secured Loan—Second Lien Term Loan 11.9%, Due 12/13	2,500,000	2,512,432	2,512,432
Wesco Aircraft Hardware Corp. *Aerospace and Defense*	Junior Secured Loan—Second Lien Term Loan 11.1%, Due 3/14	2,000,000	2,044,763	2,044,763
WM. Bolthouse Farms, Inc. *Beverage, Food and Tobacco*	Senior Secured Loan—Term Loan (First Lien) 7.6%, Due 12/12	2,592,462	2,586,023	2,586,023
Wolf Hollow I, LP *Utilities*	Senior Secured Loan—Acquisition Term Loan 7.6%, Due 6/12	792,335	778,545	778,545
Wolf Hollow I, LP *Utilities*	Senior Secured Loan—Synthetic Letter of Credit 7.6%, Due 6/12	668,412	656,779	656,779
Wolf Hollow I, LP *Utilities*	Senior Secured Loan—Synthetic Revolver Deposits 7.6%, Due 6/12	167,103	164,195	164,195
Wolf Hollow I, LP *Utilities*	Junior Secured Loan—Term Loan (Second Lien) 9.9%, Due 12/12	2,683,177	2,689,842	2,689,842
Total Investment in Debt Securities and Bonds (74% of of net asset value at fair value)		$ 191,173,409	$ 190,767,384	$ 190,767,384

CLO Fund Securities

Portfolio Company / Principal Business	Investment	Percentage Interest	Cost	Value[2]
Katonah III, Ltd.[3]	Preferred Shares	23.1%	$ 4,500,000	$ 4,500,000
Katonah IV, Ltd.[3]	Preferred Shares	17.1%	3,150,000	3,150,000
Katonah V, Ltd.[3]	Preferred Shares	26.7%	3,320,000	3,320,000
Katonah VII CLO Ltd.[3], [6]	Subordinated Securities	16.4%	4,500,000	4,500,000

Portfolio Company / Principal Business	Investment	Percentage Interest	Cost	Value[2]
Katonah VIII CLO Ltd.[3, 6]	Subordinated Securities	10.3%	$ 3,400,000	$ 3,400,000
Katonah IX CLO Ltd.[3, 6]	Preferred Shares	6.9%	2,000,000	2,000,000
Total Investment in CLO Fund Securities (8% of of net asset value at fair value)			**$ 20,870,000**	**$ 20,870,000**
Katonah Debt Advisors *Asset Management Company*	Membership Interests	100.0%	$ 33,394,995	$ 37,574,995
Total Investment in Portfolio Companies (15% of of net asset value at fair value)			**$ 33,394,995**	**$ 37,574,995**
Total Investments[5]			**$245,032,379**	**$249,212,379**

1 A majority of the variable rate loans to our portfolio companies bear interest at a rate that may be determined by reference to either LIBOR or an alternate Base Rate (commonly based on the Federal Funds Rate or the Prime Rate), which resets semi-annually, quarterly, or monthly. For each such loan, we have provided the weighted average annual stated interest rate in effect at December 31, 2006.

2 Reflects the fair market value of all existing investments as of December 31, 2006, as determined by our Board of Directors.

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

4 Buildings and real estate relate to real estate ownership, builders, managers and developers and excludes mortgage debt investments and mortgage lenders or originators. As of December 31, 2006, we had no exposure to mortgage securities (residential mortgage bonds, commercial mortgage backed securities, or related asset backed securities), companies providing mortgage lending or emerging markets investments either directly or through our investments in CLO funds.

5 The aggregate cost of investments for federal income tax purposes is approximately $245 million. The aggregate gross unrealized appreciation is approximately $4 million and there is no gross unrealized depreciation.

6 An affiliate CLO Fund managed by Katonah Debt Advisors.

KOHLBERG CAPITAL CORPORATION

FINANCIAL HIGHLIGHTS
($ per share)

	For the Year Ended December 31, 2007	For the Period December 11, 2006 (inception) through December 31, 2006
Per Share Data:		
Net asset value, at beginning of period	$ 14.29	$ 15.00
Underwriting costs	—	(0.97)
Post-IPO net asset value	14.29	14.03
Net investment income(1)	1.27	0.02
Net realized gains	0.01	—
Net change in unrealized appreciation on investments	0.12	0.24
Distribution from net investment income and realized gains—taxable	(1.31)	—
Distribution from net investment income and realized gains—tax return of capital	(0.09)	—
Net increase (decrease) in net assets resulting from operations	—	0.26
Issuance of common stock under dividend reinvestment plan	0.06	—
Stock based compensation expense	0.03	—
Net asset value, end of period	$ 14.38	$ 14.29
Total net asset value return(2)	10.4%	1.9%
Ratio/Supplemental Data:		
Per share market value at beginning of period	$ 17.30	$ 15.00
Per share market value at end of period	$ 12.00	$ 17.30
Total market return(3)	(22.5)%	15.3%
Shares outstanding at end of period	18,017,699	17,946,333
Net assets at end of period	$259,068,164	$256,000,423
Portfolio turnover rate	24.5%	0.3%(4)
Average debt outstanding	$105,616,438	$ —
Average debt outstanding per share	$ 5.86	$ —
Ratio of net investment income to average net assets	8.5%	4.4%(5)
Ratio of total expenses to average net assets	5.9%	4.6%(5)
Ratio of interest expense to average net assets	2.7%	—%(5)
Ratio of non-interest expenses to average net assets	3.2%	6.3%(5)

(1) Based on weighted average number of common shares outstanding for the period.
(2) Total net asset value return (not annualized) equals the change in the net asset value per share over the beginning of period net asset value per share plus dividends, divided by the beginning net asset value per share.
(3) Total market return (not annualized) equals the change in the ending market value over the beginning of period price per share plus dividends, divided by the beginning price.
(4) Not annualized.
(5) Annualized.

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

KOHLBERG CAPITAL CORPORATION

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION

Kohlberg Capital Corporation ("Kohlberg Capital" or the "Company") is an internally managed, non-diversified closed-end investment company that is regulated as a business development company ("BDC") under the Investment Company Act of 1940. The Company originates, structures and invests in senior secured term loans, mezzanine debt and selected equity securities primarily in privately-held middle market companies. The Company defines the middle market as comprising companies with earnings before interest, taxes, depreciation and amortization ("EBITDA"), of $10 million to $50 million and/or total debt of $25 million to $150 million. The Company was formed as a Delaware LLC on August 8, 2006 and, prior to the issuance of shares of the Company's common stock in its initial public offering, converted to a corporation incorporated in Delaware on December 11, 2006. Prior to its initial public offering ("IPO"), the Company did not have material operations. The Company's IPO of 14,462,000 shares of common stock raised net proceeds of approximately $200 million. Prior to the IPO, the Company issued 3,484,333 shares to affiliates of Kohlberg & Co., LLC ("Kohlberg & Co."), a leading middle market private equity firm, in exchange for the contribution of their ownership interests in Katonah Debt Advisors and in securities issued by collateralized loan obligation funds ("CLO Funds") managed by Katonah Debt Advisors and two other asset managers to the Company. Katonah Debt Advisors manages CLO Funds which invest in broadly syndicated loans, high-yield bonds and other credit instruments. As of December 31, 2007, Katonah Debt Advisors had approximately $2.1 billion of assets under management.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP") requires management to make significant estimates and assumptions that affect reported amounts and disclosure in the financial statements, including the fair value of investments that do

not have a readily available market value valued at approximately $505 million (approximately 95% of total assets) and $249 million (approximately 88% of total assets) as of December 31, 2007 and 2006, respectively. Actual results could differ from those estimates and the differences could be material.

Certain reclassifications were made to prior year's presentation to conform to the current year.

Investments

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

Loans and Debt Securities. For loans and debt securities for which market quotations are readily available, such as broadly syndicated term loans and bonds, fair value generally is equal to the market price for those loans and securities. For loans and debt securities for which a market quotation is not readily available, such as middle market term loans and mezzanine debt investments, fair value is determined by evaluating the borrower's enterprise value and other methodologies generally used to determine fair value. The analysis of enterprise value or overall financial condition or other factors or methodologies may lead to a determination of fair value at a different amount other than cost; as a general rule, the Company will value such loans or debt securities at cost, however such loans and debt securities will be subject to fair value write-downs when the asset is considered impaired.

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

CLO Fund Securities. The securities issued by CLO Funds managed by Katonah Debt Advisors are primarily held by third parties. The Company typically makes a minority investment in the most junior class of securities of CLO Funds raised and managed by Katonah Debt Advisors and may selectively invest in securities issued by funds managed by other asset management companies (collectively "CLO Investments"). The Company distinguishes CLO funds managed by Katonah Debt Advisors as "CLO fund securities managed by affiliate." The Company's CLO Investments relate exclusively to credit instruments issued by corporations and do not include any asset-backed securities secured by commercial mortgages, residential mortgages, or consumer borrowings. It is the Company's intention that its aggregate CLO Investments not exceed 10% of the Company's total investment portfolio. As of December 31, 2007, CLO Investments represented approximately 6% of the Company's investment portfolio.

The Company's investments in CLO Fund securities are carried at fair value, which is based either on (i) the net asset value of the CLO Fund for CLO Funds which are approaching or past the end of their reinvestment period and therefore begin to sell assets and/or use principal repayments to pay-down CLO Fund debt, or (ii) a discounted cash flow model for more recent CLO Funds that utilizes prepayment and loss assumptions based on historical experience and projected performance, economic factors, the characteristics of the underlying cash flow and comparable yields for similar bonds or preferred shares to those in which the Company has invested. The Company recognizes unrealized appreciation or depreciation on our investments in CLO Fund securities as comparable yields in the market change and/or based on changes in net asset values or estimated cash flows

resulting from changes in prepayment or loss assumptions in the underlying collateral pool. As each investment in CLO Fund securities ages, the expected amount of losses and the expected timing of recognition of such losses in the underlying collateral pool is updated and the revised cash flows are used in determining the fair value of the CLO Investment. The Company determines the fair value of our investments in CLO Fund securities on an individual security-by-security basis.

Valuation of Portfolio Investments. Kohlberg Capital's Board of Directors is ultimately and solely responsible for making a good faith determination of the fair value of portfolio investments on a quarterly basis. Duff & Phelps, LLC, an independent valuation firm, provided third party valuation consulting services to the Company's Board of Directors which consisted of certain limited procedures that the Company's Board of Directors identified and requested them to perform. For the year ended December 31, 2007, the Company's Board of Directors asked Duff & Phelps, LLC to perform the limited procedures on 21 investments comprising approximately 44% of the total investments at fair value as of December 31, 2007 for which market quotations are not readily available. Upon completion of the limited procedures, Duff & Phelps, LLC concluded that the fair value of those investments subjected to the limited procedures did not appear to be unreasonable.

The Board of Directors may consider other methods of valuation than those set forth above to determine the fair value of investments as appropriate in conformity with GAAP. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may differ significantly from the values that would have been used had a ready market existed for such investments, and the differences could be material.

Cash and Cash Equivalents. The Company defines cash equivalents as demand deposits. Cash and cash equivalents are carried at cost which approximates fair value.

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

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

Dividends from Affiliate Asset Manager. The Company records dividend income from its affiliate asset manager on the declaration date.

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

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

Debt Issuance Costs. Debt issuance costs represent fees and other direct costs incurred in connection with the Company's borrowings. These amounts are capitalized and amortized ratably over the contractual term of the borrowing. At December 31, 2007, there was an unamortized debt issuance cost of approximately $2 million included in other assets in the accompanying balance sheet. Amortization expense for the year ended December 31, 2007 was approximately $319,000. The Company had no borrowing facility in place or amortization of debt issuance costs at and for the period ended December 31, 2006.

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

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

3. EARNINGS PER SHARE

The following information sets forth the computation of basic and diluted net increase in stockholders' equity per share for the years ended December 31, 2007:

	Year Ended December 31, 2007	For the Period December 11, 2006 (inception) through December 31, 2006
Numerator for basic and diluted net increase in stockholders' equity resulting from operations per share:	$ 26,141,985	$ 4,670,540
Denominator for basic weighted average shares:	17,977,348	17,946,333
Dilutive effect of stock options:	—	—
Denominator for diluted weighted average shares:[1]	17,977,348	17,946,333
Basic net increase (decrease) in stockholders' equity resulting from operations per share:	$ 1.45	$ 0.26
Diluted net increase (decrease) in stockholders' equity resulting from operations per share:	$ 1.45	$ 0.26

[1] All stock options outstanding are anti-dilutive.

4. INVESTMENTS

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

The following table shows the Company's portfolio by security type at December 31, 2007 and December 31, 2006:

	December 31, 2007			December 31, 2006		
Security Type	Cost	Fair Value	%[1]	Cost	Fair Value	%[1]
Senior Secured Loan	$ 265,390,844	$ 260,138,674	100%	$ 163,313,492	$ 163,313,492	64%
Junior Secured Loan	120,620,715	113,259,293	44	27,453,892	27,453,892	10
Mezzanine Investment	32,418,975	33,066,115	12	—	—	—
Senior Subordinated Bond	3,009,230	2,490,000	1	—	—	—
Senior Unsecured Bond	2,000,000	2,000,000	1	—	—	—
CLO Fund Securities	36,061,264	31,020,000	12	20,870,000	20,870,000	8
Equity Securities	5,043,950	4,752,250	2	—	—	—
Affiliate Asset Managers	33,469,995	58,585,360	23	33,394,995	37,574,995	15
Total	$ 498,014,973	$ 505,311,692	195%	$ 245,032,379	$ 249,212,379	97%

1 Calculated as a percentage of net asset value at fair value.

The unaudited industry concentrations, based on the fair value of the Company's investment portfolio as of December 3, 2007 and December 31, 2006, were as follows:

	December 31, 2007			December 31, 2006		
Security Type	Cost	Fair Value	%[1]	Cost	Fair Value	%[1]
Aerospace and Defense	$ 32,583,716	$ 32,481,819	13%	$ 10,066,692	$ 10,066,692	4%
Asset Management Companies[2]	33,469,995	58,585,360	23	33,394,995	37,574,995	15
Automobile	5,286,731	5,147,010	2	9,192,101	9,192,101	4
Beverage, Food and Tobacco	—	—	—	2,586,023	2,586,023	1
Broadcasting and Entertainment	2,978,999	2,782,500	1	—	—	—
Buildings and Real Estate[3]	37,726,396	34,944,226	13	19,288,901	19,288,901	7
Cargo Transport	14,967,369	14,958,789	6	6,361,114	6,361,114	2
Chemicals, Plastics and Rubber	3,956,582	3,220,000	1	—	—	—
CLO Fund Securities	36,061,264	31,020,000	12	20,870,000	20,870,000	8
Containers, Packaging and Glass	8,895,059	8,895,059	3	4,869,084	4,869,084	2
Diversified/Conglomerate Manufacturing	8,931,343	8,718,855	3	6,001,219	6,001,219	2
Diversified/Conglomerate Service	17,962,721	17,303,969	7	5,517,321	5,517,321	2
Ecological	3,937,850	3,937,850	2	3,985,099	3,985,099	1
Electronics	15,830,382	15,158,502	6	7,511,950	7,511,950	3
Farming and Agriculture	4,800,651	4,058,835	2	4,913,210	4,913,210	2
Finance	11,590,697	11,209,824	4	10,220,467	10,220,467	4
Healthcare, Education and Childcare	46,715,870	46,637,705	18	28,937,865	28,937,865	11
Home and Office Furnishings, Housewares, and Durable Consumer Goods	24,091,185	23,265,816	9	2,985,000	2,985,000	1
Hotels, Motels, Inns and Gaming	9,364,165	9,091,041	4	—	—	—
Insurance	24,346,884	23,941,763	9	12,115,209	12,115,209	5
Leisure, Amusement, Motion Pictures, Entertainment	18,402,600	18,402,600	7	7,034,764	7,034,764	3
Machinery (Non-Agriculture, Non-Construction, Non-Electronic)	39,573,338	39,483,418	15	6,855,875	6,855,875	3
Mining, Steel, Iron and Non-Precious Metals	16,338,446	16,069,759	6	4,004,614	4,004,614	2
Oil and Gas	5,997,874	5,960,000	2	—	—	—
Personal and Non Durable Consumer Products (Mfg. Only)	17,315,776	14,750,095	6	5,371,096	5,371,096	2
Personal, Food and Miscellaneous Services	13,918,651	13,765,201	5	—	—	—
Personal Transportation	—	—	—	4,000,000	4,000,000	2
Printing and Publishing	21,622,999	21,236,473	8	8,819,399	8,819,399	3
Retail Stores	4,962,500	4,813,625	2	1,958,333	1,958,333	1
Utilities	16,384,930	15,471,598	6	18,172,048	18,172,048	7
Total	$ 498,014,973	$ 505,311,692	195%	$ 245,032,379	$ 249,212,379	97%

1 Calculated as a percentage of net asset value at fair value.
2 Represents Katonah Debt Advisors and affiliates.

(footnotes continued on following page)

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

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

At December 31, 2007 and December 31, 2006, approximately 11% and 13%, respectively, of the Company's investments were foreign assets (including the Company's investments in CLO Funds, which are typically domiciled outside the U.S. and represented approximately 6% of its portfolio on such dates).

At December 31, 2007 and December 31, 2006, the Company's ten largest portfolio companies represented approximately 29% and 35%, respectively, of the total fair value of its investments. The Company's largest investment, Katonah Debt Advisors which is its wholly-owned portfolio company, represented 12% and 15% of the total fair value of the Company's investments at December 31, 2007 and December 31, 2006, respectively. Excluding Katonah Debt Advisors and CLO Fund securities, our ten largest portfolio companies represent approximately 17% and 21% of the total fair value of our investments at December 31, 2007 and December 31, 2006, respectively.

Investment in CLO Fund Securities

The Company typically makes a minority investment in the most junior class of securities of CLO Funds (typically preferred shares or subordinated securities) managed by Katonah Debt Advisors and may selectively invest in securities issued by funds managed by other asset management companies. It is the Company's intention that its aggregate CLO Investments not exceed 10% of the Company's total investment portfolio. Preferred shares or subordinated securities issued by CLO Funds are entitled to recurring dividend distributions which generally equal the net remaining cash flow of the payments made by the underlying CLO Fund's securities less contractual payments to senior bond holders and CLO Fund expenses. CLO Funds managed by Katonah Debt Advisors ("CLO fund securities managed by affiliate") invest primarily in broadly syndicated non-investment grade loans, high-yield bonds and other credit instruments of corporate issuers. The underlying assets in each of the CLO Funds in which we have any investment are generally diversified secured or unsecured corporate debt and exclude mortgage pools or mortgage securities (residential mortgage bonds, commercial mortgage backed securities, or related asset-backed securities), debt to companies providing mortgage lending and emerging markets investments. The CLO Funds are leveraged funds and any excess cash flow or "excess spread" (interest earned by the underlying securities in the fund less payments made to senior bond holders and less fund expenses and management fees) is paid to the holders of the CLO Fund's subordinated securities or preferred stock. As of December 31, 2007, all of the CLO Funds in which the Company holds investments maintained the original issue credit ratings on all rated classes of their securities and were continuing to make cash payments to all classes of investors. As of December 31, 2007, our CLO Fund securities had an average annual cash yield of 28%. In addition, in connection with the closing of Katonah Debt Advisor's most recent CLO Fund on January 23, 2008, we invested approximately $29 million to acquire all of the shares of the most junior class of securities of the CLO Fund.

Prior to its IPO, the Company issued an aggregate of 1,258,000 common shares, having a value of approximately $19 million, to affiliates of Kohlberg & Co. to acquire certain subordinated securities and preferred stock securities issued by CLO Funds (Katonah III, Ltd., Katonah IV, Ltd., Katonah V, Ltd., Katonah VII CLO, Ltd., and Katonah VIII CLO, Ltd.) which had previously been raised and are managed by Katonah Debt Advisors and two other asset managers. During the year ended December 31, 2007, the Company invested an additional $11 million in a new CLO Fund managed by Katonah Debt Advisors and another $4 million in a CLO Fund managed by a third party. The subordinated securities and preferred stock securities are considered equity positions in the CLO Funds and, as of December 31, 2007 and December 31, 2006, the Company had approximately $31 million and $21 million, respectively, of such CLO equity investments at fair value.

The cost basis of the Company's investment in CLO Fund equity securities as of December 31, 2007 was approximately $36 million and aggregate unrealized losses on the CLO Fund securities totaled approximately $5 million. The cost basis of the Company's investment in CLO Fund equity securities as of December 31, 2006 was approximately $21 million and with no aggregate unrealized losses on the CLO Fund securities.

5. AFFILIATE ASSET MANAGERS

Wholly-Owned Asset Manager

Prior to its IPO, the Company issued an aggregate of 2,226,333 common shares, having a value of approximately $33 million, to affiliates of Kohlberg & Co. to acquire Katonah Debt Advisors. As a result, Katonah Debt Advisors is a wholly-owned portfolio company. As of December 31, 2007, Katonah Debt Advisors had approximately $2.1 billion of assets under management.

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

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

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

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

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

At December 31, 2007 a net amount due from affiliates totaled approximately $541,000 and at December 31, 2006, net amounts due to affiliates totaled approximately $88,000, respectively.

Summarized financial information for Katonah Debt Advisors follows:

	For the Years Ended December 31,	
	2007	2006
Assets:		
Current assets	$ 7,035,155	$ 2,860,329
Noncurrent assets	396,111	661,637
Total assets	$ 7,431,266	$ 3,521,966
Liabilities:		
Current liabilities	4,254,202	2,602,755
Total liabilities	4,254,202	2,602,755

	For the Year Ended December 31, 2007	For the Period December 11, 2006 (inception) through December 31, 2006
Gross revenue	$ 11,262,969	$ 200,610
Total expenses	(8,505,115)	(273,320)
Net income (loss)	$ 2,757,854	$ (72,710)
Dividends declared	$ 500,000	$ —

The Company intends to distribute the accumulated net income of Katonah Debt Advisors in the future.

Distressed Debt Platform

In December 2007, the Company committed to make an investment in a new distressed investment platform organized by Steven Panagos and Jonathan Katz and named Panagos and Katz Situational Investing ("PKSI"). Mr. Panagos was most recently national practice leader of Kroll Zolfo Cooper's Corporate Advisory and Restructuring Practice and Mr. Katz was the founding partner of Special Situations Investing, a distressed

investing vehicle of JP Morgan. The Company expects that funds managed by PKSI will invest in the debt and equity securities of companies that are restructuring due to financial or operational distress. The Company also expects that PKSI may selectively originate new credit facilities with borrowers that are otherwise unable to access traditional credit markets. The Company has committed to invest up to $2.5 million directly in PKSI through an investment in Class A shares. The Company has a 35% economic interest in PKSI through its investment in Class B shares on which it will receive its pro rata share of PKSI's operating income and may make an investment of up to $25 million in the funds managed by PKSI on which the Company will receive investment income. PKSI may also source distressed debt opportunities in which we may make direct investments. As of December 31, 2007, the Company funded approximately $72,000 of our $2.5 million total commitment to PKSI which is an investment in the Class A shares of PKSI. As of December 31, 2007, PKSI had no significant operations.

6. BORROWINGS

The Company's debt obligations consist of the following:

	At December 31,	
	2007	2006
Secured revolving credit facility, $275 million commitment due October 1, 2012	$ 255,000,000	$ —

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

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

The weighted average daily debt balance for the year ended December 31, 2007 was approximately $106 million. For the year ended December 31, 2007, the weighted average interest rate on weighted average outstanding borrowings was approximately 5.5%, which excludes the amortization of deferred financing costs and facility and program fees on unfunded balances. The Company is in compliance with all its debt covenants. As of December 31, 2007, the Company had restricted cash balances of approximately $7 million which it maintained in accordance with the terms of the Facility. A portion of these funds, approximately $2 million, were released to the Company in January 2008.

7. DISTRIBUTABLE TAX INCOME

The Company intends to distribute quarterly dividends to its stockholders. The Company's quarterly dividends, if any, will be determined by the Board of Directors. To maintain its RIC status, the Company must timely distribute an amount equal to at least 90% of its taxable ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, reduced by deductible expenses, out of the assets legally available for distribution, for each year. Depending on the level of taxable income earned in a tax year, the Company may choose to carry forward taxable income in excess of current year distributions into the next tax year and pay a 4% excise tax on such income, to the extent required. As of December 31, 2006, the

Company's undistributed taxable income was approximately $529,000. The Company has distributed this income in 2007. At December 31, 2007, the Company had no current or accumulated undistributed taxable income.

For the quarter ended December 31, 2007, the Company declared a dividend on December 14, 2007 of $0.39 per share for a total of approximately $7 million. The record date was December 24, 2007 and the dividend was distributed on January 24, 2008. Total dividends declared for the year ended December 31, 2007 were $1.40 per share for a total of approximately $25 million.

The following reconciles net increase in stockholders' equity resulting from operations to taxable income for the year ended December 31, 2007:

	Year Ended December 31, 2007
Pre-tax net increase in stockholders' equity resulting from operations	$ 26,141,985
Net unrealized gain on investments transactions not taxable	(3,116,719)
Expenses not currently deductible	540,159
Taxable income before deductions for distributions	$ 23,565,425
Taxable income before deductions for distributions per outstanding share	$ 1.31

On January 1, 2007, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109." FIN 48 requires the Company to recognize in its financial statements the impact of a tax position taken (or expected to be taken) on an income tax return if such position will more likely than not be sustained upon examination based on the technical merits of the position. The Company files tax returns with the U.S. Internal Revenue Service and New York state. Based upon its review of tax positions for the Company's open tax year of 2006, the Company has determined that FIN 48 did not have a material impact on the Company's financial statements for the year ended December 31, 2007.

8. COMMITMENTS AND CONTINGENCIES

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

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

	Payments Due by Period						
Contractual Obligations	Total	2008	2009	2010	2011	2012	More than 5 Years
Operating lease obligations	$ 1,999,435	$ 422,274	$ 316,816	$ 304,649	$ 311,504	$ 318,513	$ 325,679
Long-term debt obligations	255,000,000	—	—	—	—	255,000,000	—
Unused lending commitments[1]	6,210,232	6,210,232	—	—	—	—	—
Total	$ 263,209,667	$ 6,632,506	$ 316,816	$ 304,649	$ 311,504	$ 255,318,513	$ 325,679

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

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

Katonah Debt Advisors has engaged Bear Stearns to structure and raise three CLO Funds, to be named Katonah 2007-I CLO Ltd. ("Katonah 2007"), Katonah 2008-I CLO Ltd. ("Katonah 2008-I") and Katonah 2008-II CLO Ltd. ("Katonah 2008-II"), and to be managed by Katonah Debt Advisors (directly or indirectly through a services contract with an affiliate of Katonah Debt Advisors). As part of these engagements, Katonah Debt Advisors entered into warehouse credit lines with Bear Stearns to fund the initial accumulation of assets for Katonah 2007 and Katonah 2008-I, which provided for a first loss obligation of Katonah Debt Advisors, requiring it to reimburse Bear Stearns for (i) certain losses (if any) incurred on the assets warehoused for Katonah 2007 Katonah 2008-I and Katonah 2008-II prior to their completion, or (ii) if one or all of these CLO Funds failed to close at the expiration of the engagement (i.e. December 31, 2008), a portion of the losses (if any) on the resale of the warehoused assets. As of December 31, 2007, Katonah 2007 and Katonah 2008-I had acquired an aggregate of approximately $481 million determined on the basis of the par value of such assets.

On January 23, 2008, Katonah Debt Advisors closed Katonah 2007 in accordance with the terms of the Bear Stearns engagement. Katonah Debt Advisors received a structuring fee upon closing and expects to earn an ongoing asset management fee based on the par amount of the underlying investments in Katonah 2007. Approximately $212 million of assets were transferred from the loan warehouse into Katonah 2007 and are no longer subject to a first loss guarantee. Securities issued by CLO Funds managed by Katonah Debt Advisors are primarily held by third parties. Kohlberg Capital invested approximately $29 million to acquire all of the shares of the most junior class of securities of Katonah 2007.

On March 12, 2007, Kohlberg Capital and Katonah Debt Advisors engaged Lehman Commercial Paper Inc. ("Lehman") to structure and raise a CLO Fund to invest in senior secured middle market corporate loans, to be named Ardsley CLO 2007-1 Ltd. and to be managed by Katonah Debt Advisors, and entered into a warehouse credit agreement and ancillary agreements with Lehman to fund the initial accumulation of assets for Ardsley.

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

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

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

As of December 31, 2007, the Company funded approximately $72,000 of our $2.5 million total commitment to PKSI which is an investment in the Class A shares of PKSI.

9. STOCKHOLDERS' EQUITY

On December 11, 2006, the Company completed its IPO of 14,462,000 shares of common stock at $15.00 per share, less an underwriting discount and IPO expenses paid by the Company totaling $1.22 per share for net proceeds of approximately $200 million. Prior to its IPO, the Company issued to affiliates of Kohlberg & Co. a total of 3,484,333 shares of its common stock for the acquisition of certain subordinated securities issued by CLO Funds and for the acquisition of Katonah Debt Advisors. During the year ended December 31, 2007, the Company issued 71,366 shares of common stock under its dividend reinvestment plan. The total number of shares outstanding as of December 31, 2007 and as of December 31, 2006 was 18,017,699 and 17,946,333, respectively.

10. STOCK OPTIONS

During 2006, the Company established a stock option plan (the "Plan") and reserved 1,500,000 shares of common stock for issuance under the Plan. The purpose of the Plan is to provide officers and prospective employees of the Company with additional incentives and align the interests of its employees with those of its shareholders. Options are exercisable at a price equal to the fair market value (market closing price) of the shares on the day the option is granted.

On December 11, 2006, concurrent with the completion of the Company's IPO, options to purchase a total of 910,000 shares of common stock were granted to the Company's executive officers and directors with an exercise price per share of $15.00 (the public offering price of the common stock). Such options vest equally over two, three or four years from the date of grant and have a ten-year exercise period. During the year ended December 31, 2007, the Company granted 495,000 options to its employees with a weighted average exercise price per share of $16.63, with a risk-free rate ranging between 4.6% to 5.3%, with volatility rates ranging between 20.5% to 22.4% and for which 25% of such options vest on each of the subsequent four grant date

anniversaries and have a ten-year exercise period. During the year ended December 31, 2007, 90,000 options granted to employees were forfeited. As of December 31, 2007, 1,315,000 total options were outstanding, 305,000 of which were exercisable. The options have an estimated remaining contractual life of 9 years and 0 months.

During the year ended December 31, 2007, the weighted average grant date fair value per share for options granted during the period was $1.90. For both the year ended December 31, 2007, the weighted average grant date fair value per share for options forfeited during the period was $1.81. Information with respect to options granted, exercised and forfeited under the Plan for the year ended December 31, 2007 is as follows:

	Shares	Weighted Average Exercise Price per Share	Weighted Average Contractual Remaining Term (years)	Aggregate Intrinsic Value[1]
Options outstanding at January 1, 2007	910,000	$ 15.00		
Granted	495,000	$ 16.63		
Exercised	—			
Forfeited	(90,000)	$ 16.36		
Outstanding at December 31, 2007	1,315,000	$ 15.52	9.0	—
Total vested at December 31, 2007	305,000	$ 15.00	2.0	—

1 Represents the difference between the market value of the options at December 31, 2007 and the cost for the option holders to exercise the options.

The Company uses a Binary Option Pricing Model (American, call option) as its valuation model to establish the expected value of all stock option grants. For the year ended December 31, 2007 total stock option expense of approximately $600,000 was recognized and expensed at the Company; of this amount approximately $495,000 was expensed at the Company and approximately $105,000 was expensed at Katonah Debt Advisors. At December 31, 2007, the Company had approximately $1.5 million of compensation cost related to unvested stock-based awards the cost for which is expected to be recognized and allocated between the Company and Katonah Debt Advisors over a weighted average period of 2.5 years.

11. OTHER EMPLOYEE COMPENSATION

The Company adopted a 401(k) plan (“401K Plan”) effective January 1, 2007. The 401K Plan is open to all full time employees. The Plan permits an employee to defer a portion of their total annual compensation up to the Internal Revenue Service annual maximum based on age and eligibility. The Company makes contributions to the 401K Plan of up to 2.67% of the employee’s first 74.9% of maximum eligible compensation, which fully vest at the time of contribution. For the year ended December 31, 2007, the Company’s contributions to the 401K Plan were approximately $22,000.

The Company has also adopted a deferred compensation plan (“Pension Plan”) effective January 1, 2007. Employees are eligible for the Pension Plan provided that they are employed and working with the Company for at least 100 days during the year and remain employed as of the last day of the year. Employees do not make contributions to the Pension Plan. On behalf of the employee, the Company contributes to the Pension Plan 1) 8.0% of all compensation up to the Internal Revenue Service annual maximum and 2) 5.7% excess contributions on any incremental amounts above the social security wage base limitation and up to the Internal Revenue Service annual maximum. Employees vest 100% in the Pension Plan after five years of service. For the year ended December 31, 2007, the Company’s contributions to the Pension Plan were approximately $138,000.

12. IMPACT OF NEW ACCOUNTING STANDARDS

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157 (“SFAS 157”), Fair Value Measurements. SFAS 157 clarifies the principle that fair value

should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years, with early adoption permitted. The Company does not expect the adoption of SFAS 157 to materially impact the Company's financial position or results of operations.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ("SFAS 159"), which provides companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS 159 is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS 159 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect of a company's choice to use fair value on its earnings. SFAS 159 also requires entities to display the fair value of the selected assets and liabilities on the face of the balance sheet. SFAS 159 does not eliminate disclosure requirements of other accounting standards, including fair value measurement disclosures in SFAS 157. This statement is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. The Company has determined that adoption of SFAS 159 will not have an impact on the Company's financial position or results of operations.

13. SELECTED QUARTERLY DATA (Unaudited)

	Q1 2007*	Q2 2007*	Q3 2007*	Q4 2007
Total interest and related portfolio income	$ 6,534,567	$ 8,578,364	$ 10,483,244	$ 12,882,839
Net investment income and realized gains	$ 4,892,907	$ 5,425,858	$ 6,018,176	$ 6,688,325
Net increase (decrease) in net assets resulting from operations	$ 13,949,008	$ 16,940,501	$ (4,683,689)	$ (63,835)
Net increase (decrease) in net assets resulting from operations per share—basic and diluted	$ 0.78	$ 0.94	$ (0.26)	$ —
Net investment income and realized gains per share—basic and diluted	$ 0.27	$ 0.30	$ 0.33	$ 0.37

* Certain unaudited Quarterly Data have been reclassified to conform with current presentation.

14. SUBSEQUENT EVENTS

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

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


KOHLBERG
CAPITAL CORPORATION

PART C—OTHER INFORMATION

Item 25. Financial Statements and Exhibits

1. *Financial Statements*

The following financial statements of Kohlberg Capital Corporation (the "Company" or "Registrant") are included in this registration statement:

UNAUDITED FINANCIAL STATEMENTS

AUDITED FINANCIAL STATEMENTS

2. Exhibits

Exhibit Number	Description
a	Form of Certificate of Incorporation of Kohlberg Capital Corporation (the "Company").(1)
b	Form of Bylaws of the Company.(2)
d.1	Specimen certificate of the Company's common stock, par value $0.01 per share.(1)
d.2	Form of Registration Rights Agreement.(3)
d.3	Form of Subscription Certificate.
d.4	Form of Notice of Guaranteed Delivery.
d.5	Form of Beneficial Owner Certification.
d.6	Form of Subscription Agent Agreement.
d.7	Form of Indenture.
e	Form of Dividend Reinvestment Plan.(3)

Table of Contents

Exhibit Number	Description
h.1	Form of Underwriting Agreement for Equity.
h.2	Form of Underwriting Agreement for Debt.
h.3	Form of Dealer Manager Agreement.
i.1	Form of the 2006 Equity Incentive Plan.(3)
i.2	Form of Kohlberg Capital Non-Qualified Stock Option Certificate.(3)
j	Form of Custodian Agreement by and among the Company and U.S. Bank National Association.(3)
k.1	Form of License and Referral Agreement between the Company and Kohlberg & Company, LLC.(1)
k.2	Form of Overhead Allocation Agreement between the Company and Katonah Debt Advisors, LLC.(3)
k.3	Form of Employment Agreement between the Company and Dayl W. Pearson.(3)
k.4	Form of Employment Agreement between the Company and Michael I. Wirth.(3)
k.5	Form of Employment Agreement between the Company and R. Jon Corless.(3)
k.6	Form of Employment Agreement between the Company and E.A. Kratzman.(8)
k.7	Form of Employment Agreement between Katonah Debt Advisors and E.A. Kratzman.(9)
k.8	Form of Indemnification Agreement for Officers and Directors of the Company.(4)
k.9	Execution Copy of Loan Funding and Servicing Agreement, dated as of February 14, 2007, by and among Kohlberg Capital Funding LLC I, the Company, each of the conduit lenders and institutional lenders from time to time party thereto, each of the lender agents from time to time party thereto, BMO Capital Markets Corp., as the Agent, Lyon Financial Services, Inc. (d/b/a U.S. Bank Portfolio Services), as the Backup Servicer, and U.S. Bank National Association, as Trustee.(5)
k.10	Execution Copy of Purchase and Sale Agreement, dated as of February 14, 2007, by and among Kohlberg Capital Funding LLC I and the Company.(6)
k.11	Execution Copy of First Amendment to Loan Funding and Servicing Agreement, dated as of May 30, 2007, by and among Kohlberg Capital Funding LLC I, the Company, each of the conduit lenders and institutional lenders from time to time party thereto, each of the lender agents from time to time party thereto, BMO Capital Markets Corp., as the Agent, Lyon Financial Services, Inc. (d/b/a U.S. Bank Portfolio Services), as the Backup Servicer, and U.S. Bank National Association, as Trustee.(7)
k.12	Execution Copy of Second Amendment to Loan Funding and Servicing Agreement, dated as of October 1, 2007, by and among Kohlberg Capital Funding LLC I, the Company, each of the conduit lenders and institutional lenders from time to time party thereto, each of the lender agents from time to time party thereto, BMO Capital Markets Corp., as the Agent, Lyon Financial Services, Inc. (d/b/a U.S. Bank Portfolio Services), as the Backup Servicer, and U.S. Bank National Association, as Trustee.(7)
k.13	Execution Copy of Third Amendment to Loan Funding and Servicing Agreement, dated as of November 21, 2007, by and among Kohlberg Capital Funding LLC I, the Company, each of the conduit lenders and institutional lenders from time to time party thereto, each of the lender agents from time to time party thereto, BMO Capital Markets Corp., as the Agent, Lyon Financial Services, Inc. (d/b/a U.S. Bank Portfolio Services), as the Backup Servicer, and U.S. Bank National Association, as Trustee.(10)
l	Opinion of Ropes & Gray LLP, counsel to the Company.
n.1	Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm.

Exhibit Number	Description
r	Form of Code of Ethics of the Company adopted under Rule 17j-1.(3)

(1) Incorporated by reference to the similarly lettered exhibit included in Pre-Effective Amendment No. 1 on Form N-2, as filed on October 6, 2006 (File No. 333-136714).
(2) Incorporated by reference to the similarly lettered exhibit included on Form N-2, as filed on March 16, 2007 (File No. 333-141382).
(3) Incorporated by reference to the similarly lettered exhibit included in Pre-Effective Amendment No. 2 on Form N-2, as filed on November 20, 2006 (File No. 333-136714).
(4) Incorporated by reference to the similarly lettered exhibit included in Pre-Effective Amendment No. 3 on Form N-2, as filed on November 24, 2006 (File No. 333-136714).
(5) Incorporated by reference to Exhibit 10.15 included in the Annual Report on Form 10-K, as filed on March 29, 2007 (File No. 814-00735).
(6) Incorporated by reference to Exhibit 10.1 included in the Current Report on Form 8-K, as filed on February 16, 2007 (File No. 814-00735).
(7) Incorporated by reference to the similarly lettered exhibit included in Pre-Effective Amendment No. 1 on Form N-2, as filed on October 18, 2007 (File No. 333-146190).
(8) Incorporated by reference to Exhibit 10.9 included in the Annual Report on Form 10-K, as filed on March 14, 2008 (File No. 814-00735).
(9) Incorporated by reference to Exhibit 10.10 included in the Annual Report on Form 10-K, as filed on March 14, 2008 (File No. 814-00735).
(10) Incorporated by reference to Exhibit 10.15 included in the Annual Report on Form 10-K, as filed on March 14, 2008 (File No. 814-00735).

Item 26. Marketing Arrangements

None.

Item 27. Other Expenses of Issuance and Distribution

The following table sets forth the estimated expenses payable by the Registrant in connection with the offering:

	Amount
SEC registration fee	$7,860
FINRA filing fee	*
Accounting fees and expenses	*
Legal fees and expenses	*
Printing expenses	*
Nasdaq Global Select Market Additional Listing Fee	*
Miscellaneous	*
Total	$ *

* To be provided by amendment.
All of the expenses set forth above will be borne by the Registrant.

Item 28. Persons Controlled by or Under Common Control

The following table sets forth each of the Registrant's direct and indirect subsidiaries, the state under whose laws the subsidiary is organized, and the percentage of voting securities or membership interests owned by the Registrant in such subsidiary. The table excludes the Registrant's 35% interest in PKSIL LLC, a Delaware limited liability company, which the Registrant does not control.

	Jurisdiction	Ownership Percentage
Katonah Debt Advisors, L.L.C.(1)	Delaware	100%
Kohlberg Capital Funding LLC I(2)	Delaware	100%
Katonah Management Holdings LLC(1)	Delaware	100%
Katonah X Management LLC(3)	Delaware	100%
Katonah 2007-I Management LLC(3)	Delaware	100%
Katonah 2008-II Management, LLC(3)	Delaware	100%
Katonah Scott's Cove Management LLC(3)	Delaware	100%
KPKSI Management Holdings LLC(1)	Delaware	100%
KPKSI Holdings LLC(4)	Delaware	100%

(1) Represents a wholly-owned portfolio company that is not consolidated for financial reporting purposes.
(2) A wholly-owned, special-purpose bankruptcy remote subsidiary that is not consolidated for financial reporting purposes.
(3) A wholly-owned subsidiary of Katonah Management Holdings LLC.
(4) A wholly-owned subsidiary of KPKSI Management Holdings LLC.

Item 29. Number of Holders of Securities

The following table sets forth the number of record holders of the Registrant's common stock at May 21, 2008.

Title of Class	Number of Record Holders
Common Stock	18

Item 30. Indemnification

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

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

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

Table of Contents

Item 31. Business and Other Connections of Investment Adviser

Not applicable.

Item 32. Location of Accounts and Records

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

(1) The Registrant, 295 Madison Avenue, 6th Floor, New York, New York 10017;

(2) The Custodian, U.S. Bank National Association, Corporate Trust Services, One Federal Street, 3rd Floor, Boston, MA 02110; and

(3) The Transfer Agent, American Stock Transfer & Trust Company, 59 Maiden Lane, New York, New York 10038.

Item 33. Management Services

Not applicable.

Item 34. Undertakings

The Registrant undertakes:

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

(2) if the securities being registered are to be offered to existing stockholders pursuant to warrants or rights, and any securities not taken by stockholders are to be reoffered to the public, to supplement the prospectus, after the expiration of the subscription period, to set forth the results of the subscription offer, the transactions by underwriters during the subscription period, the amount of unsubscribed securities to be purchased by underwriters, and the terms of any subsequent reoffering thereof. If any public offering by the underwriters of the securities being registered is to be made on terms differing from those set forth on the cover page of the prospectus, the Registrant undertakes to file a post-effective amendment to set forth the terms of such offering;

(3) to file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) to include any prospectus required by Section 10(a)(3) of the Securities Act;

(ii) to reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement; and

(iii) to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

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

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

(6) that, for the purpose of determining liability under the Securities Act to any purchaser, if the Registrant is subject to Rule 430C, each prospectus filed pursuant to Rule 497(b), (c), (d) or (e) under the Securities Act as part of a registration statement relating to an offering, other than prospectus filed in reliance on Rule 430A under the Securities Act, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness; *provided*, *however*, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use; and

(7) that for the purpose of determining liability of the Registrant under the Securities Act to any purchaser in the initial distribution of securities, the undersigned Registrant undertakes that in a primary offering of securities of the undersigned Registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned Registrant will be a seller to the purchaser and will be considered to offer or sell such securities to the purchaser:

(i) any preliminary prospectus or prospectus of the undersigned Registrant relating to the offering required to be filed pursuant to Rule 497 under the Securities Act;

(ii) the portion of any advertisement pursuant to Rule 482 under the Securities Act relating to the offering containing material information about the undersigned Registrant or its securities provided by or on behalf of the undersigned Registrant; and

(iii) any other communication that is an offer in the offering made by the undersigned Registrant to the purchaser.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, and State of New York, on the 29th day of May, 2008.

KOHLBERG CAPITAL CORPORATION

By: /s/ DAYL W. PEARSON
Name: **Dayl W. Pearson**
Title: **President and CEO**

KNOW ALL MEN BY THESE PRESENT, each person whose signature appears below hereby constitutes and appoints Dayl W. Pearson and Michael I. Wirth, and each of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place, and stead, in any and all capacities, to sign any and all amendments to this Registration Statement and any registration statement filed pursuant to Rule 462(b) under the Securities Act, and to file the same, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ DAYL W. PEARSON **Dayl W. Pearson**	President and Chief Executive Officer (principal executive officer)	May 29, 2008
/s/ MICHAEL I. WIRTH **Michael I. Wirth**	Chief Financial Officer, Chief Compliance Officer, Secretary and Treasurer (principal financial and accounting officer)	May 29, 2008
/s/ CHRISTOPHER LACOVARA **Christopher Lacovara**	Director	May 29, 2008
/s/ JAMES A. KOHLBERG **James A. Kohlberg**	Director	May 29, 2008
/s/ SAMUEL P. FRIEDER **Samuel P. Frieder**	Director	May 29, 2008
/s/ GARY CADEMARTORI **Gary Cademartori**	Director	May 29, 2008
/s/ C. MICHAEL JACOBI **C. Michael Jacobi**	Director	May 29, 2008
/s/ ALBERT G. PASTINO **Albert G. Pastino**	Director	May 29, 2008
/s/ C. TURNEY STEVENS **C. Turney Stevens**	Director	May 29, 2008

Table of Contents

INDEX OF EXHIBITS

Exhibit Number	Description
a	Form of Certificate of Incorporation of Kohlberg Capital Corporation (the "Company").(1)
b	Form of Bylaws of the Company.(2)
d.1	Specimen certificate of the Company's common stock, par value $0.01 per share.(1)
d.2	Form of Registration Rights Agreement.(3)
d.3	Form of Subscription Certificate.
d.4	Form of Notice of Guaranteed Delivery.
d.5	Form of Beneficial Owner Certification.
d.6	Form of Subscription Agent Agreement.
d.7	Form of Indenture.
e	Form of Dividend Reinvestment Plan.(3)
h.1	Form of Underwriting Agreement for Equity.
h.2	Form of Underwriting Agreement for Debt.
h.3	From of Dealer Manager Agreement.
i.1	Form of the 2006 Equity Incentive Plan.(3)
i.2	Form of Kohlberg Capital Non-Qualified Stock Option Certificate.(3)
j	Form of Custodian Agreement by and among the Company and U.S. Bank National Association.(3)
k.1	Form of License and Referral Agreement between the Company and Kohlberg & Company, LLC.(1)
k.2	Form of Overhead Allocation Agreement between the Company and Katonah Debt Advisors, LLC.(3)
k.3	Form of Employment Agreement between the Company and Dayl W. Pearson.(3)
k.4	Form of Employment Agreement between the Company and Michael I. Wirth.(3)
k.5	Form of Employment Agreement between the Company and R. Jon Corless.(3)
k.6	Form of Employment Agreement between the Company and E.A. Kratzman.(8)
k.7	Form of Employment Agreement between Katonah Debt Advisors and E.A. Kratzman.(9)
k.8	Form of Indemnification Agreement for Officers and Directors of the Company.(4)
k.9	Execution Copy of Loan Funding and Servicing Agreement, dated as of February 14, 2007, by and among Kohlberg Capital Funding LLC I, the Company, each of the conduit lenders and institutional lenders from time to time party thereto, each of the lender agents from time to time party thereto, BMO Capital Markets Corp., as the Agent, Lyon Financial Services, Inc. (d/b/a U.S. Bank Portfolio Services), as the Backup Servicer, and U.S. Bank National Association, as Trustee.(5)
k.10	Execution Copy of Purchase and Sale Agreement, dated as of February 14, 2007, by and among Kohlberg Capital Funding LLC I and the Company.(6)
k.11	Execution Copy of First Amendment to Loan Funding and Servicing Agreement, dated as of May 30, 2007, by and among Kohlberg Capital Funding LLC I, the Company, each of the conduit lenders and institutional lenders from time to time party thereto, each of the lender agents from time to time party thereto, BMO Capital Markets Corp., as the Agent, Lyon Financial Services, Inc. (d/b/a U.S. Bank Portfolio Services), as the Backup Servicer, and U.S. Bank National Association, as Trustee.(7)

Table of Contents

Exhibit Number	Description
k.12	Execution Copy of Second Amendment to Loan Funding and Servicing Agreement, dated as of October 1, 2007, by and among Kohlberg Capital Funding LLC I, the Company, each of the conduit lenders and institutional lenders from time to time party thereto, each of the lender agents from time to time party thereto, BMO Capital Markets Corp., as the Agent, Lyon Financial Services, Inc. (d/b/a U.S. Bank Portfolio Services), as the Backup Servicer, and U.S. Bank National Association, as Trustee.(7)
k.13	Execution Copy of Third Amendment to Loan Funding and Servicing Agreement, dated as of November 21, 2007, by and among Kohlberg Capital Funding LLC I, the Company, each of the conduit lenders and institutional lenders from time to time party thereto, each of the lender agents from time to time party thereto, BMO Capital Markets Corp., as the Agent, Lyon Financial Services, Inc. (d/b/a U.S. Bank Portfolio Services), as the Backup Servicer, and U.S. Bank National Association, as Trustee.(10)
l	Opinion of Ropes & Gray LLP, counsel to the Company.
n.1	Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm.
r	Form of Code of Ethics of the Company adopted under Rule 17j-1.(3)

(1) Incorporated by reference to the similarly lettered exhibit included in Pre-Effective Amendment No. 1 on Form N-2, as filed on October 6, 2006 (File No. 333-136714).
(2) Incorporated by reference to the similarly lettered exhibit included on Form N-2, as filed on March 16, 2007 (File No. 333-141382).
(3) Incorporated by reference to the similarly lettered exhibit included in Pre-Effective Amendment No. 2 on Form N-2, as filed on November 20, 2006 (File No. 333-136714).
(4) Incorporated by reference to the similarly lettered exhibit included in Pre-Effective Amendment No. 3 on Form N-2, as filed on November 24, 2006 (File No. 333-136714).
(5) Incorporated by reference to Exhibit 10.15 included in the Annual Report on Form 10-K, as filed on March 29, 2007 (File No. 814-00735).
(6) Incorporated by reference to Exhibit 10.1 included in the Current Report on Form 8-K, as filed on February 16, 2007 (File No. 814-00735).
(7) Incorporated by reference to the similarly lettered exhibit included in Pre-Effective Amendment No. 1 on Form N-2, as filed on October 18, 2007 (File No. 333-146190).
(8) Incorporated by reference to Exhibit 10.9 included in the Annual Report on Form 10-K, as filed on March 14, 2008 (File No. 814-00735).
(9) Incorporated by reference to Exhibit 10.10 included in the Annual Report on Form 10-K, as filed on March 14, 2008 (File No. 814-00735).
(10) Incorporated by reference to Exhibit 10.15 included in the Annual Report on Form 10-K, as filed on March 14, 2008 (File No. 814-00735).

RIGHTS CERTIFICATE #: **NUMBER OF RIGHTS**

THE TERMS AND CONDITIONS OF THE RIGHTS OFFERING ARE SET FORTH IN THE COMPANY'S PROSPECTUS DATED [ ] (THE "PROSPECTUS") AND ARE INCORPORATED HEREIN BY REFERENCE. COPIES OF THE PROSPECTUS ARE AVAILABLE UPON REQUEST FROM [ ], THE INFORMATION AGENT.

KOHLBERG CAPITAL CORPORATION

Incorporated under the laws of the State of Delaware

[TRANSFERABLE] SUBSCRIPTION RIGHTS CERTIFICATE

cusip [ ]

Evidencing [Transferable] Subscription Rights to Purchase Shares of Common Stock of Kohlberg Capital Corporation

Estimated Subscription Price: $[ ] per Share

THE SUBSCRIPTION RIGHTS WILL EXPIRE IF NOT EXERCISED ON OR BEFORE [ ], NEW YORK CITY TIME, ON [ ], UNLESS EXTENDED BY THE COMPANY

REGISTERED OWNER:

THIS CERTIFIES THAT the registered owner whose name is inscribed hereon is the owner of the number of [transferable] subscription rights ("Rights") set forth above. Each whole Right entitles the holder thereof to subscribe for and purchase [ ] share[s] of Common Stock, with a par value of $0.01 per share, of Kohlberg Capital Corporation, a Delaware corporation, at an estimated subscription price of $[ ] per share (the "[Basic] Subscription Right"), pursuant to a Rights offering (the "Rights Offering"), on the terms and subject to the conditions set forth in the Prospectus and the "Instructions as to Use of Kohlberg Capital Corporation Subscription Rights Certificates" accompanying this Subscription Rights Certificate. [If any shares of Common Stock available for purchase in the Rights Offering are not purchased by other holders of Rights pursuant to the exercise of their Basic Subscription Right (the "Excess Shares"), stockholders of record ("Record Date Stockholders") as of [ ] (the "Record Date") that have exercised fully their Rights pursuant to the Basic Subscription Right may subscribe for a number of Excess Shares, on the terms and subject to the conditions set forth in the Prospectus, including as to proration.] [In addition, any holders of Rights other than Record Date Stockholders who exercise Rights are entitled to subscribe for any Excess Shares that are not otherwise subscribed for by Record Date Stockholders as described in the preceding sentence, on the terms and subject to the conditions set forth in the Prospectus, including as to proration.] [These over-subscription privileges are referred to as the "Over-Subscription Privilege."] The Rights represented by this Subscription Rights Certificate may be exercised by completing Form 1 and any other appropriate forms on the reverse side hereof and by retuning the full payment of the estimated subscription price for each share of Common Stock in accordance with the "Instructions as to Use of Kohlberg Capital Corporation Subscription Rights Certificates" that accompany this Subscription Rights Certificate.

This Subscription Rights Certificate is not valid unless countersigned by the subscription agent and registered by the registrar.

Witness the seal of Kohlberg Capital Corporation and the signatures of its duly authorized officers.

Dated:

/S/ DAYL W. PEARSON
Dayl W. Pearson
President and Chief Executive Officer

/S/ MICHAEL I. WIRTH
Michael I. Wirth
Secretary

INSTRUCTIONS AS TO USE OF KOHLBERG CAPITAL CORPORATION SUBSCRIPTION RIGHTS CERTIFICATES

Delivery Options for Subscription Rights Certificate

Delivery other than in the manner or to the addresses listed below will not constitute valid delivery.

If delivering by mail:
[ ]

If delivering by hand or courier:
[ ]

PLEASE PRINT ALL INFORMATION CLEARLY AND LEGIBLY.

FORM 1- EXERCISE OF SUBSCRIPTION RIGHTS

To subscribe for shares pursuant to your [Basic] Subscription Right, please complete lines (a) and [(b)] [(c)] and sign under Form [4] [5] below. [To subscribe for shares pursuant to your Over-Subscription Privilege, please also complete line (b) and sign under Form 4 below.]

(a) EXERCISE OF [BASIC] SUBSCRIPTION RIGHT:

I apply for _____ shares x $[ ] = $_____
(no. of new shares) (estimated subscription price) (amount enclosed)

[(b) EXERCISE OF OVER-SUBSCRIPTION PRIVILEGE

Note: If you are a Record Date Stockholder, the Over-Subscription Privilege may only be exercised if your Basic Subscription Right is exercised in full.

I apply for _____ shares x $[ ] = $_____
(no. of new shares) (estimated subscription price) (amount enclosed)]

[(b)] [(c)] TOTAL AMOUNT OF PAYMENT ENCLOSED = $_____

METHOD OF PAYMENT (CHECK ONE)

☐ Check or bank draft drawn on a U.S. bank, or postal telegraphic or express money order payable to "[ ], as Subscription Agent." Funds paid by an uncertified check may take at least five business days to clear.

☐ Wire transfer of immediately available funds directly to the account maintained by [ ], as Subscription Agent, for purposes of accepting subscriptions in this Rights Offering at [ ], ABA #[ ], Account # [ ].

[**FORM 2 - -SALE OR TRANSFER TO DESIGNATED TRANSFEREE OR THROUGH BANK OR BROKER**

To sell or transfer your subscription rights to another person, complete this form and have your signature guaranteed under Form 5. To sell your subscription rights through your bank or broker, sign below under this Form 2 and have your signature guaranteed under Form 5, but leave the rest of this Form 2 blank.

For value received _____ of the subscription rights represented by this Subscription Rights Certificate are assigned to:

_____

_____

_____

Social Security # _____

Signature(s): _____

IMPORTANT: The signature(s) must correspond with the name(s) as printed on the reverse of this Subscription Rights Certificate in every particular, without alteration or enlargement, or any other change whatsoever.]

FORM [2] [3] - DELIVERY TO DIFFERENT ADDRESS

If you wish for the Common Stock underlying your subscription rights, a certificate representing unexercised subscription rights or the proceeds of any sale of subscription rights to be delivered to an address different from that shown on the face of this Subscription Rights Certificate, please enter the alternate address below, sign under Form [3] [4] and have your signature guaranteed under Form [4] [5].

_____

_____

_____

_____

FORM [3] [4] - SIGNATURE

TO SUBSCRIBE: I acknowledge that I have received the Prospectus for this Rights Offering and I hereby irrevocably subscribe for the number of shares indicated above on the terms and conditions specified in the Prospectus.

Signature(s)

IMPORTANT: The signature(s) must correspond with the name(s) as printed on the reverse of this Subscription Rights Certificate in every particular, without alteration or enlargement, or any other change whatsoever.

FORM [4] [5] - SIGNATURE GUARANTEE

This form must be completed if you have completed any portion of Forms 2 [or 3].

Signature Guaranteed: _____
(Name of Bank or Firm)

By: _____
(Signature of Officer)

IMPORTANT: The signature(s) should be guaranteed by an eligible guarantor institution (bank, stock broker, savings & loan association or credit union) with membership in an approved signature guarantee medallion program pursuant to Securities and Exchange Commission Exchange Act Rule 17Ad-15.

FOR ADDITIONAL INSTRUCTIONS ON THE USE OF KOHLBERG CAPITAL CORPORATION SUBSCRIPTION RIGHTS CERTIFICATES, CONSULT [ ], THE INFORMATION AGENT, AT [ ].

NOTICE OF GUARANTEED DELIVERY FOR SHARES OF
COMMON STOCK OF KOHLBERG CAPITAL CORPORATION
SUBSCRIBED FOR PURSUANT TO THE [BASIC] SUBSCRIPTION
[AND THE OVER-SUBSCRIPTION PRIVILEGE]

Kohlberg Capital Corporation Rights Offering

As set forth in the Prospectus dated [ ] (the "Prospectus") under "The Rights Offering—Subscription Agent," this form or one substantially equivalent hereto may be used as a means of effecting subscription and payment for all shares (the "Shares") of common stock of Kohlberg Capital Corporation (the "Company") subscribed for by exercise of [transferable] rights ("Rights") pursuant to the [basic] subscription right [and the over-subscription privilege]. Such form may be delivered by hand or sent by facsimile transmission, overnight courier or mail to the Subscription Agent and must be received prior to [ ], New York City time, on [ ] (the "Expiration Date") or, if the offer is extended, by the close of business [ ] business days prior to the extended Expiration Date. The terms and conditions of the offer set forth in the Prospectus are incorporated by reference herein.

The Subscription Agent is:

[ ]

By Hand or Overnight Courier:

[ ]

By Regular Mail:

[ ]

By Facsimile:

[ ]

with required telephonic confirmation at [ ]

DELIVERY OF THIS INSTRUMENT TO AN ADDRESS, OR TRANSMISSION OF
INSTRUCTIONS VIA A TELECOPY OR FACSIMILE NUMBER, OTHER THAN AS SET
FORTH ABOVE, DOES NOT CONSTITUTE A VALID DELIVERY.

The broker-dealer, trust company, bank or other nominee that completes this form must communicate the guarantee and the number of Shares subscribed for under both the basic subscription right and the over-subscription privilege to the Subscription Agent and must deliver this Notice of Guaranteed Delivery guaranteeing delivery of (i) payment in full of the estimated subscription price for all subscribed Shares and (ii) a properly completed and executed subscription certificate (the "Subscription Certificate") to the Subscription Agent prior to [ ], New York City time, on the Expiration Date. The Subscription Certificate and full payment of the estimated subscription price must then be delivered to the Subscription Agent by the close of business on [ ], which is the [ ] business day after the Expiration Date, unless extended by the Company. Failure to do so will result in a forfeiture of the Rights.

GUARANTEE

The undersigned, a broker-dealer, trust company, bank or other nominee, guarantees delivery of payment to the Subscription Agent by the close of business (5:00 p.m., New York City time) on the close of business on the [ ] business day after the Expiration Date ([ ], unless extended by the Company) of (i) a properly completed and duly executed Subscription Certificate and (ii) payment in full of the estimated subscription price of $[ ] per share for the Shares subscribed for in the [basic] subscription right [and any additional shares subscribed for pursuant to the over-subscription privilege, if applicable,] as subscription for such Shares is indicated herein or in the Subscription Certificate.

1. [Basic] Subscription		Number of Shares requested for which you are guaranteeing delivery of Rights and Payment: _____ Shares	Payment to be made in connection with Shares $_____
[2. Over-Subscription		Number of Shares requested for which you are guaranteeing payment: _____ Shares	Payment to be made in connection with Shares: $_____]
[2.] [3.] Totals	Total Number of Rights to be Delivered: _____ Rights		$_____ Total Payment

Method of Delivery of Rights (circle one):

A. Through The Depository Trust Company (“DTC”)*

B. Direct to the Subscription Agent

[Please note that if you are guaranteeing for Shares subscribed for pursuant to the over-subscription privilege and are a DTC participant, you must also execute and forward to [ ] a nominee holder over-subscription certificate.]

Name of Firm	Authorized Signature
Address	Title
Zip Code	Name (Please Type or Print)
Name of Registered Holder (If Applicable)	
Telephone Number	Date

*** IF THE RIGHTS ARE TO BE DELIVERED THROUGH DTC, CALL THE SUBSCRIPTION AGENT TO OBTAIN A PROTECT IDENTIFICATION NUMBER, WHICH NEEDS TO BE COMMUNICATED BY YOU TO DTC.**

Exhibit d.5

BENEFICIAL OWNER CERTIFICATION

The undersigned acknowledge(s) receipt of your letter and the enclosed materials referred to therein relating to the offering of shares of common stock, par value $0.01 per share (the "Common Stock"), of Kohlberg Capital Corporation (the "Company").

This will instruct you whether to exercise rights to purchase shares of Common Stock distributed with respect to the Common Stock held by you for the account of the undersigned, pursuant to the terms and subject to the conditions set forth in the Company's Prospectus dated [ ] (the "Prospectus").

Box 1. [ ] Please DO NOT EXERCISE RIGHTS for shares of Common Stock.

Box 2. [ ] Please EXERCISE RIGHTS for shares of Common Stock as set forth below.

	Number of Shares to Purchase		Estimated Subscription Price		Payment	
[Basic] Subscription Right		×	$ [ ]	=		Line 1
You are entitled to subscribe for [ ] share[s] for every right you hold.						
[**Over-Subscription Privilege**		×	$ [ ]	=		Line 2
The Over-Subscription Privilege is not limited by the number of rights you hold, but issuance is subject to certain limitations, including proration, as described in the Prospectus.						
			Total Payment Required		$	

(Sum of Lines 1 & 2; must equal total amounts in Box 3)]

Box 3. [ ] Payment in the following amount is enclosed $.

Box 4. [ ] Please deduct payment from the following account maintained by you as follows:

Type of Account

Account Number

Amount to be deducted: $

Signature

Date

Please type or print name

Exhibit d.6

SUBSCRIPTION AGENT AGREEMENT

[ ]

[ ]

Ladies and Gentlemen:

In connection with your appointment as Subscription Agent in the transaction described herein, Kohlberg Capital Corporation (the "Company"), hereby confirms its arrangements with you as follows:

1. **Rights Offering** - The Company is offering (the "Rights Offering") [transferable] rights (the "Rights") pursuant to which the holders thereof (the "Rights Holders") are entitled to subscribe for the Company's regular, free trading and transferable common stock, par value $0.01 per share (the "Common Stock"). Such Rights are being distributed to all shareholders of record of Common Stock ("Record Date Stockholders") as of [ ], New York City time, on [ ] (the "Record Date"). The Rights and Common Stock are described in a prospectus dated [ ] (the "Prospectus"). Capitalized terms not otherwise defined herein shall have the meaning given to them in the Prospectus.

   As described in the Prospectus, the Company is issuing to Record Date Stockholders Rights to subscribe for up to [ ] shares of Common Stock. Each Record Date Stockholder is being issued one Right for each [ ] shares of Common Stock owned on the Record Date (1 for [ ]). [No fractional Rights will be issued, and any fractional Rights resulting from the issuance of the Rights will be rounded up to the next whole Right.] The Rights entitle each Rights Holder to acquire [ ] share[s] of the Company's Common Stock for every right held, which is referred to as the [basic] subscription right (the "[Basic] Subscription Right"). Except as set forth in Sections 8 and 9 below, Rights may be exercised at any time during the subscription period (the "Subscription Period"), which commences on [ ], the Record Date, and ends at [ ], New York City time, on [ ], the expiration date, unless extended by the Company (as may be so extended, the "Expiration Date").

   The subscription price per share (the "Subscription Price") will be [ ]% of the volume-weighted average of the sales prices of the shares of Common Stock on the Nasdaq Global Select Market ("NGSM") for the [ ] ([ ]) consecutive trading days ending on the Expiration Date. Because it is not possible to determine the Subscription Price until the Expiration Date, a Rights Holder will not know the Subscription Price at the time such Rights Holder exercises any Rights. As a result, the Company is requiring that a Rights Holder deliver the estimated Subscription Price of $[ ] per share in connection with the exercise of any Rights pursuant to the [Basic] Subscription Right.

   [Shares not subscribed for by Rights Holders (the "Remaining Shares") will be offered, by means of the over-subscription privilege (the "Over-Subscription Privilege"), first to Record Date Stockholders and then to Rights Holders who were not Record Date Stockholders, in each case only to the extent such Rights Holder has fully exercised the

Rights issued to it (or, in the case of a Rights Holder that is not a Record Date Stockholder, has exercised Rights) and wish to acquire more than the number of shares they are entitled to purchase pursuant to the Basic Subscription Right and on the terms and subject to the conditions set forth in the Prospectus, including as to proration. For the reasons noted above, the Company is requiring that Rights Holders deliver the estimated Subscription Price in connection with the exercise of any Over-Subscription Privilege.] The Rights will be evidenced by subscription certificates (the "Subscription Certificates").

2. **Appointment of Subscription Agent** - You are hereby appointed as Subscription Agent to effect the Rights Offering in accordance with the Prospectus. Each reference to you in this letter is to you in your capacity as Subscription Agent unless the context indicates otherwise.

3. **Delivery of Documents** - Enclosed herewith are the following, the receipt of which you acknowledge by your execution hereof:

(a) a copy of the Prospectus;
(b) the form of Subscription Certificate (with instructions);
(c) resolutions adopted by the Board of Directors of the Company in connection with the Rights Offering, certified by the secretary of the Company; and
(d) Notice of Guaranteed Delivery.

As soon as is reasonably practical, you shall mail or cause to be mailed to each Record Date Stockholder a Subscription Certificate evidencing the Rights to which such Record Date Stockholder is entitled, a Notice of Guaranteed Delivery, the Prospectus and an envelope addressed to you. Prior to mailing, the Company will provide you with blank Subscription Certificates which you will prepare and issue in the names of Record Date Stockholders and for the number of Rights to which they are entitled. The Company will also provide you with a sufficient number of copies of each of the documents to be mailed with the Subscription Certificates.

4. **Subscription Procedure** -

(a) Upon your receipt prior to [ ], New York City time, on the Expiration Date (by mail or delivery), as Subscription Agent, of (i) any Subscription Certificate completed and endorsed for exercise, as provided on the reverse side of the Subscription Certificate, and (ii) payment in full of the estimated Subscription Price in U.S. funds by check, bank draft or money order payable at par (without deduction for bank service charges or otherwise) to the order of [ ], you shall as soon as practicable after the Expiration Date, but after performing the procedures described in subsections (b), (c) and (d) below, and only after receipt of the full Subscription Price therefor, mail to the Rights Holder's registered address on the books of the Company certificates representing the shares of Common Stock duly subscribed for [(pursuant to the Basic Subscription Right and the Over-Subscription Privilege)] and furnish a list of all such information to the Company.

(b) As soon as practicable after the Expiration Date you shall calculate the number of shares of Common Stock to which each Rights Holder is entitled pursuant to the Over-Subscription Privilege. The Over-Subscription Privilege may only be exercised by [(i)] Rights Holders who are Record Date Stockholders and subscribe to all the shares that can be subscribed for under the [Basic] Subscription Right [and (ii) the other Rights Holders who exercise Rights. As long as there are sufficient Remaining Shares to satisfy

all additional subscriptions by Rights Holders exercising their Rights under the Over-Subscription Privilege, all of such Rights Holders shall be allotted the number of Remaining Shares subscribed for. If the aggregate number of shares subscribed for under the Over-Subscription Privilege exceeds the number of Remaining Shares, the Remaining Shares shall be allotted to the participants in the Over-Subscription Privilege as follows: First, to the participants in the Over-Subscription Privilege who were Record Date Stockholders and, to the extent there are insufficient Remaining Shares to cover the allotments to such participants, on a pro-rata basis among such participants based on the number of shares of Common Stock held by such participants on the Record Date; and, second, to the participants in the Over-Subscription Privilege who were not Record Date Stockholders and, to the extent there are insufficient Remaining Shares to cover the allotments to such participants, on a pro-rata basis among such participants based on the number of Rights held by such participants on the Expiration Date; provided, however, that if this allocation results in any participant being allocated a greater number of shares than such participant subscribed for pursuant to the exercise of the Over-Subscription Privilege, then such participant shall be allocated only such number of shares pursuant to the Over-Subscription Privilege as such participant subscribed for.] [No fractional shares of Common Stock will be issued pursuant to the exercise of the Rights.]

[(c) Upon calculating the number of shares to which each Rights Holder is entitled pursuant to the Over-Subscription Privilege and the amount overpaid or underpaid, if any, by each Rights Holder, you shall, as soon as practicable, furnish a list of all such information to the Company.

(d) Upon calculating the number of shares to which each Rights Holder is entitled pursuant to the Over-Subscription Privilege and subject to payment of the full Subscription Price for the additional subscribed shares being received by you, you shall mail, as contemplated in subsection (a) above, the certificates representing the additional shares which the Rights Holder has been allotted. If a lesser number of shares is allotted to a Rights Holder under the Over-Subscription Privilege than the Rights Holder has tendered payment for, you shall remit the difference to the Rights Holder without interest or deduction at the same time as certificates representing the shares allotted pursuant to the Over-Subscription Privilege are mailed.]

[(c)][(e)] Funds received by you pursuant to the [Basic] Subscription Right [and the Over-Subscription Privilege] shall be held by you in a segregated account. Upon mailing certificates representing the shares [and refunding Rights Holders for additional shares subscribed for but not allocated, if any,] you shall promptly remit to the Company all funds received in payment of the Subscription Price for shares sold in the Rights Offering.

5. **Subdivision. Sale or Transfer of Rights** - Until 5:00 p.m., New York City time, one business day prior to the Expiration Date, you shall facilitate subdivision [or transfers] of Subscription Certificates by issuing new Subscription Certificates in accordance with the instructions set forth on the reverse side of the Subscription Certificates.

6. **Defective Exercise of Rights Lost Subscription Certificates** - The Company shall have the absolute right to reject any defective exercise of Rights or to waive any defect in exercise. Unless requested to do so by the Company, you shall not be under any duty to give notification to holders of Subscription Certificates of any defects or irregularities in subscriptions. Subscriptions will not be deemed to have been made until any such defects or irregularities have been cured or waived within such time as the Company

shall determine. You shall as soon as practicable return Subscription Certificates with the defects or irregularities which have not been cured or waived to the Rights Holders. If any Subscription Certificate is alleged to have been lost, stolen or destroyed, you should follow the same procedures followed for lost stock certificates representing Common Stock you use in your capacity as transfer agent for the Company's Common Stock.

7. **Late Delivery** - If prior to [ ], New York City time, on the Expiration Date you receive (i) payment of the estimated Subscription Price for the shares being subscribed for and (ii) a guarantee notice substantially in the form of the Notice of Guaranteed Delivery delivered with the Subscription Certificate, from a financial institution having an office or correspondent in the United States, or a member firm of any registered United States national securities exchange or of the Financial Industry Regulatory Authority stating the certificate number of the Subscription Certificate relating to the Rights, the name and address of the exercising Rights Holder, the number of Rights represented by the Subscription Certificate held by such exercising Rights Holder, the number of shares being subscribed for pursuant to the Rights and guaranteeing the delivery to you of the Subscription Certificate evidencing such Rights within [ ] NGSM trading days following the date of the Notice of Guaranteed Delivery, then the Rights may be exercised even though the Subscription Certificate was not delivered to you prior to [ ], New York City time, on the Expiration Date, provided that within [ ] NGSM trading days following the date of the Notice of Guaranteed Delivery you receive the properly completed Subscription Certificate evidencing the Rights being exercised, with signatures guaranteed if required.

8. **Delivery** - You shall deliver to the Company the exercised Subscription Certificates in accordance with written directions received from the Company and shall deliver to the Rights Holders who have duly exercised Rights and paid in full the Subscription Price therefor at their registered addresses certificates representing the shares of Common Stock subscribed for as instructed on the reverse side of the Subscription Certificates.

9. **Reports** - You shall notify the Company by telephone on or before the close of business on each business day during the period commencing 5 business days after the mailing of the Subscription Certificates and ending at the Expiration Date (and in the case of guaranteed deliveries ending [ ] NGSM trading days after the Expiration Date) (a "daily notice"), which notice shall thereafter be confirmed in writing, of (i) the number of Rights exercised on the day covered by such daily notice and the name and address of each such exercising Rights Holder, (ii) the number of Rights subject to guaranteed exercises on the day covered by such daily notice, (iii) the number of Rights for which defective exercises have been received on the day covered by such daily notice, (iv) the cumulative total of the information set forth in clauses (i) through (iii) above, (v) for each soliciting broker dealer, the number of Rights exercised on Subscription Certificates indicating such broker dealer as the broker dealer with respect to such exercise, and (vi) such other information as the Company may reasonably request. At or before 5:00 p.m., New York City time, on the first NGSM trading day following the Expiration Date you shall certify in writing to the Company the cumulative total through the Expiration Date of all the information set forth in clauses (i) through (v) above. At or before 10:00 a.m., New York City time, on the fifth NGSM trading day following the Expiration Date you will execute and deliver to the Company a certificate setting forth the number of Rights exercised pursuant to a Notice of Guaranteed Delivery and as to which Subscription Certificates have been timely received. You shall also maintain and update a listing of Rights Holders who have fully or partially exercised their Rights, Rights Holders who

have transferred their Rights and their transferees, and Rights Holders who have not exercised their Rights. You shall provide the Company or its designees with such information compiled by you pursuant to this Section 9 as any of them shall request.

10. **Future Instructions** - With respect to notices or instructions to be provided by the Company hereunder, you may rely and act on any written instruction signed by any one or more of the following authorized officers or employees of the Company:

    [ ]

11. **Payment of Expenses** - The Company will pay you compensation for acting in your capacity as Subscription Agent hereunder in the amount specified in the Fee Schedule attached hereto. The Company will pay an additional fee equal to [ ] of the Subscription Agent fee for each extension of the Expiration Date of the Rights Offering, plus any reasonable out-of-pocket expenses associated with such extension.

12. **Counsel** - You may consult with counsel satisfactory to you, which may be counsel to the Company, and the advice or opinion of such counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by you hereunder in good faith and in accordance with such advice or opinion of such counsel.

13. **Indemnification** - The Company covenants and agrees to indemnify and hold you harmless against any costs, expenses (including reasonable fees of legal counsel), losses or damages, which may be paid, incurred or suffered by or to which you may become subject arising from or out of, directly or indirectly, any claim or liability resulting from your actions as Subscription Agent pursuant hereto; provided that such covenant and agreement does not extend to such costs, expenses, losses and damages incurred or suffered by you as a result of, or arising out of, your own gross negligence, misconduct or bad faith or that of any employees, agents or independent contractors used by you in connection with performance of your duties as Subscription Agent hereunder.

14. **Notices** - Unless otherwise provided herein, all reports, notices and other communications required or permitted to be given hereunder shall be in writing and delivered by hand or confirmed telecopy or by first class U.S. mail, postage prepaid, shall be deemed given if by hand or telecopy, upon receipt or if by U.S. mail, three business days after deposit in the U.S. mail and shall be addressed as follows

    (a) If to the Company, to:

    Kohlberg Capital Corporation
    295 Madison Avenue, 6th Floor
    New York, NY 10017
    Attention: Michael I. Wirth
    Facsimile: (212) 983-7654

    with a copy, which shall not constitute notice under this Section 14, to:

    Ropes & Gray LLP
    One International Place
    Boston, MA 02110
    Attention: Craig E. Marcus, Esq.
    Facsimile: (617) 951-7050

(b) If to you, to:

[ ]

[Remainder of page intentionally left blank]

Yours truly,

KOHLBERG CAPITAL CORPORATION

By: _____
Name:
Title:

Agreed & Accepted:

[ ]

By: _____
Name:
Title:

Fee Schedule

.

KOHLBERG CAPITAL CORPORATION

(Issuer)

and

[ ]

(Trustee)

INDENTURE

Dated as of [ ]

Providing for the Issuance

of

Debt Securities

TABLE OF CONTENTS

KOHLBERG CAPITAL CORPORATION

Reconciliation and tie between Trust Indenture Act of 1939
and Indenture, dated as of [ ]

Trust Indenture Act Section		Indenture Section
§ 310	(a)(1)	6.07
	(a)(2)	6.07
	(b)	6.09
§ 312	(c)	7.01
§ 314	(a)	7.04
	(a)(4)	10.05
	(c)(1)	1.02
	(c)(2)	1.02
	(e)	1.02
§ 315	(b)	6.01
§ 316	(a) (last sentence)	1.01 (“Outstanding”)
	(a)(1)(A)	5.02, 5.12
	(a)(1)(B)	5.13
	(b)	5.08
§ 317	(a)(1)	5.03
	(a)(2)	5.04
§ 318	(a)	1.11
	(c)	1.11

NOTE: This reconciliation and tie shall not, for any purpose, be deemed to be a part of the Indenture.

INDENTURE, dated as of [ ], between Kohlberg Capital Corporation, a Delaware corporation (the "Company"), and [ ], a [national banking association], as trustee (as trustee in such capacity and not in its individual capacity, the "Trustee").

RECITALS OF THE COMPANY

WHEREAS, the Company deems it necessary to issue from time to time for its lawful purposes debt securities (hereinafter called the "Securities") evidencing its secured or unsecured indebtedness, which may or may not be convertible into or exchangeable for any securities of any Person (including the Company), and has duly authorized the execution and delivery of this Indenture to provide for the issuance from time to time of the Securities, to be issued in one or more series, unlimited as to principal amount, to bear such rates of interest, to mature at such times and to have such other provisions as shall be fixed as hereinafter provided;

WHEREAS, this Indenture (as defined herein) is subject to the provisions of the Trust Indenture Act of 1939, as amended, that are required to be part of this Indenture and shall, to the extent applicable, be governed by such provisions; and

WHEREAS, all things necessary to make this Indenture a valid and legally binding agreement of, and enforceable against, the Company, in accordance with its terms, have been done.

NOW, THEREFORE, for and in consideration of the premises and the purchase of the Securities by the Holders (as defined herein) thereof, it is mutually covenanted and agreed, for the equal and proportionate benefit of all Holders of the Securities and coupons, or of a series thereof, as follows:

ARTICLE ONE

DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

Section 1.01. Definitions.

For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires:

(a) the terms defined in this Article have the meanings assigned to them in this Article, and include the plural as well as the singular and, pursuant to Section 3.01, any such item may, with respect to any particular series of Securities, be amended or modified or specified as being inapplicable;

(b) all other terms used herein which are defined in the Trust Indenture Act (as defined herein), either directly or by reference therein, have the meanings assigned to them therein, and the terms "cash transaction" and "self-liquidating paper", as used in Section 311 of the Trust Indenture Act, shall have the meanings assigned to them in the rules of the Commission (as defined herein) adopted under the Trust Indenture Act;

(c) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles in the United States of America;

(d) the words "herein", "hereof" and "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision;

(e) "or" is not exclusive;

(f) provisions apply to successive events and transactions; and

(g) references to sections of or rules under the Securities Exchange Act of 1934 shall be deemed to include substitute, replacement of successor sections or rules adopted by the Commission from time to time.

Certain terms, used in other Articles herein, are defined in those Articles.

"Act", when used with respect to any Holder of a Security, has the meaning specified in Section 1.04.

"Additional Amounts" means any additional amounts that are required by a Security or by or pursuant to a Board Resolution, under circumstances specified therein, to be paid by the Company in respect of certain taxes imposed on certain Holders and that are owing to such Holders.

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Authenticating Agent" means any authenticating agent appointed by the Trustee pursuant to Section 6.12 to act on behalf of the Trustee to authenticate Securities of one or more series.

"Authorized Newspaper" means a newspaper, in the English language or in an official language of the country of publication, customarily published on each Business Day, whether or not published on Saturdays, Sundays or holidays, and of general circulation in each place in connection with which the term is used or in the financial community of each such place. Where successive publications are required to be made in Authorized Newspapers, the successive publications may be made in the same or in different newspapers in the same city meeting the foregoing requirements and in each case on any Business Day.

"Bankruptcy Law" has the meaning specified in Section 5.01.

"Bearer Security" means any Security established pursuant to Section 2.01 that is payable to bearer.

"Board of Directors" means the board of directors of the Company or any committee of that board duly authorized to act hereunder.

"Board Resolution" means a copy of a resolution certified by the Secretary or an Assistant Secretary of the Company to have been duly adopted by the Board of Directors and to be in full force and effect on the date of such certification, and delivered to the Trustee.

"Business Day", when used with respect to any Place of Payment or any other particular location referred to in this Indenture or in the Securities, means, unless otherwise specified with respect to any Securities pursuant to Section 3.01, each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in that Place of Payment or particular location are authorized or obligated by law or executive order to close.

"Clearstream" means Clearstream International or its successor.

"Commission" means the Securities and Exchange Commission, as from time to time constituted, created under the Securities Exchange Act of 1934, or, if at any time after execution of this instrument such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body performing such duties on such date.

"Common Depositary" has the meaning specified in Section 3.04(b).

"Company" means the Person named as the "Company" in the first paragraph of this Indenture until a successor Person shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Company" shall mean such successor corporation.

"Company Request" and "Company Order" mean, respectively, a written request or order signed in the name of the Company by the Chairman, the President or a Vice President, and by the Chief Financial Officer, the Chief Operating Officer, if any, the Secretary or an Assistant Secretary, of the Company, and delivered to the Trustee.

"Component Currency" has the meaning specified in Section 3.12(h).

"Conversion Date" has the meaning specified in Section 3.12(d).

"Conversion Event" means the cessation of use of (i) a Foreign Currency both by the government of the country which issued such currency and for the settlement of transactions by a central bank or other public institutions of or within the international banking community, (ii) the ECU both within the European Monetary System and for the settlement of transactions by public institutions of or within the European Communities or (iii) any currency unit (or composite currency) other than the ECU for the purposes for which it was established.

"Corporate Trust Office" means the office of the Trustee at which, at any particular time, its corporate trust business shall be principally administered, which office at the date hereof is located at [ ]; provided that for purposes of presentment or surrender of securities for transfer or payment or exchange, such office is located at [ ], or such other address as the Trustee may designate from time to time by notice to the Holders and the Issuer, or the principal corporate trust office of any successor Trustee (or such other address as such successor Trustee may designate from time to time by notice to the Holders and the Company).

"corporation" includes corporations, associations, companies and business trusts.

"coupon" means any interest coupon appertaining to a Bearer Security.

"Currency" means any currency or currencies, composite currency or currency unit or currency units, including, without limitation, the ECU, issued by the government of one or more countries or by any reorganized confederation or association of such governments.

"Default" means any event that is, or after notice or passage of time or both would be, an Event of Default.

"Defaulted Interest" has the meaning specified in Section 3.07(a).

"Dollar" or "$" means a dollar or other equivalent unit in such coin or currency of the United States of America as at the time shall be legal tender for the payment of public and private debts.

"ECU" means the European Currency Unit as defined and revised from time to time by the Council of the European Communities.

"Election Date" has the meaning specified in Section 3.12(h).

"Euroclear" means Euroclear Bank S.A./N.V., as operator of the Euroclear System, or its successor as operator of the Euroclear System.

"European Communities" means the European Union, the European Coal and Steel Community and the European Atomic Energy Community.

"European Monetary System" means the European Monetary System established by the Resolution of December 5, 1978 of the Council of the European Communities.

"Event of Default" has the meaning specified in Section 5.01.

"Exchange Date" has the meaning specified in Section 3.04(b).

"Exchange Rate Agent", with respect to Securities of or within any series, means, unless otherwise specified with respect to any Securities pursuant to Section 3.01, a New York Clearing House bank designated pursuant to Section 3.01 or Section 3.13.

"Exchange Rate Officer's Certificate" means a certificate setting forth (i) the applicable Market Exchange Rate or the applicable bid quotation and (ii) the Dollar or Foreign Currency amounts of principal (and premium, if any) and interest, if any (on an aggregate basis and on the basis of a Security having the lowest denomination principal amount determined in accordance with Section 3.02 in the relevant Currency), payable with respect to a Security of any series on the basis of such Market Exchange Rate or the applicable bid quotation signed by the Chief Financial Officer or any authorized officer of the Company.

"Extension Notice" has the meaning specified in Section 3.08.

"Extension Period" has the meaning specified in Section 3.08.

"Final Maturity" has the meaning specified in Section 3.08.

"Foreign Currency" means any Currency, including, without limitation, the ECU issued by the government of one or more countries other than the United States of America or by any recognized confederation or association of such governments.

"Government Obligations" means securities that are (i) direct obligations of the United States of America or the government which issued the Foreign Currency in which the Securities of a particular series are payable, for the payment of which its full faith and credit is pledged or (ii) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America or such government that issued the Foreign Currency in which the Securities of such series are payable, the timely payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America or such other government, which, in either case, are not callable or redeemable at the option of the issuer thereof, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such Government Obligation or a specific payment of interest on or principal of any such Government Obligation held by such custodian for the account of the holder of a depository receipt; provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the Government Obligation or the specific payment of interest on or principal of the Government Obligation evidenced by such depository receipt.

"Holder" means, in the case of a Registered Security, the Person in whose name a Security is registered in the Security Register and, in the case of a Bearer Security, the bearer thereof and, when used with respect to any coupon, shall mean the bearer thereof.

"Indenture" means this instrument as originally executed or as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof, and shall include the terms of particular series of Securities established as contemplated by Section 3.01; provided, however, that, if at any time more than one Person is acting as Trustee under this instrument, "Indenture" shall mean, with respect to any one or more series of Securities for which such Person is Trustee, this instrument as originally executed or as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof and shall include the terms of the or those particular series of Securities for which such Person is Trustee established as contemplated by Section 3.01, exclusive, however, of any provisions or terms that relate solely to other series of Securities for which such Person is not Trustee, regardless of when such terms or provisions were adopted, and exclusive of any provisions or terms adopted by means of one or more indentures supplemental hereto executed and delivered after such Person had become such Trustee but to which such Person, as such Trustee, was not a party.

"Indexed Security" means a Security as to which all or certain interest payments and/or the principal amount payable at Maturity are determined by reference to prices, changes in prices, or differences between prices, of securities, Currencies, intangibles, goods, articles or commodities or by such other objective price, economic or other measures as are specified in Section 3.01 hereof.

"Interest", when used with respect to an Original Issue Discount Security which by its terms bears interest only after Maturity, means interest payable after Maturity, and, when used with respect to a Security which provides for the payment of Additional Amounts pursuant to Section 10.04, includes such Additional Amounts.

"Interest Payment Date", when used with respect to any Security, means the Stated Maturity of an installment of interest on such Security.

"Junior Subordinated Security" or "Junior Subordinated Securities" means any Security or Securities designated pursuant to Section 3.01 as a Junior Subordinated Security.

"Junior Subordinated Indebtedness" means the principal of (and premium, if any) and unpaid interest on (a) indebtedness of the Company (including indebtedness of others guaranteed by the Company), whether outstanding on the date hereof or thereafter created, incurred, assumed or guaranteed, for money borrowed, which in the instrument creating or evidencing the same or pursuant to which the same is outstanding it is provided that such indebtedness ranks junior in right of payment to the Company's Senior Indebtedness and Senior Subordinated Indebtedness and equally and *pari passu* in right of payment to any other Junior Subordinated Indebtedness, (b) Junior Subordinated Securities, and (c) renewals, extensions, modifications and refinancings of any such indebtedness.

"Market Exchange Rate" means, unless otherwise specified with respect to any Securities pursuant to Section 3.01, (i) for any conversion involving a currency unit on the one hand and Dollars or any Foreign Currency on the other, the exchange rate between the relevant currency unit and Dollars or such Foreign Currency calculated by the method specified pursuant to Section 3.01 for the Securities of the relevant series, (ii) for any conversion of Dollars into any Foreign Currency, the noon buying rate for such Foreign Currency for cable transfers quoted in New York City as certified for customs purposes by the Federal Reserve Bank of New York and (iii) for any conversion of one Foreign Currency into Dollars or another Foreign Currency, the spot rate at noon local time in the relevant market at which, in accordance with normal banking procedures, the Dollars or Foreign Currency into which conversion is being made could be purchased with the Foreign Currency from which conversion is being made from major banks located in either New York City, London or any other principal market for Dollars or such purchased Foreign Currency, in each case determined by the Exchange Rate Agent. Unless otherwise specified with respect to any Securities pursuant to Section 3.01, in the event of the unavailability of any of the exchange rates provided for in the foregoing clauses (i), (ii) and (iii), the Exchange Rate Agent shall use, in its sole discretion and without liability on its part, such quotation of the Federal Reserve Bank of New York as of the most recent available date, or quotations from one or more major banks in New York City, London or other principal market for such currency or currency unit in question, or such other quotations as the Exchange Rate Agent shall deem appropriate. Unless otherwise specified by the Exchange Rate Agent, if there is more than one market for dealing in any currency or currency unit by reason of foreign exchange regulations or otherwise, the market to be used in respect of such currency or currency unit shall be that upon which a nonresident issuer of securities designated in such currency or currency unit would purchase such currency or currency unit in order to make payments in respect of such securities as determined by the Exchange Rate Agent, in its sole discretion.

"Maturity", when used with respect to any Security, means the date on which the principal of such Security or an installment of principal becomes due and payable as therein or herein provided, whether at the Stated Maturity or by declaration of acceleration, notice of redemption, notice of option to elect repayment, notice of exchange or conversion or otherwise.

"Notice of Default" has the meaning provided in Section 5.01.

"Officers' Certificate" means a certificate signed by the Chief Executive Officer, the President or any authorized officer and by the Chief Financial Officer, the Chief Operating Officer, if any, the Secretary or an Assistant Secretary of the Company, and delivered to the Trustee.

"Opinion of Counsel" means a written opinion of counsel, who may be counsel for the Company or who may be an employee of or other counsel for the Company.

"Optional Reset Date" has the meaning specified in Section 3.07(b).

"Original Issue Discount Security" means any Security that provides for an amount less than the principal amount thereof to be due and payable upon a declaration of acceleration of the Maturity thereof pursuant to Section 5.02.

"Original Stated Maturity" has the meaning specified in Section 3.08.

"Outstanding", when used with respect to Securities or any series of Securities, means, as of the date of determination, all Securities or all Securities of such series, as the case may be, theretofore authenticated and delivered under this Indenture, except:

(i) Securities theretofore cancelled by the Trustee or delivered to the Trustee for cancellation;

(ii) Securities, or portions thereof, for whose payment or redemption or repayment at the option of the Holder, money in the necessary amount has been theretofore deposited with the Trustee or any Paying Agent (other than the Company) in trust or set aside and segregated in trust by the Company (if the Company shall act as its own Paying Agent) for the Holders of such Securities and any coupons appertaining thereto, provided that, if such Securities are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture or provision therefor satisfactory to the Trustee has been made;

(iii) Securities, except to the extent provided in Sections 14.02 and 14.03, with respect to which the Company has effected defeasance and/or covenant defeasance as provided in Article Fourteen; and

(iv) Securities that have been paid pursuant to Section 3.06 or in exchange for or in lieu of which other Securities have been authenticated and delivered pursuant to this Indenture, other than any such Securities in respect of which there shall have been presented to the Trustee proof satisfactory to it that such Securities are held by a protected purchaser in whose hands such Securities are valid obligations of the Company;

provided, however, that in determining whether the Holders of the requisite principal amount of the Outstanding Securities have given any request, demand, authorization, direction, notice, consent or waiver hereunder or are present at a meeting of Holders for quorum purposes, and for the purpose of making the calculations required by TIA Section 313, (i) the principal amount of an Original Issue Discount Security that may be counted in making such determination or calculation and that shall be deemed to be Outstanding for such purpose shall be equal to the amount of principal thereof that would be (or shall have been declared to be) due and payable, at the time of such determination, upon a declaration of acceleration of the Maturity thereof pursuant to Section 5.02, (ii) the principal amount of any Security denominated in a Foreign Currency that may be counted in making such determination or calculation and that shall be deemed Outstanding for such purpose shall be equal to the Dollar equivalent, determined as of the date such Security is originally issued by the Company as set forth in an Exchange Rate Officer's Certificate delivered to the Trustee, of the principal amount (or, in the case of an Original Issue Discount Security or Indexed Security, the Dollar equivalent as of such date of original issuance of the amount determined as provided in clause (i) above or (iii) below, respectively) of such Security, (iii) the principal amount of any Indexed Security that may be counted in making such determination or calculation and that shall be deemed outstanding for such purpose shall be equal to the principal face amount of such Indexed Security at original issuance, unless otherwise provided with respect to such Security pursuant to Section 3.01, and (iv) Securities owned by the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in making such calculation or in relying upon any such request, demand, authorization, direction, notice, consent or waiver or upon any such determination as to the presence of a quorum, only Securities which a Responsible Officer of the Trustee actually knows to be so owned shall be so disregarded. Securities so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Securities and that the pledgee is not the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor.

"Paying Agent" means any Person authorized by the Company to pay the principal of (or premium, if any) or interest, if any, on any Securities or coupons on behalf of the Company.

"Person" means any individual, corporation, partnership, joint venture, association, joint-stock company, limited liability company, trust, unincorporated organization or government or any agency or political subdivision thereof, or any other entity.

"Place of Payment", when used with respect to the Securities of or within any series, means the place or places where the principal of (and premium, if any) and interest, if any, on such Securities are payable as specified and as contemplated by Sections 3.01 and 10.02.

"Predecessor Security" of any particular Security means every previous Security evidencing all or a portion of the same debt as that evidenced by such particular Security; and, for the purposes of this definition, any Security authenticated and delivered under Section 3.06 in exchange for or in lieu of a mutilated, destroyed, lost or stolen Security or a Security to which a mutilated, destroyed, lost or stolen coupon appertains shall be deemed to evidence the same debt as the mutilated, destroyed, lost or stolen Security or the Security to which the mutilated, destroyed, lost or stolen coupon appertains.

"Redemption Date", when used with respect to any Security to be redeemed, in whole or in part, means the date fixed for such redemption by or pursuant to this Indenture.

"Redemption Price", when used with respect to any Security to be redeemed, means the price at which it is to be redeemed pursuant to this Indenture.

"Registered Security" means any Security that is registered in the Security Register.

"Regular Record Date" for the interest payable on any Interest Payment Date on the Registered Securities of or within any series means the date specified for that purpose as contemplated by Section 3.01, whether or not a Business Day.

"Repayment Date" means, when used with respect to any Security to be repaid at the option of the Holder, means the date fixed for such repayment by or pursuant to this Indenture.

"Repayment Price" means, when used with respect to any Security to be repaid at the option of the Holder, means the price at which it is to be repaid by or pursuant to this Indenture.

"Reset Notice" has the meaning specified in Section 3.07(b).

"Responsible Officer", when used with respect to the Trustee, means any officer of the Trustee assigned by the Trustee to administer its corporate trust matters and who shall have direct responsibility for the administration of this Indenture.

"Security" or "Securities" has the meaning stated in the first recital of this Indenture and, more particularly, means any Security or Securities authenticated and delivered under this Indenture; provided, however, that, if at any time there is more than one Person acting as Trustee under this Indenture, "Securities" with respect to the Indenture as to which such Person is Trustee shall have the meaning stated in the first recital of this Indenture and shall more particularly mean Securities authenticated and delivered under this Indenture, exclusive, however, of Securities of any series as to which such Person is not Trustee.

"Security Register" and "Security Registrar" have the respective meanings specified in Section 3.05.

"Senior Indebtedness" means the principal of (and premium, if any) and unpaid interest on (a) indebtedness of the Company (including indebtedness of others guaranteed by the Company), whether outstanding on the date hereof or thereafter created, incurred, assumed or guaranteed, for money borrowed, unless in the instrument creating or evidencing the same or under which the same is outstanding it is provided that such indebtedness is not senior or prior in right of payment to Subordinated Indebtedness, (b) Senior Securities, and (c) renewals, extensions, modifications and refinancings of any such indebtedness.

"Senior Security" or "Senior Securities" means any Security or Securities designated pursuant to Section 3.01 as a Senior Security.

"Senior Subordinated Indebtedness" means the principal of (and premium, if any) and unpaid interest on (a) indebtedness of the Company (including indebtedness of others guaranteed by the Company), whether outstanding

on the date hereof or thereafter created, incurred, assumed or guaranteed, for money borrowed, that in the instrument creating or evidencing the same or pursuant to which the same is outstanding it is provided that such indebtedness ranks junior in right of payment to the Company's Senior Indebtedness, equally and *pari passu* in right of payment with all other Senior Subordinated Indebtedness and senior in right of payment to any Junior Subordinated Indebtedness, (b) Senior Subordinated Securities, and (c) renewals, extensions, modifications and refinancings of any such indebtedness.

"Senior Subordinated Security" or "Senior Subordinated Securities" means any Security or Securities designated pursuant to Section 3.01 as a Senior Subordinated Security.

"Special Record Date" for the payment of any Defaulted Interest on the Registered Securities of or within any series means a date fixed by the Trustee pursuant to Section 3.07.

"Specified Amount" has the meaning specified in Section 3.12(h).

"Stated Maturity", when used with respect to any Security or any installment of principal thereof or interest thereon, means the date specified in such Security or a coupon representing such installment of interest as the fixed date on which the principal of such Security or such installment of principal or interest is due and payable, as such date may be extended pursuant to the provisions of Section 3.08.

"Subordinated Indebtedness" means any Senior Subordinated Indebtedness or Junior Subordinated Indebtedness.

"Subsequent Interest Period" has the meaning specified in Section 3.07(b).

"Subsidiary" means (1) any corporation a majority of the outstanding voting stock of which is owned, directly or indirectly, by the Company or by one or more other Subsidiaries of the Company, (2) any other Person (other than a corporation) in which such Person, one or more Subsidiaries of such Person, or such Person and one or more Subsidiaries of such Person, directly or indirectly, at the date of determination thereof has a majority ownership interest, or (3) a partnership in which such Person or a Subsidiary of such Person is, at the time, a general partner and in which such Person, directly or indirectly, at the date of determination thereof has a majority ownership interest. For the purposes of this definition, "voting stock" means stock having voting power for the election of directors, whether at all times or only so long as no senior class of stock has such voting power by reason of any contingency.

"Trust Indenture Act" or "TIA" means the Trust Indenture Act of 1939, as amended, as in force at the date as of which this Indenture was executed, except as provided in Section 9.05.

"Trustee" means the Person named as the "Trustee" in the first paragraph of this Indenture until a successor Trustee shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Trustee" shall mean or include each Person who is then a Trustee hereunder; provided, however, that if at any time there is more than one such Person, "Trustee" as used with respect to the Securities of any series shall mean only the Trustee with respect to Securities of that series.

"United States" means, unless otherwise specified with respect to any Securities pursuant to Section 3.01, the United States of America (including the states and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction.

"United States person" means, unless otherwise specified with respect to any Securities pursuant to Section 3.01, any individual who is a citizen or resident of the United States, a corporation, partnership or other entity created or organized in or under the laws of the United States, any state thereof or the District of Columbia (other than a partnership that is not treated as a United States Person under any applicable Treasury regulations), any estate the income of which is subject to United States federal income taxation regardless of its source, or any trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust. Notwithstanding the preceding sentence, to the extent provided in the Treasury regulations, certain trusts in existence on August 20, 1996, and treated as United States persons prior to such date that elect to continue to be treated as United States Persons, will also be United States persons.

"Valuation Date" has the meaning specified in Section 3.12(c).

"Yield to Maturity" means the yield to maturity, computed at the time of issuance of a Security (or, if applicable, at the most recent redetermination of interest on such Security) and as set forth in such Security in accordance with generally accepted United States bond yield computation principles.

Section 1.02. Compliance Certificates.

Upon any application or request by the Company to the Trustee to take any action under any provision of this Indenture, the Company shall furnish to the Trustee an Officers' Certificate stating that all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with and an Opinion of Counsel stating that in the opinion of such counsel all such conditions precedent, if any, have been complied with, except that in the case of any such application or request as to which the furnishing of such documents is specifically required by any provision of this Indenture relating to such particular application or request, no additional certificate or opinion need be furnished.

Every certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture (other than pursuant to Section 10.05) shall include:

(a) a statement that each individual signing such certificate or opinion has read such condition or covenant and the definitions herein relating thereto;

(b) a brief statement as to the nature and scope of the examination or investigation upon which the statements contained in such certificate are based;

(c) a statement that such individual signing the certificate or opinion has made such examination or investigation as is necessary to enable such individual to express an informed belief as to whether or not such condition or covenant has been complied with; and

(d) a statement as to whether such individual believes such condition or covenant has been complied with.

Section 1.03. Form of Documents Delivered to Trustee.

In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion as to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an officer of the Company may be based, insofar as it relates to legal matters, upon an Opinion of Counsel, or a certificate or representations by counsel, unless such officer knows, or in the exercise of reasonable care should know, that the opinion, certificate or representations with respect to the matters upon which his certificate or opinion is based are erroneous. Any such Opinion of Counsel or certificate or representations may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Company stating that the information as to such factual matters is in the possession of the Company, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations as to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

Section 1.04. Acts of Holders.

(a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Holders of the Outstanding Securities of all series or one or more series, as the case may be, may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by agents duly appointed in writing. If Securities of a series are issuable as Bearer Securities, any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Holders of Securities of such series may, alternatively, be embodied in and evidenced by the record of Holders of Securities of such series voting in favor thereof, either in person or by proxies duly appointed in writing, at any meeting of Holders of Securities of such series duly called and held in accordance with the provisions of Article Fifteen, or a combination of such instruments and any such record. Except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments or record or both are delivered to the Trustee and, where it is hereby expressly required, to the Company. Such instrument or instruments and any such record (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Holders signing such instrument or instruments or so voting at any such meeting. Proof of execution of any such instrument or of a writing appointing any such agent, or of the holding by any Person of a Security, shall be sufficient for any purpose of this Indenture and conclusive in favor of the Trustee and the Company and any agent of the Trustee or the Company, if made in the manner provided in this Section. The record of any meeting of Holders of Securities shall be proved in the manner provided in Section 15.06.

(b) The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him or her the execution thereof. Where such execution is by signer acting in a capacity other than his individual capacity, such certificate or affidavit shall also constitute sufficient proof of his authority. The fact and date of the execution of any such instrument or writing, or the authority of the Person executing the same, may also be proved in any other manner that the Trustee deems reasonably sufficient.

(c) The ownership of Registered Securities shall be proved by the Security Register.

(d) The ownership of Bearer Securities may be proved by the production of such Bearer Securities or by a certificate executed, as depositary, by any trust company, bank, banker or other depositary, wherever situated, if such certificate shall be deemed by the Trustee to be satisfactory, showing that at the date therein mentioned such Person had on deposit with such depositary, or exhibited to it, the Bearer Securities therein described; or such facts may be proved by the certificate or affidavit of the Person holding such Bearer Securities, if such certificate or affidavit is deemed by the Trustee to be satisfactory. The Trustee and the Company may assume that such ownership of any Bearer Security continues until (i) another certificate or affidavit bearing a later date issued in respect of the same Bearer Security is produced, or (ii) such Bearer Security is produced to the Trustee by some other Person, or (iii) such Bearer Security is surrendered in exchange for a Registered Security, or (iv) such Bearer Security is no longer Outstanding. The ownership of Bearer Securities may also be proved in any other manner that the Trustee deems reasonably sufficient.

(e) If the Company shall solicit from the Holders of Registered Securities any request, demand, authorization, direction, notice, consent, waiver or other Act, the Company may, at its option, in or pursuant to a Board Resolution, fix in advance a record date for the determination of Holders entitled to give such request, demand, authorization, direction, notice, consent, waiver or other Act, but the Company shall have no obligation to do so. Notwithstanding TIA Section 316(c), such record date shall be the record date specified in or pursuant to such Board Resolution, which shall be a date not earlier than the date 30 days prior to the first solicitation of Holders generally in connection therewith and not later than the date such solicitation is completed. If such a record date is fixed, such request, demand, authorization, direction, notice, consent, waiver or other Act may be given before or after such record date, but only the Holders of record at the close of business on such record date shall be deemed to be Holders for the purposes of determining whether Holders of the requisite proportion of Outstanding Securities have authorized or agreed or consented to such request, demand, authorization, direction, notice, consent, waiver or other Act, and for that purpose the Outstanding Securities shall be computed as of such record date; provided that no such authorization, agreement or consent by the Holders on such record date shall be deemed effective unless it shall become effective pursuant to the provisions of this Indenture not later than eleven months after the record date.

(f) Any request, demand, authorization, direction, notice, consent, waiver or other Act of the Holder

of any Security shall bind every future Holder of the same Security and the Holder of every Security issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustee, any Security Registrar, any Paying Agent, any Authenticating Agent or the Company in reliance thereon, whether or not notation of such action is made upon such Security.

Section 1.05. Notices, Etc., to Trustee and Company.

Any request, demand, authorization, direction, notice, consent, waiver or Act of Holders or other document provided or permitted by this Indenture to be made upon, given or furnished to, or filed with,

(i) the Trustee by any Holder or by the Company shall be sufficient for every purpose hereunder if in writing and mailed, first-class postage prepaid or sent via overnight courier guaranteeing next day delivery or same day messenger service to the Trustee at its Corporate Trust Office, Attention: Kohlberg Capital Corporation [identify Securities], or

(ii) the Company by the Trustee or by any Holder shall be sufficient for every purpose hereunder (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, or sent via overnight courier guaranteeing next day delivery or same day messenger service, to the Company, to the attention of its Chief Financial Officer at 295 Madison Avenue, 6th Floor, New York, New York 10017.

The Company or the Trustee, by notice to the other, may designate additional or different addresses for subsequent notices or communications.

All notices and communications (other than those sent to Holders) shall be deemed to have been duly given: (i) at the time delivered by hand, if personally delivered; (ii) five Business Days after being deposited in the mail, postage prepaid; and (iii) the next Business Day after timely delivery to the courier, if sent by overnight air courier guaranteeing next day delivery.

Section 1.06. Notice to Holders; Waiver.

Where this Indenture provides for notice of any event to Holders of Registered Securities by the Company or the Trustee, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, or by overnight courier guaranteeing next day delivery to each such Holder affected by such event, at his address as it appears in the Security Register, not later than the latest date, and not earlier than the earliest date, prescribed for the giving of such notice. Any notice or communication shall also be so mailed to any Person described in TIA Section 313(c), to the extent required by the TIA. In any case where notice to Holders of Registered Securities is given by mail or by overnight courier guaranteeing next day delivery, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Holder shall affect the sufficiency of such notice with respect to other Holders of Registered Securities or the sufficiency of any notice to Holders of Bearer Securities given as provided herein. Any notice mailed or sent to a Holder in the manner herein prescribed shall be conclusively deemed to have been received by such Holder, whether or not such Holder actually receives such notice.

If by reason of the suspension of or irregularities in regular mail service or by reason of any other cause it shall be impracticable to give such notice by mail, then such notification to Holders of Registered Securities as shall be made with the approval of the Trustee shall constitute a sufficient notification to such Holders for every purpose hereunder.

Except as otherwise expressly provided herein or otherwise specified with respect to any Securities pursuant to Section 3.01, where this Indenture provides for notice to Holders of Bearer Securities of any event, such notice shall be sufficiently given if published in an Authorized Newspaper in The City of New York and in such other city or cities as may be specified in such Securities on a Business Day, such publication to be not later than the latest date, and not earlier than the earliest date, prescribed for the giving of such notice. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the date of the first such publication.

If by reason of the suspension of publication of any Authorized Newspaper or Authorized Newspapers or by reason of any other cause it shall be impracticable to publish any notice to Holders of Bearer Securities as provided above, then such notification to Holders of Bearer Securities as shall be given with the approval of the Trustee shall constitute sufficient notice to such Holders for every purpose hereunder. Neither the failure to give notice by publication to Holders of Bearer Securities as provided above, nor any defect in any notice so published, shall affect the sufficiency of such notice with respect to other Holders of Bearer Securities or the sufficiency of any notice to Holders of Registered Securities given as provided herein.

Any request, demand, authorization, direction, notice, consent or waiver required or permitted under this Indenture shall be in the English language, except that any published notice may be in an official language of the country of publication.

Where this Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

Section 1.07. Effect of Headings and Table of Contents.

The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

Section 1.08. Successors and Assigns.

All covenants and agreements in this Indenture by the Company shall bind its successors and assigns, whether so expressed or not.

Section 1.09. Separability Clause.

In case any provision in this Indenture or in any Security or coupon shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 1.10. Benefits of Indenture.

Nothing in this Indenture or in the Securities or coupons, express or implied, shall give to any Person, other than the parties hereto, any Security Registrar, any Paying Agent, any Authenticating Agent and their successors hereunder and the Holders any benefit or any legal or equitable right, remedy or claim under this Indenture.

Section 1.11. Governing Law.

This Indenture and the Securities and coupons shall be governed by and construed in accordance with the law of the State of New York without regard to principles of conflicts of laws that would cause the application of laws of another jurisdiction. This Indenture is subject to the provisions of the Trust Indenture Act that are required to be part of this Indenture and shall, to the extent applicable, be governed by such provisions.

Section 1.12. Legal Holidays.

In any case where any Interest Payment Date, Redemption Date, Repayment Date, sinking fund payment date, Stated Maturity or Maturity of any Security shall not be a Business Day at any Place of Payment, then (notwithstanding any other provision of this Indenture or any Security or coupon other than a provision in the Securities of any series which specifically states that such provision shall apply in lieu of this Section), payment of principal (or premium, if any) or interest, if any, need not be made at such Place of Payment on such date, but may be made on the next succeeding Business Day at such Place of Payment with the same force and effect as if made on the Interest Payment Date, Redemption Date, Repayment Date or sinking fund payment date, or at the Stated Maturity or Maturity; provided that no interest shall accrue on the amount so payable for the period from and after such Interest Payment Date, Redemption Date, Repayment Date, sinking fund payment date, Stated Maturity or Maturity, as the case may be.

Section 1.13. Submission to Jurisdiction.

The Company hereby irrevocably submits to the non-exclusive jurisdiction of any New York state or federal court sitting in The City of New York in any action or proceeding arising out of or relating to the Indenture and the Securities of any series, and the Company hereby irrevocably agrees that all claims in respect of such action or proceeding may be heard and determined in such New York state or federal court. The Company hereby irrevocably waives, to the fullest extent it may effectively do so, the defense of an inconvenient forum to the maintenance of such action or proceeding.

ARTICLE TWO

SECURITIES FORMS

Section 2.01. Forms of Securities.

The Registered Securities, if any, of each series and the Bearer Securities, if any, of each series and related coupons, the temporary global Securities of each series, if any, and the permanent global Securities of each series, if any, to be endorsed thereon shall be in substantially the forms as shall be established in one or more indentures supplemental hereto or approved from time to time by or pursuant to a Board Resolution in accordance with Section 3.01, shall have such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture or any indenture supplemental hereto, and may have such letters, numbers or other marks of identification or designation and such legends or endorsements placed thereon as the Company may deem appropriate and as are not inconsistent with the provisions of this Indenture, or as may be required to comply with any law or with any rule or regulation made pursuant thereto or with any rule or regulation of any stock exchange on which the Securities may be listed, or to conform to usage.

Unless otherwise specified as contemplated by Section 3.01, Bearer Securities shall have interest coupons attached.

The definitive Securities and coupons shall be printed, lithographed or engraved or produced by any combination of these methods on a steel engraved border or steel engraved borders or may be produced in any other manner, all as determined by the officers executing such Securities or coupons, as evidenced by their execution of such Securities or coupons.

Section 2.02. Form of Trustee's Certificate of Authentication.

Subject to Section 6.11, the Trustee's certificate of authentication shall be in substantially the following form:

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

[ ], as Trustee

By:
Authorized Officer

Section 2.03. Securities Issuable in Global Form.

If Securities of or within a series are issuable in global form, as specified as contemplated by Section 3.01, then, notwithstanding the provisions of Section 3.02, any such Security shall represent such of the Outstanding Securities of such series as shall be specified therein and may provide that it shall represent the aggregate amount of Outstanding Securities of such series from time to time endorsed thereon and that the aggregate amount of Outstanding Securities of such series represented thereby may from time to time be increased or decreased to reflect exchanges. Any endorsement of a Security in global form to reflect the amount, or any increase or decrease in the amount, of Outstanding Securities represented thereby shall be made by the Trustee or the Security Registrar in such manner and upon instructions given by such Person or Persons as shall be specified therein or in the Company Order to be delivered to the Trustee pursuant to Section 3.03 or 3.04. Subject to the provisions of Section 3.03 and, if applicable, Section 3.04, the Trustee or the Security Registrar shall deliver and redeliver any Security in permanent global form in the manner and upon instructions given by the Person or Persons specified therein or in the applicable Company Order. If a Company Order pursuant to Section 3.03 or 3.04 has been, or simultaneously is, delivered, any instructions by the Company with respect to endorsement, delivery or redelivery of a Security in global form shall be in writing but need not comply with Section 1.02 and need not be accompanied by an Opinion of Counsel.

The provisions of the last sentence of Section 3.03 shall apply to any Security represented by a Security in global form if such Security was never issued and sold by the Company and the Company delivers to the Trustee or the Security Registrar the Security in global form together with written instructions (which need not comply with Section 1.02 and need not be accompanied by an Opinion of Counsel) with regard to the reduction in the principal amount of Securities represented thereby, together with the written statement contemplated by the last sentence of Section 3.03.

Notwithstanding the provisions of Section 3.07, unless otherwise specified as contemplated by Section 3.01, payment of principal of (and premium, if any) and interest, if any, on any Security in permanent global form shall be made to the Person or Persons specified therein.

Notwithstanding the provisions of Section 3.09 and except as provided in the preceding paragraph, the Company, the Trustee and any agent of the Company and the Trustee shall treat as the Holder of such principal amount of Outstanding Securities represented by a permanent global Security (i) in the case of a permanent global Security in registered form, the Holder of such permanent global Security in registered form, or (ii) in the case of a permanent global Security in bearer form, Euroclear or Clearstream.

ARTICLE THREE

THE SECURITIES

Section 3.01. Amount Unlimited; Issuable in Series.

The aggregate principal amount of Securities which may be authenticated and delivered under this Indenture is unlimited.

The Securities may be issued in one or more series and shall be designated as Senior Securities, Senior Subordinated Securities or Junior Subordinated Securities. Senior Securities are unsubordinated, shall rank equally and *pari passu* with all of the Company's Senior Indebtedness and senior to all Subordinated Securities. Senior Subordinated Securities shall rank junior to the Company's Senior Indebtedness, equally and *pari passu* with all other Senior Subordinated Indebtedness and senior to any Junior Subordinated Indebtedness. Junior Subordinated Securities shall rank junior to the Company's Senior Indebtedness and any Senior Subordinated Indebtedness and equally and *pari passu* with all other Junior Subordinated Indebtedness. There shall be established in one or more Board Resolutions or pursuant to authority granted by one or more Board Resolutions and, subject to Section 3.03, set forth, or determined in the manner provided, in an Officers' Certificate, or established in one or more indentures supplemental hereto, prior to the issuance of Securities of any series, any or all of the following, as applicable (each of which (except for the matters set forth in clauses (i), (ii) and (xv) below), if so provided, may be determined from time to time by the Company with respect to unissued Securities of the series when issued from time to time):

(i) the title of the Securities of the series including CUSIP numbers (which shall distinguish the Securities of such series from all other series of Securities);

(ii) any limit upon the aggregate principal amount of the Securities of the series that may be authenticated and delivered under this Indenture (except for Securities authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Securities of the series pursuant to Section 3.04, 3.05, 3.06, 9.06, 11.07 or 13.05, and except for any Securities which, pursuant to Section 3.03, are deemed never to have been authenticated and delivered hereunder);

(iii) the date or dates, or the method by which such date or dates will be determined or extended, on which the principal of the Securities of the series shall be payable;

(iv) the rate or rates at which the Securities of the series shall bear interest, if any, or the method by which such rate or rates shall be determined, the date or dates from which such interest shall accrue or the method by which such date or dates shall be determined, the Interest Payment Dates on which such interest will be payable and the Regular Record Date, if any, for the interest payable on any Registered Security on any Interest Payment Date, or the method by which such date shall be determined, and the basis upon which such interest shall be calculated if other than that of a 360-day year of twelve 30-day months;

(v) the place or places, if any, other than or in addition to the Borough of Manhattan, The City of New York, where the principal of (and premium, if any) and interest, if any, on Securities of the series shall be payable, any Registered Securities of the series may be surrendered for registration of transfer, Securities of the series may be surrendered for exchange, where Securities of that series that are convertible or exchangeable may be surrendered for conversion or exchange, as applicable, and where notices or demands to or upon the Company in respect of the Securities of the series and this Indenture may be served;

(vi) the period or periods within which, or the date or dates on which, the price or prices at which, the Currency or Currencies in which, and other terms and conditions upon which Securities of the series may be redeemed, in whole or in part, at the option of the Company, if the Company is to have the option;

(vii) the obligation, if any, of the Company to redeem, repay or purchase Securities of the series pursuant to any sinking fund or analogous provision or at the option of a Holder thereof, and the period or periods within which or the date or dates on which, the price or prices at which, the Currency or Currencies in which, and other terms and conditions upon which Securities of the series shall be redeemed, repaid or purchased, in whole or in part, pursuant to such obligation;

(viii) if other than denominations of $1,000 and any integral multiple thereof, the denomination or denominations in which any Registered Securities of the series shall be issuable and, if other than denominations of $5,000, the denomination or denominations in which any Bearer Securities of the series shall be issuable;

(ix) if other than the Trustee, the identity of each Security Registrar and/or Paying Agent;

(x) if other than the principal amount thereof, the portion of the principal amount of Securities of the series that shall be payable upon declaration of acceleration of the Maturity thereof pursuant to Section 5.02, upon redemption of the Securities of the series which are redeemable before their Stated Maturity, upon surrender for repayment at the option of the Holder, or which the Trustee shall be entitled to claim pursuant to Section 5.04 or the method by which such portion shall be determined;

(xi) if other than Dollars, the Currency or Currencies in which payment of the principal of (or premium, if any) or interest, if any, on the Securities of the series shall be made or in which the Securities of the series shall be denominated and the particular provisions applicable thereto in accordance with, in addition to or in lieu of any of the provisions of Section 3.12;

(xii) whether the amount of payments of principal of (or premium, if any) or interest, if any, on the Securities of the series may be determined with reference to an index, formula or other method (which index, formula or method may be based, without limitation, on one or more Currencies, commodities, equity indices or other indices), and the manner in which such amounts shall be determined;

(xiii) whether the principal of (or premium, if any) or interest, if any, on the Securities of the series are to be payable, at the election of the Company or a Holder thereof, in one or more Currencies other than that in which such Securities are denominated or stated to be payable, the period or periods within which (including the Election Date), and the terms and conditions upon which, such election may be made, and the time and manner of determining the exchange rate between the Currency or Currencies in which such Securities are denominated or stated to be payable and the Currency or Currencies in which such Securities are to be paid, in each case in accordance with, in addition to or in lieu of any of the provisions of Section 3.12;

(xiv) provisions, if any, granting special rights to the Holders of Securities of the series, including, without limitation, with respect to any collateral securing such Securities;

(xv) any deletions from, modifications of or additions to the Events of Default or covenants (including any deletions from, modifications of or additions to any of the provisions of Section 10.07) of the Company with respect to Securities of the series, whether or not such Events of Default or covenants are consistent with the Events of Default or covenants set forth herein;

(xvi) whether Securities of the series are to be issuable as Registered Securities, Bearer Securities (with or without coupons) or both, any restrictions applicable to the offer, sale or delivery of Bearer Securities and the terms upon which Bearer Securities of the series may be exchanged for Registered Securities of the series and vice versa (if permitted by applicable laws and regulations), whether any Securities of the series are to be issuable initially in temporary global form with or without coupons and whether any Securities of the series are to be issuable in permanent global form with or without coupons and, if so, whether beneficial owners of interests in any such permanent global Security may exchange such interests for Securities of such series in certificated form and of like tenor of any authorized form and denomination and the circumstances under which any such exchanges may occur, if other than in the manner provided in Section 3.05, whether Registered Securities of the series may be exchanged for Bearer Securities of the series (if permitted by applicable laws and regulations), whether Bearer Securities of the series may be exchanged for Registered Securities of the series, and the circumstances under which and the place or places where such exchanges may be made and if Securities of the series are to be issuable as a global Security, the identity of the depository for such series;

(xvii) the date as of which any Bearer Securities of the series and any temporary global Security representing Outstanding Securities of the series shall be dated if other than the date of original issuance of the first Security of the series to be issued;

(xviii) the Person to whom any interest on any Registered Security of the series shall be payable, if other than the Person in whose name such Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest, the manner in which, or the Person to whom, any interest on any Bearer Security of the series shall be payable, if otherwise than upon presentation and surrender of the coupons appertaining thereto as they severally mature, and the extent to which, or the manner in which, any interest payable on a temporary global Security on an Interest Payment Date will be paid if other than in the manner provided in Section 3.04; and the extent to which, or the manner in which, any interest payable on a permanent global Security on an Interest Payment Date will be paid if other than in the manner provided in Section 3.07;

(xix) the applicability, if any, of Sections 14.02 and/or 14.03 to the Securities of the series and any provisions in modification of, in addition to or in lieu of any of the provisions of Article Fourteen;

(xx) if the Securities of such series are to be issuable in definitive form (whether upon original issue or upon exchange of a temporary Security of such series) only upon receipt of certain certificates or other documents or satisfaction of other conditions, then the form and/or terms of such certificates, documents or conditions;

(xxi) whether, under what circumstances and the Currency in which, the Company will pay Additional Amounts as contemplated by Section 10.04 on the Securities of the series to any Holder who is not a United States

Person (including any modification to the definition of such term) in respect of any tax, assessment or governmental charge and, if so, whether the Company will have the option to redeem such Securities rather than pay such Additional Amounts (and the terms of any such option);

(xxii) the designation of the initial Exchange Rate Agent, if any;

(xxiii) if the Securities of the series are to be issued upon the exercise of warrants, the time, manner and place for such Securities to be authenticated and delivered;

(xxiv) if the Securities of the series are to be convertible into or exchangeable for any securities of any Person (including the Company), the terms and conditions upon which such Securities will be so convertible or exchangeable;

(xxv) if the Securities of the series are to be listed on a securities exchange, the name of such exchange; and

(xxvi) any other terms of the series (which terms shall not be inconsistent with the provisions of this Indenture or the requirements of the Trust Indenture Act), including, but not limited to, secured Securities and guarantees of Securities.

All Securities of any one series and the coupons appertaining to any Bearer Securities of such series shall be substantially identical except, in the case of Registered Securities, as to denomination and except as may otherwise be provided in or pursuant to the Board Resolution referred to above (subject to Section 3.03) and set forth in the Officers' Certificate referred to above or in any such indenture supplemental hereto. All Securities of any one series need not be issued at the same time and, unless otherwise provided, a series may be reopened, without the consent of the Holders, for issuances of additional Securities of such series.

If any of the terms of the Securities of any series are established by action taken pursuant to one or more Board Resolutions, a copy of an appropriate record of such action(s) shall be certified by the Secretary or an Assistant Secretary of the Company and delivered to the Trustee at or prior to the delivery of the Officers' Certificate setting forth the terms of the Securities of such series.

Section 3.02. Denominations.

The Securities of each series shall be issuable in such denominations as shall be specified as contemplated by Section 3.01. With respect to Securities of any series denominated in Dollars, in the absence of any such provisions with respect to the Securities of any series, the Registered Securities of such series, other than Registered Securities issued in global form (which may be of any denomination) shall be issuable in denominations of $1,000 and any integral multiple thereof, and the Bearer Securities of such series, other than Bearer Securities issued in global form (which may be of any denomination), shall be issuable in a denomination of $5,000.

Section 3.03. Execution, Authentication, Delivery and Dating.

The Securities and any coupons appertaining thereto shall be executed on behalf of the Company by its Chief Executive Officer, Chief Financial Officer, or President or one of its Vice Presidents, and attested by its Secretary or one of its Assistant Secretaries. The signature of any of these officers on the Securities and coupons may be manual or facsimile signatures of the present or any future such authorized officer and may be imprinted or otherwise reproduced on the Securities.

Securities or coupons bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Securities or did not hold such offices at the date of such Securities or coupons.

At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver

Securities of any series, together with any coupon appertaining thereto, executed by the Company, to the Trustee for authentication, together with a Company Order for the authentication and delivery of such Securities, and the Trustee in accordance with the Company Order shall authenticate and deliver such Securities; provided, however, that, in connection with its original issuance, no Bearer Security shall be mailed or otherwise delivered to any location in the United States; and provided further that, unless otherwise specified with respect to any series of Securities pursuant to Section 3.01, a Bearer Security may be delivered in connection with its original issuance only if the Person entitled to receive such Bearer Security shall have furnished a certificate in the form set forth in Exhibit A-1 to this Indenture or such other certificate as may be specified with respect to any series of Securities pursuant to Section 3.01, dated no earlier than 15 days prior to the earlier of the date on which such Bearer Security is delivered and the date on which any temporary Security first becomes exchangeable for such Bearer Security in accordance with the terms of such temporary Security and this Indenture. If any Security shall be represented by a permanent global Bearer Security, then, for purposes of this Section and Section 3.04, the notation of a beneficial owner's interest therein upon original issuance of such Security or upon exchange of a portion of a temporary global Security shall be deemed to be delivery in connection with its original issuance of such beneficial owner's interest in such permanent global Security. Except as permitted by Section 3.06, the Trustee shall not authenticate and deliver any Bearer Security unless all appurtenant coupons for interest then matured have been detached and cancelled. If all the Securities of any series are not to be issued at one time and if the Board Resolution or supplemental indenture establishing such series shall so permit, such Company Order may set forth procedures acceptable to the Trustee for the issuance of such Securities and determining the terms of particular Securities of such series, such as interest rate, maturity date, date of issuance and date from which interest shall accrue. In authenticating such Securities, and accepting the additional responsibilities under this Indenture in relation to such Securities, the Trustee shall be entitled to receive, and (subject to TIA Section 315(a) through 315(d)) shall be fully protected in relying upon,

(a) an Opinion of Counsel stating,

(i) that the form or forms of such Securities and any coupons have been established in conformity with the provisions of this Indenture;

(ii) that the terms of such Securities and any coupons have been established in conformity with the provisions of this Indenture; and

(iii) that such Securities, together with any coupons appertaining thereto, when completed by appropriate insertions and executed and delivered by the Company to the Trustee for authentication in accordance with this Indenture, authenticated and delivered by the Trustee in accordance with this Indenture and issued by the Company in the manner and subject to any conditions specified in such Opinion of Counsel, will constitute legal, valid and binding obligations of the Company, enforceable in accordance with their terms, subject to applicable bankruptcy, insolvency, reorganization and other similar laws of general applicability relating to or affecting the enforcement of creditors' rights, to general equitable principles and to such other qualifications as such counsel shall conclude do not materially affect the rights of Holders of such Securities and any coupons; and

(iv) an Officers' Certificate stating, to the best of the knowledge of the signers of such certificate, that no Event of Default with respect to any of the Securities shall have occurred and be continuing.

Notwithstanding the provisions of Section 3.01 and of this Section 3.03, if all the Securities of any series are not to be issued at one time, it shall not be necessary to deliver an Officers' Certificate otherwise required pursuant to Section 3.01 or the Company Order, Opinion of Counsel or Officers' Certificate otherwise required pursuant to the preceding paragraph at the time of issuance of each Security of such series, but such order, opinion and certificates, with appropriate modifications to cover such future issuances, shall be delivered at or before the time of issuance of the first Security of such series.

If such form or terms have been so established, the Trustee shall not be required to authenticate such Securities if the issue of such Securities pursuant to this Indenture will affect the Trustee's own rights, duties, obligations or immunities under the Securities and this Indenture or otherwise in a manner that is not reasonably acceptable to the Trustee. Notwithstanding the generality of the foregoing, the Trustee will not be required to authenticate Securities denominated in a Foreign Currency if the Trustee reasonably believes that it would be unable to perform its duties with respect to such Securities.

Each Registered Security shall be dated the date of its authentication and each Bearer Security shall be dated as of the date specified as contemplated by Section 3.01.

No Security or coupon shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose unless there appears on such Security or Security to which such coupon appertains a certificate of authentication substantially in the form provided for herein duly executed by the Trustee or an Authenticating Agent by manual signature of an authorized signatory, and such certificate upon any Security shall be conclusive evidence, and the only evidence, that such Security has been duly authenticated and delivered hereunder and is entitled to the benefits of this Indenture. Notwithstanding the foregoing, if any Security shall have been authenticated and delivered hereunder but never issued and sold by the Company, and the Company shall deliver such Security to the Trustee for cancellation as provided in Section 3.10 together with a written statement (which need not comply with Section 1.02 and need not be accompanied by an Opinion of Counsel) stating that such Security has never been issued and sold by the Company, for all purposes of this Indenture such Security shall be deemed never to have been authenticated and delivered hereunder and shall never be entitled to the benefits of this Indenture.

Section 3.04. Temporary Securities.

(a) Pending the preparation of definitive Securities of any series, the Company may execute, and upon Company Order the Trustee shall authenticate and deliver, temporary Securities that are printed, lithographed, typewritten, mimeographed or otherwise produced, in any authorized denomination, substantially of the tenor of the definitive Securities in lieu of which they are issued, in registered form, or, if authorized, in bearer form with one or more coupons or without coupons, and with such appropriate insertions, omissions, substitutions and other variations as the officers executing such Securities may determine, as conclusively evidenced by their execution of such Securities. In the case of Securities of any series, such temporary Securities may be in global form.

Except in the case of temporary Securities in global form (which shall be exchanged in accordance with Section 3.04(b) or as otherwise provided in or pursuant to a Board Resolution), if temporary Securities of any series are issued, the Company will cause definitive Securities of that series to be prepared without unreasonable delay. After the preparation of definitive Securities of such series, the temporary Securities of such series shall be exchangeable for definitive Securities of such series upon surrender of the temporary Securities of such series at the office or agency of the Company in a Place of Payment for that series, without charge to the Holder. Upon surrender for cancellation of any one or more temporary Securities of any series (accompanied by any non-matured coupons appertaining thereto), the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a like principal amount and like tenor of definitive Securities of the same series of authorized denominations; provided, however, that no definitive Bearer Security shall be delivered in exchange for a temporary Registered Security; and provided further that a definitive Bearer Security shall be delivered in exchange for a temporary Bearer Security only in compliance with the conditions set forth in Section 3.03. Until so exchanged, the temporary Securities of any series shall in all respects be entitled to the same benefits under this Indenture as definitive Securities of such series.

(b) Unless otherwise provided in or pursuant to a Board Resolution, this Section 3.04(b) shall govern the exchange of temporary Bearer Securities issued in global form. If temporary Bearer Securities of any series are issued in global form, any such temporary global Bearer Security shall, unless otherwise provided therein, be delivered to the London office of a depositary or common depositary (the "Common Depositary"), for the benefit of Euroclear and Clearstream, for credit to the respective accounts of the beneficial owners of such Bearer Securities (or to such other accounts as they may direct).

Without unnecessary delay but in any event not later than the date specified in, or determined pursuant to the terms of, any such temporary global Bearer Security (the "Exchange Date"), the Company shall deliver to the Trustee definitive Bearer Securities, in aggregate principal amount equal to the principal amount of such temporary global Bearer Security, executed by the Company. On or after the Exchange Date, such temporary global Bearer Security shall be surrendered by the Common Depositary to the Trustee, as the Company's agent for such purpose, or to the Security Registrar, to be exchanged, in whole or from time to time in part, for definitive Bearer Securities without charge, and the Trustee shall authenticate and deliver, in exchange for each portion of such temporary global Bearer Security, an equal aggregate principal amount of definitive Bearer Securities of the same series of authorized

denominations and of like tenor as the portion of such temporary global Bearer Security to be exchanged. The definitive Bearer Securities to be delivered in exchange for any such temporary global Bearer Security shall be in bearer form, registered form, permanent global bearer form or permanent global registered form, or any combination thereof, as specified as contemplated by Section 3.01, and, if any combination thereof is so specified, as requested by the beneficial owner thereof; provided, however, that, unless otherwise specified in such temporary global Bearer Security, upon such presentation by the Common Depositary, such temporary global Bearer Security is accompanied by a certificate dated the Exchange Date or a subsequent date and signed by Euroclear as to the portion of such temporary global Bearer Security held for its account then to be exchanged and a certificate dated the Exchange Date or a subsequent date and signed by Clearstream as to the portion of such temporary global Bearer Security held for its account then to be exchanged, each in the form set forth in Exhibit A-2 to this Indenture or in such other form as may be established pursuant to Section 3.01; and provided further that definitive Bearer Securities shall be delivered in exchange for a portion of a temporary global Bearer Security only in compliance with the requirements of Section 3.03.

Unless otherwise specified in such temporary global Bearer Security, the interest of a beneficial owner of Bearer Securities of a series in a temporary global Bearer Security shall be exchanged for definitive Bearer Securities of the same series and of like tenor following the Exchange Date when the account holder instructs Euroclear or Clearstream, as the case may be, to request such exchange on his behalf and delivers to Euroclear or Clearstream, as the case may be, a certificate in the form set forth in Exhibit A-1 to this Indenture (or in such other form as may be established pursuant to Section 3.01), dated no earlier than 15 days prior to the Exchange Date, copies of which certificate shall be available from the offices of Euroclear and Clearstream, the Trustee, any Authenticating Agent appointed for such series of Bearer Securities and each Paying Agent. Unless otherwise specified in such temporary global Bearer Security, any such exchange shall be made free of charge to the beneficial owners of such temporary global Bearer Security, except that a Person receiving definitive Bearer Securities must bear the cost of insurance, postage, transportation and the like unless such Person takes delivery of such definitive Bearer Securities in person at the offices of Euroclear or Clearstream. Definitive Bearer Securities in bearer form to be delivered in exchange for any portion of a temporary global Bearer Security shall be delivered only outside the United States.

Until exchanged in full as hereinabove provided, the temporary Bearer Securities of any series shall in all respects be entitled to the same benefits under this Indenture as definitive Bearer Securities of the same series and of like tenor authenticated and delivered hereunder, except that, unless otherwise specified as contemplated by Section 3.01, interest payable on a temporary global Bearer Security on an Interest Payment Date for Bearer Securities of such series occurring prior to the applicable Exchange Date shall be payable to Euroclear and Clearstream on such Interest Payment Date upon delivery by Euroclear and Clearstream to the Trustee or the applicable Paying Agent of a certificate or certificates in the form set forth in Exhibit A-2 to this Indenture (or in such other forms as may be established pursuant to Section 3.01), for credit without further interest on or after such Interest Payment Date to the respective accounts of Persons who are the beneficial owners of such temporary global Bearer Security on such Interest Payment Date and who have each delivered to Euroclear or Clearstream, as the case may be, a certificate dated no earlier than 15 days prior to the Interest Payment Date occurring prior to such Exchange Date in the form set forth as Exhibit A-1 to this Indenture (or in such other forms as may be established pursuant to Section 3.01). Notwithstanding anything to the contrary herein contained, the certifications made pursuant to this paragraph shall satisfy the certification requirements of the preceding two paragraphs of this Section 3.04(b) and of the third paragraph of Section 3.03 of this Indenture and the interests of the Persons who are the beneficial owners of the temporary global Bearer Security with respect to which such certification was made will be exchanged for definitive Bearer Securities of the same series and of like tenor on the Exchange Date or the date of certification if such date occurs after the Exchange Date, without further act or deed by such beneficial owners. Except as otherwise provided in this paragraph, no payments of principal (or premium, if any) or interest, if any, owing with respect to a beneficial interest in a temporary global Bearer Security will be made unless and until such interest in such temporary global Bearer Security shall have been exchanged for an interest in a definitive Bearer Security. Any interest so received by Euroclear and Clearstream and not paid as herein provided shall be returned to the Trustee or the applicable Paying Agent immediately prior to the expiration of two years after such Interest Payment Date in order to be repaid to the Company.

Section 3.05. Registration, Registration of Transfer and Exchange.

The Company shall cause to be kept at the Corporate Trust Office of the Trustee or in any office or agency of the

Company in a Place of Payment a register for each series of Securities (the registers maintained in such office or in any such office or agency of the Company in a Place of Payment being herein sometimes referred to collectively as the "Security Register") in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of Registered Securities and of transfers of Registered Securities. The Security Register shall be in written form or any other form capable of being converted into written form within a reasonable time. The Trustee, at its Corporate Trust Office, is hereby initially appointed "Security Registrar" for the purpose of registering Registered Securities and transfers of Registered Securities on such Security Register as herein provided, and for facilitating exchanges of temporary global Securities for permanent global Securities or definitive Securities, or both, or of permanent global Securities for definitive Securities, or both, as herein provided.

In the event that the Trustee shall cease to be Security Registrar, it shall have the right to examine the Security Register at all reasonable times.

Upon surrender for registration of transfer of any Registered Security of any series at any office or agency of the Company in a Place of Payment for that series, the Company shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Registered Securities of the same series, of any authorized denominations and of a like aggregate principal amount, bearing a number not contemporaneously outstanding and containing identical terms and provisions.

At the option of the Holder, Registered Securities of any series may be exchanged for other Registered Securities of the same series, of any authorized denomination or denominations and of a like aggregate principal amount, containing identical terms and provisions, upon surrender of the Registered Securities to be exchanged at any such office or agency. Whenever any Registered Securities are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Registered Securities that the Holder making the exchange is entitled to receive. Unless otherwise specified with respect to any series of Securities as contemplated by Section 3.01, Bearer Securities may not be issued in exchange for Registered Securities.

If (but only if) permitted by the applicable Board Resolution and (subject to Section 3.03) set forth in the applicable Officers' Certificate, or in any indenture supplemental hereto, delivered as contemplated by Section 3.01, at the option of the Holder, Bearer Securities of any series may be exchanged for Registered Securities of the same series of any authorized denominations and of a like aggregate principal amount and tenor, upon surrender of the Bearer Securities to be exchanged at any such office or agency, with all unmatured coupons and all matured coupons in default thereto appertaining. If the Holder of a Bearer Security is unable to produce any such unmatured coupon or coupons or matured coupon or coupons in default, any such permitted exchange may be effected if the Bearer Securities are accompanied by payment in funds acceptable to the Company in an amount equal to the face amount of such missing coupon or coupons, or the surrender of such missing coupon or coupons may be waived by the Company and the Trustee if there is furnished to them such security or indemnity as they may require to save each of them and any Paying Agent harmless. If thereafter the Holder of such Security shall surrender to any Paying Agent any such missing coupon in respect of which such a payment shall have been made, such Holder shall be entitled to receive the amount of such payment; provided, however, that, except as otherwise provided in Section 10.02, interest represented by coupons shall be payable only upon presentation and surrender of those coupons at an office or agency located outside the United States. Notwithstanding the foregoing, in case a Bearer Security of any series is surrendered at any such office or agency in a permitted exchange for a Registered Security of the same series and like tenor after the close of business at such office or agency on (i) any Regular Record Date and before the opening of business at such office or agency on the relevant Interest Payment Date, or (ii) any Special Record Date and before the opening of business at such office or agency on the related proposed date for payment of Defaulted Interest, such Bearer Security shall be surrendered without the coupon relating to such Interest Payment Date or proposed date for payment, as the case may be, and interest or Defaulted Interest, as the case may be, will not be payable on such Interest Payment Date or proposed date for payment, as the case may be, in respect of the Registered Security issued in exchange for such Bearer Security, but will be payable only to the Holder of such coupon when due in accordance with the provisions of this Indenture.

Whenever any Securities are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Securities that the Holder making the exchange is entitled to receive.

Notwithstanding the foregoing, except as otherwise specified as contemplated by Section 3.01, any permanent

global Security shall be exchangeable only as provided in this paragraph. If any beneficial owner of an interest in a permanent global Security is entitled to exchange such interest for Securities of such series and of like tenor and principal amount of another authorized form and denomination, as specified as contemplated by Section 3.01 and provided that any applicable notice provided in the permanent global Security shall have been given, then without unnecessary delay but in any event not later than the earliest date on which such interest may be so exchanged, the Company shall deliver to the Trustee definitive Securities in aggregate principal amount equal to the principal amount of such beneficial owner's interest in such permanent global Security, executed by the Company. On or after the earliest date on which such interests may be so exchanged, such permanent global Security shall be surrendered by the Common Depositary or such other depositary as shall be specified in the Company Order with respect thereto to the Trustee, as the Company's agent for such purpose, or to the Security Registrar, to be exchanged, in whole or from time to time in part, for definitive Securities of the same series without charge and the Trustee shall authenticate and deliver, in exchange for each portion of such permanent global Security, an equal aggregate principal amount of definitive Securities of the same series of authorized denominations and of like tenor as the portion of such permanent global Security to be exchanged which, unless the Securities of the series are not issuable both as Bearer Securities and as Registered Securities, in which case the definitive Securities exchanged for the permanent global Security shall be issuable only in the form in which the Securities are issuable, as specified as contemplated by Section 3.01, shall be in the form of Bearer Securities or Registered Securities, or any combination thereof, as shall be specified by the beneficial owner thereof; provided, however, that no such exchanges may occur during a period beginning at the opening of business 15 days before any selection of Securities to be redeemed and ending on the relevant Redemption Date if the Security for which exchange is requested may be among those selected for redemption; and provided further that no Bearer Security delivered in exchange for a portion of a permanent global Security shall be mailed or otherwise delivered to any location in the United States. If a Registered Security is issued in exchange for any portion of a permanent global Security after the close of business at the office or agency where such exchange occurs on (i) any Regular Record Date and before the opening of business at such office or agency on the relevant Interest Payment Date, or (ii) any Special Record Date and before the opening of business at such office or agency on the related proposed date for payment of Defaulted Interest or interest, as the case may be, will not be payable on such Interest Payment Date or proposed date for payment, as the case may be, in respect of such Registered Security, but will be payable on such Interest Payment Date or proposed date for payment, as the case may be, only to the Person to whom interest in respect of such portion of such permanent global Security is payable in accordance with the provisions of this Indenture.

All Securities issued upon any registration of transfer or exchange of Securities shall be valid obligations of the Company, evidencing the same debt and entitled to the same benefits under this Indenture, as the Securities surrendered upon such registration of transfer or exchange.

Every Registered Security presented or surrendered for registration of transfer or for exchange shall (if so required by the Company or the Security Registrar or any transfer agent) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar, duly executed by the Holder thereof or his attorney or any transfer agent duly authorized in writing.

No service charge shall be made for any registration of transfer or exchange of Securities, but the Company or the Trustee may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Securities, other than exchanges pursuant to Section 3.04, 9.06, 11.07 or 13.05 not involving any transfer.

The Company shall not be required (i) to issue, register the transfer of or exchange any Security if such Security may be among those selected for redemption during a period beginning at the opening of business 15 days before selection of the Securities to be redeemed under Section 11.03 and ending at the close of business on (A) if such Securities are issuable only as Registered Securities, the day of the mailing of the relevant notice of redemption and (B) if such Securities are issuable as Bearer Securities, the day of the first publication of the relevant notice of redemption or, if such Securities are also issuable as Registered Securities and there is no publication, the mailing of the relevant notice of redemption, or (ii) to register the transfer of or exchange any Registered Security so selected for redemption in whole or in part, except, in the case of any Registered Security to be redeemed in part, the portion thereof not to be redeemed, or (iii) to exchange any Bearer Security so selected for redemption except that such a Bearer Security may be exchanged for a Registered Security of that series and like tenor, provided that such Registered Security shall be simultaneously surrendered for redemption, or (iv) to issue, register the transfer of or exchange any Security that has been surrendered for repayment at the option of the Holder, except the portion, if any, of such Security not to be so repaid.

Section 3.06. Mutilated, Destroyed, Lost and Stolen Securities.

If any mutilated Security or a Security with a mutilated coupon appertaining to it is surrendered to the Trustee or the Company, together with, in proper cases, such security or indemnity as may be required by the Company or the Trustee to save each of them or any agent of either of them harmless, the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a new Security of the same series and principal amount, containing identical terms and provisions and bearing a number not contemporaneously outstanding, with coupons corresponding to the coupons, if any, appertaining to the surrendered Security.

If there shall be delivered to the Company and to the Trustee (i) evidence to their satisfaction of the destruction, loss or theft of any Security or coupon, and (ii) such security or indemnity as may be required by them to save each of them and any agent of either of them harmless, then, in the absence of notice to the Company or the Trustee that such Security or coupon has been acquired by a protected purchaser, the Company shall, subject to the following paragraph, execute and upon its request the Trustee shall authenticate and deliver, in lieu of any such destroyed, lost or stolen Security or in exchange for the Security to which a destroyed, lost or stolen coupon appertains (with all appurtenant coupons not destroyed, lost or stolen), a new Security of the same series and principal amount, containing identical terms and provisions and bearing a number not contemporaneously outstanding, with coupons corresponding to the coupons, if any, appertaining to such destroyed, lost or stolen Security or to the Security to which such destroyed, lost or stolen coupon appertains.

Notwithstanding the provisions of the previous two paragraphs, in case any such mutilated, destroyed, lost or stolen Security or coupon has become or is about to become due and payable, the Company in its discretion may, instead of issuing a new Security, with coupons corresponding to the coupons, if any, appertaining to such mutilated, destroyed, lost or stolen Security or to the Security to which such mutilated, destroyed, lost or stolen coupon appertains, pay such Security or coupon, as the case may be; provided, however, that payment of principal of (and premium, if any) and interest, if any, on Bearer Securities shall, except as otherwise provided in Section 10.02, be payable only at an office or agency located outside the United States and, unless otherwise specified as contemplated by Section 3.01, any interest on Bearer Securities shall be payable only upon presentation and surrender of the coupons appertaining thereto.

Upon the issuance of any new Security under this Section, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith.

Every new Security of any series with its coupons, if any, issued pursuant to this Section in lieu of any destroyed, lost or stolen Security, or in exchange for a Security to which a destroyed, lost or stolen coupon appertains, shall constitute an original additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Security and its coupons, if any, or the destroyed, lost or stolen coupon shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Securities of that series and their coupons, if any, duly issued hereunder.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities or coupons.

Section 3.07. Payment of Interest; Interest Rights Preserved; Optional Interest Reset.

(a) Except as otherwise specified with respect to a series of Securities in accordance with the provisions of Section 3.01, interest, if any, on any Registered Security that is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the Person in whose name that Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest at the office or agency of the Company maintained for such purpose pursuant to Section 10.02; provided, however, that each installment of interest, if any, on any Registered Security may at the Company's option be paid by (i) mailing a check for such interest, payable to or upon the written order of the Person entitled thereto pursuant to Section 3.09, to the address of such Person as it appears on the Security Register or (ii) transfer to an account maintained by the payee located in the United States.

Unless otherwise provided as contemplated by Section 3.01 with respect to the Securities of any series, payments of interest, if any, may be made, in the case of a Bearer Security, by transfer to an account maintained by the payee with a bank located outside the United States.

Unless otherwise provided as contemplated by Section 3.01, every permanent global Bearer Security will provide that interest, if any, payable on any Interest Payment Date will be paid to each of Euroclear and Clearstream with respect to that portion of such permanent global Bearer Security held for its account by the Common Depositary, for the purpose of permitting each of Euroclear and Clearstream to credit the interest, if any, received by it in respect of such permanent global Bearer Security to the accounts of the beneficial owners thereof.

In case a Bearer Security of any series is surrendered in exchange for a Registered Security of such series after the close of business (at an office or agency in a Place of Payment for such series) on any Regular Record Date and before the opening of business (at such office or agency) on the next succeeding Interest Payment Date, such Bearer Security shall be surrendered without the coupon relating to such Interest Payment Date and interest will not be payable on such Interest Payment Date in respect of the Registered Security issued in exchange for such Bearer Security, but will be payable only to the Holder of such coupon when due in accordance with the provisions of this Indenture.

Except as otherwise specified with respect to a series of Securities in accordance with the provisions of Section 3.01, any interest on any Registered Security of any series that is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (herein called "Defaulted Interest") shall forthwith cease to be payable to the registered Holder thereof on the relevant Regular Record Date by virtue of having been such Holder, and such Defaulted Interest may be paid by the Company, at its election in each case, as provided in clause (i) or (ii) below:

(i) The Company may elect to make payment of any Defaulted Interest to the Persons in whose names the Registered Securities of such series (or their respective Predecessor Securities) are registered at the close of business on a Special Record Date for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Registered Security of such series and the date of the proposed payment (which shall not be less than 20 days after such notice is received by the Trustee), and at the same time the Company shall deposit with the Trustee an amount of money in the Currency in which the Securities of such series are payable (except as otherwise specified pursuant to Section 3.01 for the Securities of such series and except, if applicable, as provided in Sections 3.12(b), 3.12(d) and 3.12(e)) equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit on or prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this clause provided. Thereupon the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 days and not less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such Special Record Date and, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first-class postage prepaid, to each Holder of Registered Securities of such series at his address as it appears in the Security Register not less than 10 days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been mailed as aforesaid, such Defaulted Interest shall be paid to the Persons in whose names the Registered Securities of such series (or their respective Predecessor Securities) are registered at the close of business on such Special Record Date and shall no longer be payable pursuant to the following clause (ii). In case a Bearer Security of any series is surrendered at the office or agency in a Place of Payment for such series in exchange for a Registered Security of such series after the close of business at such office or agency on any Special Record Date and before the opening of business at such office or agency on the related proposed date for payment of Defaulted Interest, such Bearer Security shall be surrendered without the coupon relating to such proposed date of payment and Defaulted Interest will not be payable on such proposed date of payment in respect of the Registered Security issued in exchange for such Bearer Security, but will be payable only to the Holder of such coupon when due in accordance with the provisions of this Indenture.

(ii) The Company may make payment of any Defaulted Interest on the Registered Securities of any series in any other lawful manner not inconsistent with the requirements of any securities exchange on which such Securities may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this clause (and certification by the Company that the proposed manner of payment complies with the requirements of this clause (ii)), such manner of payment shall be deemed practicable by the Trustee.

(b) The provisions of this Section 3.07(b) may be made applicable to any series of Securities pursuant to Section 3.01 (with such modifications, additions or substitutions as may be specified pursuant to such Section 3.01). The interest rate (or the spread or spread multiplier used to calculate such interest rate, if applicable) on any Security of such series may be reset by the Company on the date or dates specified on the face of such Security (each an "Optional Reset Date"). The Company may exercise such option with respect to such Security by notifying the Trustee of such exercise at least 45 but not more than 60 days prior to an Optional Reset Date for such Security. Not later than 40 days prior to each Optional Reset Date, the Trustee shall transmit, in the manner provided for in Section 1.06, to the Holder of any such Security a notice (the "Reset Notice") indicating whether the Company has elected to reset the interest rate (or the spread or spread multiplier used to calculate such interest rate, if applicable), and if so (i) such new interest rate (or such new spread or spread multiplier, if applicable) and (ii) the provisions, if any, for redemption during the period from such Optional Reset Date to the next Optional Reset Date or if there is no such next Optional Reset Date, to the Stated Maturity of such Security (each such period a "Subsequent Interest Period"), including the date or dates on which or the period or periods during which and the price or prices at which such redemption may occur during the Subsequent Interest Period.

Notwithstanding the foregoing, not later than 20 days prior to the Optional Reset Date (or if 20 days does not fall on a Business Day, the next succeeding Business Day), the Company may, at its option, revoke the interest rate (or the spread or spread multiplier used to calculate such interest rate, if applicable) provided for in the Reset Notice and establish a higher interest rate (or a spread or spread multiplier providing for a higher interest rate, if applicable) for the Subsequent Interest Period by causing the Trustee to transmit, in the manner provided for in Section 1.06, notice of such higher interest rate (or such higher spread or spread multiplier providing for a higher interest rate, if applicable) to the Holder of such Security. Such notice shall be irrevocable. All Securities with respect to which the interest rate (or the spread or spread multiplier used to calculate such interest rate, if applicable) is reset on an Optional Reset Date, and with respect to which the Holders of such Securities have not tendered such Securities for repayment (or have validly revoked any such tender) pursuant to the next succeeding paragraph, will bear such higher interest rate (or such higher spread or spread multiplier providing for a higher interest rate, if applicable).

The Holder of any such Security will have the option to elect repayment by the Company of the principal of such Security on each Optional Reset Date at a price equal to the principal amount thereof plus interest accrued to such Optional Reset Date. In order to obtain repayment on an Optional Reset Date, the Holder must follow the procedures set forth in Article Thirteen for repayment at the option of Holders except that the period for delivery or notification to the Trustee shall be at least 25 but not more than 35 days prior to such Optional Reset Date and except that, if the Holder has tendered any Security for repayment pursuant to the Reset Notice, the Holder may, by written notice to the Trustee, revoke such tender or repayment until the close of business on the tenth day before such Optional Reset Date.

Subject to the foregoing provisions of this Section and Section 3.05, each Security delivered under this Indenture upon registration of transfer of or in exchange for or in lieu of any other Security shall carry the rights to interest accrued and unpaid, and to accrue, that were carried by such other Security.

Section 3.08. Optional Extension of Maturity.

The provisions of this Section 3.08 may be made applicable to any series of Securities pursuant to Section 3.01 (with such modifications, additions or substitutions as may be specified pursuant to such Section 3.01). The Stated Maturity of any Security of such series may be extended at the option of the Company for the period or periods specified on the face of such Security (each an "Extension Period") up to but not beyond the date (the "Final Maturity") set forth on the face of such Security. The Company may exercise such option with respect to any Security by notifying the Trustee of such exercise at least 45 but not more than 60 days prior to the Stated Maturity

of such Security in effect prior to the exercise of such option (the "Original Stated Maturity"). If the Company exercises such option, the Trustee shall transmit, in the manner provided for in Section 1.06, to the Holder of such Security not later than 40 days prior to the Original Stated Maturity a notice (the "Extension Notice"), prepared by the Company, indicating (i) the election of the Company to extend the Stated Maturity, (ii) the new Stated Maturity, (iii) the interest rate (or spread, spread multiplier or other formula to calculate such interest rate, if applicable), if any, applicable to the Extension Period and (iv) the provisions, if any, for redemption during such Extension Period. Upon the Trustee's transmittal of the Extension Notice, the Stated Maturity of such Security shall be extended automatically and, except as modified by the Extension Notice and as described in the next paragraph, such Security will have the same terms as prior to the transmittal of such Extension Notice.

Notwithstanding the foregoing, not later than 20 days before the Original Stated Maturity (or if 20 days does not fall on a Business Day, the next succeeding Business Day) of such Security, the Company may, at its option, revoke the interest rate (or spread, spread multiplier or other formula to calculate such interest rate, if applicable) provided for in the Extension Notice and establish a higher interest rate (or spread, spread multiplier or other formula to calculate such higher interest rate, if applicable) for the Extension Period by causing the Trustee to transmit, in the manner provided for in Section 1.06, notice of such higher interest rate (or spread, spread multiplier or other formula to calculate such interest rate, if applicable) to the Holder of such Security. Such notice shall be irrevocable. All Securities with respect to which the Stated Maturity is extended will bear such higher interest rate.

If the Company extends the Stated Maturity of any Security, the Holder will have the option to elect repayment of such Security by the Company on the Original Stated Maturity at a price equal to the principal amount thereof, plus interest accrued to such date. In order to obtain repayment on the Original Stated Maturity once the Company has extended the Stated Maturity thereof, the Holder must follow the procedures set forth in Article Thirteen for repayment at the option of Holders, except that the period for delivery or notification to the Trustee shall be at least 25 but not more than 35 days prior to the Original Stated Maturity and except that, if the Holder has tendered any Security for repayment pursuant to an Extension Notice, the Holder may by written notice to the Trustee revoke such tender for repayment until the close of business on the tenth day before the Original Stated Maturity.

Section 3.09. Persons Deemed Owners.

Prior to due presentment of a Registered Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name such Registered Security is registered as the owner of such Registered Security for the purpose of receiving payment of principal of (and premium, if any) and (subject to Sections 3.05 and 3.07) interest, if any, on such Registered Security and for all other purposes whatsoever, whether or not such Registered Security be overdue, and neither the Company, the Trustee nor any agent of the Company or the Trustee shall be affected by notice to the contrary.

Title to any Bearer Security and any coupons appertaining thereto shall pass by delivery. The Company, the Trustee and any agent of the Company or the Trustee may treat the bearer of any Bearer Security and the bearer of any coupon as the absolute owner of such Security or coupon for the purpose of receiving payment thereof or on account thereof and for all other purposes whatsoever, whether or not such Security or coupon be overdue, and neither the Company, the Trustee nor any agent of the Company or the Trustee shall be affected by notice to the contrary.

None of the Company, the Trustee, any Paying Agent or the Security Registrar will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests of a Security in global form or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Notwithstanding the foregoing, with respect to any global temporary or permanent Security, nothing herein shall prevent the Company, the Trustee, or any agent of the Company or the Trustee, from giving effect to any written certification, proxy or other authorization furnished by any depositary, as a Holder, with respect to such global Security or impair, as between such depositary and owners of beneficial interests in such global Security, the operation of customary practices governing the exercise of the rights of such depositary (or its nominee) as Holder of such global Security.

Section 3.10. Cancellation.

All Securities and coupons surrendered for payment, redemption, repayment at the option of the Holder, registration of transfer or exchange or for credit against any sinking fund payment shall, if surrendered to any Person other than the Trustee, be delivered to the Trustee, and any such Securities and coupons and Securities and coupons surrendered directly to the Trustee for any such purpose shall be promptly cancelled by the Trustee. The Company may at any time deliver to the Trustee for cancellation any Securities previously authenticated and delivered hereunder which the Company may have acquired in any manner whatsoever, and may deliver to the Trustee (or to any other Person for delivery to the Trustee) for cancellation any Securities previously authenticated hereunder which the Company has not issued and sold, and all Securities so delivered shall be promptly cancelled by the Trustee. If the Company shall so acquire any of the Securities, however, such acquisition shall not operate as a redemption or satisfaction of the indebtedness represented by such Securities unless and until the same are surrendered to the Trustee for cancellation. No Securities shall be authenticated in lieu of or in exchange for any Securities cancelled as provided in this Section, except as expressly permitted by this Indenture. Cancelled Securities and coupons held by the Trustee shall be destroyed by the Trustee in accordance with its customary procedures, unless by a Company Order the Company directs the Trustee to deliver a certificate of such destruction to the Company or to return them to the Company.

Section 3.11. Computation of Interest.

Except as otherwise specified as contemplated by Section 3.01 with respect to Securities of any series, interest, if any, on the Securities of each series shall be computed on the basis of a 360-day year consisting of twelve 30-day months.

Section 3.12. Currency and Manner of Payments in Respect of Securities.

(a) Unless otherwise specified with respect to any Securities pursuant to Section 3.01, with respect to Registered Securities of any series not permitting the election provided for in paragraph (b) below or the Holders of which have not made the election provided for in paragraph (b) below, and with respect to Bearer Securities of any series, except as provided in paragraph (d) below, payment of the principal of (and premium, if any) and interest, if any, on any Registered or Bearer Security of such series will be made in the Currency in which such Registered Security or Bearer Security, as the case may be, is payable. The provisions of this Section 3.12 may be modified or superseded with respect to any Securities pursuant to Section 3.01.

(b) It may be provided pursuant to Section 3.01 with respect to Registered Securities of any series that Holders shall have the option, subject to paragraphs (d) and (e) below, to receive payments of principal of (or premium, if any) or interest, if any, on such Registered Securities in any of the Currencies which may be designated for such election by delivering to the Trustee for such series of Registered Securities a written election with signature guarantees and in the applicable form established pursuant to Section 3.01, not later than the close of business on the Election Date immediately preceding the applicable payment date. If a Holder so elects to receive such payments in any such Currency, such election will remain in effect for such Holder or any transferee of such Holder until changed by such Holder or such transferee by written notice to the Trustee for such series of Registered Securities (but any such change must be made not later than the close of business on the Election Date immediately preceding the next payment date to be effective for the payment to be made on such payment date and no such change of election may be made with respect to payments to be made on any Registered Security of such series with respect to which an Event of Default has occurred or with respect to which the Company has deposited funds pursuant to Article Four or Fourteen or with respect to which a notice of redemption has been given by the Company or a notice of option to elect repayment has been sent by such Holder or such transferee). Any Holder of any such Registered Security who shall not have delivered any such election to the Trustee of such series of Registered Securities not later than the close of business on the applicable Election Date will be paid the amount due on the applicable payment date in the relevant Currency as provided in Section 3.12(a). The Trustee for each such series of Registered Securities shall notify the Exchange Rate Agent as soon as practicable after the Election Date of the aggregate principal amount of Registered Securities for which Holders have made such written election.

(c) Unless otherwise specified pursuant to Section 3.01, if the election referred to in paragraph (b) above has been provided for pursuant to Section 3.01, then, unless otherwise specified pursuant to Section 3.01, not later than the fourth Business Day after the Election Date for each payment date for Registered Securities of any series, the Exchange Rate Agent will deliver to the Company a written notice specifying the Currency in which

Registered Securities of such series are payable, the respective aggregate amounts of principal of (and premium, if any) and interest, if any, on the Registered Securities to be paid on such payment date, specifying the amounts in such Currency so payable in respect of the Registered Securities as to which the Holders of Registered Securities denominated in any Currency shall have elected to be paid in another Currency as provided in paragraph (b) above. If the election referred to in paragraph (b) above has been provided for pursuant to Section 3.01 and if at least one Holder has made such election, then, unless otherwise specified pursuant to Section 3.01, on the second Business Day preceding such payment date the Company will deliver to the Trustee for such series of Registered Securities an Exchange Rate Officer's Certificate in respect of the Dollar or Foreign Currency or Currencies payments to be made on such payment date. Unless otherwise specified pursuant to Section 3.01, the Dollar or Foreign Currency or Currencies amount receivable by Holders of Registered Securities who have elected payment in a Currency as provided in paragraph (b) above shall be determined by the Company on the basis of the applicable Market Exchange Rate in effect on the second Business Day (the "Valuation Date") immediately preceding each payment date, and such determination shall be conclusive and binding for all purposes, absent manifest error.

(d) If a Conversion Event occurs with respect to a Foreign Currency in which any of the Securities are denominated or payable other than pursuant to an election provided for pursuant to paragraph (b) above, then with respect to each date for the payment of principal of (and premium, if any) and interest, if any on the applicable Securities denominated or payable in such Foreign Currency occurring after the last date on which such Foreign Currency was used (the "Conversion Date"), the Dollar shall be the currency of payment for use on each such payment date. Unless otherwise specified pursuant to Section 3.01, the Dollar amount to be paid by the Company to the Trustee of each such series of Securities and by such Trustee or any Paying Agent to the Holders of such Securities with respect to such payment date shall be, in the case of a Foreign Currency other than a currency unit, the Dollar Equivalent of the Foreign Currency or, in the case of a currency unit, the Dollar Equivalent of the Currency Unit, in each case as determined by the Exchange Rate Agent in the manner provided in paragraph (f) or (g) below.

(e) Unless otherwise specified pursuant to Section 3.01, if the Holder of a Registered Security denominated in any Currency shall have elected to be paid in another Currency as provided in paragraph (b) above, and a Conversion Event occurs with respect to such elected Currency, such Holder shall receive payment in the Currency in which payment would have been made in the absence of such election; and if a Conversion Event occurs with respect to the Currency in which payment would have been made in the absence of such election, such Holder shall receive payment in Dollars as provided in paragraph (d) of this Section 3.12.

(f) The "Dollar Equivalent of the Foreign Currency" shall be determined by the Exchange Rate Agent and shall be obtained for each subsequent payment date by converting the specified Foreign Currency into Dollars at the Market Exchange Rate on the Conversion Date.

(g) The "Dollar Equivalent of the Currency Unit" shall be determined by the Exchange Rate Agent and subject to the provisions of paragraph (h) below shall be the sum of each amount obtained by converting the Specified Amount of each Component Currency into Dollars at the Market Exchange Rate for such Component Currency on the Valuation Date with respect to each payment.

(h) For purposes of this Section 3.12, the following terms shall have the following meanings:

A "Component Currency" shall mean any currency which, on the Conversion Date, was a component currency of the relevant currency unit, including, but not limited to, the ECU.

A "Specified Amount" of a Component Currency shall mean the number of units of such Component Currency or fractions thereof which were represented in the relevant currency unit, including, but not limited to, the ECU, on the Conversion Date. If after the Conversion Date the official unit of any Component Currency is altered by way of combination or subdivision, the Specified Amount of such Component Currency shall be divided or multiplied in the same proportion. If after the Conversion Date two or more Component Currencies are consolidated into a single currency, the respective Specified Amounts of such Component Currencies shall be replaced by an amount in such single currency equal to the sum of the respective Specified Amounts of such consolidated Component Currencies expressed in such single currency, and such amount shall thereafter be a Specified Amount and such single currency shall thereafter be a Component Currency. If after the Conversion Date any Component Currency shall be divided

into two or more currencies, the Specified Amount of such Component Currency shall be replaced by amounts of such two or more currencies, having an aggregate Dollar Equivalent value at the Market Exchange Rate on the date of such replacement equal to the Dollar Equivalent of the Specified Amount of such former Component Currency at the Market Exchange Rate immediately before such division, and such amounts shall thereafter be Specified Amounts and such currencies shall thereafter be Component Currencies. If, after the Conversion Date of the relevant currency unit, including, but not limited to, the ECU, a Conversion Event (other than any event referred to above in this definition of "Specified Amount") occurs with respect to any Component Currency of such currency unit and is continuing on the applicable Valuation Date, the Specified Amount of such Component Currency shall, for purposes of calculating the Dollar Equivalent of the Currency Unit, be converted into Dollars at the Market Exchange Rate in effect on the Conversion Date of such Component Currency.

An "Election Date" shall mean the Regular Record Date for the applicable series of Registered Securities or at least 16 days prior to Maturity, as the case may be, or such other prior date for any series of Registered Securities as specified pursuant to clause (xiii) of Section 3.01 by which the written election referred to in Section 3.12(b) may be made.

All decisions and determinations of the Exchange Rate Agent regarding the Dollar Equivalent of the Foreign Currency, the Dollar Equivalent of the Currency Unit, the Market Exchange Rate and changes in the Specified Amounts as specified above shall be in its sole discretion and shall, in the absence of manifest error, be conclusive for all purposes and irrevocably binding upon the Company, the Trustee for the appropriate series of Securities and all Holders of such Securities denominated or payable in the relevant Currency. The Exchange Rate Agent shall promptly give written notice to the Company and the Trustee for the appropriate series of Securities of any such decision or determination.

In the event that the Company determines in good faith that a Conversion Event has occurred with respect to a Foreign Currency, the Company will immediately give written notice thereof and of the applicable Conversion Date to the Trustee of the appropriate series of Securities and to the Exchange Rate Agent (and such Trustee will promptly thereafter give notice in the manner provided in Section 1.06 to the affected Holders) specifying the Conversion Date. In the event the Company so determines that a Conversion Event has occurred with respect to the ECU or any other currency unit in which Securities are denominated or payable, the Company will immediately give written notice thereof to the Trustee of the appropriate series of Securities and to the Exchange Rate Agent (and such Trustee will promptly thereafter give notice in the manner provided in Section 1.06 to the affected Holders) specifying the Conversion Date and the Specified Amount of each Component Currency on the Conversion Date. In the event the Company determines in good faith that any subsequent change in any Component Currency as set forth in the definition of Specified Amount above has occurred, the Company will similarly give written notice to the Trustee of the appropriate series of Securities and to the Exchange Rate Agent.

The Trustee of the appropriate series of Securities shall be fully justified and protected in relying and acting upon information received by it from the Company and the Exchange Rate Agent and shall not otherwise have any duty or obligation to determine the accuracy or validity of such information independent of the Company or the Exchange Rate Agent.

Section 3.13. Appointment and Resignation of Successor Exchange Rate Agent.

(a) Unless otherwise specified pursuant to Section 3.01, if and so long as the Securities of any series (i) are denominated in a Foreign Currency or (ii) may be payable in a Foreign Currency, or so long as it is required under any other provision of this Indenture, then the Company will maintain with respect to each such series of Securities, or as so required, at least one Exchange Rate Agent. The Company will cause the Exchange Rate Agent to make the necessary foreign exchange determinations at the time and in the manner specified pursuant to Section 3.01 for the purpose of determining the applicable rate of exchange and, if applicable, for the purpose of converting the issued Foreign Currency into the applicable payment Currency for the payment of principal (and premium, if any) and interest, if any, pursuant to Section 3.12.

(b) No resignation of the Exchange Rate Agent and no appointment of a successor Exchange Rate Agent pursuant to this Section shall become effective until the acceptance of appointment by the successor Exchange Rate Agent as evidenced by a written instrument delivered to the Company and the Trustee of the appropriate series of Securities accepting such appointment executed by the successor Exchange Rate Agent.

(c) If the Exchange Rate Agent shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of the Exchange Rate Agent for any cause, with respect to the Securities of one or more series, the Company, by or pursuant to a Board Resolution, shall promptly appoint a successor Exchange Rate Agent or Exchange Rate Agents with respect to the Securities of that or those series (it being understood that any such successor Exchange Rate Agent may be appointed with respect to the Securities of one or more or all of such series and that, unless otherwise specified pursuant to Section 3.01, at any time there shall only be one Exchange Rate Agent with respect to the Securities of any particular series that are originally issued by the Company on the same date and that are initially denominated and/or payable in the same Currency).

Section 3.14. CUSIP Numbers.

The Company in issuing the Securities may use "CUSIP" numbers (if then generally in use), and, if so, the Trustee shall indicate the respective "CUSIP" numbers of the Securities in notices of redemption as a convenience to Holders; provided that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Securities or as contained in any notice of redemption and that reliance may be placed only on the other identification numbers printed on the Securities, and any such redemption shall not be affected by any defect in or omission of such numbers. The Company shall advise the Trustee as promptly as practicable in writing of any change in the CUSIP numbers.

ARTICLE FOUR

SATISFACTION AND DISCHARGE

Section 4.01. Satisfaction and Discharge of Indenture.

Except as set forth below, this Indenture shall upon Company Request cease to be of further effect with respect to any series of Securities specified in such Company Request (except as to any surviving rights of registration of transfer or exchange of Securities of such series expressly provided for herein or pursuant hereto, any surviving rights of tender for repayment at the option of the Holders and any right to receive Additional Amounts, as provided in Section 10.04), and the Trustee, upon receipt of a Company Order, and at the expense of the Company, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture as to such series when

(a) either

(i) all Securities of such series theretofore authenticated and delivered and all coupons, if any, appertaining thereto (other than (i) coupons appertaining to Bearer Securities surrendered for exchange for Registered Securities and maturing after such exchange, whose surrender is not required or has been waived as provided in Section 3.05, (ii) Securities and coupons of such series that have been destroyed, lost or stolen and which have been replaced or paid as provided in Section 3.06, (iii) coupons appertaining to Securities called for redemption and maturing after the relevant Redemption Date, whose surrender has been waived as provided in Section 11.06, and (iv) Securities and coupons of such series for whose payment money has theretofore been deposited in trust with the Trustee or any Paying Agent or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust, as provided in Section 10.03) have been delivered to the Trustee for cancellation; or

(ii) all Securities of such series and, in the case of (i) or (ii) below, any coupons appertaining thereto not theretofore delivered to the Trustee for cancellation

(1) have become due and payable, or

(2) will become due and payable at their Stated Maturity within one year, or

(3) if redeemable at the option of the Company, are to be called for redemption within one year under

arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Company, and the Company, in the case of (i), (ii) or (iii) above, has irrevocably deposited or caused to be deposited with the Trustee as trust funds in trust for such purpose, solely for the benefit of the Holders, an amount in the Currency in which the Securities of such series are payable, sufficient to pay and discharge the entire indebtedness on such Securities and such coupons not theretofore delivered to the Trustee for cancellation, for principal (and premium, if any) and interest, if any, to the date of such deposit (in the case of Securities which have become due and payable) or to the Stated Maturity or Redemption Date, as the case may be;

(b) the Company has irrevocably paid or caused to be irrevocably paid all other sums payable hereunder by the Company; and

(c) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture as to such series have been complied with.

Notwithstanding the satisfaction and discharge of this Indenture, the obligations of the Company to the Trustee and any predecessor Trustee under Section 6.06, the obligations of the Company to any Authenticating Agent under Section 6.12 and, if money shall have been deposited with the Trustee pursuant to subclause (ii) of clause (a) of this Section, the obligations of the Trustee under Section 4.02 and the last paragraph of Section 10.03 shall survive any termination of this Indenture.

Section 4.02. Application of Trust Funds.

Subject to the provisions of the last paragraph of Section 10.03, all money deposited with the Trustee pursuant to Section 4.01 shall be held in trust and applied by it, in accordance with the provisions of the Securities, the coupons and this Indenture, to the payment, either directly or through any Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine, to the Persons entitled thereto, of the principal (and premium, if any) and interest, if any, for whose payment such money has been deposited with or received by the Trustee, but such money need not be segregated from other funds except to the extent required by law.

ARTICLE FIVE

REMEDIES

Section 5.01. Events of Default.

"Event of Default", wherever used herein with respect to any particular series of Securities, means any one of the following events (whatever the reason for such Event of Default and whether or not it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body), unless it is either inapplicable to a particular series or is specifically deleted or modified in or pursuant to the supplemental indenture or a Board Resolution establishing such series of Securities or is in the form of Security for such series:

(i) default in the payment of any interest upon any Security of that series or of any coupon appertaining thereto, when such interest or coupon becomes due and payable, and continuance of such default for a period of 30 days; or

(ii) default in the payment of the principal of (or premium, if any) any Security of that series when it becomes due and payable at its Maturity, and continuance of such default for a period of 5 days; or

(iii) default in the deposit of any sinking fund payment, when and as due by the terms of any Security of that series, and continuance of such default for a period of 5 days; or

(iv) default in the performance, or breach, of any covenant or agreement of the Company in this Indenture with respect to any Security of that series (other than a covenant or agreement a default in whose

performance or whose breach is elsewhere in this Section specifically dealt with or that has expressly been included in this Indenture solely for the benefit of a series of Securities other than that series), and continuance of such default or breach for a period of 60 days after there has been given, by registered or certified mail, to the Company by the Trustee or to the Company and the Trustee by the Holders of at least 25% in principal amount of the Outstanding Securities of that series a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder;

(v) the Company, pursuant to or within the meaning of any Bankruptcy Law:

(1) commences a voluntary case or proceeding under any Bankruptcy Law,

(2) consents to the commencement of any bankruptcy or insolvency case or proceeding against it, or files a petition or answer or consent seeking reorganization or relief against it,

(3) consents to the entry of a decree or order for relief against it in an involuntary case or proceeding,

(4) consents to the filing of such petition or to the appointment of or taking possession by a Custodian of the Company or for all or substantially all of its property, or

(5) makes an assignment for the benefit of creditors, or admits in writing of its inability to pay its debts generally as they become due or takes any corporate action in furtherance of any such action;

(vi) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:

(1) is for relief against the Company in an involuntary case or proceeding, or

(2) adjudges the Company bankrupt or insolvent, or approves as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Company, or

(3) appoints a Custodian of the Company or for all or substantially all of its property, or

(4) orders the winding up or liquidation of the Company, and the continuance of any such decree or order for relief or any such other decree or order remains unstayed and in effect for a period of 60 consecutive days;

(vii) if, pursuant to Sections 18(a)(1)(c)(ii) and 61 of the Investment Company Act of 1940, on the last business day of each of twenty-four consecutive calendar months any class of Securities shall have an asset coverage (as such term is used in the Investment Company Act of 1940) of less than 100 per centum; or

(viii) any other Event of Default provided with respect to Securities of that series.

The term "Bankruptcy Law" means title 11, U.S. Code or any applicable federal or state bankruptcy, insolvency, reorganization or other similar law. The term "Custodian" means any custodian, receiver, trustee, assignee, liquidator, sequestrator or other similar official under any Bankruptcy Law.

Section 5.02. Acceleration of Maturity; Rescission and Annulment.

If an Event of Default with respect to Securities of any series at the time Outstanding occurs and is continuing, then and in every such case the Trustee or the Holders of not less than 25% in principal amount of the Outstanding Securities of that series may declare the principal (or, if any Securities are Original Issue Discount Securities or Indexed Securities, such portion of the principal as may be specified in the terms thereof) of all the Securities of that series to be due and payable immediately, by a notice in writing to the Company (and to the Trustee if given by the Holders), and upon any such declaration such principal or specified portion thereof shall become immediately due and payable.

At any time after such a declaration of acceleration with respect to Securities of any series has been made and before

a judgment or decree for payment of the money due has been obtained by the Trustee as hereinafter provided in this Article, the Holders of a majority in principal amount of the Outstanding Securities of that series, by written notice to the Company and the Trustee, may rescind and annul such declaration and its consequences if:

(i) the Company has paid or deposited with the Trustee a sum sufficient to pay in the Currency in which the Securities of such series are payable (except as otherwise specified pursuant to Section 3.01 for the Securities of such series and except, if applicable, as provided in Sections 3.12(b), 3.12(d) and 3.12(e)):

(1) all overdue installments of interest, if any, on all Outstanding Securities of that series and any related coupons,

(2) the principal of (and premium, if any) all Outstanding Securities of that series that have become due otherwise than by such declaration of acceleration and interest thereon at the rate or rates borne by or provided for in such Securities,

(3) to the extent that payment of such interest is lawful, interest upon overdue installments of interest at the rate or rates borne by or provided for in such Securities, and

(4) all sums paid or advanced by the Trustee hereunder and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel; and

(ii) all Events of Default with respect to Securities of that series, other than the nonpayment of the principal of (or premium, if any) or interest on Securities of that series that have become due solely by such declaration of acceleration, have been cured or waived as provided in Section 5.13.

No such rescission shall affect any subsequent default or impair any right consequent thereon.

Section 5.03. Collection of Indebtedness and Suits for Enforcement by Trustee.

The Company covenants that if:

(i) default is made in the payment of any installment of interest on any Security of any series and any related coupon when such interest becomes due and payable and such default continues for a period of 30 days, or

(ii) default is made in the payment of the principal of (or premium, if any) any Security of any series at its Maturity, then the Company will, upon demand of the Trustee, pay to the Trustee, for the benefit of the Holders of Securities of such series and coupons, the whole amount then due and payable on such Securities and coupons for principal (and premium, if any) and interest, if any, with interest upon any overdue principal (and premium, if any) and, to the extent that payment of such interest shall be legally enforceable, upon any overdue installments of interest, if any, at the rate or rates borne by or provided for in such Securities, and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

If the Company fails to pay such amounts forthwith upon such demand, the Trustee, in its own name and as trustee of an express trust, may institute a judicial proceeding for the collection of the sums so due and unpaid, and may prosecute such proceeding to judgment or final decree, and may enforce the same against the Company or any other obligor upon Securities of such series and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the property of the Company or any other obligor upon such Securities of such series, wherever situated.

If an Event of Default with respect to Securities of any series occurs and is continuing, the Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders of Securities of such series and any related coupons by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

Section 5.04. Trustee May File Proofs of Claim.

In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Company or any other obligor upon the Securities or the property of the Company or of such other obligor or their creditors, the Trustee (irrespective of whether the principal of the Securities of any series shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand on the Company for the payment of any overdue principal, premium or interest) shall be entitled and empowered, by intervention in such proceeding or otherwise:

(i) to file and prove a claim for the whole amount of principal (or in the case of Original Issue Discount Securities or Indexed Securities, such portion of the principal as may be provided for in the terms thereof) (and premium, if any) and interest, if any, owing and unpaid in respect of the Securities and to file such other papers or documents (and take such other actions, including serving on a committee of creditors) as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and of the Holders allowed in such judicial proceeding, and

(ii) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same; and any custodian, receiver, assignee, trustee, liquidator, sequestrator (or other similar official) in any such judicial proceeding is hereby authorized by each Holder of Securities of such series and coupons to make such payments to the Trustee, and in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Trustee and any predecessor Trustee, their agents and counsel, and any other amounts due the Trustee or any predecessor Trustee under Section 6.06.

Subject to Article Eight and Section 9.02 and unless otherwise provided as contemplated by Section 3.01, nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder of a Security or coupon any plan of reorganization, arrangement, adjustment or composition affecting the Securities or coupons or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Holder of a Security or coupon in any such proceeding.

Section 5.05. Trustee May Enforce Claims Without Possession of Securities or Coupons.

All rights of action and claims under this Indenture or any of the Securities or coupons may be prosecuted and enforced by the Trustee without the possession of any of the Securities or coupons or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name and as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Holders of the Securities and coupons in respect of which such judgment has been recovered.

Section 5.06. Application of Money Collected.

Any money collected by the Trustee pursuant to this Article shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal (or premium, if any) or interest, if any, upon presentation of the Securities or coupons, or both, as the case may be, and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

FIRST: To the payment of all amounts due the Trustee and any predecessor Trustee under Section 6.06;

SECOND: To the payment of the amounts then due and unpaid upon any Senior Securities and coupons for principal (and premium, if any) and interest, if any, in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the aggregate amounts due and payable on such Senior Securities and coupons for principal (and premium, if any) and interest, if any, respectively; and

THIRD: To the payment of the amounts then due and unpaid upon any Senior Subordinated Securities and coupons for principal (and premium, if any) and interest, if any, in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the aggregate amounts due and payable on such Senior Subordinated Securities and coupons for principal (and premium, if any) and interest, if any, respectively; and

FOURTH: To the payment of the amounts then due and unpaid upon any other Securities and coupons for principal (and premium, if any) and interest, if any, in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the aggregate amounts due and payable on such Securities and coupons for principal (and premium, if any) and interest, if any, respectively; and

FIFTH: To the payment of the remainder, if any, to the Company or any other Person or Persons entitled thereto.

Section 5.07. Limitation on Suits.

No Holder of any Security of any series or any related coupon shall have any right to institute any proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless:

(i) such Holder has previously given written notice to the Trustee of a continuing Event of Default with respect to the Securities of that series;

(ii) the Holders of not less than 25% in principal amount of the Outstanding Securities of that series shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;

(iii) such Holder or Holders have offered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request;

(iv) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and

(v) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Holders of a majority in principal amount of the Outstanding Securities of that series; it being understood and intended that no one or more of such Holders shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other of such Holders, or to obtain or to seek to obtain priority or preference over any other of such Holders or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all such Holders.

Section 5.08. Unconditional Right of Holders to Receive Principal, Premium and Interest.

Notwithstanding any other provision in this Indenture, the Holder of any Security or coupon shall have the right, which is absolute and unconditional, to receive payment of the principal of (and premium, if any) and (subject to Sections 3.05 and 3.07) interest, if any, on such Security or payment of such coupon on the Stated Maturity or Maturities expressed in such Security or coupon (or, in the case of redemption, on the Redemption Date or, in the case of repayment at the option of the Holders on the Repayment Date) and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.

Section 5.09. Restoration of Rights and Remedies.

If the Trustee or any Holder of a Security or coupon has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or to such Holder, then and in every such case the Company, the Trustee and the Holders of Securities and coupons shall, subject to any determination in such proceeding, be restored severally and respectively to their former positions hereunder and thereafter all rights and remedies of the Trustee and the Holders shall continue as though no such proceeding had been instituted.

Section 5.10. Rights and Remedies Cumulative.

Except as otherwise provided with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities or coupons in the last paragraph of Section 3.06, no right or remedy herein conferred upon or reserved to the Trustee or to the Holders of Securities or coupons is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Section 5.11. Delay or Omission Not Waiver.

No delay or omission of the Trustee or of any Holder of any Security or coupon to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article or by law to the Trustee or to the Holders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Holders of Securities or coupons, as the case may be.

Section 5.12. Control by Holders of Securities.

Subject to Section 6.02(v), the Holders of a majority in principal amount of the Outstanding Securities of any series shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee with respect to the Securities of such series, provided that

(i) such direction shall not be in conflict with any rule of law or with this Indenture,

(ii) the Trustee may take any other action deemed proper by the Trustee that is not inconsistent with such direction, and

(iii) the Trustee need not take any action that might involve it in personal liability or be unjustly prejudicial to the Holders of Securities of such series not consenting.

Section 5.13. Waiver of Past Defaults.

Subject to Section 5.02, the Holders of not less than a majority in principal amount of the Outstanding Securities of any series may on behalf of the Holders of all the Securities of such series and any related coupons waive any past default hereunder with respect to Securities of such series and its consequences, except a default

(i) in the payment of the principal of (or premium, if any) or interest, if any, on any Security of such series or any related coupons, or

(ii) in respect of a covenant or provision hereof which under Article Nine cannot be modified or amended without the consent of the Holder of each Outstanding Security of such series affected.

Upon any such waiver, such default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other default or Event of Default or impair any right consequent thereon.

Section 5.14. Waiver of Stay or Extension Laws.

The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted,

now or at any time hereafter in force, that may affect the covenants or the performance of this Indenture; and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

ARTICLE SIX

THE TRUSTEE

Section 6.01. Notice of Defaults.

(a) Within 90 days after the occurrence of any Default hereunder with respect to the Securities of any series, the Trustee shall transmit in the manner and to the extent provided in TIA Section 313(c), notice of such Default hereunder known to the Trustee, unless such Default shall have been cured or waived; provided, however, that, except in the case of a Default in the payment of the principal of (or premium, if any) or interest, if any, on any Security of such series, or in the payment of any sinking or purchase fund installment with respect to the Securities of such series, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee or a trust committee of directors and/or Responsible Officers of the Trustee in good faith determines that the withholding of such notice is in the interest of the Holders of the Securities and coupons of such series; and provided further that in the case of any Default or breach of the character specified in Section 5.01(iv) with respect to the Securities and coupons of such series, no such notice to Holders shall be given until at least 90 days after the occurrence thereof.

(b) Prior to the time when the occurrence of an Event of Default becomes known to a Responsible Officer of the Trustee and after the curing or waiving of all such Events of Default with respect to a series of Securities that may have occurred:

(i) the duties and obligations of the Trustee shall with respect to the Securities of any series be determined solely by the express provisions of this Indenture, and the Trustee shall not be liable with respect to the Securities except for the performance of such duties and obligations as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(ii) in the absence of bad faith on the part of the Trustee, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture; but in the case of any such certificates or opinions that by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform on their face to the requirements of this Indenture (but need not confirm or investigate the accuracy of any mathematical calculations or other facts stated therein); and

(iii) The Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer or Responsible Officers, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

Section 6.02. Certain Rights of Trustee.

Subject to the provisions of TIA Section 315(a) through 315(d):

(i) The Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, coupon or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee need not investigate any fact or matter stated in any document.

(ii) Any request or direction of the Company mentioned herein shall be sufficiently evidenced by a Company Request or Company Order (other than delivery of any Security, together with any coupons appertaining

thereto, to the Trustee for authentication and delivery pursuant to Section 3.03 which shall be sufficiently evidenced as provided therein) and any resolution of the Board of Directors may be sufficiently evidenced by a Board Resolution.

(iii) Whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon a Board Resolution, an Opinion of Counsel or an Officers' Certificate.

(iv) The Trustee may consult with counsel and the advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon.

(v) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders of Securities of any series or any related coupons pursuant to this Indenture, unless such Holders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities (including the reasonable fees and expenses of its agents and counsel) which might be incurred by it in compliance with such request or direction.

(vi) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, coupon or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled upon reasonable notice and at reasonable times during normal business hours to examine the books, records and premises of the Company, personally or by agent or attorney.

(vii) The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder.

(viii) The Trustee shall not deemed to have notice of any Default or Event of Default unless a Responsible Officer of the Trustee has actual knowledge thereof or unless written notice of any event which is in fact such a default is received by the Trustee at the Corporate Trust Office of the Trustee, and such notice references the Securities and this Indenture.

(ix) The rights, privileges, protections, immunities and benefits given to the Trustee, including, without limitation, its right to be indemnified, are extended to, and shall be enforceable by, the Trustee in each of its capacities hereunder.

(x) The permissive rights of the Trustee enumerated herein shall not be construed as duties.

(xi) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of not less than a majority in principal amount of the Outstanding Securities of a series relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Indenture with respect to such Securities.

(xii) Before the Trustee acts or refrains from acting, it may require an Officers' Certificate (unless other evidence is specifically prescribed herein). The Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on such Officers' Certificate.

(xiii) The Trustee may consult with counsel and the advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon.

(xiv) The Trustee shall not be liable for any action taken or omitted to be taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture.

(xv) The Trustee may request that the Company deliver an Officers' Certificate setting forth the names of individuals and/or titles of officers authorized at such time to take specified actions pursuant to this Indenture, which Officers' Certificate may be signed by any person authorized to sign an Officers' Certificate, including any person specified as so authorized in any such certificate previously delivered and not superseded.

(xvi) Anything in this Indenture notwithstanding, in no event shall the Trustee be liable for special, indirect, punitive or consequential loss or damage of any kind whatsoever (including but not limited to loss of profit), even if the Trustee has been advised as to the likelihood of such loss or damage and regardless of the form of action.

(xvii) The Trustee shall not be responsible or liable for any failure or delay in the performance of its obligations under this Indenture arising out of or caused, directly or indirectly, by circumstances beyond its reasonable control, including acts of God; earthquakes; fire; flood; terrorism; wars and other military disturbances; sabotage; epidemics; riots; interruptions; loss or malfunctions of utilities, computer (hardware or software) or communication services; accidents; labor disputes; acts of civil or military authority and governmental action.

The Trustee shall not be required to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

Section 6.03. Not Responsible for Recitals or Issuance of Securities.

The recitals contained herein and in the Securities, except the Trustee's certificate of authentication, and in any coupons shall be taken as the statements of the Company, and neither the Trustee nor any Authenticating Agent assumes any responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Indenture or of the Securities or coupons, except that the Trustee represents that it is duly authorized to execute and deliver this Indenture, authenticate the Securities and perform its obligations hereunder and that the statements made by it in a Statement of Eligibility on Form T-1 supplied to the Company are true and accurate, subject to the qualifications set forth therein. Neither the Trustee nor any Authenticating Agent shall be accountable for the use or application by the Company of Securities or the proceeds thereof.

Section 6.04. May Hold Securities.

The Trustee, any Paying Agent, Security Registrar, Authenticating Agent or any other agent of the Company, in its individual or any other capacity, may become the owner or pledgee of Securities and coupons and, subject to TIA Sections 310(b) and 311, may otherwise deal with the Company with the same rights it would have if it were not Trustee, Paying Agent, Security Registrar, Authenticating Agent or such other agent.

Section 6.05. Money Held in Trust.

Money held by the Trustee in trust hereunder need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on any money received by it hereunder except as otherwise agreed with the Company.

Section 6.06. Compensation and Reimbursement and Indemnification of Trustee.

The Company agrees:

(i) To pay to the Trustee or any predecessor Trustee from time to time such reasonable compensation for all services rendered by it hereunder as has been agreed upon from time to time in writing (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust).

(ii) Except as otherwise expressly provided herein, to reimburse each of the Trustee and any predecessor Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee or any predecessor Trustee in accordance with any provision of this Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to its negligence or bad faith.

(iii) To indemnify each of the Trustee or any predecessor Trustee for, and to hold it harmless against, any loss, liability or expense incurred without negligence or bad faith on its own part, arising out of or in connection with the acceptance or administration of the trust or trusts hereunder, including the costs and expenses (including the reasonable fees and expenses of its agents and counsel) of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder.

As security for the performance of the obligations of the Company under this Section, the Trustee shall have a claim prior to the Securities upon all property and funds held or collected by the Trustee as such, except funds held in trust for the payment of principal of (or premium, if any) or interest, if any, on particular Securities or any coupons.

When the Trustee incurs expenses or renders services after an Event of Default specified in Section 5.01 occurs, the expenses and compensation for such services are intended to constitute expenses of administration under Title 11, U.S. Code, or any similar Federal, State or analogous foreign law for the relief of debtors.

The provisions of this Section 6.06 shall survive the resignation or removal of the Trustee and the satisfaction, termination or discharge of this Indenture.

Section 6.07. Corporate Trustee Required; Eligibility.

There shall at all times be a Trustee hereunder that shall be eligible to act as Trustee under TIA Section 310(a)(1) and shall have a combined capital and surplus of at least $50,000,000. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of Federal, State, Territorial or District of Columbia supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

Section 6.08. Disqualification; Conflicting Interests.

If the Trustee has or shall acquire a conflicting interest within the meaning of the Trust Indenture Act, the Trustee shall either eliminate such interest or resign, to the extent and in the manner provided by, and subject to the provisions of, the Trust Indenture Act and this Indenture.

Section 6.09. Resignation and Removal; Appointment of Successor.

(a) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee in accordance with the applicable requirements of Section 6.10.

(b) The Trustee may resign at any time with respect to the Securities of one or more series by giving written notice thereof to the Company.

(c) The Trustee may be removed at any time with respect to the Securities of any series by (i) the Company, by an Officers' Certificate delivered to the Trustee, provided that contemporaneously therewith (x) the Company immediately appoints a successor Trustee with respect to the Securities of such series meeting the requirements of Section 6.07 hereof and (y) the terms of Section 6.10 hereof are complied with in respect of such appointment (the Trustee being removed hereby agreeing to execute the instrument contemplated by Section 6.10(b) hereof, if applicable, under such circumstances) and provided further that no Default with respect to such Securities shall have occurred and then be continuing at such time, or (ii) Act of the Holders of a majority in principal amount of the Outstanding Securities of such series delivered to the Trustee and to the Company.

(d) If at any time:

(i) the Trustee shall fail to comply with the provisions of TIA Section 310(b) after written request therefor by the Company or by any Holder of a Security who has been a bona fide Holder of a Security for at least six months, or

(ii) the Trustee shall cease to be eligible under Section 6.07 and shall fail to resign after written request therefor by the Company or by any Holder of a Security who has been a bona fide Holder of a Security for at least six months, or

(iii) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, then, in any such case, (i) the Company by or pursuant to a Board Resolution may remove the Trustee and appoint a successor Trustee with respect to all Securities, or (ii) subject to TIA Section 315(e), any Holder of a Security who has been a bona fide Holder of a Security for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee with respect to all Securities and the appointment of a successor Trustee or Trustees.

(e) If an instrument of acceptance by a successor Trustee shall not have been delivered to the Trustee within 30 days after the giving of a notice of resignation or the delivery of an Act of removal, the Trustee resigning or being removed may petition any court of competent jurisdiction for the appointment of a successor Trustee.

(f) If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause with respect to the Securities of one or more series, the Company, by or pursuant to a Board Resolution, shall promptly appoint a successor Trustee or Trustees with respect to the Securities of that or those series (it being understood that any such successor Trustee may be appointed with respect to the Securities of one or more or all of such series and that at any time there shall be only one Trustee with respect to the Securities of any particular series). If, within one year after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee with respect to the Securities of any series shall be appointed by Act of the Holders of a majority in principal amount of the Outstanding Securities of such series delivered to the Company and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment, become the successor Trustee with respect to the Securities of such series and to that extent supersede the successor Trustee appointed by the Company. If no successor Trustee with respect to the Securities of any series shall have been so appointed by the Company or the Holders of Securities and accepted appointment in the manner hereinafter provided, any Holder of a Security who has been a bona fide Holder of a Security of such series for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to Securities of such series.

(g) The Company shall give notice of each resignation and each removal of the Trustee with respect to the Securities of any series and each appointment of a successor Trustee with respect to the Securities of any series in the manner provided for notices to the Holders of Securities in Section 1.06.

Each notice shall include the name of the successor Trustee with respect to the Securities of such series and the address of its Corporate Trust Office.

Section 6.10. Acceptance of Appointment by Successor.

(a) In case of the appointment hereunder of a successor Trustee with respect to all Securities, every such successor Trustee shall execute, acknowledge and deliver to the Company and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on request of the Company or the successor

Trustee, such retiring Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor Trustee all the rights, powers and trusts of the retiring Trustee, and shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder, subject nevertheless to its claim, if any, provided for in Section 6.06.

(b) In case of the appointment hereunder of a successor Trustee with respect to the Securities of one or more (but not all) series, the Company, the retiring Trustee and each successor Trustee with respect to the Securities of one or more series shall execute and deliver an indenture supplemental hereto wherein each successor Trustee shall accept such appointment and that (i) shall contain such provisions as shall be necessary or desirable to transfer and confirm to, and to vest in, each successor Trustee all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor Trustee relates, (ii) if the retiring Trustee is not retiring with respect to all Securities, shall contain such provisions as shall be deemed necessary or desirable to confirm that all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series as to which the retiring Trustee is not retiring shall continue to be vested in the retiring Trustee, and (iii) shall add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, it being understood that nothing herein or in such supplemental indenture shall constitute such Trustees co-trustees of the same trust and that each such Trustee shall be trustee of a trust or trusts hereunder separate and apart from any trust or trusts hereunder administered by any other such Trustee; and upon the execution and delivery of such supplemental indenture the resignation or removal of the retiring Trustee shall become effective to the extent provided therein and each such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor Trustee relates; but, on request of the Company or any successor Trustee, such retiring Trustee shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder with respect to the Securities of that or those series to which the appointment of such successor Trustee relates. Whenever there is a successor Trustee with respect to one or more (but less than all) series of securities issued pursuant to this Indenture, the terms "Indenture" and "Securities" shall have the meanings specified in the provisos to the respective definition of those terms in Section 1.01 which contemplate such situation.

(c) Upon request of any such successor Trustee, the Company shall execute any and all instruments reasonably necessary to more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and trusts referred to in paragraph (a) or (b) of this Section, as the case may be.

(d) No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under this Article.

Section 6.11. Merger, Conversion, Consolidation or Succession to Business.

Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all of the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, provided such corporation shall be otherwise qualified and eligible under this Article, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Securities or coupons shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Trustee may adopt such authentication and deliver the Securities or coupons so authenticated with the same effect as if such successor Trustee had itself authenticated such Securities or coupons. In case any Securities or coupons shall not have been authenticated by such predecessor Trustee, any such successor Trustee may authenticate and deliver such Securities or coupons, in either its own name or that of its predecessor Trustee, with the full force and effect which this Indenture provides for the certificate of authentication of the Trustee; provided, however, that the right to adopt the certificate of authentication of any predecessor Trustee or to authenticate Securities in the name of any predecessor Trustee shall apply only to its successor or successors by merger, conversion or consolidation.

Section 6.12. Appointment of Authenticating Agent.

At any time when any of the Securities remain Outstanding, the Trustee may appoint an Authenticating Agent or Agents (which may be an Affiliate or Affiliates of the Company) with respect to one or more series of Securities that shall be authorized to act on behalf of the Trustee to authenticate Securities of such series issued upon original issue or upon exchange, registration of transfer or partial redemption thereof, and Securities so authenticated shall be entitled to the benefits of this Indenture and shall be valid and obligatory for all purposes as if authenticated by the Trustee hereunder. Any such appointment shall be evidenced by an instrument in writing signed by a Responsible Officer of the Trustee, a copy of which instrument shall be promptly furnished to the Company. Wherever reference is made in this Indenture to the authentication and delivery of Securities by the Trustee or the Trustee's certificate of authentication, such reference shall be deemed to include authentication and delivery on behalf of the Trustee by an Authenticating Agent and a certificate of authentication executed on behalf of the Trustee by an Authenticating Agent. Each Authenticating Agent shall be acceptable to the Company and, except as may otherwise be provided pursuant to Section 3.01, shall at all times be a bank or trust company or corporation organized and doing business and in good standing under the laws of the United States of America or of any State or the District of Columbia, authorized under such laws to act as Authenticating Agent, having a combined capital and surplus of not less than $1,500,000 and subject to supervision or examination by Federal or State authorities. If such Authenticating Agent publishes reports of condition at least annually, pursuant to law or the requirements of the aforesaid supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such Authenticating Agent shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time an Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, such Authenticating Agent shall resign immediately in the manner and with the effect specified in this Section.

Any corporation into which an Authenticating Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which such Authenticating Agent shall be a party, or any corporation succeeding to the corporate agency or corporate trust business of an Authenticating Agent, shall continue to be an Authenticating Agent, provided such corporation shall be otherwise eligible under this Section, without the execution or filing of any paper or further act on the part of the Trustee or the Authenticating Agent.

An Authenticating Agent for any series of Securities may at any time resign by giving written notice of resignation to the Trustee for such series and to the Company. The Trustee for any series of Securities may at any time terminate the agency of an Authenticating Agent by giving written notice of termination to such Authenticating Agent and to the Company. Upon receiving such a notice of resignation or upon such a termination, or in case at any time such Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, the Trustee for such series may appoint a successor Authenticating Agent which shall be acceptable to the Company and shall promptly give written notice of such appointment to all Holders of Securities of the series with respect to which such Authenticating Agent will serve in the manner set forth in Section 1.06. Any successor Authenticating Agent upon acceptance of its appointment hereunder shall become vested with all the rights, powers and duties of its predecessor hereunder, with like effect as if originally named as an Authenticating Agent herein. No successor Authenticating Agent shall be appointed unless eligible under the provisions of this Section.

The Company agrees to pay to each Authenticating Agent from time to time reasonable compensation including reimbursement of its reasonable expenses for its services under this Section.

If an appointment with respect to one or more series is made pursuant to this Section, the Securities of such series may have endorsed thereon, in addition to or in lieu of the Trustee's certificate of authentication, an alternate certificate of authentication substantially in the following form:

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

[ ], as Trustee

By:
as Authenticating Agent

By:
Authorized Officer

If all of the Securities of a series may not be originally issued at one time, and the Trustee does not have an office capable of authenticating Securities upon original issuance located in a Place of Payment where the Company wishes to have Securities of such series authenticated upon original issuance, the Trustee, if so requested by the Company in writing (which writing need not comply with Section 1.02 and need not be accompanied by an Opinion of Counsel), shall appoint in accordance with this Section an Authenticating Agent (which, if so requested by the Company, shall be an Affiliate of the Company) having an office in a Place of Payment designated by the Company with respect to such series of Securities, provided that the terms and conditions of such appointment are reasonably acceptable to the Trustee.

ARTICLE SEVEN

HOLDERS' LISTS AND REPORTS BY TRUSTEE AND COMPANY

Section 7.01. Disclosure of Names and Addresses of Holders.

Every Holder of Securities or coupons, by receiving and holding the same, agrees with the Company and the Trustee that neither the Company nor the Trustee nor any Authenticating Agent nor any Paying Agent nor any Security Registrar nor any agent of any of them shall be held accountable by reason of the disclosure of any information as to the names and addresses of the Holders of Securities in accordance with TIA Section 312, regardless of the source from which such information was derived, and that the Trustee shall not be held accountable by reason of mailing any material pursuant to a request made under TIA Section 312(b).

Section 7.02. Preservation of Information; Communications to Holders.

(a) The Trustee shall preserve, in as current a form as is reasonably practicable, the names and addresses of Holders contained in the most recent list furnished to the Trustee as provided in Section 7.01 and the names and addresses of Holders received by the Trustee in its capacity as Security Registrar. The Trustee may destroy any list furnished to it as provided in Section 7.01 upon receipt of a new list so furnished.

(b) The rights of Holders to communicate with other Holders with respect to their rights under this Indenture or under the Securities, and the corresponding rights and duties of the Trustee, shall be as provided by the Trust Indenture Act.

(c) Every Holder of Securities, by receiving and holding the same, agrees with the Company and the Trustee that neither the Company nor the Trustee nor any agent of either of them shall be held accountable by reason of any disclosure of information as to names and addresses of Holders made pursuant to the Trust Indenture Act.

Section 7.03. Reports by Trustee.

Within 60 days after May 15 of each year commencing with the first May 15 after the first issuance of Securities pursuant to this Indenture, the Trustee shall transmit by mail to all Holders Securities as provided in TIA Section 313(c) a brief report dated as of such May 15 which meets the requirements of TIA Section 313(a).

A copy of each such report shall, at the time of such transmission to Holders, be filed by the Trustee with each stock exchange, if any, upon which the Securities are listed, with the Commission and with the Company. The Company will promptly notify the Trustee of the listing of the Securities on any stock exchange. In the event that, on any such reporting date, no events have occurred under the applicable sections of the TIA within the 12 months preceding such reporting date, the Trustee shall be under no duty or obligation to provide such reports.

Section 7.04. Reports by Company.

The Company will file with the Trustee and the Commission, and transmit to Holders, such information, documents

and other reports, and such summaries thereof, as may be required pursuant to the Trust Indenture Act at the times and in the manner provided pursuant to the Trust Indenture Act; provided, that any such information, documents or reports filed electronically with the Commission pursuant to Section 13 or 15(d) of the Exchange Act shall be deemed filed with and delivered to the Trustee and the Holders at the same time as filed with the Commission.

Delivery of such reports, information, and documents to the Trustee is for informational purposes only and the Trustee's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Company's compliance with any of its covenants hereunder (as to which the Trustee is entitled to conclusively rely exclusively on Officers' Certificates).

Section 7.05. Calculation of Original Issue Discount.

Upon request of the Trustee, the Company shall file with the Trustee promptly at the end of each calendar year a written notice specifying the amount of original issue discount (including daily rates and accrual periods), if any, accrued on Outstanding Securities as of the end of such year.

ARTICLE EIGHT

CONSOLIDATION, MERGER, CONVEYANCE OR TRANSFER

Section 8.01. Company May Consolidate, Etc., Only on Certain Terms.

Unless otherwise provided in the terms of such Securities, the Company shall not consolidate with or merge with or into any other corporation or convey or transfer all or substantially all of its properties and assets to any Person, unless:

(i) either the Company shall be the continuing corporation, or the corporation (if other than the Company) formed by such consolidation or into which the Company is merged or the Person which acquires by conveyance or transfer all or substantially all of the properties and assets of the Company shall expressly assume, by an indenture supplemental hereto, executed and delivered to the Trustee, in form reasonably satisfactory to the Trustee, the due and punctual payment of the principal of (and premium, if any) and interest, if any, on all the Securities and the performance of every covenant of this Indenture on the part of the Company to be performed or observed;

(ii) immediately after giving effect to such transaction, no Default or Event of Default shall have happened and be continuing; and

(iii) the Company and the successor Person have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel each stating that such consolidation, merger, conveyance or transfer and such supplemental indenture comply with this Article and that all conditions precedent herein provided for relating to such transaction have been complied with.

Section 8.02. Successor Person Substituted.

Upon any consolidation or merger, or any conveyance or transfer of the properties and assets of the Company substantially as an entirety in accordance with Section 8.01, the successor corporation formed by such consolidation or into which the Company is merged or the successor Person to which such conveyance or transfer is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture with the same effect as if such successor had been named as the Company herein; and in the event of any such conveyance or transfer, the Company shall be discharged from all obligations and covenants under this Indenture and the Securities and coupons and may be dissolved and liquidated.

ARTICLE NINE

SUPPLEMENTAL INDENTURES

Section 9.01. Supplemental Indentures Without Consent of Holders.

Without the consent of any Holders of Securities or coupons, the Company, when authorized by or pursuant to a Board Resolution, and the Trustee, at any time and from time to time, may enter into one or more indentures supplemental hereto, in form reasonably satisfactory to the Trustee, for any of the following purposes:

(i) to evidence the succession of another Person to the Company and the assumption by any such successor of the covenants of the Company herein and in the Securities contained; or

(ii) to add to the covenants of the Company for the benefit of the Holders of all or any series of Securities or any coupon appertaining thereto (and if such covenants are to be for the benefit of less than all series of Securities, stating that such covenants are expressly being included solely for the benefit of such series) or to surrender any right or power herein conferred upon the Company; or

(iii) to add any additional Events of Default for the benefit of the Holders of all or any series of Securities (and if such Events of Default are to be for the benefit of less than all series of Securities, stating that such Events of Default are expressly being included solely for the benefit of such series); provided, however, that in respect of any such additional Events of Default such supplemental indenture may provide for a particular period of grace after default (which period may be shorter or longer than that allowed in the case of other defaults) or may provide for an immediate enforcement upon such default or may limit the remedies available to the Trustee upon such default or may limit the right of the Holders of a majority in aggregate principal amount of that or those series of Securities to which such additional Events of Default apply to waive such default; or

(iv) to add to or change any of the provisions of this Indenture to provide that Bearer Securities may be registrable as to principal, to change or eliminate any restrictions on the payment of principal of or any premium or interest on Bearer Securities, to permit Bearer Securities to be issued in exchange for Registered Securities, to permit Bearer Securities to be issued in exchange for Bearer Securities of other authorized denominations or to permit or facilitate the issuance of Securities in uncertificated form; provided that any such action shall not adversely affect the interests of the Holders of Securities of any series or any related coupons in any material respect; or

(v) to change or eliminate any of the provisions of this Indenture; provided that any such change or elimination shall become effective only when there is no Security Outstanding of any series created prior to the execution of such supplemental indenture that is entitled to the benefit of such provision; or

(vi) to secure the Securities pursuant to the requirements of Section 8.01 or 10.06, or otherwise; or

(vii) to establish the form or terms of Securities of any series and any related coupons as permitted by Sections 2.01 and 3.01, including the provisions and procedures relating to Securities convertible into or exchangeable for any securities of any Person (including the Company); or

(viii) to evidence and provide for the acceptance of appointment hereunder by a successor Trustee with respect to the Securities of one or more series and to add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee; or

(ix) to cure any ambiguity, to correct or supplement any provision herein that may be inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising under this Indenture; provided that such action shall not adversely affect the interests of the Holders of Securities of any series or any related coupons in any material respect; or

(x) to supplement any of the provisions of this Indenture to such extent as shall be necessary to permit or facilitate the defeasance and discharge of any series of Securities pursuant to Sections 4.01, 14.02 and 14.03; provided that any such action shall not adversely affect the interests of the Holders of Securities of such series and any related coupons or any other series of Securities in any material respect.

Section 9.02. Supplemental Indentures with Consent of Holders.

With the consent of the Holders of not less than a majority in aggregate principal amount of all Outstanding Securities affected by such supplemental indenture, by Act of said Holders delivered to the Company and the Trustee, the Company, when authorized by or pursuant to a Board Resolution, and the Trustee may enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture that affects such series of Securities or of modifying in any manner the rights of the Holders of such series of Securities and any related coupons under this Indenture; provided, however, that no such supplemental indenture shall, without the consent of the Holder of each Outstanding Security affected thereby:

(i) change the Stated Maturity of the principal of (or premium, if any) or any installment of principal of or interest on, any Security, subject to the provisions of Section 3.08; or the terms of any sinking fund with respect to any Security; or reduce the principal amount thereof or the rate of interest (or change the manner of calculating the rate of interest, thereon, or any premium payable upon the redemption thereof, or change any obligation of the Company to pay Additional Amounts pursuant to Section 10.04 (except as contemplated by Section 8.01(i) and permitted by Section 9.01(i)), or reduce the portion of the principal of an Original Issue Discount Security or Indexed Security that would be due and payable upon a declaration of acceleration of the Maturity thereof pursuant to Section 5.02, or upon the redemption thereof or the amount thereof provable in bankruptcy pursuant to Section 5.04, or adversely affect any right of repayment at the option of the Holder of any Security, or change any Place of Payment where, or the Currency in which, any Security or any premium or interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption or repayment at the option of the Holder, on or after the Redemption Date or the Repayment Date, as the case may be), or adversely affect any right to convert or exchange any Security as may be provided pursuant to Section 3.01 herein, or modify the subordination provisions set forth in Article Sixteen in a manner that is adverse to the Holder of any Security or

(ii) reduce the percentage in principal amount of the Outstanding Securities of any series, the consent of whose Holders is required for any such supplemental indenture, or the consent of whose Holders is required for any waiver with respect to such series (of compliance with certain provisions of this Indenture or certain defaults hereunder and their consequences) provided for in this Indenture, or reduce the requirements of Section 15.04 for quorum or voting, or

(iii) modify any of the provisions of this Section, Section 5.13 or Section 10.07, except to increase any such percentage or to provide that certain other provisions of this Indenture cannot be modified or waived without the consent of the Holder of each Outstanding Security affected thereby; provided, however, that this clause shall not be deemed to require the consent of any Holder of a Security or coupon with respect to changes in the references to “the Trustee” and concomitant changes in this Section, or the deletion of this proviso, in accordance with the requirements of Sections 6.10(b) and 9.01(viii).

It shall not be necessary for any Act of Holders under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act shall approve the substance thereof.

A supplemental indenture that changes or eliminates any covenant or other provision of this Indenture which has expressly been included solely for the benefit of one or more particular series of Securities, or that modifies the rights of the Holders of Securities of such series with respect to such covenant or other provision, shall be deemed not to affect the rights under this Indenture of the Holders of Securities of any other series.

The Company may, but shall not be obligated to, fix a record date for the purpose of determining the Persons entitled to consent to any indenture supplemental hereto. If a record date is fixed, the Holders on such record date, or their duly designated proxies, and only such Persons, shall be entitled to consent to such supplemental indenture, whether or not such Holders remain Holders after such record date; provided, that unless such consent shall have become effective by virtue of the requisite percentage having been obtained prior to the date that is eleven months after such record date, any such consent previously given shall automatically and without further action by any Holder be cancelled and of no further effect.

Section 9.03. Execution of Supplemental Indentures.

In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article or the modification thereby of the trusts created by this Indenture, the Trustee shall be entitled to receive, and shall be fully protected in relying upon, in addition to the documents required by Section 1.02 of this Indenture, an Officers' Certificate and an Opinion of Counsel stating that the execution of such supplemental indenture is authorized or permitted by this Indenture and that all conditions precedent to such supplemental indenture have been complied with. The Trustee may, but shall not be obligated to, enter into any such supplemental indenture that affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

Section 9.04. Effect of Supplemental Indentures.

Upon the execution of any supplemental indenture under this Article, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of Securities theretofore or thereafter authenticated and delivered hereunder and of any coupon appertaining thereto shall be bound thereby.

Section 9.05. Conformity with Trust Indenture Act.

Every supplemental indenture executed pursuant to this Article shall conform to the requirements of the Trust Indenture Act as then in effect.

Section 9.06. Reference in Securities to Supplemental Indentures.

Securities of any series authenticated and delivered after the execution of any supplemental indenture pursuant to this Article may, and shall, if required by the Trustee, bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Company shall so determine, new Securities of any series so modified as to conform, in the opinion of the Trustee and the Company, to any such supplemental indenture may be prepared and executed by the Company and authenticated and delivered by the Trustee in exchange for Outstanding Securities of such series.

ARTICLE TEN

COVENANTS

Section 10.01. Payment of Principal, Premium, if any, and Interest.

The Company covenants and agrees for the benefit of the Holders of each series of Securities and any coupons appertaining thereto that it will duly and punctually pay the principal of (and premium, if any) and interest, if any, on the Securities of that series in accordance with the terms of such series of Securities, any coupons appertaining thereto and this Indenture. Any interest due on Bearer Securities on or before Maturity, other than Additional Amounts, if any, payable as provided in Section 10.04 in respect of principal of (or premium, if any) such a Security, shall be payable only upon presentation and surrender of the several coupons for such interest installments as are evidenced thereby as they severally mature. Unless otherwise specified with respect to Securities of any series pursuant to Section 3.01, at the option of the Company, all payments of principal may be paid by check to the registered Holder of the Registered Security or other person entitled thereto against surrender of such Security. Unless otherwise specified as contemplated by Section 3.01 with respect to any series of Securities, any interest due on Bearer Securities on or before Maturity shall be payable only upon presentation and surrender of the several coupons for such interest installments as are evidenced thereby as they severally mature.

Section 10.02. Maintenance of Office or Agency.

If Securities of a series are issuable only as Registered Securities, the Company shall maintain in each Place of Payment for any series of Securities an office or agency where Securities of that series may be presented or surrendered for payment, where Securities of that series may be surrendered for registration of transfer or exchange,

where Securities of that series that are convertible or exchangeable may be surrendered for conversion or exchange, as applicable, and where notices and demands to or upon the Company in respect of the Securities of that series and this Indenture may be served. If Securities of a series are issuable as Bearer Securities, the Company will maintain (A) in the Borough of Manhattan, The City of New York, an office or agency where any Registered Securities of that series may be presented or surrendered for payment, where any Registered Securities of that series may be surrendered for registration of transfer, where Securities of that series may be surrendered for exchange, where Securities of that series that are convertible or exchangeable may be surrendered for conversion or exchange, as applicable, and where notices and demands to or upon the Company in respect of the Securities of that series and this Indenture may be served and where Bearer Securities of that series and related coupons may be presented or surrendered for payment in the circumstances described in the following paragraph (and not otherwise), (B) subject to any laws or regulations applicable thereto, in a Place of Payment for that series which is located outside the United States, an office or agency where Securities of that series and related coupons may be presented and surrendered for payment (including payment of any Additional Amounts payable on Securities of that series pursuant to Section 10.04); provided, however, that if the Securities of that series are listed on the Luxembourg Stock Exchange or any other stock exchange located outside the United States and such stock exchange shall so require, the Company will maintain a Paying Agent for the Securities of that series in Luxembourg or any other required city located outside the United States, as the case may be, so long as the Securities of that series are listed on such exchange, and (C) subject to any laws or regulations applicable thereto, in a Place of Payment for that series located outside the United States an office or agency where any Registered Securities of that series may be surrendered for registration of transfer, where Securities of that series may be surrendered for exchange, where Securities of that series that are convertible or exchangeable may be surrendered for conversion or exchange, as applicable and where notices and demands to or upon the Company in respect of the Securities of that series and this Indenture may be served. The Company will give prompt written notice to the Trustee of the location, and any change in the location, of each such office or agency. If at any time the Company shall fail to maintain any such required office or agency in respect of any series of Securities or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Trustee, except that Bearer Securities of that series and the related coupons may be presented and surrendered for payment (including payment of any Additional Amounts payable on Bearer Securities of that series pursuant to Section 10.04) at the offices specified in the Security, in London, England, and the Company hereby appoints the Trustee as its agent to receive such respective presentations, surrenders, notices and demands, and the Company hereby appoints the Trustee at its Corporate Trust Office its agent to receive all such presentations, surrenders, notices and demands.

Unless otherwise specified with respect to any Securities pursuant to Section 3.01, no payment of principal, premium or interest on Bearer Securities shall be made at any office or agency of the Company in the United States or by check mailed to any address in the United States or by transfer to any account maintained with a financial institution located in the United States; provided, however, that, if the Securities of a series are denominated and payable in Dollars, payment of principal of (and premium, if any) and interest, if any, on any Bearer Security (including payment of any Additional Amounts payable on Bearer Securities of that series pursuant to Section 10.04) shall be made at the office of the Company's Paying Agent in the Borough of Manhattan, The City of New York, if (but only if) payment in Dollars of the full amount of such principal, premium, if any, interest or Additional Amounts, as the case may be, at all offices or agencies outside the United States maintained for such purpose by the Company in accordance with this Indenture, is illegal or effectively precluded by exchange controls or other similar restrictions.

The Company may also from time to time designate one or more other offices or agencies where the Securities of one or more series may be presented or surrendered for any or all of such purposes, and may from time to time rescind such designations; provided, however, that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency in accordance with the requirements set forth above for Securities of any series for such purposes. The Company will give prompt written notice to the Trustee of any such designation or rescission and of any change in the location of any such other office or agency. Unless otherwise specified with respect to any Securities pursuant to Section 3.01 with respect to a series of Securities, the Company hereby designates as a Place of Payment for each series of Securities the office or agency of the Company in the Borough of Manhattan, The City of New York, and initially appoints the Trustee as Paying Agent with its office at [ ], and as its agent to receive all such presentations, surrenders, notices and demands.

Unless otherwise specified with respect to any Securities pursuant to Section 3.01, if and so long as the Securities of any series (i) are denominated in a currency other than Dollars or (ii) may be payable in a currency other than Dollars, or so long as it is required under any other provision of the Indenture, then the Company will maintain with respect to each such series of Securities, or as so required, at least one Exchange Rate Agent. The Company will notify the Trustee of the name and address of any Exchange Rate Agent retained by it.

Section 10.03. Money for Securities Payments to Be Held in Trust.

If the Company shall at any time act as its own Paying Agent with respect to any series of any Securities and any related coupons, it will, on or before each due date of the principal of (or premium, if any) or interest, if any, on any of the Securities of that series, segregate and hold in trust for the benefit of the Persons entitled thereto a sum in the Currency in which the Securities of such series are payable (except as otherwise specified pursuant to Section 3.01 for the Securities of such series and except, if applicable, as provided in Sections 3.12(b), 3.12(d) and 3.12(e)) sufficient to pay the principal (and premium, if any) and interest, if any, on Securities of such series so becoming due until such sums shall be paid to such Persons or otherwise disposed of as herein provided, and will promptly notify the Trustee of its action or failure so to act.

Whenever the Company shall have one or more Paying Agents for any series of Securities and any related coupons, it will, on or before each due date of the principal of (or premium, if any) or interest, if any, on any Securities of that series, deposit with a Paying Agent a sum (in the Currency or Currencies described in the preceding paragraph) sufficient to pay the principal (or premium, if any) or interest, if any, so becoming due, such sum of money to be held in trust for the benefit of the Persons entitled to such principal, premium or interest and (unless such Paying Agent is the Trustee) the Company will promptly notify the Trustee of its action or failure so to act.

The Company may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, pay, or by Company Order direct any Paying Agent to pay, to the Trustee all sums of money held in trust by the Company or such Paying Agent, such sums to be held by the Trustee upon the same trusts as those upon which such sums were held by the Company or such Paying Agent; and, upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such sums.

Except as otherwise provided in the Securities of any series, any money deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of the principal of (or premium, if any) or interest, if any, on any Security of any series, or any coupon appertaining thereto, and remaining unclaimed for two years after such principal, premium or interest has become due and payable shall be paid to the Company upon Company Request, or (if then held by the Company) shall be discharged from such trust; and the Holder of such Security or any coupon appertaining thereto shall thereafter, as an unsecured general creditor, look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such money held in trust, and all liability of the Company as trustee thereof, shall thereupon cease; provided, however, that the Trustee or such Paying Agent, before being required to make any such repayment, may at the expense of the Company cause to be published once, in an Authorized Newspaper, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Company.

Section 10.04. Additional Amounts.

If the Securities of a series provide for the payment of Additional Amounts, the Company will pay to the Holder of any Security of such series or any coupon appertaining thereto such Additional Amounts as may be specified as contemplated by Section 3.01. Whenever in this Indenture there is mentioned, in any context, the payment of the principal of (or premium, if any) or interest, if any, on any Security of any series or payment of any related coupon or the net proceeds received on the sale or exchange of any Security of any series, such mention shall be deemed to include mention of the payment of Additional Amounts provided for by the terms of such series established pursuant to Section 3.01 to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof pursuant to such terms and express mention of the payment of Additional Amounts (if applicable) in any provisions hereof shall not be construed as excluding Additional Amounts in those provisions hereof where such express mention is not made.

Except as otherwise specified as contemplated by Section 3.01, if the Securities of a series provide for the payment of Additional Amounts, at least 10 days prior to the first Interest Payment Date with respect to that series of Securities (or if the Securities of that series will not bear interest prior to Maturity, the first day on which a payment of principal premium is made), and at least 10 days prior to each date of payment of principal, premium or interest if there has been any change with respect to the matters set forth in the below-mentioned Officers' Certificate, the Company will furnish the Trustee and the Company's principal Paying Agent or Paying Agents, if other than the Trustee, with an Officers' Certificate instructing the Trustee and such Paying Agent or Paying Agents whether such payment of principal, premium or interest on the Securities of that series shall be made to Holders of Securities of that series or any related coupons who are not United States persons without withholding for or on account of any tax, assessment or other governmental charge described in the Securities of that series. If any such withholding shall be required, then such Officers' Certificate shall specify by country the amount, if any, required to be withheld on such payments to such Holders of Securities of that series or related coupons and the Company will pay to the Trustee or such Paying Agent the Additional Amounts required by the terms of such Securities. In the event that the Trustee or any Paying Agent, as the case may be, shall not so receive the above-mentioned certificate, then the Trustee or such Paying Agent shall be entitled (i) to assume that no such withholding or deduction is required with respect to any payment of principal or interest with respect to any Securities of a series or related coupons until it shall have received a certificate advising otherwise and (ii) to make all payments of principal and interest with respect to the Securities of a series or related coupons without withholding or deductions until otherwise advised. The Company covenants to indemnify the Trustee and any Paying Agent for, and to hold them harmless against, any loss, liability or expense reasonably incurred without negligence or bad faith on their part arising out of or in connection with actions taken or omitted by any of them in reliance on any Officers' Certificate furnished pursuant to this Section or in reliance on the Company's not furnishing such an Officers' Certificate.

Section 10.05. Statement as to Compliance.

The Company will deliver to the Trustee, within 120 days after the end of each fiscal year ending after the date hereof so long as any Security is Outstanding hereunder, an Officers' Certificate stating to the knowledge of the signers thereof whether the Company is in default in the performance of any of the terms, provisions or conditions of this Indenture. For purposes of this Section 10.05, such default shall be determined without regard to any period of grace or requirement of notice under this Indenture.

Section 10.06. Payment of Taxes and Other Claims.

The Company will pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (1) all taxes, assessments and governmental charges levied or imposed upon the Company or upon the income, profits or property of the Company, and (2) all lawful claims for labor, materials and supplies that, if unpaid, might by law become a lien upon the property of the Company, except where the failure to do so would not be reasonably expected to have a material adverse effect on the business, assets, financial condition or results of operations of the Company; provided, however, that the Company shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings.

Section 10.07. Waiver of Certain Covenants.

The Company may omit in any particular instance to comply with any covenant or condition set forth in Section 10.06, and, as specified pursuant to Section 3.01(xv) for Securities of any series, in any covenants of the Company added to Article Ten pursuant to Section 3.01(xiv) or Section 3.01(xv) in connection with the Securities of a series, if before or after the time for such compliance the Holders of at least a majority in aggregate principal amount of all Outstanding Securities of such series, by Act of such Holders, either waive such compliance in such instance or generally waive compliance with such covenant or condition, but no such waiver shall extend to or affect such covenant or condition except to the extent so expressly waived, and, until such waiver shall become effective, the obligations of the Company and the duties of the Trustee in respect of any such covenant or condition shall remain in full force and effect.

ARTICLE ELEVEN

REDEMPTION OF SECURITIES

Section 11.01. Applicability of Article.

Securities of any series that are redeemable before their Stated Maturity shall be redeemable in accordance with their terms and (except as otherwise specified as contemplated by Section 3.01 for Securities of any series) in accordance with this Article.

Section 11.02. Election to Redeem; Notice to Trustee.

The election of the Company to redeem any Securities shall be evidenced by or pursuant to a Board Resolution. In case of any redemption at the election of the Company of less than all of the Securities of any series, the Company shall, at least 60 days prior to the Redemption Date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee in writing of such Redemption Date and of the principal amount of Securities of such series to be redeemed, and, if applicable, of the tenor of the Securities to be redeemed, and shall deliver to the Trustee such documentation and records as shall enable the Trustee to select the Securities to be redeemed pursuant to Section 11.03. In the case of any redemption of Securities of any series prior to the expiration of any restriction on such redemption provided in the terms of such Securities or elsewhere in this Indenture, the Company shall furnish the Trustee with an Officers' Certificate evidencing compliance with such restriction.

Section 11.03. Selection by Trustee of Securities to Be Redeemed.

If less than all the Securities of any series issued on the same day with the same terms are to be redeemed, the particular Securities to be redeemed shall be selected not more than 60 days prior to the Redemption Date by the Trustee, from the Outstanding Securities of such series issued on such date with the same terms not previously called for redemption, by such method as the Trustee shall deem fair and appropriate; provided that such method complies with the rules of any national securities exchange or quotation system on which the Securities are listed (which rules shall be certificated to the Trustee by the Company or such national securities exchange at the Trustee's request), and may provide for the selection for redemption of portions (equal to the minimum authorized denomination for Securities of that series or any integral multiple thereof) of the principal amount of Securities of such series of a denomination larger than the minimum authorized denomination for Securities of that series; provided, however, that no such partial redemption shall reduce the portion of the principal amount of a Security not redeemed to less than the minimum authorized denomination for Securities of such series.

The Trustee shall promptly notify the Company and the Security Registrar (if other than itself) in writing of the Securities selected for redemption and, in the case of any Securities selected for partial redemption, the principal amount thereof to be redeemed.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of Securities shall relate, in the case of any Security redeemed or to be redeemed only in part, to the portion of the principal amount of such Security which has been or is to be redeemed.

Section 11.04. Notice of Redemption.

Notice of redemption shall be given in the manner provided in Section 1.06, not less than 30 days nor more than 60 days prior to the Redemption Date, unless a shorter period is specified by the terms of such series established pursuant to Section 3.01, to each Holder of Securities to be redeemed, but failure to give such notice in the manner herein provided to the Holder of any Security designated for redemption as a whole or in part, or any defect in the notice to any such Holder, shall not affect the validity of the proceedings for the redemption of any other such Security or portion thereof.

Any notice that is mailed to the Holders of Registered Securities in the manner herein provided shall be conclusively presumed to have been duly given, whether or not the Holder receives the notice.

All notices of redemption shall state:

(i) the Redemption Date,

(ii) the Redemption Price and accrued interest, if any, to the Redemption Date payable as provided in Section 11.06,

(iii) if less than all Outstanding Securities of any series are to be redeemed, the identification (and, in the case of partial redemption, the principal amount) of the particular Security or Securities to be redeemed,

(iv) in case any Security is to be redeemed in part only, the notice that relates to such Security shall state that on and after the Redemption Date, upon surrender of such Security, the Holder will receive, without a charge, a new Security or Securities of authorized denominations for the principal amount thereof remaining unredeemed,

(v) that on the Redemption Date, the Redemption Price and accrued interest, if any, to the Redemption Date payable as provided in Section 11.06 will become due and payable upon each such Security, or the portion thereof, to be redeemed and, if applicable, that interest thereon shall cease to accrue on and after said date,

(vi) the Place or Places of Payment where such Securities, together in the case of Bearer Securities with all coupons appertaining thereto, if any, maturing after the Redemption Date, are to be surrendered for payment of the Redemption Price and accrued interest, if any,

(vii) that the redemption is for a sinking fund, if such is the case,

(viii) that, unless otherwise specified in such notice, Bearer Securities of any series, if any, surrendered for redemption must be accompanied by all coupons maturing subsequent to the Redemption Date or the amount of any such missing coupon or coupons will be deducted from the Redemption Price, unless security or indemnity satisfactory to the Company, the Trustee for such series and any Paying Agent is furnished,

(ix) if Bearer Securities of any series are to be redeemed and any Registered Securities of such series are not to be redeemed, and if such Bearer Securities may be exchanged for Registered Securities not subject to redemption on this Redemption Date pursuant to Section 3.05 or otherwise, the last date, as determined by the Company, on which such exchanges may be made, and

(x) the CUSIP number of such Security, if any.

A notice of redemption published as contemplated by Section 1.06 need not identify particular Registered Securities to be redeemed. Notice of redemption of Securities to be redeemed shall be given by the Company or, at the Company's request, by the Trustee in the name and at the expense of the Company.

Section 11.05. Deposit of Redemption Price.

On or prior to 10:00 am, New York City time, on the Business Day prior to any Redemption Date, the Company shall deposit with the Trustee or with a Paying Agent (or, if the Company is acting as its own Paying Agent, in accordance with the terms of this Indenture, segregate and hold in trust as provided in Section 10.03) an amount of money in the Currency in which the Securities of such series are payable (except as otherwise specified pursuant to Section 3.01 for the Securities of such series and except, if applicable, as provided in Sections 3.12(b), 3.12(d) and 3.12(e)) sufficient to pay on the Redemption Date the Redemption Price of, and (unless otherwise specified pursuant to Section 3.01) accrued interest on, all the Securities or portions thereof which are to be redeemed on that date.

Section 11.06. Securities Payable on Redemption Date.

Notice of redemption having been given as aforesaid, the Securities so to be redeemed shall, on the Redemption Date, become due and payable at the Redemption Price therein specified in the Currency in which the Securities of

such series are payable (except as otherwise specified pursuant to Section 3.01 for the Securities of such series and except, if applicable, as provided in Sections 3.12(b), 3.12(d) and 3.12(e)) (together with accrued interest, if any, to the Redemption Date), and from and after such date (unless the Company shall default in the payment of the Redemption Price and accrued interest, if any) such Securities shall if the same were interest-bearing cease to bear interest and the coupons for such interest appertaining to any Bearer Securities so to be redeemed, except to the extent provided below, shall be void. Upon surrender of any such Security for redemption in accordance with said notice, together with all coupons, if any, appertaining thereto maturing after the Redemption Date, such Security shall be paid by the Company at the Redemption Price, together with accrued interest, if any, to the Redemption Date; provided, however, that installments of interest on Bearer Securities whose Stated Maturity is on or prior to the Redemption Date shall be payable only at an office or agency located outside the United States (except as otherwise provided in Section 10.02) and, unless otherwise specified as contemplated by Section 3.01, only upon presentation and surrender of coupons for such interest; and provided further that, unless otherwise specified as contemplated by Section 3.01, installments of interest on Registered Securities whose Stated Maturity is on or prior to the Redemption Date shall be payable to the Holders of such Securities, or one or more Predecessor Securities, registered as such at the close of business on the relevant Record Dates according to their terms and the provisions of Section 3.07.

If any Bearer Security surrendered for redemption shall not be accompanied by all appurtenant coupons maturing after the Redemption Date, such Security may be paid after deducting from the Redemption Price an amount equal to the face amount of all such missing coupons, or the surrender of such missing coupon or coupons may be waived by the Company and the Trustee if there be furnished to them such security or indemnity as they may require to save each of them and any Paying Agent harmless. If thereafter the Holder of such Security shall surrender to the Trustee or any Paying Agent any such missing coupon in respect of which a deduction shall have been made from the Redemption Price, such Holder shall be entitled to receive the amount so deducted; provided, however, that interest represented by coupons shall be payable only at an office or agency located outside the United States (except as otherwise provided in Section 10.02) and, unless otherwise specified as contemplated by Section 3.01, only upon presentation and surrender of those coupons.

If any Security called for redemption shall not be so paid upon surrender thereof for redemption, the Redemption Price shall, until paid, bear interest from the Redemption Date at the rate of interest set forth in such Security or, in the case of an Original Issue Discount Security, at the Yield to Maturity of such Security.

Section 11.07. Securities Redeemed in Part.

Any Registered Security that is to be redeemed only in part (pursuant to the provisions of this Article or of Article Twelve) shall be surrendered at a Place of Payment therefor (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or such Holder's attorney duly authorized in writing) and the Company shall execute and the Trustee shall authenticate and deliver to the Holder of such Security without service charge a new Security or Securities of the same series and of like tenor, of any authorized denomination as requested by such Holder in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Security so surrendered. If a temporary global Security or permanent global Security is so surrendered, such new Security so issued shall be a new temporary global Security or permanent global Security, respectively. However, if less than all the Securities of any series with differing issue dates, interest rates and stated maturities are to be redeemed, the Company in its sole discretion shall select the particular Securities to be redeemed and shall notify the Trustee in writing thereof at least 45 days prior to the relevant redemption date.

ARTICLE TWELVE

SINKING FUNDS

Section 12.01. Applicability of Article.

The provisions of this Article shall be applicable to any sinking fund for the retirement of Securities of a series except as otherwise specified as contemplated by Section 3.01 for Securities of such series.

The minimum amount of any sinking fund payment provided for by the terms of Securities of any series is herein referred to as a "mandatory sinking fund payment", and any payment in excess of such minimum amount provided for by the terms of such Securities of any series is herein referred to as an "optional sinking fund payment". If provided for by the terms of any Securities of any series, the cash amount of any mandatory sinking fund payment may be subject to reduction as provided in Section 12.02. Each sinking fund payment shall be applied to the redemption of Securities of any series as provided for by the terms of Securities of such series.

Section 12.02. Satisfaction of Sinking Fund Payments with Securities.

The Company may, in satisfaction of all or any part of any mandatory sinking fund payment with respect to the Securities of a series, (i) deliver Outstanding Securities of such series (other than any previously called for redemption) together in the case of any Bearer Securities of such series with all unmatured coupons appertaining thereto and (ii) apply as a credit Securities of such series which have been redeemed either at the election of the Company pursuant to the terms of such Securities or through the application of permitted optional sinking fund payments pursuant to the terms of such Securities, as provided for by the terms of such Securities; provided that such Securities so delivered or applied as a credit have not been previously so credited. Such Securities shall be received and credited for such purpose by the Trustee at the applicable Redemption Price specified in such Securities for redemption through operation of the sinking fund and the amount of such mandatory sinking fund payment shall be reduced accordingly.

Section 12.03. Redemption of Securities for Sinking Fund.

Not less than 60 days prior to each sinking fund payment date for Securities of any series, the Company will deliver to the Trustee an Officers' Certificate specifying the amount of the next ensuing mandatory sinking fund payment for that series pursuant to the terms of that series, the portion thereof, if any, which is to be satisfied by payment of cash in the Currency in which the Securities of such series are payable (except as otherwise specified pursuant to Section 3.01 for the Securities of such series and except, if applicable, as provided in Sections 3.12(b), 3.12(d) and 3.12(e)) and the portion thereof, if any, which is to be satisfied by delivering and crediting Securities of that series pursuant to Section 12.02, and the optional amount, if any, to be added in cash to the next ensuing mandatory sinking fund payment, and will also deliver to the Trustee any Securities to be so delivered and credited. If such Officers' Certificate shall specify an optional amount to be added in cash to the next ensuing mandatory sinking fund payment, the Company shall thereupon be obligated to pay the amount therein specified. Not less than 30 days before each such sinking fund payment date the Trustee shall select the Securities to be redeemed upon such sinking fund payment date in the manner specified in Section 11.03 and cause notice of the redemption thereof to be given in the name of and at the expense of the Company in the manner provided in Section 11.04. Such notice having been duly given, the redemption of such Securities shall be made upon the terms and in the manner stated in Sections 11.06 and 11.07.

ARTICLE THIRTEEN

REPAYMENT AT THE OPTION OF HOLDERS

Section 13.01. Applicability of Article.

Repayment of Securities of any series before their Stated Maturity at the option of Holders thereof shall be made in accordance with the terms of such Securities and (except as otherwise specified by the terms of such series established pursuant to Section 3.01) in accordance with this Article.

Section 13.02. Repayment of Securities.

Securities of any series subject to repayment in whole or in part at the option of the Holders thereof will, unless otherwise provided in the terms of such Securities, be repaid at the Repayment Price thereof, together with interest, if any, thereon accrued to the Repayment Date specified in or pursuant to the terms of such Securities. The Company covenants that on or before 10:00 am, New York City time, on the Business Day preceding the Repayment Date it will deposit with the Trustee or with a Paying Agent (or, if the Company is acting as its own Paying Agent, segregate and hold in trust as provided in Section 10.03) an amount of money in the Currency in which the

Securities of such series are payable (except as otherwise specified pursuant to Section 3.01 for the Securities of such series and except, if applicable, as provided in Sections 3.12(b), 3.12(d) and 3.12(e)) sufficient to pay the Repayment Price of, and (unless otherwise specified pursuant to Section 3.01) accrued interest on, all the Securities or portions thereof, as the case may be, to be repaid on such date.

Section 13.03. Exercise of Option.

Securities of any series subject to repayment at the option of the Holders thereof will contain an "Option to Elect Repayment" form on the reverse of such Securities. To be repaid at the option of the Holder, any Security so providing for such repayment, with the "Option to Elect Repayment" form on the reverse of such Security duly completed by the Holder (or by the Holder's attorney duly authorized in writing), must be received by the Company at the Place of Payment therefor specified in the terms of such Security (or at such other place or places of which the Company shall from time to time notify the Holders of such Securities) not earlier than 45 days nor later than 30 days prior to the Repayment Date. If less than the entire Repayment Price of such Security is to be repaid in accordance with the terms of such Security, the portion of the Repayment Price of such Security to be repaid, in increments of the minimum denomination for Securities of such series, and the denomination or denominations of the Security or Securities to be issued to the Holder for the portion of such Security surrendered that is not to be repaid, must be specified. Any Security providing for repayment at the option of the Holder thereof may not be repaid in part if, following such repayment, the unpaid principal amount of such Security would be less than the minimum authorized denomination of Securities of the series of which such Security to be repaid is a part. Except as otherwise may be provided by the terms of any Security providing for repayment at the option of the Holder thereof, exercise of the repayment option by the Holder shall be irrevocable unless waived by the Company.

Section 13.04. When Securities Presented for Repayment Become Due and Payable.

If Securities of any series providing for repayment at the option of the Holders thereof shall have been surrendered as provided in this Article and as provided by or pursuant to the terms of such Securities, such Securities or the portions thereof, as the case may be, to be repaid shall become due and payable and shall be paid by the Company on the Repayment Date therein specified, and on and after such Repayment Date (unless the Company shall default in the payment of such Securities on such Repayment Date) such Securities shall, if the same were interest-bearing, cease to bear interest and the coupons for such interest appertaining to any Bearer Securities so to be repaid, except to the extent provided below, shall be void. Upon surrender of any such Security for repayment in accordance with such provisions, together with all coupons, if any, appertaining thereto maturing after the Repayment Date, the Repayment Price of such Security so to be repaid shall be paid by the Company, together with accrued interest, if any, to the Repayment Date; provided, however, that coupons whose Stated Maturity is on or prior to the Repayment Date shall be payable only at an office or agency located outside the United States (except as otherwise provided in Section 10.02) and, unless otherwise specified pursuant to Section 3.01, only upon presentation and surrender of such coupons; and provided further that installments of interest on Registered Securities, whose Stated Maturity is prior to (or, if specified pursuant to Section 3.01, on) the Repayment Date shall be payable (but without interest thereon, unless the Company shall default in the payment thereof) to the Holders of such Securities, or one or more Predecessor Securities, registered as such at the close of business on the relevant Record Dates according to their terms and the provisions of Section 3.07.

If any Bearer Security surrendered for repayment shall not be accompanied by all appurtenant coupons maturing after the Repayment Date, such Security may be paid after deducting from the amount payable therefor as provided in Section 13.02 an amount equal to the face amount of all such missing coupons, or the surrender of such missing coupon or coupons may be waived by the Company and the Trustee if there be furnished to them such security or indemnity as they may require to save each of them and any Paying Agent harmless. If thereafter the Holder of such Security shall surrender to the Trustee or any Paying Agent any such missing coupon in respect of which a deduction shall have been made as provided in the preceding sentence, such Holder shall be entitled to receive the amount so deducted; provided, however, that interest represented by coupons shall be payable only at an office or agency located outside the United States (except as otherwise provided in Section 10.02) and, unless otherwise specified as contemplated by Section 3.01, only upon presentation and surrender of those coupons.

If any Security surrendered for repayment shall not be so repaid upon surrender thereof, the Repayment Price shall, until paid, bear interest from the Repayment Date at the rate of interest set forth in such Security or, in the case of an Original Issue Discount Security, at the Yield to Maturity of such Security.

Section 13.05. Securities Repaid in Part.

Upon surrender of any Registered Security that is to be repaid in part only, the Company shall execute and the Trustee shall authenticate and deliver to the Holder of such Security, without service charge and at the expense of the Company, a new Registered Security or Securities of the same series, and of like tenor, of any authorized denomination specified by the Holder, in an aggregate principal amount equal to and in exchange for the portion of the principal of such Security so surrendered that is not to be repaid. If a temporary global Security or permanent global Security is so surrendered, such new Security so issued shall be a new temporary global Security or a new permanent global Security, respectively.

ARTICLE FOURTEEN

DEFEASANCE AND COVENANT DEFEASANCE

Section 14.01. Applicability of Article; Company's Option to Effect Defeasance or Covenant Defeasance.

If pursuant to Section 3.01 provision is made for either or both of (a) defeasance of the Securities of or within a series under Section 14.02 or (b) covenant defeasance of the Securities of or within a series under Section 14.03, then the provisions of such Section or Sections, as the case may be, together with the other provisions of this Article (with such modifications thereto as may be specified pursuant to Section 3.01 with respect to any Securities), shall be applicable to such Securities and any coupons appertaining thereto, and the Company may at its option by Board Resolution, at any time, with respect to such Securities and any coupons appertaining thereto, elect to have either Section 14.02 (if applicable) or Section 14.03 (if applicable) be applied to such Outstanding Securities and any coupons appertaining thereto upon compliance with the conditions set forth below in this Article.

Section 14.02. Defeasance and Discharge.

Upon the Company's exercise of the above option applicable to this Section with respect to any Securities of or within a series, the Company shall be deemed to have been discharged from its obligations with respect to such Outstanding Securities and any coupons appertaining thereto on and after the date the conditions set forth in Section 14.04 are satisfied (hereinafter, "defeasance"). For this purpose, such defeasance means that the Company shall be deemed to have paid and discharged the entire indebtedness represented by such Outstanding Securities and any coupons appertaining thereto, which shall thereafter be deemed to be "Outstanding" only for the purposes of Section 14.05 and the other Sections of this Indenture referred to in clauses (A) and (B) of this Section, and to have satisfied all its other obligations under such Securities and any coupons appertaining thereto and this Indenture insofar as such Securities and any coupons appertaining thereto are concerned (and the Trustee, at the expense of the Company, shall execute proper instruments acknowledging the same), except for the following which shall survive until otherwise terminated or discharged hereunder: (A) the rights of Holders of such Outstanding Securities and any coupons appertaining thereto to receive, solely from the trust fund described in Section 14.04 and as more fully set forth in such Section, payments in respect of the principal of (and premium, if any) and interest, if any, on such Securities and any coupons appertaining thereto when such payments are due, (B) the Company's obligations with respect to such Securities under Sections 3.05, 3.06, 10.02 and 10.03 and with respect to the payment of Additional Amounts, if any, on such Securities as contemplated by Section 10.04, (C) the rights, powers, trusts, duties and immunities of the Trustee hereunder and (D) this Article. Subject to compliance with this Article Fourteen, the Company may exercise its option under this Section notwithstanding the prior exercise of its option under Section 14.03 with respect to such Securities and any coupons appertaining thereto. Following a defeasance, payment of such Securities may not be accelerated because of an Event of Default.

Section 14.03. Covenant Defeasance.

Upon the Company's exercise of the above option applicable to this Section with respect to any Securities of or within a series, the Company shall be released from its obligations under Section 10.06, and, if specified pursuant to Section 3.01, its obligations under any other covenant with respect to such Outstanding Securities and any coupons appertaining thereto on and after the date the conditions set forth in Section 14.04 are satisfied (hereinafter,

"covenant defeasance"), and such Securities and any coupons appertaining thereto shall thereafter be deemed to be not "Outstanding" for the purposes of any direction, waiver, consent or declaration or Act of Holders (and the consequences of any thereof) in connection with Section 10.06, or such other covenant, but shall continue to be deemed "Outstanding" for all other purposes hereunder. For this purpose, such covenant defeasance means that, with respect to such Outstanding Securities and any coupons appertaining thereto, the Company may omit to comply with and shall have no liability in respect of any term, condition or limitation set forth in any such Section or such other covenant, whether directly or indirectly, by reason of any reference elsewhere herein to any such Section or such other covenant or by reason of reference in any such Section or such other covenant to any other provision herein or in any other document and such omission to comply shall not constitute a Default or an Event of Default under Section 5.01(iv) or 5.01(vii) or otherwise, as the case may be, but, except as specified above, the remainder of this Indenture and such Securities and any coupons appertaining thereto shall be unaffected thereby. Following a covenant defeasance, payment of such Securities may not be accelerated because of an Event of Default solely by reference to such Sections specified above in this Section 14.03.

Section 14.04. Conditions to Defeasance or Covenant Defeasance.

The following shall be the conditions to application of either Section 14.02 or Section 14.03 to any Outstanding Securities of or within a series and any coupons appertaining thereto:

(i) The Company shall have irrevocably deposited or caused to be irrevocably deposited with the Trustee (or another trustee satisfying the requirements of Section 6.07 who shall agree to comply with the provisions of this Article Fourteen applicable to it) as trust funds in trust for the purpose of making the following payments, specifically pledged as security for the benefit of, and dedicated solely to, the Holders of such Securities and any coupons appertaining thereto, (A) an amount (in such Currency in which such Securities and any coupons appertaining thereto are then specified as payable at Stated Maturity), or (B) Government Obligations applicable to such Securities and coupons appertaining thereto (determined on the basis of the Currency in which such Securities and coupons appertaining thereto are then specified as payable at Stated Maturity) which through the scheduled payment of principal and interest in respect thereof in accordance with their terms will provide, without reinvestment thereof, not later than one day before the due date of any payment of principal of (and premium, if any) and interest, if any, on such Securities and any coupons appertaining thereto, money in an amount, or (C) a combination thereof in an amount, sufficient, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, to pay and discharge, and which shall be applied by the Trustee (or other qualifying trustee) to pay and discharge, (1) the principal of (and premium, if any) and interest, if any, on such Outstanding Securities and any coupons appertaining thereto on the Stated Maturity of such principal or installment of principal or interest and (2) any mandatory sinking fund payments or analogous payments applicable to such Outstanding Securities and any coupons appertaining thereto on the day on which such payments are due and payable in accordance with the terms of this Indenture and of such Securities and any coupons appertaining thereto.

(ii) Such defeasance or covenant defeasance shall not result in a breach or violation of, or constitute a default under, this Indenture or any other material agreement or instrument to which the Company is a party or by which it is bound.

(iii) No Default or Event of Default with respect to such Securities and any coupons appertaining thereto shall have occurred and be continuing on the date of such deposit or, insofar as Sections 5.01(v) and 5.01(vi) are concerned, at any time during the period ending on the 91st day after the date of such deposit (it being understood that this condition shall not be deemed satisfied until the expiration of such period).

(iv) In the case of an election under Section 14.02, the Company shall have delivered to the Trustee an Opinion of Counsel stating that (i) the Company has received from, or there has been published by, the Internal Revenue Service a ruling, or (ii) since the date of execution of this Indenture, there has been a change in the applicable Federal income tax law, in either case to the effect that, and based thereon such opinion shall confirm that, the Holders of such Outstanding Securities and any coupons appertaining thereto will not recognize income, gain or loss for Federal income tax purposes as a result of such defeasance and will be subject to Federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such defeasance had not occurred.

(v) In the case of an election under Section 14.03, the Company shall have delivered to the Trustee an Opinion of Counsel to the effect that the Holders of such Outstanding Securities and any coupons appertaining thereto will not recognize income, gain or loss for Federal income tax purposes as a result of such covenant defeasance and will be subject to Federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such covenant defeasance had not occurred.

(vi) The Company shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent to either the defeasance under Section 14.02 or the covenant defeasance under Section 14.03 (as the case may be) have been complied with.

(vii) Notwithstanding any other provisions of this Section, such defeasance or covenant defeasance shall be effected in compliance with any additional or substitute terms, conditions or limitations which may be imposed on the Company in connection therewith pursuant to Section 3.01.

Section 14.05. Deposited Money and Government Obligations to Be Held in Trust; Other Miscellaneous Provisions.

Subject to the provisions of the last paragraph of Section 10.03, all money and Government Obligations (or other property as may be provided pursuant to Section 3.01) (including the proceeds thereof) deposited with the Trustee (or other qualifying trustee, collectively for purposes of this Section 14.05, the "Trustee") pursuant to Section 14.04 in respect of any Outstanding Securities of any series and any coupons appertaining thereto shall be held in trust and applied by the Trustee, in accordance with the provisions of such Securities and any coupons appertaining thereto and this Indenture, to the payment, either directly or through any Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine, to the Holders of such Securities and any coupons appertaining thereto of all sums due and to become due thereon in respect of principal (and premium, if any) and interest, if any, but such money need not be segregated from other funds except to the extent required by law.

Unless otherwise specified with respect to any Security pursuant to Section 3.01, if, after a deposit referred to in Section 14.04(a) has been made, (a) the Holder of a Security in respect of which such deposit was made is entitled to, and does, elect pursuant to Section 3.12(b) or the terms of such Security to receive payment in a Currency other than that in which the deposit pursuant to Section 14.04(a) has been made in respect of such Security, or (b) a Conversion Event occurs as contemplated in Section 3.12(d) or 3.12(e) or by the terms of any Security in respect of which the deposit pursuant to Section 14.04(a) has been made, the indebtedness represented by such Security and any coupons appertaining thereto shall be deemed to have been, and will be, fully discharged and satisfied through the payment of the principal of (and premium, if any) and interest, if any, on such Security as the same becomes due out of the proceeds yielded by converting (from time to time as specified below in the case of any such election) the amount or other property deposited in respect of such Security into the Currency in which such Security becomes payable as a result of such election or Conversion Event based on the applicable Market Exchange Rate for such Currency in effect on the second Business Day prior to each payment date, except, with respect to a Conversion Event, for such Currency in effect (as nearly as feasible) at the time of the Conversion Event.

The Company shall pay and indemnify the Trustee against any tax, fee or other charge imposed on or assessed against the money or Government Obligations deposited pursuant to Section 14.04 or the principal and interest received in respect thereof other than any such tax, fee or other charge which by law is for the account of the Holders of such Outstanding Securities and any coupons appertaining thereto.

Anything in this Article to the contrary notwithstanding, the Trustee shall deliver or pay to the Company from time to time upon Company Request any money or Government Obligations (or other property and any proceeds therefrom) held by it as provided in Section 14.04 which, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, are in excess of the amount thereof which would then be required to be deposited to effect a defeasance or covenant defeasance, as applicable, in accordance with this Article.

If, after the Company has made a deposit with the Trustee pursuant to Section 14.04, the Trustee is unable to apply any money in accordance with Section 14.05 by reason of any legal proceeding or by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application,

then the Company's obligations under this Indenture and the applicable Securities shall be revived and reinstated as though no deposit had occurred pursuant to Section 14.04 until such time as the Trustee is permitted to apply all such money in accordance with this Article Fourteen; provided, however, that if the Company has made any payment of the principal of or interest on any series of Securities because of the reinstatement of its obligations, the Company shall be subrogated to the rights of the Holders of such Securities to receive any such payment from the money held by the Trustee.

Money deposited with the Trustee in trust pursuant to this Section 14.05 shall not be subject to the subordination provisions of Article Sixteen.

ARTICLE FIFTEEN

MEETINGS OF HOLDERS OF SECURITIES

Section 15.01. Purposes for Which Meetings May Be Called.

If Securities of a series are issuable as Bearer Securities, a meeting of Holders of Securities of such series may be called at any time and from time to time pursuant to this Article to make, give or take any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be made, given or taken by Holders of Securities of such series.

Section 15.02. Call, Notice and Place of Meetings.

(a) The Trustee may at any time call a meeting of Holders of Securities of any series for any purpose specified in Section 15.01, to be held at such time and at such place in the Borough of Manhattan, The City of New York or in London as the Trustee shall determine. Notice of every meeting of Holders of Securities of any series, setting forth the time and the place of such meeting and in general terms the action proposed to be taken at such meeting, shall be given, in the manner provided in Section 1.06, not less than 21 nor more than 180 days prior to the date fixed for the meeting.

(b) In case at any time the Company, pursuant to a Board Resolution, or the Holders of at least 10% in principal amount of the Outstanding Securities of any series shall have requested the Trustee to call a meeting of the Holders of Securities of such series for any purpose specified in Section 15.01, by written request setting forth in reasonable detail the action proposed to be taken at the meeting, and the Trustee shall not have made the first publication or mailing of the notice of such meeting within 21 days after receipt of such request or shall not thereafter proceed to cause the meeting to be held as provided herein, then the Company or the Holders of Securities of such series in the amount above specified, as the case may be, may determine the time and the place in the Borough of Manhattan, The City of New York or in London for such meeting and may call such meeting for such purposes by giving notice thereof as provided in subsection (a) of this Section.

Section 15.03. Persons Entitled to Vote at Meetings.

To be entitled to vote at any meeting of Holders of Securities of any series, a Person shall be (i) a Holder of one or more Outstanding Securities of such series, or (ii) a Person appointed by an instrument in writing as proxy for a Holder or Holders of one or more Outstanding Securities of such series by such Holder or Holders. The only Persons who shall be entitled to be present or to speak at any meeting of Holders of Securities of any series shall be the Persons entitled to vote at such meeting and their counsel, any representatives of the Trustee and its counsel and any representatives of the Company and its counsel.

Section 15.04. Quorum; Action.

The Persons entitled to vote a majority in principal amount of the Outstanding Securities of a series shall constitute a quorum for a meeting of Holders of Securities of such series; provided, however, that if any action is to be taken at such meeting with respect to a consent, waiver, request, demand, notice, authorization, direction or other action that this Indenture expressly provides may be made, given or taken by the Holders of not less than a specified percentage in principal amount of the Outstanding Securities of a series, the Persons entitled to vote such specified percentage

in principal amount of the Outstanding Securities of such series shall constitute a quorum. In the absence of a quorum within 30 minutes of the time appointed for any such meeting, the meeting shall, if convened at the request of Holders of Securities of such series, be dissolved. In any other case the meeting may be adjourned for a period of not less than 10 days as determined by the chairman of the meeting prior to the adjournment of such meeting. In the absence of a quorum at any such adjourned meeting, such adjourned meeting may be further adjourned for a period of not less than 10 days as determined by the chairman of the meeting prior to the adjournment of such adjourned meeting. Notice of the reconvening of any adjourned meeting shall be given as provided in Section 15.02(a), except that such notice need be given only once not less than five days prior to the date on which the meeting is scheduled to be reconvened. Notice of the reconvening of any adjourned meeting shall state expressly the percentage, as provided above, of the principal amount of the Outstanding Securities of such series which shall constitute a quorum.

Except as limited by the proviso to Section 9.02, any resolution presented to a meeting or adjourned meeting duly reconvened at which a quorum is present as aforesaid may be adopted by the affirmative vote of the Holders of a majority in principal amount of the Outstanding Securities of that series; provided, however, that, except as limited by the proviso to Section 9.02, any resolution with respect to any consent, waiver, request, demand, notice, authorization, direction or other action which this Indenture expressly provides may be made, given or taken by the Holders of a specified percentage, which is less than a majority, in principal amount of the Outstanding Securities of a series may be adopted at a meeting or an adjourned meeting duly reconvened and at which a quorum is present as aforesaid by the affirmative vote of the Holders of such specified percentage in principal amount of the Outstanding Securities of that series.

Any resolution passed or decision taken at any meeting of Holders of Securities of any series duly held in accordance with this Section shall be binding on all the Holders of Securities of such series and the related coupons, whether or not present or represented at the meeting.

Notwithstanding the foregoing provisions of this Section 15.04, if any action is to be taken at a meeting of Holders of Securities of any series with respect to any consent, waiver, request, demand, notice, authorization, direction or other action that this Indenture expressly provides may be made, given or taken by the Holders of a specified percentage in principal amount of all Outstanding Securities affected thereby, or of the Holders of such series and one or more additional series:

(i) there shall be no minimum quorum requirement for such meeting; and

(ii) the principal amount of the Outstanding Securities of such series that vote in favor of such consent, waiver, request, demand, notice, authorization, direction or other action shall be taken into account in determining whether such request, demand, authorization, direction, notice, consent, waiver or other action has been made, given or taken under this Indenture.

Section 15.05. Determination of Voting Rights; Conduct and Adjournment of Meetings.

(a) Notwithstanding any other provisions of this Indenture, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of Holders of Securities of a series in regard to proof of the holding of Securities of such series and of the appointment of proxies and in regard to the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidence of the right to vote, and such other matters concerning the conduct of the meeting as it shall deem appropriate. Except as otherwise permitted or required by any such regulations, the holding of Securities shall be proved in the manner specified in Section 1.04 and the appointment of any proxy shall be proved in the manner specified in Section 1.04 or by having the signature of the Person executing the proxy witnessed or guaranteed by any trust company, bank or banker authorized by Section 1.04 to certify to the holding of Bearer Securities. Such regulations may provide that written instruments appointing proxies, regular on their face, may be presumed valid and genuine without the proof specified in Section 1.04 or other proof.

(b) The Trustee shall, by an instrument in writing appoint a temporary chairman of the meeting, unless the meeting shall have been called by the Company or by Holders of Securities as provided in Section 15.02(b), in which case the Company or the Holders of Securities of the series calling the meeting, as the case may

be, shall in like manner appoint a temporary chairman. A permanent chairman and a permanent secretary of the meeting shall be elected by vote of the Persons entitled to vote a majority in principal amount of the Outstanding Securities of such series represented at the meeting.

(c) At any meeting of Holders, each Holder of a Security of such series or proxy shall be entitled to one vote for each $1,000 principal amount of the Outstanding Securities of such series held or represented by such Holder; provided, however, that no vote shall be cast or counted at any meeting in respect of any Security challenged as not Outstanding and ruled by the chairman of the meeting to be not Outstanding. The chairman of the meeting shall have no right to vote, except as a Holder of a Security of such series or proxy.

(d) Any meeting of Holders of Securities of any series duly called pursuant to Section 15.02 at which a quorum is present may be adjourned from time to time by Persons entitled to vote a majority in principal amount of the Outstanding Securities of such series represented at the meeting, and the meeting may be held as so adjourned without further notice.

Section 15.06. Counting Votes and Recording Action of Meetings.

The vote upon any resolution submitted to any meeting of Holders of Securities of any series shall be by written ballots on which shall be subscribed the signatures of the Holders of Securities of such series or of their representatives by proxy and the principal amounts and serial numbers of the Outstanding Securities of such series held or represented by them. The permanent chairman of the meeting shall appoint two inspectors of votes who shall count all votes cast at the meeting for or against any resolution and who shall make and file with the secretary of the meeting their verified written reports in duplicate of all votes cast at the meeting. A record, at least in duplicate, of the proceedings of each meeting of Holders of Securities of any Series shall be prepared by the secretary of the meeting and there shall be attached to said record the original reports of the inspectors of votes on any vote by ballot taken thereat and affidavits by one or more persons having knowledge of the fact, setting forth a copy of the notice of the meeting and showing that said notice was given as provided in Section 15.02 and, if applicable, Section 15.04. Each copy shall be signed and verified by the affidavits of the permanent chairman and secretary of the meeting and one such copy shall be delivered to the Company and another to the Trustee to be preserved by the Trustee, the latter to have attached thereto the ballots voted at the meeting. Any record so signed and verified shall be conclusive evidence of the matters therein stated.

ARTICLE SIXTEEN

SUBORDINATION OF SECURITIES

Section 16.01. Agreement to Subordinate.

The Company, for itself, its successors and assigns, covenants and agrees, and each Holder of Senior Subordinated Securities by his acceptance thereof, likewise covenants and agrees, that the payment of the principal of (and premium, if any) and interest, if any, on each and all of the Senior Subordinated Securities is hereby expressly subordinated, to the extent and in the manner hereinafter set forth, in right of payment to the prior payment in full of all Senior Indebtedness.

The Company, for itself, its successors and assigns, covenants and agrees, and each Holder of Junior Subordinated Securities by his acceptance thereof, likewise covenants and agrees, that the payment of the principal of (and premium, if any) and interest, if any, on each and all of the Junior Subordinated Securities is hereby expressly subordinated, to the extent and in the manner hereinafter set forth, in right of payment to the prior payment in full of all Senior Indebtedness and Senior Subordinated Indebtedness.

Section 16.02. Distribution on Dissolution, Liquidation and Reorganization; Subrogation of Subordinated Securities.

Upon any distribution of assets of the Company upon any dissolution, winding up, liquidation or reorganization of the Company, whether in bankruptcy, insolvency, reorganization or receivership proceedings or upon an assignment for the benefit of creditors or any other marshalling of the assets and liabilities of the Company or otherwise (subject

to the power of a court of competent jurisdiction to make other equitable provision reflecting the rights conferred in this Indenture upon the Senior Indebtedness and the holders thereof with respect to the Securities and the holders thereof by a lawful plan of reorganization under applicable bankruptcy law):

(i) the holders of all Senior Indebtedness shall be entitled to receive payment in full of the principal thereof (and premium, if any) and interest due thereon before the Holders of the Subordinated Securities are entitled to receive any payment upon the principal (or premium, if any) or interest, if any, on indebtedness evidenced by the Subordinated Securities; and

(ii) the holders of all Senior Subordinated Indebtedness shall be entitled to receive payment in full of the principal thereof (and premium, if any) and interest due thereon before the Holders of the Junior Subordinated Securities are entitled to receive any payment upon the principal (or premium, if any) or interest, if any, on indebtedness evidenced by the Junior Subordinated Securities; and

(iii) any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, to which the Holders of the Securities or the Trustee would be entitled except for the provisions of this Article Sixteen shall be paid by the liquidating trustee or agent or other person making such payment or distribution, whether a trustee in bankruptcy, a receiver or liquidating trustee or otherwise, directly to the holders of Senior Indebtedness or their representative or representatives or to the trustee or trustees under any indenture under which any instruments evidencing any of such Senior Indebtedness may have been issued, ratably according to the aggregate amounts remaining unpaid on account of the principal of (and premium, if any) and interest on the Senior Indebtedness held or represented by each, to the extent necessary to make payment in full of all Senior Indebtedness remaining unpaid, after giving effect to any concurrent payment or distribution to the holders of such Senior Indebtedness; and

(iv) in the event that, notwithstanding the foregoing, any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, shall be received by the Trustee or the Holders of the Subordinated Securities before all Senior Indebtedness is paid in full, such payment or distribution shall be paid over, upon written notice to the Trustee, to the holder of such Senior Indebtedness or their representative or representatives or to the trustee or trustees under any indenture under which any instrument evidencing any of such Senior Indebtedness may have been issued, ratably as aforesaid, for application to payment of all Senior Indebtedness remaining unpaid until all such Senior Indebtedness shall have been paid in full, after giving effect to any concurrent payment or distribution to the holders of such Senior Indebtedness.

Subject to the payment in full of all Senior Indebtedness, the Holders of the Subordinated Securities shall be subrogated to the rights of the holders of Senior Indebtedness to receive payments or distributions of cash, property or securities of the Company applicable to Senior Indebtedness until the principal of (and premium, if any) and interest, if any, on the Subordinated Securities shall be paid in full and no such payments or distributions to the Holders of the Subordinated Securities of cash, property or securities otherwise distributable to the holders of Senior Indebtedness shall, as between the Company, its creditors other than the holders of Senior Indebtedness, and the Holders of the Subordinated Securities be deemed to be a payment by the Company to or on account of the Subordinated Securities. It is understood that the provisions of this Article Sixteen are and are intended solely for the purpose of defining the relative rights of the Holders of the Subordinated Securities, on the one hand, and the holders of the Senior Indebtedness, on the other hand. Nothing contained in this Article Sixteen or elsewhere in this Indenture or in the Subordinated Securities is intended to or shall impair, as between the Company, its creditors other than the holders of Senior Indebtedness, and the Holders of the Subordinated Securities, the obligation of the Company, which is unconditional and absolute, to pay to the Holders of the Subordinated Securities the principal of (and premium, if any) and interest, if any, on the Subordinated Securities as and when the same shall become due and payable in accordance with their terms, or to affect the relative rights of the Holders of the Subordinated Securities and creditors of the Company other than the holders of Senior Indebtedness, nor shall anything herein or in the Subordinated Securities prevent the Trustee or the Holder of any Subordinated Security from exercising all remedies otherwise permitted by applicable law upon default under this Indenture, subject to the rights, if any, under this Article Sixteen of the holders of Senior Indebtedness in respect of cash, property or securities of the Company received upon the exercise of any such remedy. Upon any payment or distribution of assets of the Company referred to in this Article Sixteen, the Trustee, subject to the provisions of Section 6.01, shall be entitled to rely upon a certificate of the liquidating trustee or agent or other person making any distribution to the Trustee for the purpose of

ascertaining the Persons entitled to participate in such distribution, the holders of Senior Indebtedness and other indebtedness of the Company, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article Sixteen.

If the Trustee or any Holder of Subordinated Securities does not file a proper claim or proof of debt in the form required in any proceeding referred to above prior to 30 days before the expiration of the time to file such claim in such proceeding, then the holder of any Senior Indebtedness is hereby authorized, and has the right, to file an appropriate claim or claims for or on behalf of such Holder of Subordinated Securities.

With respect to the holders of Senior Indebtedness, the Trustee undertakes to perform or to observe only such of its covenants or obligations as are specifically set forth in this Article and no implied covenants or obligations with respect to holders of Senior Indebtedness shall be read into this Indenture against the Trustee. The Trustee does not owe any fiduciary duties to the holders of Senior Indebtedness, including any holder of Securities other than Securities issued under this Indenture.

Section 16.03. No Payment on Subordinated Securities in Event of Default on Senior Indebtedness.

No payment by the Company on account of principal (or premium, if any), sinking funds or interest, if any, on the Subordinated Securities shall be made unless full payment of amounts then due for principal (premium, if any), sinking funds and interest on Senior Indebtedness has been made or duly provided for in money or money's worth.

Section 16.04. Payments on Subordinated Securities Permitted.

Nothing contained in this Indenture or in any of the Subordinated Securities shall (a) affect the obligation of the Company to make, or prevent the Company from making, at any time except as provided in Sections 16.02 and 16.03, payments of principal of (or premium, if any) or interest, if any, on the Subordinated Securities or (b) prevent the application by the Trustee of any moneys deposited with it hereunder to the payment of or on account of the principal of (or premium, if any) or interest, if any, on the Subordinated Securities, unless the Trustee shall have received at its Corporate Trust Office written notice of any event prohibiting the making of such payment more than three Business Days prior to the date fixed for such payment.

Section 16.05. Authorization of Holders to Trustee to Effect Subordination.

Each Holder of Subordinated Securities by his acceptance thereof authorizes and directs the Trustee on his behalf to take such action as may be necessary or appropriate to effectuate the subordination as provided in this Article Sixteen and appoints the Trustee his attorney-in-fact for any and all such purposes.

Section 16.06. Notices to Trustee.

Notwithstanding the provisions of this Article or any other provisions of this Indenture, neither the Trustee nor any Paying Agent (other than the Company) shall be charged with knowledge of the existence of any Senior Indebtedness or of any event which would prohibit the making of any payment of moneys to or by the Trustee or such Paying Agent, unless and until the Trustee or such Paying Agent shall have received (in the case of the Trustee, at its Corporate Trust Office) written notice thereof from the Company or from the holder of any Senior Indebtedness or from the trustee for any such holder, together with proof reasonably satisfactory to the Trustee of such holding of Senior Indebtedness or of the authority of such trustee; provided, however, that if at least three Business Days prior to the date upon which by the terms hereof any such moneys may become payable for any purpose (including, without limitation, the payment of either the principal (or premium, if any) or interest, if any, on any Subordinated Security) the Trustee shall not have received with respect to such moneys the notice provided for in this Section 16.06, then, anything herein contained to the contrary notwithstanding, the Trustee shall have full power and authority to receive such moneys and to apply the same to the purpose for which they were received, and shall not be affected by any notice to the contrary, which may be received by it within three Business Days prior to such date. The Trustee shall be entitled to rely on the delivery to it of a written notice by a Person representing himself to be a holder of Senior Indebtedness (or a trustee on behalf of such holder) to establish that such a notice has been given by a holder of Senior Indebtedness or a trustee on behalf of any such holder. In the event that the Trustee determines in good faith that further evidence is required with respect to the right of any Person as a holder

of Senior Indebtedness to participate in any payment or distribution pursuant to this Article Sixteen, the Trustee may request such Person to furnish evidence to the reasonable satisfaction of the Trustee as to the amount of Senior Indebtedness held by such Person, the extent to which such Person is entitled to participate in such payment or distribution and any other facts pertinent to the rights of such Person under this Article Sixteen and, if such evidence is not furnished, the Trustee may defer any payment to such Person pending judicial determination as to the right of such Person to receive such payment.

Section 16.07. Trustee as Holder of Senior Indebtedness.

The Trustee in its individual capacity shall be entitled to all the rights set forth in this Article Sixteen in respect of any Senior Indebtedness at any time held by it to the same extent as any other holder of Senior Indebtedness and nothing in this Indenture shall be construed to deprive the Trustee of any of its rights as such holder.

Nothing in this Article Sixteen shall apply to claims of, or payments to, the Trustee under or pursuant to Section 6.06.

Section 16.08. Modifications of Terms of Senior Indebtedness.

Any renewal or extension of the time of payment of any Senior Indebtedness or the exercise by the holders of Senior Indebtedness of any of their rights under any instrument creating or evidencing Senior Indebtedness, including, without limitation, the waiver of default thereunder, may be made or done all without notice to or assent from the Holders of the Subordinated Securities or the Trustee.

No compromise, alteration, amendment, modification, extension, renewal or other change of, or waiver, consent or other action in respect of, any liability or obligation under or in respect of, or of any of the terms, covenants or conditions of any indenture or other instrument under which any Senior Indebtedness is outstanding or of such Senior Indebtedness, whether or not such release is in accordance with the provisions of any applicable document, shall in any way alter or affect any of the provisions of this Article Sixteen or of the Subordinated Securities relating to the subordination thereof.

Section 16.09. Reliance on Judicial Order or Certificate of Liquidating Agent.

Upon any payment or distribution of assets of the Company referred to in this Article Sixteen, the Trustee and the Holders of the Securities shall be entitled to rely upon any order or decree entered by any court of competent jurisdiction in which such insolvency, bankruptcy, receivership, liquidation, reorganization, dissolution, winding up or similar case or proceeding is pending, or a certificate of the trustee in bankruptcy, liquidating trustee, custodian, receiver, assignee for the benefit of creditors, agent or other person making such payment or distribution, delivered to the Trustee or to the Holders of Subordinated Securities, for the purpose of ascertaining the persons entitled to participate in such payment or distribution, the holders of Senior Indebtedness and other indebtedness of the Company, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article Sixteen.

* * * * *

This Indenture may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same Indenture.

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

KOHLBERG CAPITAL CORPORATION

By:
Name:
Title:

[ ],
as Trustee

By:
Name:
Title:

Exhibit h.1

[ ] Shares of Common Stock
[ ] Shares of Preferred Stock
and
[ ] Warrants to Purchase Common Stock or Preferred Stock

UNDERWRITING AGREEMENT

New York, New York
[ ]

[ ]

Ladies and Gentlemen:

Kohlberg Capital Corporation, a Delaware corporation (the "Company"), confirms its agreement with [ ] and each of the other Underwriters named in Schedule A hereto (collectively, the "Underwriters", which term shall also include any underwriter substituted as hereinafter provided in Section 10 hereof), for whom [ ] are acting as representatives (in such capacity, the "Representatives"), with respect to the issue and sale by the Company and the purchase by the Underwriters, acting severally and not jointly, of the respective numbers of shares of common stock, par value $0.01 per share ("Common Stock"), or preferred stock, par value $0.01 per share ("Preferred Stock"), or both, or warrants (the "Warrants") to purchase Common Stock or Preferred Stock, or both, of the Company set forth in said Schedule A, and with respect to the grant by the Company to the Underwriters, acting severally and not jointly, of the option described in Section 2(b) hereof to purchase additional Securities (as hereinafter defined) to cover overallotments, if any. The Preferred Stock may be offered in the form of depositary shares (the "Depositary Shares") represented by depositary receipts (the "Depositary Receipts"). The Warrants will be issued under one or more warrant agreements (the warrant agreement relating to any issue of Warrants to be sold pursuant to this Agreement is referred to herein as the "Warrant Agreement") between the Company and the Warrant Agent identified in such Warrant Agreement (the "Warrant Agent"). The Common Stock and, if applicable, the Preferred Stock or the Warrants, together, if applicable, with the Depositary Shares and the Depositary Receipts are hereinafter referred to as the "Securities." The aforesaid Securities (the "Initial Securities") to be purchased by the Underwriters and all or any part of the Securities subject to the option described in Section 2(b) hereof (the "Option Securities") are hereinafter called, collectively, the "Underwritten Securities"; and "Warrant Securities" shall mean the Common Stock or Preferred Stock issuable upon exercise of Warrants. The Common Stock, Preferred Stock and Warrants may be offered either together or separately. Each issue of Preferred Stock may vary, as applicable, as to the specific number of shares, title, issuance price, any redemption or sinking fund requirements, any conversion provisions and any other variable terms as set forth in the applicable certificate of designation (each, a "Certificate of Designation") relating to such Preferred Stock. Each issue of Warrants may vary, as applicable, as to the title, specific number of shares of Common Stock or Preferred Stock receivable upon exercise, issuance price, exercise dates, exercise conditions and any other variable terms as set forth in the applicable Warrant Agreement relating to such Warrants.

The Company understands that the Underwriters propose to make a public offering of the Underwritten Securities as soon as the Representatives deem advisable after this Agreement has been executed and delivered.

The Company has filed with the Securities and Exchange Commission (the "Commission") a shelf registration statement on Form N-2 (File No. 333-[ ]) covering the registration of the Underwritten

Securities and certain of the Company's senior and subordinated debt securities and warrants to purchase senior and subordinated debt securities under the Securities Act of 1933, as amended (the "Securities Act"), which registration statement has been declared effective by the Commission (the date and time as of which the Registration Statement was declared effective by the Commission, the "Effective Date"). The Company has also filed with the Commission a preliminary prospectus supplement, dated [ ], which contains a base prospectus, dated [ ]. Each prospectus used before the Registration Statement became effective, and any prospectus that omitted the Rule 430C Information (as defined below), that was used after the Effective Date and prior to the execution and delivery of this Agreement is referred to herein as the "Preliminary Prospectus." Promptly after execution and delivery of this Agreement, the Company will prepare and file a prospectus in accordance with the provisions of Rule 430C ("Rule 430C") of the rules and regulations of the Commission under the Securities Act (the "Securities Act Rules and Regulations") and Rule 497 of the Securities Act Rules and Regulations. The information included in such prospectus that was omitted from such registration statement at the time it became effective but that is deemed to be part of such registration statement pursuant to Rule 430C of the Securities Act Rules and Regulations is referred to as "Rule 430C Information." Unless the context otherwise requires, such registration statement, including all documents filed as a part thereof, and including any Rule 430C Information contained in a prospectus subsequently filed with the Commission pursuant to Rule 497 of the Securities Act Rules and Regulations and deemed to be part of the registration statement and also including any registration statement filed pursuant to Rule 462(b) of the Securities Act Rules and Regulations (the "Rule 462(b) Registration Statement"), is herein called the "Registration Statement." The final prospectus in the form filed by the Company with the Commission pursuant to Rule 497 of the Securities Act Rules and Regulations on or before the second business day after the date hereof (or such earlier time as may be required under the Securities Act), which will include the base prospectus, dated [ ], together with a final prospectus supplement, is herein called the "Prospectus." For purposes of this Agreement, all references to the Registration Statement, the Preliminary Prospectus, the Prospectus or any amendment or supplement to any of the foregoing shall be deemed to include the copy filed with the Commission pursuant to its Electronic Data Gathering, Analysis and Retrieval system ("EDGAR").

A Form N-54A Notification of Election to be Subject to Sections 55 through 65 of the Investment Company Act of 1940 filed Pursuant to Section 54(a) of the Investment Company Act (File No. 814-00735) (the "Notification of Election") was filed with the Commission on December 5, 2006 under the Investment Company Act of 1940, as amended, and the rules and regulations thereunder (collectively, the "Investment Company Act").

1. Representations and Warranties.

(a) The Company represents and warrants to each Underwriter as of the date hereof, as of the Applicable Time referred to in Section 1(a)(i) hereof and as of each Delivery Date referred to in Section 4(b) hereof, and agrees with each Underwriter, as follows:

(i) The Company is eligible to use Form N-2. The Registration Statement (and the Registration Statement as amended by any post-effective amendment if the Company shall have made any amendments thereto after the effective date of the Registration Statement) has become effective under the Securities Act and no stop order suspending the effectiveness of the Registration Statement (and the Registration Statement as amended by any post-effective amendment if the Company shall have made any amendments thereto after the effective date of the Registration Statement) has been issued under the Securities Act and no proceedings for that purpose have been instituted or are pending or, to the knowledge of the Company, are contemplated by the Commission, and any request on the part of the Commission for additional information has been

complied with. At the respective times the Registration Statement, the Rule 462(b) Registration Statement, if any, and any post-effective amendments thereto became effective, at the Applicable Time and at each applicable Delivery Date, the Registration Statement complied and will comply in all material respects with the requirements of the Securities Act, the Securities Act Rules and Regulations and the Investment Company Act and did not and will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading. Neither the Prospectus nor any amendments or supplements thereto (including any prospectus wrapper), at the time the Prospectus or any such amendment or supplement was issued, and at each applicable Delivery Date, included or will include an untrue statement of a material fact or omitted or will omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The Prospectus and each Preliminary Prospectus complied when so filed in all material respects with the Securities Act, the Securities Act Rules and Regulations and the Investment Company Act except for any corrections to any Preliminary Prospectus that are made in the Prospectus and each Preliminary Prospectus and the Prospectus delivered to the Underwriters for use in connection with this offering was identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T. As of the Applicable Time, the preliminary prospectus supplement, dated [ ], together with the prospectus, dated [ ], as filed with the SEC on [ ], and the information included on Schedule B hereto (which information the Representatives have informed the Company is being conveyed orally by the Underwriters to prospective purchasers at or prior to the Underwriters' confirmation of sales of Underwritten Securities in the offering), all considered together (collectively, the "General Disclosure Package"), did not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. As used in this subsection and elsewhere in this Agreement, "Applicable Time" means [ ] (Eastern time) on [ ] or such other time as agreed by the Company and the Representatives. The representations and warranties in this subsection shall not apply to statements in or omissions from the Registration Statement, the Prospectus or the General Disclosure Package made in reliance upon and in conformity with written information furnished to the Company by any Underwriter through the Representatives expressly for use in the Registration Statement (or any amendment thereto), the Prospectus (or any amendment or supplement thereto) or the General Disclosure Package.

(ii) Any written materials provided to investors by, or with the prior written approval of, the Company specifically for use in any roadshow or investor presentations made to investors by the Company in connection with the marketing of the offering of the Underwritten Securities (whether in person or electronically) (collectively, the "Marketing Materials"), considered together with the Preliminary Prospectus, do not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. All Marketing Materials complied and will comply in all material respects with the applicable requirements of the

Securities Act, the Securities Act Rules and Regulations, the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations of the Commission under the Exchange Act (the "Exchange Act Rules and Regulations"; the Exchange Act Rules and Regulations and the Securities Act Rules and Regulations, collectively, the "Rules and Regulations"), the Investment Company Act and the rules and interpretations of the Financial Industry Regulatory Authority (the "FINRA").

(iii) The Commission has not issued any order preventing or suspending the use of any Preliminary Prospectus or the Prospectus or suspended the effectiveness of the Registration Statement, and no proceeding or examination for such purpose has been instituted or, to the knowledge of the Company, threatened by the Commission.

(iv) The Preliminary Prospectus and the Prospectus delivered to the Underwriters in connection with the offering was identical to the electronically transmitted copies filed with the Commission pursuant to EDGAR, except as may be permitted by Regulation S-T under the Securities Act.

(v) The Company has been duly organized, is validly existing and is in good standing as a corporation in the State of Delaware and is duly qualified to do business and in good standing as a foreign corporation in each jurisdiction in which its ownership or lease of property or the conduct of its businesses requires such qualification, except where the failure to be so qualified or in good standing would not, in the aggregate, reasonably be expected to have a material adverse effect on the condition (financial or otherwise), results of operations, stockholders' equity, properties or business of the Company (a "Material Adverse Effect"); the Company has all corporate power and authority necessary to own or hold its properties and to conduct the businesses in which it is engaged.

(vi) The Company's only subsidiaries are listed on Exhibit 21.1 of the Company's Form 10-K for the year ended [ ] (each, a "Subsidiary" and collectively, the "Subsidiaries") Each of the Subsidiaries has been duly organized, is validly existing as a limited liability company under the laws of the State of Delaware and is duly qualified to do business and in good standing as a foreign limited liability company in each jurisdiction in which its ownership or lease of property or the conduct of its businesses requires such qualification, except where the failure to be so qualified or in good standing would not, in the aggregate, reasonably be expected to have a Material Adverse Effect; the Subsidiaries have all limited liability company power and authority necessary to own or hold their properties and to conduct the businesses in which they are engaged.

(vii) The Company has an authorized capitalization as set forth in the Registration Statement, the General Disclosure Package and the Prospectus under the caption "Capitalization," and all of the issued shares of capital stock of the Company have been duly authorized and validly issued, are fully paid and non-assessable, conform to the description thereof contained in the Prospectus and were issued in compliance with federal and state securities laws and not in violation of any preemptive right, resale right, right of first refusal or similar

right. No options, warrants or other rights to purchase or exchange any securities for shares of the Company's capital stock are outstanding, except as disclosed in the Registration Statement, the General Disclosure Package and the Prospectus, and except for subsequent issuances, if any, pursuant to this Agreement, pursuant to the Company's Dividend Reinvestment Plan or pursuant to reservations, agreements or employee benefit plans referred to in the Prospectus and the General Disclosure Package or pursuant to the exercise of convertible securities or options referred to in the Prospectus and the General Disclosure Package. All of the limited liability company interests of the Subsidiaries have been duly authorized and validly issued, are fully paid and non-assessable and are owned directly or indirectly by the Company, free and clear of all liens, encumbrances, equities or claims, except for such liens, encumbrances, equities or claims as would not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

(viii) (A) The Underwritten Securities being sold pursuant to this Agreement, the Warrant Securities issuable upon exercise of the Warrants, and, if applicable, the deposit of the Preferred Stock comprising part or all of the Underwritten Securities by or on behalf of the Company in accordance with the provisions of a Deposit Agreement (each, a "Deposit Agreement"), among the Company, the financial institution named in the Deposit Agreement (the "Depositary") and the holders of the Depositary Receipts issued thereunder, have been duly authorized by the Company, and such Underwritten Securities have been duly authorized for issuance and sale to the Underwriters pursuant to this agreement (this "Agreement") and, if applicable, the Warrant Agreement (or will have been so authorized prior to each issuance of Underwritten Securities) and, when issued and delivered by the Company pursuant to this Agreement and the Warrant Agreement against payment of the consideration set forth in this Agreement and the Warrant Agreement, will be validly issued and fully paid and non-assessable; the Warrant Securities are enforceable against the Company in accordance with their terms (subject, as to the enforcement of remedies, to applicable bankruptcy, reorganization, insolvency, moratorium or other laws affecting creditors' rights generally from time to time in effect and to general principles of equity regardless of whether in a proceeding at equity or at law); the Underwritten Securities being sold pursuant to this Agreement and, if applicable, the Warrant Securities issuable upon exercise of the Warrants and the Depositary Receipts, conform in all material respects to the statements relating thereto contained in the Prospectus; and the issuance of the Underwritten Securities is not subject to preemptive or other similar rights of any securityholder of the Company; (B) if the Underwritten Securities are Common Stock or Preferred Stock convertible into Common Stock, the shares of issued and outstanding capital stock have been duly authorized and validly issued and are fully paid and non-assessable and such capital stock conforms in all material respects as to legal matters to the description thereof in the Prospectus; (C) if applicable, the shares of Common Stock issuable upon conversion of any issue of the Preferred Stock will have been duly authorized and reserved for issuance upon such conversion by all necessary corporate action and when issued upon such conversion, will be validly issued, fully paid and non-assessable, and the issuance of such shares upon such conversion will not be subject to preemptive rights; (D) if applicable, the Warrant Securities issuable upon exercise of the Warrants have been duly authorized and reserved

for issuance upon such exercise by all necessary corporate action and when issued upon such exercise, will be validly issued, fully paid and non-assessable, and the issuance of such shares upon such exercise will not be subject to preemptive rights; and (E) if applicable, upon execution and delivery thereof pursuant to the terms of the Deposit Agreement, the persons in whose names the Depositary Receipts are registered will be entitled to the rights specified therein and in the Deposit Agreement (subject, as to the enforcement of remedies, to applicable bankruptcy, reorganization, insolvency, moratorium or other laws affecting creditors' rights generally from time to time in effect and to general principles of equity regardless of whether in a proceeding at equity or at law).

(ix) The Company has all requisite corporate power and authority to execute, deliver and perform its obligations under this Agreement.

(x) (A) This Agreement has been duly authorized, executed and delivered by the Company and constitutes a legal, valid, binding and enforceable instrument of the Company (subject, as to the enforcement of remedies, to applicable bankruptcy, reorganization, insolvency, moratorium or other laws affecting creditors' rights generally from time to time in effect and to general principles of equity regardless of whether in a proceeding at equity or at law). (B) If applicable, the Warrant Agreement will have been duly authorized, executed and delivered by the Company prior to the issuance of any applicable Warrants, and when executed and delivered by the Warrant Agent, will constitute a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms (subject, as to the enforcement of remedies, to applicable bankruptcy, reorganization, insolvency, moratorium or other laws affecting creditors' rights generally from time to time in effect and to general principles of equity regardless of whether in a proceeding at equity or at law). (C) If applicable, the Deposit Agreement will have been duly authorized, executed and delivered by the Company prior to the issuance of any applicable Underwritten Securities, and when executed by the Depositary, and will constitute a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms (subject, as to the enforcement of remedies, to applicable bankruptcy, reorganization, insolvency, moratorium or other laws affecting creditors' rights generally from time to time in effect and to general principles of equity regardless of whether in a proceeding at equity or at law).

(xi) The execution, delivery and performance of this Agreement and, if applicable, the Deposit Agreement and the Warrant Agreement by the Company, the consummation of the transactions contemplated hereby and, if applicable, thereby and the application of the proceeds from the sale of the Underwritten Securities as described under "Use of Proceeds" in the Registration Statement and the Prospectus will not (A) conflict with or result in a breach or violation of any of the terms or provisions of, impose any lien, charge or encumbrance upon any property or assets of the Company, Katonah Debt Advisors, L.L.C., a Delaware limited liability company ("KDA") or Kohlberg Capital Funding LLC I, a Delaware limited liability company ("Kohlberg Funding"), or constitute a default under, any indenture, mortgage, deed of trust, loan agreement, license or other agreement or instrument to which the Company, KDA or Kohlberg

Funding is a party or by which the Company, KDA or Kohlberg Funding is bound or to which any of the property or assets of the Company, KDA or Kohlberg Funding is subject, except for such conflicts, breaches or violations that would not, in the aggregate, reasonably be expected to result in a Material Adverse Effect; (B) result in any violation of the provisions of the charter or bylaws or other organizational documents of the Company, KDA or Kohlberg Funding; or (C) to the knowledge of the Company, KDA or Kohlberg Funding, result in any violation of any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Company, KDA or Kohlberg Funding or any of their properties or assets.

(xii) No consent, approval, authorization or order of, or filing or registration with, any court or governmental agency or body having jurisdiction over the Company, KDA or Kohlberg Funding or any of their properties or assets is required to be obtained by the Company for the execution, delivery and performance of this Agreement and, if applicable, the Deposit Agreement and the Warrant Agreement by the Company, the consummation of the transactions contemplated hereby and, if applicable, thereby and the application of the proceeds from the sale of the Underwritten Securities as described under "Use of Proceeds" in the Registration Statement and the Prospectus, except for the registration of the Underwritten Securities under the Securities Act and such consents, approvals, authorizations, registrations or qualifications as may be required under the Exchange Act and applicable state securities laws in connection with the sale of the Underwritten Securities.

(xiii) Except as identified in the Registration Statement and the Prospectus, there are no contracts, agreements or understandings between the Company and any person granting such person the right to require the Company to file a registration statement under the Securities Act with respect to any securities of the Company owned or to be owned by such person or to require the Company to include such securities in the securities registered pursuant to the Registration Statement.

(xiv) The Company has not sold or issued any securities that would be required to be integrated with the sale and delivery of the Underwritten Securities contemplated by this Agreement pursuant to the Securities Act or the Securities Act Rules and Regulations.

(xv) Since [ ], except as disclosed in the Registration Statement, the General Disclosure Package and the Prospectus, there has not been any material change in the capital stock or long term debt of the Company, KDA or Kohlberg Funding or any material adverse change in or affecting the condition (financial or otherwise), results of operations, stockholders' equity, properties, management or business of the Company, KDA and Kohlberg Funding taken as a whole, in each case except as would not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

(xvi) Since the date as of which information is given in the Prospectus and except as may otherwise be described in the Prospectus and the General Disclosure Package, the Company has not (A) incurred any material liability or obligation, direct or contingent, other than liabilities and obligations that were incurred in

the ordinary course of business; (B) entered into any material transaction not in the ordinary course of business; or (C) declared or paid any dividend on its capital stock.

(xvii) The financial statements (including the related notes and supporting schedules) included in the Registration Statement, the General Disclosure Package and the Prospectus comply as to form in all material respects with the requirements of Regulation S-X under the Securities Act and present fairly the financial condition, results of operations and cash flows of the entities purported to be shown thereby at the dates and for the periods indicated and have been prepared in conformity with accounting principles generally accepted in the United States applied on a consistent basis throughout the periods involved.

(xviii) [ ], who has audited certain financial statements of the Company, whose report appears in the Prospectus and who have delivered their letter referred to in Section 6(e) hereof, are independent public accountants as required by the Securities Act, the Investment Company Act, the Rules and Regulations and the rules of the Public Company Accounting Oversight Board.

(xix) The Company, KDA and Kohlberg Funding have good and marketable title in fee simple to all real property, have valid rights to lease or otherwise use and have good and marketable title to all personal property owned by them, material to the respective businesses of each of the Company, KDA and Kohlberg Funding, in each case free and clear of all liens, encumbrances and defects, except such as (A) are described in the Registration Statement and the Prospectus; (B) do not materially interfere with the use made and proposed to be made of such property by the Company, KDA and Kohlberg Funding; or (C) would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect; and all assets held under lease by the Company, KDA and Kohlberg Funding are held by them under valid, subsisting and enforceable leases, with such exceptions as do not materially interfere with the use made and proposed to be made of such assets by the Company, KDA and Kohlberg Funding.

(xx) The statistical and market related data included under the caption “Business” in the Registration Statement and the Prospectus are based on or derived from sources that the Company believes to be reliable and accurate in all material respects.

(xxi) Neither the Company, KDA nor Kohlberg Funding is and, after giving effect to the offering and sale of the Underwritten Securities and the application of the proceeds therefrom as described under “Use of Proceeds” in the Registration Statement and the Prospectus, will be, required to register as a “registered management investment company” under the Investment Company Act.

(xxii) (A) The Company has duly elected to be regulated by the Commission as a business development company (“BDC”) under the Investment Company Act, and no order of suspension or revocation has been issued or proceedings therefor initiated or, to the knowledge of the Company, threatened by the Commission. Subject to the filing of the Registration Statement and the Prospectus, all required action has been taken by the Company under the

Securities Act and the Investment Company Act to make the public offering and consummate the sale of the Underwritten Securities as provided in this Agreement; (B) the provisions of the Company's charter and bylaws and the investment objective, policies and restrictions described in the Registration Statement and the Prospectus, assuming they are implemented as described, will comply in all material respects with the requirements of the Investment Company Act; and (C) the operations of the Company are in compliance in all material respects with the provisions of the Investment Company Act applicable to BDCs.

(xxiii) When the Notification of Election was filed with the Commission, it (A) contained all statements required to be stated therein in accordance with, and complied in all material respects with the requirements of the Investment Company Act and (B) did not include any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

(xxiv) There are no legal or governmental proceedings pending to which the Company, KDA or Kohlberg Funding is a party or of which any property or assets of the Company, KDA or Kohlberg Funding is the subject that would, in the aggregate, reasonably be expected to have a Material Adverse Effect or would, in the aggregate, reasonably be expected to have a material adverse effect on the performance of this Agreement or, if applicable, the Deposit Agreement and the Warrant Agreement or the consummation of the transactions contemplated hereby or, if applicable, thereby; and to the Company's knowledge, no such proceedings are threatened by governmental authorities or others.

(xxv) There are no legal or governmental proceedings or contracts or other documents of a character required to be described in the Registration Statement or the Prospectus or, in the case of documents, to be filed as exhibits to the Registration Statement that are not described and filed as required; and that statements made in the Registration Statement and the Prospectus under the captions "Election to be Regulated as a Business Development Company and a Regulated Investment Company," "Distributions," "Determination of Net Asset Value," "Regulation," "Certain U.S. Federal Income Tax Considerations," "Description of Capital Stock" and "Shares Eligible for Future Sale," insofar as they purport to constitute summaries of the terms of statutes, rules or regulations, legal or governmental proceedings or contracts and other documents, constitute accurate summaries of the terms of such statutes, rules and regulations, legal and governmental proceedings and contracts and other documents in all material respects.

(xxvi) Except as described in the Registration Statement and the Prospectus, no relationship, direct or indirect, exists between or among the Company, on the one hand, and the directors, officers or stockholders of the Company, on the other hand, that is required to be described in the Registration Statement or the Prospectus which is not so described.

(xxvii) No labor disturbance by the employees of the Company, KDA or Kohlberg Funding exists or, to the knowledge of the Company, is threatened that would reasonably be expected to have a Material Adverse Effect.

(xxviii) (A) Each "employee benefit plan" (within the meaning of Section 3(3) of the Employee Retirement Security Act of 1974, as amended ("ERISA")) for which the Company or any member of its "Controlled Group" (defined as any organization which is a member of a controlled group of corporations within the meaning of Section 414 of the Internal Revenue Code of 1986, as amended (the "Code"), would have any liability (each a "Plan"), has been maintained in compliance with its terms and with the requirements of all applicable statutes, rules and regulations including ERISA and the Code except where failure to so comply would not reasonably be expected to have Material Adverse Effect; (B) with respect to each Plan subject to Title IV of ERISA (1) no "reportable event" (within the meaning of Section 4043(c) of ERISA) has occurred or is reasonably expected to occur, (2) no "accumulated funding deficiency" (within the meaning of Section 302 of ERISA or Section 412 of the Code), whether or not waived, has occurred or is reasonably expected to occur, (3) the fair market value of the assets under each Plan exceeds the present value of all benefits accrued under such Plan (determined based on those assumptions used to fund such Plan) and (4) neither the Company nor any member of its Controlled Group has incurred, or reasonably expects to incur, any liability under Title IV of ERISA (other than contributions to the Plan or premiums to the Pension Benefit Guaranty Corporation in the ordinary course and without default) in respect of a Plan (including a "multiemployer plan" within the meaning of Section 4001(c)(3) of ERISA)); and (C) each Plan that is intended to be qualified under Section 401(a) of the Code has received a prototype determination or opinion letter to the effect that the form of such Plan is so qualified and the company and, as to the form of such Plan, the Plan may rely on such letter or opinion (without an individual application) under applicable the rules of the Internal Revenue Service, and, to the knowledge of the Company nothing has occurred, whether by action or by failure to act, which would reasonably be expected to cause the loss of such qualification.

(xxix) The Company, KDA and Kohlberg Funding have (A) filed all Federal, state, local and foreign tax returns required to be filed through the date hereof, subject to permitted extensions, and all such tax returns are true, complete and correct in all material respects; and (B) paid all material taxes required to be paid, and no tax deficiency has been determined adversely to the Company, KDA or Kohlberg Funding, nor does the Company, KDA or Kohlberg Funding have any knowledge of any tax deficiencies that would, in the aggregate, reasonably be expected to have a Material Adverse Effect.

(xxx) Commencing with its short taxable year ended December 31, 2006, the Company has qualified as a regulated investment company ("RIC") (within the meaning of Section 851(a) of the Code).

(xxxi) Neither the Company, KDA nor Kohlberg Funding (A) is in violation of its charter, bylaws or other organizational documents; (B) is in default, and no event has occurred that, with notice or lapse of time or both, would constitute such a default, in the due performance or observance of any term, covenant or

condition contained in any indenture, mortgage, deed of trust, loan agreement, license or other agreement or instrument to which it is a party or by which it is bound or to which any of its properties or assets is subject; or (C) is in violation of any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over it or its property or assets or has failed to obtain any license, permit, certificate, franchise or other governmental authorization or permit necessary to the ownership of its property or to the conduct of its business, except in the case of clauses (B) and (C), to the extent any such conflict, breach, violation or default would not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

(xxxii) The Company makes and keeps accurate books and records and the Company maintains effective internal control over financial reporting as defined in Rule 13a-15 of the Exchange Act Rules and Regulations and a system of internal accounting controls sufficient to provide reasonable assurance that (A) transactions are executed in accordance with management's general or specific authorization; (B) transactions are recorded as necessary to permit preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States and to maintain accountability for its assets; (C) access to the Company's assets is permitted only in accordance with management's general or specific authorization; and (D) the recorded accountability for the Company's assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(xxxiii) (A) The Company has established and maintains disclosure controls and procedures (as such term is defined in Rule 13a-15 of the Exchange Act Rules and Regulations); (B) such disclosure controls and procedures are designed to ensure that the information required to be disclosed by the Company in the reports it will file or submit under the Exchange Act is accumulated and communicated to management of the Company, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure to be made; and (C) such disclosure controls and procedures are effective in all material respects to perform the functions for which they were established.

(xxxiv) There is and has been no failure on the part of the Company and any of the Company's directors or officers, in their capacities as such, to comply with the applicable provisions of the Sarbanes Oxley Act of 2002 (the "Sarbanes Oxley Act") and the rules and regulations promulgated thereunder.

(xxxv) The Company, KDA and Kohlberg Funding have such permits, licenses, patents, franchises, certificates of need and other approvals or authorizations of governmental or regulatory authorities ("Permits") as are necessary under applicable law to own their properties and conduct their businesses in the manner described in the Registration Statement and the Prospectus, except for any of the foregoing that would not, in the aggregate, reasonably be expected to have a Material Adverse Effect; each of the Company, KDA and Kohlberg Funding has fulfilled and performed all of its obligations with respect to the Permits, and no event has occurred that allows, or after notice or lapse of time would allow, revocation or termination thereof or results in any other

impairment of the rights of the holder or any such Permits, except for any of the foregoing that would not reasonably be expected to have a Material Adverse Effect.

(xxxvi) The Company, KDA and Kohlberg Funding own or possess adequate rights to use all material patents, patent applications, trademarks, service marks, trade names, trademark registrations, service mark registrations, copyrights, licenses, know how, software, systems and technology (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures) necessary for the conduct of their respective businesses and have no reason to believe that the conduct of their respective businesses will conflict with, and have not received any notice of any claim of conflict with, any such rights of others.

(xxxvii) Neither the Company, KDA nor Kohlberg Funding is in violation of or has received notice of any violation with respect to any federal or state law relating to discrimination in the hiring, promotion or pay of employees, nor any applicable federal or state wage and hour laws, nor any state law precluding the denial of credit due to the neighborhood in which a property is situated, the violation of any of which would reasonably be expected to have a Material Adverse Affect.

(xxxviii) KDA is not currently prohibited, directly or indirectly, under any agreement or other instrument to which it is a party or is subject, from paying any dividends to the Company, from making any other distribution on its limited liability company interests, from repaying to the Company any loans or advances to it from the Company or from transferring any of its property or assets to the Company, except as described in or contemplated in the Registration Statement and the Prospectus.

(xxxix) Neither the Company, KDA nor Kohlberg Funding, nor, to the knowledge of the Company, any director, officer, agent, employee or other person acting on behalf of the Company, KDA or Kohlberg Funding, has (A) used any corporate funds for any unlawful contribution, gift, entertainment or other unlawful expense relating to political activity; (B) made any direct or indirect unlawful payment to any foreign or domestic government official or employee from corporate funds; (C) violated or is in violation of any provision of the U.S. Foreign Corrupt Practices Act of 1977; or (D) made any bribe, rebate, payoff, influence payment, kickback or other unlawful payment.

(xl) The operations of the Company, KDA and Kohlberg Funding are and have been conducted at all times in compliance with applicable financial recordkeeping and reporting requirements of the Currency and Foreign Transactions Reporting Act of 1970, as amended, the money laundering statutes of all jurisdictions, the rules and regulations thereunder and any related or similar rules, regulations or guidelines, issued, administered or enforced by any governmental agency (collectively, the "Money Laundering Laws") and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company, KDA or Kohlberg Funding with respect to the Money Laundering Laws is pending or, to the knowledge of the Company, threatened, except, in each case, as would not reasonably be expected to have a Material Adverse Effect.

(xli) Neither the Company, KDA nor Kohlberg Funding nor, to the knowledge of the Company, any director, officer, agent, or employee of the Company, KDA or Kohlberg Funding is currently subject to any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Treasury Department ("OFAC"); and the Company will not directly or indirectly knowingly use the proceeds of the offering, or lend, contribute or otherwise knowingly make available such proceeds to any subsidiary, joint venture partner or other person or entity, for the purpose of financing the activities of any person currently subject to any U.S. sanctions administered by OFAC.

(xlii) The Company has not distributed and, prior to the completion of the distribution of the Underwritten Securities, will not distribute any offering material in connection with the offering and sale of the Underwritten Securities other than any Preliminary Prospectus, any Prospectus or any statement made in accordance with Rule 482 of the Securities Act Rules and Regulations (a "Rule 482 Statement") to which the Representatives have consented.

(xliii) The Company (A) has not taken, directly or indirectly, any action designed to cause or to result in, or that has constituted or which might reasonably be expected to constitute, the stabilization or manipulation of the price of any security of the Company to facilitate the sale of the Underwritten Securities; (B) has not since the filing of the Registration Statement sold, bid for or purchased, or paid anyone any compensation for soliciting purchases of, the Securities; and (C) will not, until the completion of the distribution (within the meaning of the anti-manipulation rules under the Exchange Act) of the Underwritten Securities, sell, bid for or purchase, pay or agree to pay to any person any compensation for soliciting another to purchase any other securities of the Company.

(xliv) [ ] have approved [ ] for inclusion, subject only to official notice of issuance and evidence of satisfactory distribution.

(b) Any certificate signed by any officer of the Company and delivered to the Underwriters in connection with the offering and sale of the Underwritten Securities shall be deemed a representation and warranty by the Company as to matters covered thereby to such Underwriters.

2. Purchase of the Underwritten Securities by the Underwriters.

(a) On the basis of the representations and warranties contained in, and subject to the terms and conditions of, this Agreement, the Company agrees to sell the Initial Securities to the several Underwriters, and each of the Underwriters, severally and not jointly, agrees to purchase the number of the Initial Securities set forth opposite that Underwriter's name in Schedule 1 hereto. The respective purchase obligations of the Underwriters with respect to the Initial Securities shall be rounded among the Underwriters to avoid fractional securities, as the Representatives may determine.

(b) In addition, the Company grants to the Underwriters an option to purchase up to [ ] additional shares of Option Securities. Such option is exercisable in the event that the Underwriters sell more securities than the number of Initial Securities in the offering and as set forth in Section 4 hereof. Each Underwriter agrees, severally and not jointly, to purchase the number of Option Securities (subject to such adjustments to eliminate fractional shares as the Representatives may determine) that bears the same proportion to the total number of Option Securities to be sold on such Delivery Date as the number of Initial Securities set forth in Schedule 1 hereto opposite the name of such Underwriter bears to the total number of Initial Securities.

(c) The price of both the Initial Securities and any Option Securities purchased by the Underwriters shall be $[ ] per [ ]. The Company shall not be obligated to deliver any of the Initial Securities or Option Securities to be delivered on the applicable Delivery Date, except upon payment for all such Underwritten Securities to be purchased on such Delivery Date as provided herein.

3. Offering of Securities by the Underwriters. Upon authorization by the Representatives of the release of the Initial Securities, the several Underwriters propose to offer the Initial Securities for sale upon the terms and conditions to be set forth in the Prospectus.

4. Delivery of and Payment for the Underwritten Securities.

(a) Delivery of and payment for the Initial Securities shall be made at 10:00 A.M., New York City time, on the third full business day following the date of this Agreement or at such other date or place as shall be determined by agreement between the Representatives and the Company. This date and time are sometimes referred to as the "Initial Delivery Date." Delivery of the Initial Securities shall be made to the Representatives for the account of each Underwriter against payment by the several Underwriters through the Representatives of the aggregate purchase price of the Initial Securities being sold by the Company to or upon the order of the Company by wire transfer in immediately available funds to the accounts specified by the Company. Time shall be of the essence, and delivery at the time and place specified pursuant to this Agreement is a further condition of the obligation of each Underwriter hereunder. The Company shall deliver the Initial Securities through the facilities of the Depository Trust Company ("DTC") unless the Representatives shall otherwise instruct.

(b) The option granted in Section 2 will expire 30 days after the date of this Agreement and may be exercised in whole or in part on not more than one occasion by written notice being given to the Company by the Representatives; provided that if such date falls on a day that is not a business day, the option granted in Section 2 will expire on the next succeeding business day. Such notice shall set forth the aggregate number of Option

Securities as to which the option is being exercised, the names in which the Option Securities are to be registered, the denominations in which the Option Securities are to be issued and the date and time, as determined by the Representatives, when the Option Securities are to be delivered; provided, however, that this date and time shall not be earlier than the Initial Delivery Date nor earlier than the first business day after the date on which the option shall have been exercised nor later than the fifth business day after the date on which the option shall have been exercised. The date and time the Option Securities are delivered is sometimes referred to as an "Option Securities Delivery Date," and the Initial Delivery Date and any Option Securities Delivery Date are sometimes each referred to as a "Delivery Date."

(c) Delivery of the Option Securities by the Company and payment for the Option Securities by the several Underwriters through the Representatives shall be made at 10:00 A.M., New York City time, on the date specified in the corresponding notice described in the preceding paragraph or at such other date or place as shall be determined by agreement between the Representatives and the Company. On the Option Securities Delivery Date, the Company shall deliver or cause to be delivered the Option Securities to the Representatives for the account of each Underwriter against payment by the several Underwriters through the Representatives and of the aggregate purchase price of the Option Securities being sold by the Company to or upon the order of the Company of the purchase price by wire transfer in immediately available funds to the accounts specified by the Company. Time shall be of the essence, and delivery at the time and place specified pursuant to this Agreement is a further condition of the obligation of each Underwriter hereunder. The Company shall deliver the Option Securities through the facilities of DTC unless the Representatives shall otherwise instruct.

5. Further Agreements of the Company and the Underwriters.

(a) The Company agrees:

(i) During any period that a prospectus relating to the Underwritten Securities is required to be delivered under the Securities Act (but in any event through the applicable Delivery Date), (A) to comply with the requirements of Rule 415, Rule 430C and Rule 497 of the Securities Act Rules and Regulations; (B) to prepare the Prospectus in a form approved by the Representatives and to file such Prospectus pursuant to Rule 497 of the Securities Act Rules and Regulations not later than the Commission's close of business on the second business day following the execution and delivery of this Agreement; (C) to make no further amendment or any supplement to the Registration Statement or the Prospectus which shall be disapproved by the Representatives promptly after reasonable notice thereof (unless in the reasonable determination of the Company such amendment or supplement is required by applicable law); (D) to advise the Representatives, promptly after it receives notice thereof, of the time when any or amendment or supplement to the Registration Statement (including any filing pursuant to Rule 462(b) of the Securities Act Rules and Regulations) or the Prospectus has been filed and to furnish the Representatives with copies thereof; and (E) to advise the Representatives, promptly after it receives notice thereof of (i) the time when any post-effective amendment to the Registration Statement shall become effective; (ii) the receipt of any comments from the Commission; (iii) the request by the Commission for any amendment to the Registration Statement; (iv) the issuance by the Commission of any stop order

or of any order preventing or suspending the use of the Prospectus; (v) the suspension of the qualification of the Underwritten Securities for offering or sale in any jurisdiction (vi) the initiation or threatening of any proceeding or examination for any such purpose; or (vii) any request by the Commission for the amending or supplementing of the Registration Statement, the Prospectus or for additional information related to the Registration Statement or the offering contemplated thereby; and, in the event of the issuance of any stop order or of any order preventing or suspending the use of the Prospectus suspending any such qualification, to use promptly its commercially reasonable best efforts to obtain its withdrawal;

(ii) To furnish promptly to the Representatives and to counsel for the Underwriters a signed copy of the Registration Statement as originally filed with the Commission, and each amendment thereto filed with the Commission, including all consents and exhibits filed therewith;

(iii) To deliver promptly to the Representatives such number of the following documents as the Representatives shall reasonably request: (A) conformed copies of the Registration Statement as originally filed with the Commission and each amendment thereto (in each case excluding exhibits other than this Agreement and the computation of per share earnings), (B) each Preliminary Prospectus, the Prospectus and any amended or supplemented Prospectus, (C) any Rule 482 Statement and (D) if the delivery of a Prospectus is required at any time after the date hereof in connection with the offering or sale of the Underwritten Securities or any other securities relating thereto and if at such time any events shall have occurred as a result of which the Prospectus as then amended or supplemented would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they were made when such Prospectus is delivered, not misleading, or, if for any other reason it shall be necessary to amend or supplement the Prospectus in order to comply with the Securities Act, to notify the Representatives and, upon its request, to file such document and to prepare and furnish without charge to each Underwriter and to any dealer in securities as many copies as the Representatives may from time to time reasonably request of an amended or supplemented Prospectus that will correct such statement or omission or effect such compliance. The copies of the Registration Statement, any Preliminary Prospectus, Prospectus or amendment or supplement thereto furnished to the Underwriters will be identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, expect to the extent permitted by Regulation S-T;

(iv) To file promptly with the Commission any amendment or supplement to the Registration Statement or the Prospectus that may, in the reasonable judgment of the Company or the Representatives, be required by the Securities Act or requested by the Commission; prior to filing with the Commission any amendment or supplement to the Registration Statement or to the Prospectus, to furnish a copy thereof to the Representatives and counsel for the Underwriters;

(v) To use its commercially reasonable best efforts to comply with the Securities Act and the Rules and Regulations so as to permit the completion of the

distribution of the Underwritten Securities as contemplated in this Agreement and in the Prospectus. If any time when a Prospectus is required by the Securities Act to be delivered in connection with the sale of the Underwritten Securities, any event shall occur or condition exist as a result of which it is necessary, in the opinion of counsel for the Underwriters or for the Company, to amend the Registration Statement or amend or supplement the Prospectus in order that the Prospectus will not include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein not misleading in light of the circumstances existing at the time it is delivered to the purchaser, or if it shall be necessary, in the opinion of such counsel, at any such time to amend the Registration Statement or amend or supplement the Prospectus in order to comply with the Securities Act or the Rules and Regulations, the Company will promptly prepare and file with the Commission, subject to 5(iv), such amendment or supplement as may be necessary to correct such statement or omission or to make the Registration Statement or the Prospectus comply with such requirements, and the Company will furnish to the Underwriters such number of copies of such amendment or supplement as the Underwriters may reasonably request;

(vi) If there occurs an event or development prior to the Initial Delivery Date as a result of which the Pricing Disclosure Package would include an untrue statement of a material fact or would omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading, to promptly notify the Underwriters so that any use of the Pricing Disclosure Package may cease until it is amended or supplemented (at the sole cost to the Company);

(vii) As soon as reasonably practicable after the Effective Date (it being understood that the Company shall have until at least 410 days or, if the fourth quarter following the fiscal quarter that includes the Effective Date is the last fiscal quarter of the Company's fiscal year, at least 455 days after the end of the Company's current fiscal quarter), to make generally available to the Company's security holders and to deliver to the Representatives an earnings statement of the Company and KDA (which need not be audited) complying with Section 11(a) of the Securities Act and the Rules and Regulations (including, at the option of the Company, Rule 158 of the Securities Act Rules and Regulations);

(viii) During the period during which the Prospectus is required to be delivered under the Securities Act, to file all documents required to be filed with the Commission pursuant to the Exchange Act within the time period required by the Exchange Act and the rules and regulations of the Commission thereunder;

(ix) Promptly from time to time to take such action as the Representatives may reasonably request to qualify the Underwritten Securities for offering and sale under the securities laws of such jurisdictions as the Representatives may request and to comply with such laws so as to permit the continuance of sales and dealings therein in such jurisdictions for as long as may be necessary to complete the distribution of the Underwritten Securities; provided that in connection therewith the Company shall not be required to (i) qualify as a foreign corporation in any jurisdiction in which it would not otherwise be

required to so qualify, (ii) file a general consent to service of process in any such jurisdiction or (iii) subject itself to taxation in any jurisdiction in which it would not otherwise be subject;

(x) For a period commencing on the date hereof and ending on the [ ] day after the date of the Prospectus (the "Lock Up Period"), not to, directly or indirectly, (1) offer for sale, sell, pledge or otherwise dispose of (or enter into any transaction or device that is designed to, or could be expected to, result in the disposition by the Company at any time during such [ ]-day period) any Underwritten Securities or securities convertible into or exchangeable for Underwritten Securities (other than shares issued pursuant to employee benefit plans, qualified stock option plans or other employee compensation plans existing on the date hereof or pursuant to currently outstanding options, warrants or rights), or sell or grant options, rights or warrants with respect to any Underwritten Securities or securities convertible into or exchangeable for Underwritten Securities (other than the grant of options pursuant to any equity plans), (2) enter into any swap or other derivatives transaction that transfers to another, in whole or in part, any of the economic benefits or risks of ownership of such Underwritten Securities, whether any such transaction described in clause (1) or (2) above is to be settled by delivery of Underwritten Securities or other securities, in cash or otherwise, (3) file or cause to be filed a registration statement, including any amendments, with respect to the registration of any Underwritten Securities or securities convertible, exercisable or exchangeable into Underwritten Securities or any other securities of the Company, or (4) publicly disclose the intention to do any of the foregoing, in each case without the prior written consent of [ ] on behalf of the Underwriters, and to cause each officer, director and stockholder of the Company set forth on Schedule 2 hereto to furnish to the Representatives, prior to the Initial Delivery Date, a letter or letters, substantially in the form of Exhibit A hereto (the "Lock Up Agreements") relating to the lock-up periods shown on Schedule 2 hereto; notwithstanding the foregoing, if (1) during the last [ ] days of the Lock Up Period, the Company issues an earnings release or material news or a material event relating to the Company occurs or (2) prior to the expiration of the Lock Up Period, the Company announces that it will release earnings results during the [ ]-day period beginning on the last day of the Lock Up Period, then the restrictions imposed in the preceding paragraph shall continue to apply until the expiration of the [ ]-day period beginning on the issuance of the earnings release or the announcement of the material news or the occurrence of the material event, unless [ ], on behalf of the Underwriters, waives such extension in writing;

(xi) To apply the net proceeds from the sale of the Underwritten Securities being sold by the Company as set forth in the Prospectus and the General Disclosure Package under "Use of Proceeds";

(xii) To use it commercially reasonable efforts to effect and maintain its qualification of [ ] on [ ];

(xiii) When and to the extent required by law, comply in all material respects with all applicable securities and other laws, rules and regulations, including without limitation, the Sarbanes Oxley Act, and will use their best efforts to cause their

respective officers, directors, trustees, employees and partners, in their capacities as such, to comply in all material respects with such laws, rules and regulations, including without limitation, the Sarbanes Oxley Act;

(xiv) To, during a period of at least 12 months from the Initial Delivery Date, use its commercially reasonable efforts to maintain its status as a BDC under the Investment Company Act; provided, however, the Company may cease to be, or withdraw its election as a BDC under the Investment Company Act, with the approval of its board of directors and a vote of its stockholders as required by Section 58 of the Investment Company Act, or a successor provision; and

(xv) To use its commercially reasonable efforts to maintain its qualification as a RIC under the Code for each taxable year during which it is a BDC under the Investment Company Act.

6. Expenses. The Company agrees, whether or not the transactions contemplated by this Agreement are consummated or this Agreement is terminated, to pay all costs, expenses, fees and taxes incident to and in connection with (a) the authorization, issuance, sale and delivery of the Underwritten Securities, involving any stamp or transfer taxes in connection with the original issuance and sale of the Underwritten Securities and any Warrant Securities issuable upon exercise of the Warrants, and the preparation and printing of certificates for the foregoing; (b) the preparation, printing and filing under the Securities Act of the Registration Statement (including any exhibits thereto), any Preliminary Prospectus, the Prospectus and any amendment or supplement thereto; (c) the distribution of the Registration Statement (including any exhibits thereto), any Preliminary Prospectus, the Prospectus and any amendment or supplement thereto, all as provided in this Agreement; (d) the production and distribution of this Agreement, any supplemental agreement among Underwriters, any other related documents in connection with the offering, purchase, sale and delivery of the Underwritten Securities and, if applicable, the Warrant Agreement, the Certificate of Designation and the Deposit Agreement; (e) any required review by the FINRA of the terms of sale of the Underwritten Securities (including related fees and expenses of counsel to the Underwriters not to exceed $[ ] in the aggregate); (f) the inclusion of the Underwritten Securities or, if applicable, any Warrant Securities on [ ]; (g) the qualification of the Underwritten Securities under the securities laws of the several jurisdictions as provided in Section 5(ix) and the preparation, printing and distribution of a blue sky memorandum (including related fees and expenses of counsel to the Underwriters); (h) the investor presentations on any "road show" undertaken in connection with the marketing of the Underwritten Securities, including, without limitation, expenses associated with any electronic roadshow, travel and lodging expenses of the officers of the Company and one-half of the cost of any aircraft chartered in connection with the road show; and (i) all other costs and expenses incident to the performance of the obligations of the Company under this Agreement and any transfer taxes payable in connection with its sales of Underwritten Securities to the Underwriters, provided that, except as provided in this Section 6 and Section 11, the Underwriters shall pay their own costs and expenses, including the costs and expenses of their counsel, any transfer taxes on the Underwritten Securities which they may sell and the expenses of advertising any such offering of the Underwritten Securities made by the Underwriters, and the travel and lodging expenses of the Underwriters and one-half the cost of any aircraft chartered in connection with the roadshow.

7. Conditions of Underwriters' Obligations. The respective obligations of the Underwriters hereunder are subject to the accuracy, when made and on each Delivery Date, of the representations and warranties of the Company contained herein, to the performance by the Company of its obligations hereunder, and to each of the following additional terms and conditions:

(a) The Registration Statement (including any filing pursuant to Rule 462(b) of the Securities Act Rules and Regulations), has become effective; no stop order suspending the effectiveness of the Registration Statement or preventing or suspending the use of the Prospectus shall have been issued and no proceeding or examination for such purpose shall have been initiated or threatened by the Commission; and any request of the Commission for inclusion of additional information in the Registration Statement or the Prospectus or otherwise shall have been complied with. A prospectus containing the Rule 430C Information shall have been filed with the Commission in accordance with Rule 497 of the Securities Act Rules and Regulations.

(b) No Underwriter shall have discovered and disclosed to the Company on or prior to such Delivery Date that the Registration Statement, the Prospectus or the Pricing Disclosure Package, or any amendment or supplement thereto, contains an untrue statement of a fact which, in the opinion of [ ], counsel for the Underwriters, is material or omits to state a fact which, in the opinion of such counsel, is material and is required to be stated therein or is necessary to make the statements therein not misleading.

(c) All corporate proceedings and other legal matters incident to the authorization, form and validity of this Agreement, the Underwritten Securities, the Registration Statement and the Prospectus, and all other legal matters relating to this Agreement and the transactions contemplated hereby shall be reasonably satisfactory in all material respects to counsel for the Underwriters, and the Company shall have furnished to such counsel all documents and information that they may reasonably request to enable them to pass upon such matters.

(d) Ropes & Gray LLP shall have furnished to the Representatives its written opinion, as counsel to the Company, addressed to the Underwriters and dated such Delivery Date, in form and substance reasonably satisfactory to the Representatives, and covering the matters substantially in the form attached hereto as Exhibit B-1, along with its negative assurance letter substantially in the form attached hereto as Exhibit B-2.

(e) The Representatives shall have received from [ ], counsel for the Underwriters, such opinion or opinions, dated such Delivery Date, with respect to the issuance and sale of the Underwritten Securities, the Registration Statement, the Prospectus and the Pricing Disclosure Package and other related matters as the Representatives may reasonably require, and the Company shall have furnished to such counsel such documents as they reasonably request for the purpose of enabling them to pass upon such matters.

(f) At the time of execution of this Agreement, the Representatives shall have received from [ ] a letter, in form and substance satisfactory to the Representatives, addressed to the Underwriters and dated the date hereof (i) confirming that they are independent public accountants within the meaning of the Securities Act and are in compliance with the applicable requirements relating to the qualification of accountants under Rule 2-01 of Regulation S-X of the Commission and (ii) stating, as of the date hereof (or, with respect to matters involving changes or developments since the respective dates as of which specified financial information is given in the most recent Preliminary Prospectus, as of a date not more than three days prior to the date hereof), the conclusions and findings of such firm with respect to the financial information and other matters ordinarily covered by accountants' "comfort letters" to underwriters in connection with registered public offerings.

(g) With respect to the letter of [ ] referred to in the preceding paragraph and delivered to the Representatives concurrently with the execution of this Agreement (the "initial letter"), the Company shall have caused [ ] to furnish to the Representatives a letter (the "bring down letter") of such accountants, addressed to the Underwriters and dated such Delivery Date (i) confirming that they are independent public accountants within the meaning of the Securities Act and are in compliance with the applicable requirements relating to the qualification of accountants under Rule 2-01 of Regulation S-X of the Commission, (ii) stating, as of the date of the bring down letter (or, with respect to matters involving changes or developments since the respective dates as of which specified financial information is given in the Prospectus, as of a date not more than three days prior to the date of the bring down letter), the conclusions and findings of such firm with respect to the financial information and other matters covered by the initial letter and (iii) confirming in all material respects the conclusions and findings set forth in the initial letter.

(h) The Company shall have furnished to the Representatives a certificate, dated such Delivery Date, executed on its behalf by its (a) Chief Executive Officer or President or equivalent officer (or other authorized officer) and (b) its Chief Financial Officer or equivalent officer (or other authorized officer) stating that:

(i) The representations, warranties and agreements of the Company in Section 1 are true and correct on and as of such Delivery Date, except for any such representation or warranty that speaks only as of an earlier date or time, which is true and correct as of such earlier specified date and time, and the Company has complied in all material respects with all its agreements contained herein and satisfied all the conditions on its part to be performed or satisfied hereunder at or prior to such Delivery Date;

(ii) No stop order suspending the effectiveness of the Registration Statement has been issued; and no proceedings or examination for that purpose have been instituted or, to the knowledge of such officers, threatened; and

(iii) They have reviewed the Registration Statement, the Prospectus and the General Disclosure Package, and, in their opinion, (A) (1) the Registration Statement, as of the Effective Date, (2) the Prospectus, as of its date and on the applicable Delivery Date, or (3) the General Disclosure Package, as of the Applicable Time, did not and do not contain any untrue statement of a material fact and did not and do not omit to state a material fact required to be stated therein or necessary to make the statements therein (except in the case of the Registration Statement, in light of the circumstances under which they were made) not misleading and (B) since the Effective Date, no event has occurred that is required to be set forth and which has not been set forth in a supplement or amendment to the Registration Statement or the Prospectus;

(i) Prior to such Delivery Date, the Company and KDA shall have furnished to the Representatives such further information, certificates and documents as the Representatives may reasonably request.

(j) (A) Neither the Company nor KDA shall have sustained since the date of their respective formation, any loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree or (B) since such date there shall not have been any change in the capital stock (except as otherwise disclosed in the Preliminary Prospectus) or long term debt of the Company or KDA or any change, or any development involving a prospective change, in or affecting the condition (financial or otherwise), results of operations, stockholders' equity, properties, management, business or prospects of the Company and KDA taken as a whole, the effect of which, in any such case described in clause (A) or (B), is, in the judgment of the Representatives, so material and adverse as to make it impracticable or inadvisable to proceed with the public offering or the delivery of the Underwritten Securities being delivered on such Delivery Date on the terms and in the manner contemplated in the Prospectus.

(k) Subsequent to the execution and delivery of this Agreement there shall not have occurred any of the following: (i) trading in securities generally on the New York Stock Exchange, The NASDAQ Global Select Market or the American Stock Exchange, or trading in any securities of the Company on any exchange, shall have been suspended or materially limited or the settlement of such trading generally shall have been materially disrupted or minimum prices shall have been established on any such exchange by the Commission, by such exchange or by any other regulatory body or governmental authority having jurisdiction, (ii) a banking moratorium shall have been declared by United States Federal or state authorities, (iii) the United States shall have become engaged in hostilities, there shall have been an escalation in hostilities involving the United States or there shall have been a declaration of a national emergency or war by the United States or (iv) there shall have occurred such a material adverse change in general economic, political or financial conditions, including, without limitation, as a result of terrorist activities after the date hereof (or the effect of international conditions on the financial markets in the United States shall be such), as to make it, in the judgment of the Representatives, impracticable or inadvisable to proceed with the public offering or delivery of the Underwritten Securities being delivered on such Delivery Date on the terms and in the manner contemplated in the Prospectus.

(l) [ ] shall have approved [ ] for inclusion, subject only to official notice of issuance and evidence of satisfactory distribution.

(m) The Lock Up Agreements, in substantially the form attached hereto as Exhibit A, between the Representatives and the officers, directors and stockholders of the Company set forth on Schedule 2, delivered to the Representatives on or before the date of this Agreement, shall be in full force and effect on such Delivery Date.

All opinions, letters, evidence and certificates mentioned above or elsewhere in this Agreement shall be deemed to be in compliance with the provisions hereof only if they are in form and substance reasonably satisfactory to counsel for the Underwriters.

8. Indemnification and Contribution.

(a) The Company shall indemnify and hold harmless each Underwriter, its directors, officers and employees and each person, if any, who controls any Underwriter within the meaning of Section 15 of the Securities Act, from and against any loss, claim, damage or liability, joint or several, or any action in respect thereof (including, but not limited to, any loss,

claim, damage, liability or action relating to purchases and sales of Underwritten Securities), to which that Underwriter, director, officer, employee or controlling person may become subject, under the Securities Act or otherwise, insofar as such loss, claim, damage, liability or action arises out of, or is based upon, (i) any untrue statement or alleged untrue statement of a material fact contained in (A) any Preliminary Prospectus, the Registration Statement, the Prospectus or in any amendment or supplement thereto, including the Rule 430C Information (including the information on Schedule B hereto), or the General Disclosure Package; (B) any Rule 482 Statement; (C) any Marketing Materials or (D) any Blue Sky application or other document prepared or executed by the Company (or based upon any written information furnished by the Company for use therein) specifically for the purpose of qualifying any or all of the Underwritten Securities under the securities laws of any state or other jurisdiction (any such application, document or information being hereinafter called a "Blue Sky Application"), (ii) the omission or alleged omission to state in any Preliminary Prospectus, the Registration Statement, the Prospectus or in any amendment or supplement thereto, including the Rule 430C Information (including the information on Schedule B hereto), the General Disclosure Package, any Rule 482 Statement, any Marketing Materials or any Blue Sky Application, any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made in the case of any Preliminary Prospectus or Rule 482 Statement, or any amendment or supplement thereto, not misleading or (iii) any act or failure to act or any alleged act or failure to act by any Underwriter in connection with, or relating in any manner to, the Underwritten Securities or the offering contemplated hereby, and which is included as part of or referred to in any loss, claim, damage, liability or action arising out of or based upon matters covered by clause (i) or (ii) above (provided that the Company shall not be liable under this clause (iii) to the extent that it is determined in a final judgment by a court of competent jurisdiction that such loss, claim, damage, liability or action resulted directly from any such acts or failures to act undertaken or omitted to be taken by such Underwriter through its gross negligence or willful misconduct), and shall reimburse each Underwriter and each such director, officer, employee or controlling person promptly upon demand for any legal or other expenses reasonably incurred by that Underwriter, director, officer, employee or controlling person in connection with investigating or defending or preparing to defend against any such loss, claim, damage, liability or action as such expenses are incurred; provided, however, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage, liability or action arises out of, or is based upon, any untrue statement or alleged untrue statement or omission or alleged omission made in any Preliminary Prospectus, the Registration Statement, the Prospectus, or in any such amendment or supplement thereto, including the Rule 430C Information (including the information on Schedule B hereto), the General Disclosure Package, any Rule 482 Statement, any Marketing Materials or any Blue Sky Application, in reliance upon and in conformity with written information furnished to the Company through the Representative by or on behalf of any Underwriter specifically for inclusion therein, which information is limited to the information set forth in Section 8(e). The foregoing indemnity agreement is in addition to any liability which the Company may otherwise have to any Underwriter or to any director, officer, employee or controlling person of that Underwriter.

(b) Each Underwriter, severally and not jointly, shall indemnify and hold harmless the Company, its respective directors (including any person who, with his or her consent, is named in the Registration Statement as about to become a director of the Company), officers and employees, and each person, if any, who controls the Company within the

meaning of Section 15 of the Securities Act, from and against any loss, claim, damage or liability, joint or several, or any action in respect thereof, to which the Company or any such director, officer, employee or controlling person may become subject, under the Securities Act or otherwise, insofar as such loss, claim, damage, liability or action arises out of, or is based upon, (i) any untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, the Registration Statement, the Prospectus, or in any amendment or supplement thereto, including the Rule 430C Information (including the information on Schedule B hereto), the General Disclosure Package, any Rule 482 Statement, any Marketing Materials or Blue Sky Application, or (ii) the omission or alleged omission to state in any Preliminary Prospectus, the Registration Statement, the Prospectus, or in any amendment or supplement thereto, the Rule 430C Information (including the information on Schedule B hereto), the General Disclosure Package, any Rule 482 Statement, any Marketing Materials or Blue Sky Application, any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made in the case of any Preliminary Prospectus or Rule 482 Statement, or any amendment or supplement thereto, not misleading, but in each case only to the extent that the untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information concerning such Underwriter furnished to the Company through the Representative by or on behalf of that Underwriter specifically for inclusion therein, which information is limited to the information set forth in Section 8(e). The foregoing indemnity agreement is in addition to any liability that any Underwriter may otherwise have to the Company or any such director, officer, employee or controlling person.

(c) Promptly after receipt by an indemnified party under this Section 8 of notice of any claim or the commencement of any action, the indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party under this Section 8, notify the indemnifying party in writing of the claim or the commencement of that action; provided, however, that the failure to notify the indemnifying party shall not relieve it from any liability which it may have under this Section 8 except to the extent it has been materially prejudiced by such failure and, provided, further, that the failure to notify the indemnifying party shall not relieve it from any liability which it may have to an indemnified party otherwise than under this Section 8. If any such claim or action shall be brought against an indemnified party, and it shall notify the indemnifying party thereof, the indemnifying party shall be entitled to participate therein and, to the extent that it wishes, jointly with any other similarly notified indemnifying party, to assume the defense thereof with counsel reasonably satisfactory to the indemnified party. After notice from the indemnifying party to the indemnified party of its election to assume the defense of such claim or action, the indemnifying party shall not be liable to the indemnified party under this Section 8 for any legal or other expenses subsequently incurred by the indemnified party in connection with the defense thereof other than reasonable costs of investigation; provided, however, that the Representative shall have the right to employ counsel to represent jointly the Representative and those other Underwriters and their respective directors, officers, employees and controlling persons who may be subject to liability arising out of any claim in respect of which indemnity may be sought by the Underwriters against the Company under this Section 8 if (i) the Company and the Underwriters shall have so mutually agreed; (ii) the Company has failed within a reasonable time to retain counsel reasonably satisfactory to the Underwriters; (iii) the Underwriters and their respective directors, officers, employees and controlling persons shall have reasonably concluded based upon the advice of counsel that there may be legal defenses available to them that are different from or in

addition to those available to the Company; or (iv) the named parties in any such proceeding (including any impleaded parties) include both the Underwriters or their respective directors, officers, employees or controlling persons, on the one hand, and the Company, on the other hand, and representation of both sets of parties by the same counsel would be inappropriate due to actual or potential differing interests between them, and in any such event the fees and expenses of such separate counsel shall be paid by the Company. No indemnifying party shall (i) without the prior written consent of the indemnified parties (which consent shall not be unreasonably withheld), settle or compromise or consent to the entry of any judgment with respect to any pending or threatened claim, action, suit or proceeding in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified parties are actual or potential parties to such claim or action) unless such settlement, compromise or consent includes an unconditional release of each indemnified party from all liability arising out of such claim, action, suit or proceeding and does not include any findings of fact or admissions of fault or culpability as to the indemnified party or (ii) be liable for any settlement of any such action effected without its written consent (which consent shall not be unreasonably withheld), but if settled with the consent of the indemnifying party or if there be a final judgment for the plaintiff in any such action, the indemnifying party agrees to indemnify and hold harmless any indemnified party from and against any loss or liability by reason of such settlement or judgment.

(d) If the indemnification provided for in this Section 8 shall for any reason be unavailable or insufficient to hold harmless an indemnified party under Section 8(a) or 8(b) in respect of any loss, claim, damage or liability, or any action in respect thereof, referred to therein, then each indemnifying party shall, in lieu of indemnifying such indemnified party, contribute to the amount paid or payable by such indemnified party as a result of such loss, claim, damage liability or action in respect thereof, (i) in such proportion as shall be appropriate to reflect the relative benefits received by the Company, on the one hand, and the Underwriters, on the other, from the offering of the Underwritten Securities or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company, on the one hand, and the Underwriters, on the other, with respect to the statements or omissions that resulted in such loss, claim, damage, liability or action in respect thereof, as well as any other relevant equitable considerations. The relative benefits received by the Company, on the one hand, and the Underwriters, on the other, with respect to such offering shall be deemed to be in the same proportion as the total net proceeds from the offering of the Underwritten Securities purchased under this Agreement (before deducting expenses) received by the Company, as set forth in the table on the cover page of the Prospectus, on the one hand, and the total underwriting discounts and commissions received by the Underwriters with respect to the shares of the Underwritten Securities purchased under this Agreement, as set forth in the table on the cover page of the Prospectus, on the other hand. The relative fault shall be determined by reference to whether the untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the Company or the Underwriters, the intent of the parties and their relative knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Underwriters agree that it would not be just and equitable if contributions pursuant to this Section 8(d) were to be determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation that does not take into account the equitable considerations referred to herein. The amount paid or payable by an indemnified party as

a result of the loss, claim, damage liability or action in respect thereof, referred to above in this Section 8(d) shall be deemed to include, for purposes of this Section 8(d), any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 8(d), no Underwriter shall be required to contribute any amount in excess of the amount by which the net proceeds from the sale of the Underwritten Securities underwritten by it exceeds the amount of any damages that such Underwriter has otherwise paid or become liable to pay by reason of any untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations to contribute as provided in this Section 8(d) are several in proportion to their respective underwriting obligations and not joint.

(e) The Underwriters severally confirm and the Company acknowledges and agrees that the statements regarding delivery of shares by the Underwriters set forth on the cover page of the Preliminary Prospectus and the Registration Statement, the concession and reallowance figures by the Underwriters and number of shares being purchased by such Underwriters, and the paragraphs appearing under the headings "Stabilization and Short Positions" and "Electronic Distribution" in the "Underwriting" section of the most recent Preliminary Prospectus and the Prospectus are correct and constitute the only information concerning such Underwriters furnished in writing to the Company by or on behalf of the Underwriters specifically for inclusion in any Preliminary Prospectus, the Registration Statement, the Pricing Disclosure Package, the Prospectus or in any amendment or supplement thereto, including the Rule 430C Information, any Rule 482 Statement, any Marketing Materials or Blue Sky Application.

9. Defaulting Underwriters. If, on any Delivery Date, any Underwriter defaults in the performance of its obligations under this Agreement, the remaining non defaulting Underwriters shall be obligated to purchase the Underwritten Securities as to which such defaulting Underwriter failed to deliver payment on such Delivery Date in the respective proportions which the number of the Initial Securities set forth opposite the name of each remaining non defaulting Underwriter in Schedule 1 hereto bears to the total number of the Initial Securities set forth opposite the names of all the remaining non defaulting Underwriters in Schedule 1 hereto; provided, however, that the remaining non defaulting Underwriters shall not be obligated to purchase any of the Underwritten Securities on such Delivery Date if the total number of Underwritten Securities as to which the defaulting Underwriter failed to deliver payment on such date exceeds [ ]% of the total number of the Underwritten Securities to be delivered on such Delivery Date, and any remaining non defaulting Underwriter shall not be obligated to purchase more than [ ]% of the number of the Underwritten Securities that it agreed to purchase on such Delivery Date pursuant to the terms of Section 2. If the foregoing maximums are exceeded, the remaining non defaulting Underwriters, or those other underwriters satisfactory to the Representatives who so agree, shall have the right, but shall not be obligated, to purchase, in such proportion as may be agreed upon among them, all the Underwritten Securities to be purchased on such Delivery Date. If the remaining Underwriters or other underwriters satisfactory to the Representatives do not elect to purchase the shares as to which the defaulting Underwriter or Underwriters agreed but failed to deliver payment on such Delivery Date, this Agreement (or, with respect to any Option Securities Delivery Date, the obligation of the Underwriters to purchase, and of the Company to sell, the Option Securities) shall terminate without liability on the part of any non defaulting Underwriter or the Company, except that the Company will continue to be liable for the payment of expenses to the extent set forth in Sections 6 and 11. As used in this Agreement, the term "Underwriter"

includes, for all purposes of this Agreement unless the context requires otherwise, any party not listed in Schedule 1 hereto that, pursuant to this Section 9, purchases Underwritten Securities that a defaulting Underwriter agreed but failed to purchase. Nothing contained herein shall relieve a defaulting Underwriter of any liability it may have to the Company for damages caused by its default. If other Underwriters are obligated or agree to purchase the Underwritten Securities of a defaulting or withdrawing Underwriter, either the Representatives or the Company may postpone the Delivery Date for up to seven full business days in order to effect any changes that in the opinion of counsel for the Company or counsel for the Underwriters may be necessary in the Registration Statement, the Prospectus or in any other document or arrangement.

10. Termination. The obligations of the Underwriters hereunder may be terminated by the Representatives by notice given to and received by the Company prior to delivery of and payment for the Initial Securities if, prior to that time, any of the events described in Sections 7(j) and 7(k) shall have occurred or if the Underwriters shall decline to purchase the Underwritten Securities for any reason permitted under this Agreement.

11. Reimbursement of Underwriters' Expenses. If (a) the Company shall fail to tender the Underwritten Securities for delivery to the Underwriters by reason of any failure, refusal or inability on the part of the Company to perform any agreement on its part to be performed, or because any other condition to the Underwriters' obligations hereunder required to be fulfilled by the Company is not fulfilled for any reason or (b) the Underwriters shall decline to purchase the Underwritten Securities for any reason permitted under this Agreement, the Company will reimburse the Underwriters for all reasonable out of pocket expenses (including fees and disbursements of counsel) incurred by the Underwriters in connection with this Agreement and the proposed purchase of the Underwritten Securities, and upon demand the Company shall pay the full amount thereof to the Representatives. If this Agreement is terminated pursuant to Section 9 by reason of the default of one or more Underwriters, the Company shall not be obligated to reimburse any defaulting Underwriter on account of those expenses.

12. Research Analyst Independence. The Company acknowledges that the Underwriters' research analysts and research departments are required to be independent from their respective investment banking divisions and are subject to certain regulations and internal policies, and that such Underwriters' research analysts may hold views and make statements or investment recommendations and/or publish research reports with respect to the Company and/or the offering that differ from the views of their respective investment banking divisions. The Company hereby waives and releases, to the fullest extent permitted by law, any claims that the Company may have against the Underwriters with respect to any conflict of interest that may arise from the fact that the views expressed by their independent research analysts and research departments may be different from or inconsistent with the views or advice communicated to the Company by such Underwriters' investment banking divisions. The Company acknowledges that each of the Underwriters is a full service securities firm and as such from time to time, subject to applicable securities laws, may effect transactions for its own account or the account of its customers and hold long or short positions in debt or equity securities of the companies that may be the subject of the transactions contemplated by this Agreement.

13. No Fiduciary Duty. The Company acknowledges and agrees that in connection with this offering, sale of the Underwritten Securities or any other services the Underwriters may be deemed to be providing hereunder, notwithstanding any preexisting relationship, advisory or otherwise, between the parties or any oral representations or assurances previously or subsequently made by the Underwriters: (i) no fiduciary or agency relationship between the Company and any other person, on the one hand, and the Underwriters, on the other, exists; (ii) the Underwriters are not

acting as advisors, expert or otherwise, to the Company, including, without limitation, with respect to the determination of the public offering price of the Underwritten Securities, and such relationship between the Company, on the one hand, and the Underwriters, on the other, is entirely and solely commercial, based on arms length negotiations; (iii) any duties and obligations that the Underwriters may have to the Company shall be limited to those duties and obligations specifically stated herein; and (iv) the Underwriters and their respective affiliates may have interests that differ from those of the Company. The Company hereby waives any claims that the Company may have against the Underwriters with respect to any breach of fiduciary duty in connection with this offering.

14. Notices. All statements, requests, notices and agreements hereunder shall be in writing, and:

(a) if to the Underwriters, shall be delivered or sent by mail or facsimile transmission to:

[ ]

With a copy (for informational purposes only) to:

[ ]

And in the case of any notice pursuant to Section 7(d), a copy to:

[ ]

(b) if to the Company, shall be delivered or sent by mail or facsimile transmission to:

Kohlberg Capital Corporation
295 Madison Avenue, 6th Floor
New York, New York 10017
Attention: Michael I. Wirth
Facsimile: (212) 455-8300

With a copy (for informational purposes only) to:

Ropes & Gray LLP
One International Place
Boston, Massachusetts 02110
Attention: Craig E. Marcus, Esq.
Facsimile: (617) 951-7050

Any such statements, requests, notices or agreements shall take effect at the time of receipt thereof. The Company shall be entitled to act and rely upon any request, consent, notice or agreement given or made on behalf of the Underwriters by [ ] on behalf of the Representatives.

15. Persons Entitled to Benefit of Agreement. This Agreement shall inure to the benefit of and be binding upon the Underwriters, the Company, and their respective successors. This Agreement and the terms and provisions hereof are for the sole benefit of only those persons, except that (A) the representations, warranties, indemnities and agreements of the Company contained in this Agreement shall also be deemed to be for the benefit of the directors, officers and employees of the Underwriters and each person or persons, if any, who control any Underwriter within the meaning of Section 15 of the Securities Act and (B) the indemnity agreement of the Underwriters contained in Section 8(b) of this Agreement shall be deemed to be for the benefit of the directors of the Company, the officers of the Company who have signed the Registration Statement and any person controlling the Company within the meaning of Section 15 of the Securities Act. Nothing in this Agreement is intended or shall be construed to give any person, other than the persons referred to in this Section 15, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision contained herein.

16. Survival. The respective indemnities, representations, warranties and agreements of the Company and the Underwriters contained in this Agreement or made by or on behalf of them, respectively, pursuant to this Agreement, shall survive the delivery of and payment for the Underwritten Securities and shall remain in full force and effect, regardless of any investigation made by or on behalf of any of them or any person controlling any of them.

17. Definition of the Terms "Business Day" and "Subsidiary." For purposes of this Agreement, (a) "business day" means each Monday, Tuesday, Wednesday, Thursday or Friday that is not a day on which banking institutions in New York are generally authorized or obligated by law or executive order to close and (b) "subsidiary" has the meaning set forth in Rule 405 of the Securities Act Rules and Regulations.

18. Governing Law. **This Agreement shall be governed by and construed in accordance with the laws of the State of New York.**

19. Counterparts. This Agreement may be executed in one or more counterparts and, if executed in more than one counterpart, the executed counterparts shall each be deemed to be an original but all such counterparts shall together constitute one and the same instrument.

20. Headings. The headings herein are inserted for convenience of reference only and are not intended to be part of, or to affect the meaning or interpretation of, this Agreement.

[*Remainder of Page Intentionally Left Blank.*]

If the foregoing correctly sets forth the agreement between the Company and the Underwriters, please indicate your acceptance in the space provided for that purpose below.

Very truly yours,

KOHLBERG CAPITAL CORPORATION

By: _____
Name:
Title:

Accepted:

For itself and as Representative
of the several Underwriters named
in Schedule 1 hereto

By: _____
Authorized Representative

Exhibit h.2

$[ ] Aggregate Principal Amount Senior Securities
$[ ] Aggregate Principal Amount Subordinated Securities
and
[ ] Warrants to Purchase Debt Securities

UNDERWRITING AGREEMENT

New York, New York
[ ]

[ ]

Ladies and Gentlemen:

Kohlberg Capital Corporation, a Delaware corporation (the "Company"), confirms its agreement with [ ] and each of the other Underwriters named in Schedule A hereto (collectively, the "Underwriters", which term shall also include any underwriter substituted as hereinafter provided in Section 10 hereof), for whom [ ] are acting as representatives (in such capacity, the "Representatives"), with respect to the issue and sale by the Company and the purchase by the Underwriters, acting severally and not jointly, $[ ] aggregate principal amount of senior debt securities (the "Senior Securities") or subordinated debt securities (the "Subordinated Securities"), or both, or warrants (the "Debt Warrants") to purchase Senior Securities or Subordinated Securities, or both, of the Company set forth in said Schedule A, and with respect to the grant by the Company to the Underwriters, acting severally and not jointly, of the option described in Section 2(b) hereof to purchase additional Securities (as hereinafter defined) to cover overallotments, if any. The [Senior Securities][Subordinated Securities] will be issued under an indenture dated as of [ ] [, as supplemented by a Supplemental Indenture, dated as of [ ] ([collectively,] the "Indenture") between the Company and [ ], as trustee. The Debt Warrants will be issued under one or more warrant agreements (the warrant agreement relating to any issue of Debt Warrants to be sold pursuant to this Agreement is referred to herein as the "Warrant Agreement") between the Company and the Warrant Agent identified in such Warrant Agreement (the "Warrant Agent"). The Senior Securities, Subordinated Securities or Debt Warrants or any combination thereof are hereinafter referred to as the "Securities." The aforesaid Securities (the "Initial Securities") to be purchased by the Underwriters and all or any part of the Securities subject to the option described in Section 2(b) hereof (the "Option Securities") are hereinafter called, collectively, the "Underwritten Securities"; and "Warrant Securities" shall mean the Senior Securities or Subordinated Securities issuable upon exercise of Debt Warrants. The Senior Securities, Subordinated Securities and the Debt Warrants may be offered either together or separately. Each issue of Senior Securities, Subordinated Securities and Debt Warrants may vary, as applicable, as to aggregate principal amount, maturity date, interest rate or formula and timing of payments thereof, redemption provisions, conversion provisions and sinking fund requirements, if any, and any other variable terms which the Indenture or any Warrant Agreement, as the case may be, contemplates may be set forth in the Senior Securities, Subordinated Securities and Debt Warrants as issued from time to time. Securities issued in book-entry form will be issued to Cede & Co. as nominee of the Depository Trust Company ("DTC") pursuant to a blanket letter of representations, to be dated on or prior to the Initial Delivery Date (as defined below) (the "DTC Agreement"), between the Company and DTC.

The Company understands that the Underwriters propose to make a public offering of the Underwritten Securities as soon as the Representatives deem advisable after this Agreement has been executed and delivered.

The Company has filed with the Securities and Exchange Commission (the "Commission") a shelf registration statement on Form N-2 (File No. 333-[ ]) covering the registration of the Underwritten Securities and certain of the Company's equity securities and warrants to purchase equity securities under the Securities Act of 1933, as amended (the "Securities Act"), which registration statement has been declared effective by the Commission (the date and time as of which the Registration Statement was declared effective by the Commission, the "Effective Date"). The Indenture has been qualified under the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act"). The Company has also filed with the Commission a preliminary prospectus supplement, dated [ ], which contains a base prospectus, dated [ ]. Each prospectus used before the Registration Statement became effective, and any prospectus that omitted the Rule 430C Information (as defined below), that was used after the Effective Date and prior to the execution and delivery of this Agreement is referred to herein as the "Preliminary Prospectus." Promptly after execution and delivery of this Agreement, the Company will prepare and file a prospectus in accordance with the provisions of Rule 430C ("Rule 430C") of the rules and regulations of the Commission under the Securities Act (the "Securities Act Rules and Regulations") and Rule 497 of the Securities Act Rules and Regulations. The information included in such prospectus that was omitted from such registration statement at the time it became effective but that is deemed to be part of such registration statement pursuant to Rule 430C of the Securities Act Rules and Regulations is referred to as "Rule 430C Information." Unless the context otherwise requires, such registration statement, including all documents filed as a part thereof, and including any Rule 430C Information contained in a prospectus subsequently filed with the Commission pursuant to Rule 497 of the Securities Act Rules and Regulations and deemed to be part of the registration statement and also including any registration statement filed pursuant to Rule 462(b) of the Securities Act Rules and Regulations (the "Rule 462(b) Registration Statement"), is herein called the "Registration Statement." The final prospectus in the form filed by the Company with the Commission pursuant to Rule 497 of the Securities Act Rules and Regulations on or before the second business day after the date hereof (or such earlier time as may be required under the Securities Act), which will include the base prospectus, dated [ ], together with a final prospectus supplement, is herein called the "Prospectus." For purposes of this Agreement, all references to the Registration Statement, the Preliminary Prospectus, the Prospectus or any amendment or supplement to any of the foregoing shall be deemed to include the copy filed with the Commission pursuant to its Electronic Data Gathering, Analysis and Retrieval system ("EDGAR").

A Form N-54A Notification of Election to be Subject to Sections 55 through 65 of the Investment Company Act of 1940 filed Pursuant to Section 54(a) of the Investment Company Act (File No. 814-00735) (the "Notification of Election") was filed with the Commission on December 5, 2006 under the Investment Company Act of 1940, as amended, and the rules and regulations thereunder (collectively, the "Investment Company Act ").

1. Representations and Warranties.

(a) The Company represents and warrants to each Underwriter as of the date hereof, as of the Applicable Time referred to in Section 1(a)(i) hereof and as of each Delivery Date referred to in Section 4(b) hereof, and agrees with each Underwriter, as follows:

(i) The Company is eligible to use Form N-2. The Registration Statement (and the Registration Statement as amended by any post-effective amendment if the Company shall have made any amendments thereto after the effective date of the Registration Statement) has become effective under the Securities Act and no stop order suspending the effectiveness of the Registration Statement (and the Registration Statement as amended by any post-effective amendment if the Company shall have made any amendments thereto after the effective date of the Registration Statement) has been issued under the Securities Act and no

proceedings for that purpose have been instituted or are pending or, to the knowledge of the Company, are contemplated by the Commission, and any request on the part of the Commission for additional information has been complied with. At the respective times the Registration Statement, the Rule 462(b) Registration Statement, if any, and any post-effective amendments thereto became effective, at the Applicable Time and at each applicable Delivery Date, the Registration Statement complied and will comply in all material respects with the requirements of the Securities Act, the Securities Act Rules and Regulations and the Investment Company Act and did not and will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading. Neither the Prospectus nor any amendments or supplements thereto (including any prospectus wrapper), at the time the Prospectus or any such amendment or supplement was issued, and at each applicable Delivery Date, included or will include an untrue statement of a material fact or omitted or will omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The Prospectus and each Preliminary Prospectus complied when so filed in all material respects with the Securities Act, the Securities Act Rules and Regulations and the Investment Company Act except for any corrections to any Preliminary Prospectus that are made in the Prospectus and each Preliminary Prospectus and the Prospectus delivered to the Underwriters for use in connection with this offering was identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T. As of the Applicable Time, the preliminary prospectus supplement, dated [ ], together with the prospectus, dated [ ], as filed with the SEC on [ ], and the information included on Schedule B hereto (which information the Representatives have informed the Company is being conveyed orally by the Underwriters to prospective purchasers at or prior to the Underwriters' confirmation of sales of Underwritten Securities in the offering), all considered together (collectively, the "General Disclosure Package"), did not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. As used in this subsection and elsewhere in this Agreement, "Applicable Time" means [ ] (Eastern time) on [ ] or such other time as agreed by the Company and the Representatives. The representations and warranties in this subsection shall not apply to statements in or omissions from the Registration Statement, the Prospectus, the part of the Registration Statement that constitutes the Statement of Eligibility and Qualification under the Trustee Indenture Act (Form T-1) of the Trustee under the Indenture (the "Trustee Eligibility Statement"), the Prospectus (or any amendment or supplement thereto) or the General Disclosure Package made in reliance upon and in conformity with written information furnished to the Company by any Underwriter through the Representatives expressly for use in the Registration Statement (or any amendment thereto), the Prospectus (or any amendment or supplement thereto), the Trustee Eligibility Statement (or any amendment or supplement thereto) or the General Disclosure Package.

(ii) Any written materials provided to investors by, or with the prior written approval of, the Company specifically for use in any roadshow or investor

presentations made to investors by the Company in connection with the marketing of the offering of the Underwritten Securities (whether in person or electronically) (collectively, the "Marketing Materials"), considered together with the Preliminary Prospectus, do not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. All Marketing Materials complied and will comply in all material respects with the applicable requirements of the Securities Act, the Securities Act Rules and Regulations, the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations of the Commission under the Exchange Act (the "Exchange Act Rules and Regulations"; the Exchange Act Rules and Regulations and the Securities Act Rules and Regulations, collectively, the "Rules and Regulations"), the Investment Company Act and the rules and interpretations of the Financial Industry Regulatory Authority (the "FINRA").

(iii) The Commission has not issued any order preventing or suspending the use of any Preliminary Prospectus or the Prospectus or suspended the effectiveness of the Registration Statement, and no proceeding or examination for such purpose has been instituted or, to the knowledge of the Company, threatened by the Commission.

(iv) The Preliminary Prospectus and the Prospectus delivered to the Underwriters in connection with the offering was identical to the electronically transmitted copies filed with the Commission pursuant to EDGAR, except as may be permitted by Regulation S-T under the Securities Act.

(v) The Company has been duly organized, is validly existing and is in good standing as a corporation in the State of Delaware and is duly qualified to do business and in good standing as a foreign corporation in each jurisdiction in which its ownership or lease of property or the conduct of its businesses requires such qualification, except where the failure to be so qualified or in good standing would not, in the aggregate, reasonably be expected to have a material adverse effect on the condition (financial or otherwise), results of operations, stockholders' equity, properties or business of the Company (a "Material Adverse Effect"); the Company has all corporate power and authority necessary to own or hold its properties and to conduct the businesses in which it is engaged.

(vi) The Company's only subsidiaries are listed on Exhibit 21.1 of the Company's Form 10-K for the year ended [ ] (each, a "Subsidiary" and collectively, the "Subsidiaries") Each of the Subsidiaries has been duly organized, is validly existing as a limited liability company under the laws of the State of Delaware and is duly qualified to do business and in good standing as a foreign limited liability company in each jurisdiction in which its ownership or lease of property or the conduct of its businesses requires such qualification, except where the failure to be so qualified or in good standing would not, in the aggregate, reasonably be expected to have a Material Adverse Effect; the Subsidiaries have all limited liability company power and authority necessary to own or hold their properties and to conduct the businesses in which they are engaged.

(vii) The Company has an authorized capitalization as set forth in the Registration Statement, the General Disclosure Package and the Prospectus under the caption "Capitalization," and all of the issued shares of capital stock of the Company have been duly authorized and validly issued, are fully paid and non-assessable, conform to the description thereof contained in the Prospectus and were issued in compliance with federal and state securities laws and not in violation of any preemptive right, resale right, right of first refusal or similar right. No options, warrants or other rights to purchase or exchange any securities for shares of the Company's capital stock are outstanding, except as disclosed in the Registration Statement, the General Disclosure Package and the Prospectus, and except for subsequent issuances, if any, pursuant to this Agreement, pursuant to the Company's Dividend Reinvestment Plan or pursuant to reservations, agreements or employee benefit plans referred to in the Prospectus and the General Disclosure Package or pursuant to the exercise of convertible securities or options referred to in the Prospectus and the General Disclosure Package. All of the limited liability company interests of the Subsidiaries have been duly authorized and validly issued, are fully paid and non-assessable and are owned directly or indirectly by the Company, free and clear of all liens, encumbrances, equities or claims, except for such liens, encumbrances, equities or claims as would not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

(viii) (A) The Underwritten Securities being sold pursuant to this Agreement and, if applicable, the Warrant Securities issuable upon exercise of the Debt Warrants have been duly authorized for issuance and sale to the Underwriters pursuant to this agreement (this "Agreement") and, if applicable, the Warrant Agreement (or will have been so authorized prior to each issuance of Underwritten Securities) and, when issued, authenticated and delivered by the Company pursuant to the provisions of this Agreement and of the Indenture or the Warrant Agreement, or both, as the case may be, relating thereto, against payment of the consideration therefor in accordance with this Agreement and the Warrant Agreement, will be valid and legally binding obligations of the Company enforceable in accordance with their terms (subject, as to the enforcement of remedies, to applicable bankruptcy, reorganization, insolvency, moratorium or other laws affecting creditors' rights generally from time to time in effect and to general principles of equity regardless of whether in a proceeding at equity or at law), and will be entitled to the benefits of the Indenture or Warrant Agreement, or both, as the case may be, relating thereto; and the Underwritten Securities, the Indenture and, if any, the Warrant Agreement conform in all material respects to the statements relating thereto contained in the Prospectus; and (B) if applicable, upon issuance and delivery of the Underwritten Securities in accordance with this Agreement and the Indenture, the Underwritten Securities will be convertible at the option of the holder thereof into shares of common stock, par value $0.01 per share, of the Company (the "Common Stock") in accordance with the terms of the Underwritten Securities and the Indenture, and the shares of Common Stock issuable upon conversion of any issue of the Underwritten Securities have been duly authorized and reserved for issuance upon such conversion by all necessary corporate action and, when issued and delivered in accordance with the provisions of this Agreement relating thereto, will be validly issued, fully paid and non-assessable.

(ix) The Company has all requisite corporate power and authority to execute, deliver and perform its obligations under this Agreement.

(x) (A) This Agreement has been duly authorized, executed and delivered by the Company and constitutes a legal, valid, binding and enforceable instrument of the Company (subject, as to the enforcement of remedies, to applicable bankruptcy, reorganization, insolvency, moratorium or other laws affecting creditors' rights generally from time to time in effect and to general principles of equity regardless of whether in a proceeding at equity or at law). (B) The Indenture has been duly authorized, executed and delivered by the Company and, when executed and delivered by the Trustee, will constitute a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms (subject, as to the enforcement of remedies, to applicable bankruptcy, reorganization, insolvency, moratorium or other laws affecting creditors' rights generally from time to time in effect and to general principles of equity regardless of whether in a proceeding at equity or at law). (C) If applicable, the Warrant Agreement will have been duly authorized, executed and delivered by the Company prior to the issuance of any applicable Debt Warrants, and when executed by the Warrant Agent, and will constitute a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms (subject, as to the enforcement of remedies, to applicable bankruptcy, reorganization, insolvency, moratorium or other laws affecting creditors' rights generally from time to time in effect and to general principles of equity regardless of whether in a proceeding at equity or at law).

(xi) The execution, delivery and performance of this Agreement, the Indenture and, if applicable, the Warrant Agreement by the Company, the consummation of the transactions contemplated hereby and thereby and the application of the proceeds from the sale of the Underwritten Securities as described under "Use of Proceeds" in the Registration Statement and the Prospectus will not (A) conflict with or result in a breach or violation of any of the terms or provisions of, impose any lien, charge or encumbrance upon any property or assets of the Company, Katonah Debt Advisors, L.L.C., a Delaware limited liability company ("KDA") or Kohlberg Capital Funding LLC I, a Delaware limited liability company ("Kohlberg Funding"), or constitute a default under, any indenture, mortgage, deed of trust, loan agreement, license or other agreement or instrument to which the Company, KDA or Kohlberg Funding is a party or by which the Company, KDA or Kohlberg Funding is bound or to which any of the property or assets of the Company, KDA or Kohlberg Funding is subject, except for such conflicts, breaches or violations that would not, in the aggregate, reasonably be expected to result in a Material Adverse Effect; (B) result in any violation of the provisions of the charter or bylaws or other organizational documents of the Company, KDA or Kohlberg Funding; or (C) to the knowledge of the Company, KDA or Kohlberg Funding, result in any violation of any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Company, KDA or Kohlberg Funding or any of their properties or assets.

(xii) No consent, approval, authorization or order of, or filing or registration with, any court or governmental agency or body having jurisdiction over the Company, KDA or Kohlberg Funding or any of their properties or assets is

required to be obtained by the Company for the execution, delivery and performance of this Agreement, the Indenture and, if applicable, the Warrant Agreement by the Company, the consummation of the transactions contemplated hereby and thereby and the application of the proceeds from the sale of the Underwritten Securities as described under "Use of Proceeds" in the Registration Statement and the Prospectus, except for the registration of the Underwritten Securities under the Securities Act and such consents, approvals, authorizations, registrations or qualifications as may be required under the Exchange Act and applicable state securities laws in connection with the sale of the Underwritten Securities.

(xiii) Except as identified in the Registration Statement and the Prospectus, there are no contracts, agreements or understandings between the Company and any person granting such person the right to require the Company to file a registration statement under the Securities Act with respect to any securities of the Company owned or to be owned by such person or to require the Company to include such securities in the securities registered pursuant to the Registration Statement.

(xiv) The Company has not sold or issued any securities that would be required to be integrated with the sale and delivery of the Underwritten Securities contemplated by this Agreement pursuant to the Securities Act or the Securities Act Rules and Regulations.

(xv) Since [ ], except as disclosed in the Registration Statement, the General Disclosure Package and the Prospectus, there has not been any material change in the capital stock or long term debt of the Company, KDA or Kohlberg Funding or any material adverse change in or affecting the condition (financial or otherwise), results of operations, stockholders' equity, properties, management or business of the Company, KDA and Kohlberg Funding taken as a whole, in each case except as would not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

(xvi) Since the date as of which information is given in the Prospectus and except as may otherwise be described in the Prospectus and the General Disclosure Package, the Company has not (A) incurred any material liability or obligation, direct or contingent, other than liabilities and obligations that were incurred in the ordinary course of business; (B) entered into any material transaction not in the ordinary course of business; or (C) declared or paid any dividend on its capital stock.

(xvii) The financial statements (including the related notes and supporting schedules) included in the Registration Statement, the General Disclosure Package and the Prospectus comply as to form in all material respects with the requirements of Regulation S-X under the Securities Act and present fairly the financial condition, results of operations and cash flows of the entities purported to be shown thereby at the dates and for the periods indicated and have been prepared in conformity with accounting principles generally accepted in the United States applied on a consistent basis throughout the periods involved.

(xviii) [ ], who has audited certain financial statements of the Company, whose report appears in the Prospectus and who have delivered their letter referred to in Section 6(e) hereof, are independent public accountants as required by the Securities Act, the Investment Company Act, the Rules and Regulations and the rules of the Public Company Accounting Oversight Board.

(xix) The Company, KDA and Kohlberg Funding have good and marketable title in fee simple to all real property, have valid rights to lease or otherwise use and have good and marketable title to all personal property owned by them, material to the respective businesses of each of the Company, KDA and Kohlberg Funding, in each case free and clear of all liens, encumbrances and defects, except such as (A) are described in the Registration Statement and the Prospectus; (B) do not materially interfere with the use made and proposed to be made of such property by the Company, KDA and Kohlberg Funding; or (C) would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect; and all assets held under lease by the Company, KDA and Kohlberg Funding are held by them under valid, subsisting and enforceable leases, with such exceptions as do not materially interfere with the use made and proposed to be made of such assets by the Company, KDA and Kohlberg Funding.

(xx) The statistical and market related data included under the caption “Business” in the Registration Statement and the Prospectus are based on or derived from sources that the Company believes to be reliable and accurate in all material respects.

(xxi) Neither the Company, KDA nor Kohlberg Funding is and, after giving effect to the offering and sale of the Underwritten Securities and the application of the proceeds therefrom as described under “Use of Proceeds” in the Registration Statement and the Prospectus, will be, required to register as a “registered management investment company” under the Investment Company Act.

(xxii) (A) The Company has duly elected to be regulated by the Commission as a business development company (“BDC”) under the Investment Company Act, and no order of suspension or revocation has been issued or proceedings therefor initiated or, to the knowledge of the Company, threatened by the Commission. Subject to the filing of the Registration Statement and the Prospectus, all required action has been taken by the Company under the Securities Act and the Investment Company Act to make the public offering and consummate the sale of the Underwritten Securities as provided in this Agreement; (B) the provisions of the Company’s charter and bylaws and the investment objective, policies and restrictions described in the Registration Statement and the Prospectus, assuming they are implemented as described, will comply in all material respects with the requirements of the Investment Company Act; and (C) the operations of the Company are in compliance in all material respects with the provisions of the Investment Company Act applicable to BDCs.

(xxiii) When the Notification of Election was filed with the Commission, it (A) contained all statements required to be stated therein in accordance with, and complied in all material respects with the requirements of the Investment

Company Act and (B) did not include any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

(xxiv) There are no legal or governmental proceedings pending to which the Company, KDA or Kohlberg Funding is a party or of which any property or assets of the Company, KDA or Kohlberg Funding is the subject that would, in the aggregate, reasonably be expected to have a Material Adverse Effect or would, in the aggregate, reasonably be expected to have a material adverse effect on the performance of this Agreement, the Indenture or, if applicable, the Warrant Agreement or the consummation of the transactions contemplated hereby or thereby; and to the Company's knowledge, no such proceedings are threatened by governmental authorities or others.

(xxv) There are no legal or governmental proceedings or contracts or other documents of a character required to be described in the Registration Statement or the Prospectus or, in the case of documents, to be filed as exhibits to the Registration Statement that are not described and filed as required; and that statements made in the Registration Statement and the Prospectus under the captions "Election to be Regulated as a Business Development Company and a Regulated Investment Company," "Distributions," "Determination of Net Asset Value," "Regulation," "Certain U.S. Federal Income Tax Considerations," "Description of Capital Stock" and "Shares Eligible for Future Sale," insofar as they purport to constitute summaries of the terms of statutes, rules or regulations, legal or governmental proceedings or contracts and other documents, constitute accurate summaries of the terms of such statutes, rules and regulations, legal and governmental proceedings and contracts and other documents in all material respects.

(xxvi) Except as described in the Registration Statement and the Prospectus, no relationship, direct or indirect, exists between or among the Company, on the one hand, and the directors, officers or stockholders of the Company, on the other hand, that is required to be described in the Registration Statement or the Prospectus which is not so described.

(xxvii) No labor disturbance by the employees of the Company, KDA or Kohlberg Funding exists or, to the knowledge of the Company, is threatened that would reasonably be expected to have a Material Adverse Effect.

(xxviii) (A) Each "employee benefit plan" (within the meaning of Section 3(3) of the Employee Retirement Security Act of 1974, as amended ("ERISA")) for which the Company or any member of its "Controlled Group" (defined as any organization which is a member of a controlled group of corporations within the meaning of Section 414 of the Internal Revenue Code of 1986, as amended (the "Code"), would have any liability (each a "Plan"), has been maintained in compliance with its terms and with the requirements of all applicable statutes, rules and regulations including ERISA and the Code except where failure to so comply would not reasonably be expected to have Material Adverse Effect; (B) with respect to each Plan subject to Title IV of ERISA (1) no "reportable event" (within the meaning of Section 4043(c) of ERISA) has occurred or is reasonably expected to occur, (2) no "accumulated funding deficiency" (within

the meaning of Section 302 of ERISA or Section 412 of the Code), whether or not waived, has occurred or is reasonably expected to occur, (3) the fair market value of the assets under each Plan exceeds the present value of all benefits accrued under such Plan (determined based on those assumptions used to fund such Plan) and (4) neither the Company nor any member of its Controlled Group has incurred, or reasonably expects to incur, any liability under Title IV of ERISA (other than contributions to the Plan or premiums to the Pension Benefit Guaranty Corporation in the ordinary course and without default) in respect of a Plan (including a "multiemployer plan" within the meaning of Section 4001(c)(3) of ERISA)); and (C) each Plan that is intended to be qualified under Section 401(a) of the Code has received a prototype determination or opinion letter to the effect that the form of such Plan is so qualified and the company and, as to the form of such Plan, the Plan may rely on such letter or opinion (without an individual application) under applicable the rules of the Internal Revenue Service, and, to the knowledge of the Company nothing has occurred, whether by action or by failure to act, which would reasonably be expected to cause the loss of such qualification.

(xxix) The Company, KDA and Kohlberg Funding have (A) filed all Federal, state, local and foreign tax returns required to be filed through the date hereof, subject to permitted extensions, and all such tax returns are true, complete and correct in all material respects; and (B) paid all material taxes required to be paid, and no tax deficiency has been determined adversely to the Company, KDA or Kohlberg Funding, nor does the Company, KDA or Kohlberg Funding have any knowledge of any tax deficiencies that would, in the aggregate, reasonably be expected to have a Material Adverse Effect.

(xxx) Commencing with its short taxable year ended December 31, 2006, the Company has qualified as a regulated investment company ("RIC") (within the meaning of Section 851(a) of the Code).

(xxxi) Neither the Company, KDA nor Kohlberg Funding (A) is in violation of its charter, bylaws or other organizational documents; (B) is in default, and no event has occurred that, with notice or lapse of time or both, would constitute such a default, in the due performance or observance of any term, covenant or condition contained in any indenture, mortgage, deed of trust, loan agreement, license or other agreement or instrument to which it is a party or by which it is bound or to which any of its properties or assets is subject; or (C) is in violation of any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over it or its property or assets or has failed to obtain any license, permit, certificate, franchise or other governmental authorization or permit necessary to the ownership of its property or to the conduct of its business, except in the case of clauses (B) and (C), to the extent any such conflict, breach, violation or default would not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

(xxxii) The Company makes and keeps accurate books and records and the Company maintains effective internal control over financial reporting as defined in Rule 13a-15 of the Exchange Act Rules and Regulations and a system of internal accounting controls sufficient to provide reasonable assurance that (A) transactions are executed in accordance with management's general or

specific authorization; (B) transactions are recorded as necessary to permit preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States and to maintain accountability for its assets; (C) access to the Company's assets is permitted only in accordance with management's general or specific authorization; and (D) the recorded accountability for the Company's assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(xxxiii) (A) The Company has established and maintains disclosure controls and procedures (as such term is defined in Rule 13a-15 of the Exchange Act Rules and Regulations); (B) such disclosure controls and procedures are designed to ensure that the information required to be disclosed by the Company in the reports it will file or submit under the Exchange Act is accumulated and communicated to management of the Company, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure to be made; and (C) such disclosure controls and procedures are effective in all material respects to perform the functions for which they were established.

(xxxiv) There is and has been no failure on the part of the Company and any of the Company's directors or officers, in their capacities as such, to comply with the applicable provisions of the Sarbanes Oxley Act of 2002 (the "Sarbanes Oxley Act") and the rules and regulations promulgated thereunder.

(xxxv) The Company, KDA and Kohlberg Funding have such permits, licenses, patents, franchises, certificates of need and other approvals or authorizations of governmental or regulatory authorities ("Permits") as are necessary under applicable law to own their properties and conduct their businesses in the manner described in the Registration Statement and the Prospectus, except for any of the foregoing that would not, in the aggregate, reasonably be expected to have a Material Adverse Effect; each of the Company, KDA and Kohlberg Funding has fulfilled and performed all of its obligations with respect to the Permits, and no event has occurred that allows, or after notice or lapse of time would allow, revocation or termination thereof or results in any other impairment of the rights of the holder or any such Permits, except for any of the foregoing that would not reasonably be expected to have a Material Adverse Effect.

(xxxvi) The Company, KDA and Kohlberg Funding own or possess adequate rights to use all material patents, patent applications, trademarks, service marks, trade names, trademark registrations, service mark registrations, copyrights, licenses, know how, software, systems and technology (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures) necessary for the conduct of their respective businesses and have no reason to believe that the conduct of their respective businesses will conflict with, and have not received any notice of any claim of conflict with, any such rights of others.

(xxxvii) Neither the Company, KDA nor Kohlberg Funding is in violation of or has received notice of any violation with respect to any federal or state law relating

to discrimination in the hiring, promotion or pay of employees, nor any applicable federal or state wage and hour laws, nor any state law precluding the denial of credit due to the neighborhood in which a property is situated, the violation of any of which would reasonably be expected to have a Material Adverse Affect.

(xxxviii) KDA is not currently prohibited, directly or indirectly, under any agreement or other instrument to which it is a party or is subject, from paying any dividends to the Company, from making any other distribution on its limited liability company interests, from repaying to the Company any loans or advances to it from the Company or from transferring any of its property or assets to the Company, except as described in or contemplated in the Registration Statement and the Prospectus.

(xxxix) Neither the Company, KDA nor Kohlberg Funding, nor, to the knowledge of the Company, any director, officer, agent, employee or other person acting on behalf of the Company, KDA or Kohlberg Funding, has (A) used any corporate funds for any unlawful contribution, gift, entertainment or other unlawful expense relating to political activity; (B) made any direct or indirect unlawful payment to any foreign or domestic government official or employee from corporate funds; (C) violated or is in violation of any provision of the U.S. Foreign Corrupt Practices Act of 1977; or (D) made any bribe, rebate, payoff, influence payment, kickback or other unlawful payment.

(xl) The operations of the Company, KDA and Kohlberg Funding are and have been conducted at all times in compliance with applicable financial recordkeeping and reporting requirements of the Currency and Foreign Transactions Reporting Act of 1970, as amended, the money laundering statutes of all jurisdictions, the rules and regulations thereunder and any related or similar rules, regulations or guidelines, issued, administered or enforced by any governmental agency (collectively, the "Money Laundering Laws") and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company, KDA or Kohlberg Funding with respect to the Money Laundering Laws is pending or, to the knowledge of the Company, threatened, except, in each case, as would not reasonably be expected to have a Material Adverse Effect.

(xli) Neither the Company, KDA nor Kohlberg Funding nor, to the knowledge of the Company, any director, officer, agent, or employee of the Company, KDA or Kohlberg Funding is currently subject to any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Treasury Department ("OFAC"); and the Company will not directly or indirectly knowingly use the proceeds of the offering, or lend, contribute or otherwise knowingly make available such proceeds to any subsidiary, joint venture partner or other person or entity, for the purpose of financing the activities of any person currently subject to any U.S. sanctions administered by OFAC.

(xlii) The Company has not distributed and, prior to the completion of the distribution of the Underwritten Securities, will not distribute any offering material in connection with the offering and sale of the Underwritten Securities other than any Preliminary Prospectus, any Prospectus or any statement made in accordance with Rule 482 of the Securities Act Rules and Regulations (a "Rule 482 Statement") to which the Representatives have consented.

(xliii) The Company (A) has not taken, directly or indirectly, any action designed to cause or to result in, or that has constituted or which might reasonably be expected to constitute, the stabilization or manipulation of the price of any security of the Company to facilitate the sale of the Underwritten Securities; (B) has not since the filing of the Registration Statement sold, bid for or purchased, or paid anyone any compensation for soliciting purchases of, the Securities; and (C) will not, until the completion of the distribution (within the meaning of the anti-manipulation rules under the Exchange Act) of the Underwritten Securities, sell, bid for or purchase, pay or agree to pay to any person any compensation for soliciting another to purchase any other securities of the Company.

(xliv) [ ] have approved [ ] for inclusion, subject only to official notice of issuance and evidence of satisfactory distribution.

(b) Any certificate signed by any officer of the Company and delivered to the Underwriters in connection with the offering and sale of the Underwritten Securities shall be deemed a representation and warranty by the Company as to matters covered thereby to such Underwriters.

2. Purchase of the Underwritten Securities by the Underwriters.

(a) On the basis of the representations and warranties contained in, and subject to the terms and conditions of, this Agreement, the Company agrees to sell the Initial Securities to the several Underwriters, and each of the Underwriters, severally and not jointly, agrees to purchase the aggregate principal amount of the Initial Securities set forth opposite that Underwriter's name in Schedule 1 hereto. The respective purchase obligations of the Underwriters with respect to the Initial Securities shall be rounded among the Underwriters to avoid fractional securities, as the Representatives may determine.

(b) In addition, the Company grants to the Underwriters an option to purchase up to $[ ] additional aggregate principal amount of Option Securities. Such option is exercisable in the event that the Underwriters sell more securities than the aggregate principal amount of Initial Securities in the offering and as set forth in Section 4 hereof. Each Underwriter agrees, severally and not jointly, to purchase the aggregate principal amount of Option Securities (subject to such adjustments to eliminate fractional shares as the Representatives may determine) that bears the same proportion to the aggregate principal amount of Option Securities to be sold on such Delivery Date as the aggregate principal amount of Initial Securities set forth in Schedule 1 hereto opposite the name of such Underwriter bears to the aggregate principal amount of Initial Securities.

(c) The price of both the Initial Securities and any Option Securities purchased by the Underwriters shall be $[ ] per [ ]. The Company shall not be obligated to deliver any of the Initial Securities or Option Securities to be delivered on the applicable Delivery Date, except upon payment for all such Underwritten Securities to be purchased on such Delivery Date as provided herein.

3. Offering of Securities by the Underwriters. Upon authorization by the Representatives of the release of the Initial Securities, the several Underwriters propose to offer the Initial Securities for sale upon the terms and conditions to be set forth in the Prospectus.

4. Delivery of and Payment for the Underwritten Securities.

(a) Delivery of and payment for the Initial Securities shall be made at 10:00 A.M., New York City time, on the third full business day following the date of this Agreement or at such other date or place as shall be determined by agreement between the Representatives and the Company. This date and time are sometimes referred to as the "Initial Delivery Date." Delivery of the Initial Securities shall be made to the Representatives for the account of each Underwriter against payment by the several Underwriters through the Representatives of the aggregate purchase price of the Initial Securities being sold by the Company to or upon the order of the Company by wire transfer in immediately available funds to the accounts specified by the Company. Time shall be of the essence, and delivery at the time and place specified pursuant to this Agreement is a further condition of the obligation of each Underwriter hereunder. The Company shall deliver the Initial Securities through the facilities of the Depository Trust Company ("DTC") unless the Representatives shall otherwise instruct.

(b) The option granted in Section 2 will expire 30 days after the date of this Agreement and may be exercised in whole or in part on not more than one occasion by written notice being given to the Company by the Representatives; provided that if such date falls on a day that is not a business day, the option granted in Section 2 will expire on the next succeeding business day. Such notice shall set forth the aggregate principal amount of Option Securities as to which the option is being exercised, the names in which the Option Securities are to be registered, the denominations in which the Option Securities are to be issued and the date and time, as determined by the Representatives, when the Option Securities are to be delivered; provided, however, that this date and time shall not be earlier than the Initial Delivery Date nor earlier than the first business day after the date on which the option shall have been exercised nor later than the fifth business day after the date on which the option shall have been exercised. The date and time the Option Securities are delivered is sometimes referred to as an "Option Securities Delivery Date," and the Initial Delivery Date and any Option Securities Delivery Date are sometimes each referred to as a "Delivery Date."

(c) Delivery of the Option Securities by the Company and payment for the Option Securities by the several Underwriters through the Representatives shall be made at 10:00 A.M., New York City time, on the date specified in the corresponding notice described in the preceding paragraph or at such other date or place as shall be determined by agreement between the Representatives and the Company. On the Option Securities Delivery Date, the Company shall deliver or cause to be delivered the Option Securities to the Representatives for the account of each Underwriter against payment by the several Underwriters through the Representatives and of the aggregate purchase price of the Option Securities being sold by the Company to or upon the order of the Company of the purchase price by wire transfer in immediately available funds to the accounts specified by the Company. Time shall be of the essence, and delivery at the time and place specified pursuant to this Agreement is a further condition of the obligation of each Underwriter hereunder. The Company shall deliver the Option Securities through the facilities of DTC unless the Representatives shall otherwise instruct.

5. Further Agreements of the Company and the Underwriters.

(a) The Company agrees:

(i) During any period that a prospectus relating to the Underwritten Securities is required to be delivered under the Securities Act (but in any event through the applicable Delivery Date), (A) to comply with the requirements of Rule 415, Rule 430C and Rule 497 of the Securities Act Rules and Regulations; (B) to prepare the Prospectus in a form approved by the Representatives and to file such Prospectus pursuant to Rule 497 of the Securities Act Rules and Regulations not later than the Commission's close of business on the second business day following the execution and delivery of this Agreement; (C) to make no further amendment or any supplement to the Registration Statement or the Prospectus which shall be disapproved by the Representatives promptly after reasonable notice thereof (unless in the reasonable determination of the Company such amendment or supplement is required by applicable law); (D) to advise the Representatives, promptly after it receives notice thereof, of the time when any or amendment or supplement to the Registration Statement (including any filing pursuant to Rule 462(b) of the Securities Act Rules and Regulations) or the Prospectus has been filed and to furnish the Representatives with copies thereof; and (E) to advise the Representatives, promptly after it receives notice thereof of (i) the time when any post-effective amendment to the Registration Statement shall become effective; (ii) the receipt of any comments from the Commission; (iii) the request by the Commission for any amendment to the Registration Statement; (iv) the issuance by the Commission of any stop order or of any order preventing or suspending the use of the Prospectus; (v) the suspension of the qualification of the Underwritten Securities for offering or sale in any jurisdiction (vi) the initiation or threatening of any proceeding or examination for any such purpose; or (vii) any request by the Commission for the amending or supplementing of the Registration Statement, the Prospectus or for additional information related to the Registration Statement or the offering contemplated thereby; and, in the event of the issuance of any stop order or of any order preventing or suspending the use of the Prospectus suspending any such qualification, to use promptly its commercially reasonable best efforts to obtain its withdrawal;

(ii) To furnish promptly to the Representatives and to counsel for the Underwriters a signed copy of the Registration Statement as originally filed with the Commission, and each amendment thereto filed with the Commission, including all consents and exhibits filed therewith;

(iii) To deliver promptly to the Representatives such number of the following documents as the Representatives shall reasonably request: (A) conformed copies of the Registration Statement as originally filed with the Commission and each amendment thereto (in each case excluding exhibits other than this Agreement and the computation of per share earnings), (B) each Preliminary Prospectus, the Prospectus and any amended or supplemented Prospectus, (C) any Rule 482 Statement and (D) if the delivery of a Prospectus is required at any time after the date hereof in connection with the offering or sale of the Underwritten Securities or any other securities relating thereto and if at such time any events shall have occurred as a result of which the Prospectus as then

amended or supplemented would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they were made when such Prospectus is delivered, not misleading, or, if for any other reason it shall be necessary to amend or supplement the Prospectus in order to comply with the Securities Act, to notify the Representatives and, upon its request, to file such document and to prepare and furnish without charge to each Underwriter and to any dealer in securities as many copies as the Representatives may from time to time reasonably request of an amended or supplemented Prospectus that will correct such statement or omission or effect such compliance. The copies of the Registration Statement, any Preliminary Prospectus, Prospectus or amendment or supplement thereto furnished to the Underwriters will be identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, expect to the extent permitted by Regulation S-T;

(iv) To file promptly with the Commission any amendment or supplement to the Registration Statement or the Prospectus that may, in the reasonable judgment of the Company or the Representatives, be required by the Securities Act or requested by the Commission; prior to filing with the Commission any amendment or supplement to the Registration Statement or to the Prospectus, to furnish a copy thereof to the Representatives and counsel for the Underwriters;

(v) To use its commercially reasonable best efforts to comply with the Securities Act and the Rules and Regulations so as to permit the completion of the distribution of the Underwritten Securities as contemplated in this Agreement and in the Prospectus. If any time when a Prospectus is required by the Securities Act to be delivered in connection with the sale of the Underwritten Securities, any event shall occur or condition exist as a result of which it is necessary, in the opinion of counsel for the Underwriters or for the Company, to amend the Registration Statement or amend or supplement the Prospectus in order that the Prospectus will not include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein not misleading in light of the circumstances existing at the time it is delivered to the purchaser, or if it shall be necessary, in the opinion of such counsel, at any such time to amend the Registration Statement or amend or supplement the Prospectus in order to comply with the Securities Act or the Rules and Regulations, the Company will promptly prepare and file with the Commission, subject to 5(iv), such amendment or supplement as may be necessary to correct such statement or omission or to make the Registration Statement or the Prospectus comply with such requirements, and the Company will furnish to the Underwriters such number of copies of such amendment or supplement as the Underwriters may reasonably request;

(vi) If there occurs an event or development prior to the Initial Delivery Date as a result of which the Pricing Disclosure Package would include an untrue statement of a material fact or would omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading, to promptly notify the Underwriters so that any use of the Pricing Disclosure Package may cease until it is amended or supplemented (at the sole cost to the Company);

(vii) As soon as reasonably practicable after the Effective Date (it being understood that the Company shall have until at least 410 days or, if the fourth quarter following the fiscal quarter that includes the Effective Date is the last fiscal quarter of the Company's fiscal year, at least 455 days after the end of the Company's current fiscal quarter), to make generally available to the Company's security holders and to deliver to the Representatives an earnings statement of the Company and KDA (which need not be audited) complying with Section 11(a) of the Securities Act and the Rules and Regulations (including, at the option of the Company, Rule 158 of the Securities Act Rules and Regulations);

(viii) During the period during which the Prospectus is required to be delivered under the Securities Act, to file all documents required to be filed with the Commission pursuant to the Exchange Act within the time period required by the Exchange Act and the rules and regulations of the Commission thereunder;

(ix) Promptly from time to time to take such action as the Representatives may reasonably request to qualify the Underwritten Securities for offering and sale under the securities laws of such jurisdictions as the Representatives may request and to comply with such laws so as to permit the continuance of sales and dealings therein in such jurisdictions for as long as may be necessary to complete the distribution of the Underwritten Securities; provided that in connection therewith the Company shall not be required to (i) qualify as a foreign corporation in any jurisdiction in which it would not otherwise be required to so qualify, (ii) file a general consent to service of process in any such jurisdiction or (iii) subject itself to taxation in any jurisdiction in which it would not otherwise be subject;

(x) [For a period commencing on the date hereof and ending on the [ ] day after the date of the Prospectus, not to, directly or indirectly, (1) offer for sale, sell, pledge or otherwise dispose of (or enter into any transaction or device that is designed to, or could be expected to, result in the disposition by the Company at any time during such [ ]-day period) any shares of Common Stock or securities convertible into or exchangeable for Common Stock (other than shares issued pursuant to employee benefit plans, qualified stock option plans or other employee compensation plans existing on the date hereof or pursuant to currently outstanding options, warrants or rights), or sell or grant options, rights or warrants with respect to Common Stock or securities convertible into or exchangeable for Common Stock (other than the grant of options pursuant to any equity plans), (2) enter into any swap or other derivatives transaction that transfers to another, in whole or in part, any of the economic benefits or risks of ownership of such Common Stock, whether any such transaction described in clause (1) or (2) above is to be settled by delivery of Common Stock or other securities, in cash or otherwise, (3) file or cause to be filed a registration statement, including any amendments, with respect to the registration of any shares of Common Stock or securities convertible, exercisable or exchangeable into Common Stock or any other securities of the Company, or (4) publicly disclose the intention to do any of the foregoing, in each case without the prior written consent of [ ] on behalf of the Underwriters; notwithstanding the foregoing, if (1) during the last [ ] days of such [ ]-day period, the Company issues an earnings release or material news or a material event relating to the

Company occurs or (2) prior to the expiration of such [ ]-day period, the Company announces that it will release earnings results during the [ ]-day period beginning on the last day of the Lock Up Period, then the restrictions imposed in the preceding paragraph shall continue to apply until the expiration of the [ ]-day period beginning on the issuance of the earnings release or the announcement of the material news or the occurrence of the material event, unless [ ], on behalf of the Underwriters, waive such extension in writing;]

(xi) For a period commencing on the date hereof and ending on the [ ] day after the date of the Prospectus (the "Lock Up Period"), not to, directly or indirectly, (1) offer for sale, sell, pledge or otherwise dispose of (or enter into any transaction or device that is designed to, or could be expected to, result in the disposition by the Company at any time during such [ ]-day period) any Underwritten Securities or securities convertible into or exchangeable for Underwritten Securities (other than those issued pursuant to compensation plans existing on the date hereof or pursuant to currently outstanding options, warrants or rights), or sell or grant options, rights or warrants with respect to any Underwritten Securities or securities convertible into or exchangeable for Underwritten Securities, (2) enter into any swap or other derivatives transaction that transfers to another, in whole or in part, any of the economic benefits or risks of ownership of such Underwritten Securities, whether any such transaction described in clause (1) or (2) above is to be settled by delivery of Underwritten Securities or other securities, in cash or otherwise, (3) file or cause to be filed a registration statement, including any amendments, with respect to the registration of any Underwritten Securities or securities convertible, exercisable or exchangeable into Underwritten Securities or any other securities of the Company, or (4) publicly disclose the intention to do any of the foregoing, in each case without the prior written consent of [ ] on behalf of the Underwriters, and to cause each officer, director and stockholder of the Company set forth on Schedule 2 hereto to furnish to the Representatives, prior to the Initial Delivery Date, a letter or letters, substantially in the form of Exhibit A hereto (the "Lock Up Agreements") relating to the lock-up periods shown on Schedule 2 hereto; notwithstanding the foregoing, if (1) during the last [ ] days of the Lock Up Period, the Company issues an earnings release or material news or a material event relating to the Company occurs or (2) prior to the expiration of the Lock Up Period, the Company announces that it will release earnings results during the [ ]-day period beginning on the last day of the Lock Up Period, then the restrictions imposed in the preceding paragraph shall continue to apply until the expiration of the [ ]-day period beginning on the issuance of the earnings release or the announcement of the material news or the occurrence of the material event, unless [ ], on behalf of the Underwriters, waives such extension in writing;

(xii) To apply the net proceeds from the sale of the Underwritten Securities being sold by the Company as set forth in the Prospectus and the General Disclosure Package under "Use of Proceeds";

(xiii) To use it commercially reasonable efforts to effect and maintain its qualification of [ ] on [ ];

(xiv) When and to the extent required by law, comply in all material respects with all applicable securities and other laws, rules and regulations, including without limitation, the Sarbanes Oxley Act, and will use their best efforts to cause their respective officers, directors, trustees, employees and partners, in their capacities as such, to comply in all material respects with such laws, rules and regulations, including without limitation, the Sarbanes Oxley Act;

(xv) To, during a period of at least 12 months from the Initial Delivery Date, use its commercially reasonable efforts to maintain its status as a BDC under the Investment Company Act; provided, however, the Company may cease to be, or withdraw its election as a BDC under the Investment Company Act, with the approval of its board of directors and a vote of its stockholders as required by Section 58 of the Investment Company Act, or a successor provision;

(xvi) To use its commercially reasonable efforts to maintain its qualification as a RIC under the Code for each taxable year during which it is a BDC under the Investment Company Act;

(xvii) To cooperate with the Representatives and use its commercially reasonable efforts to permit the Underwritten Securities to be eligible for clearance and settlement through the facilities of DTC; and

(xviii) At all times, to reserve and keep available, free of preemptive rights, enough shares of Common Stock for the purpose of enabling the Company to satisfy any obligations to issue shares of Common Stock upon conversion of the Underwritten Securities.

6. Expenses. The Company agrees, whether or not the transactions contemplated by this Agreement are consummated or this Agreement is terminated, to pay all costs, expenses, fees and taxes incident to and in connection with (a) the authorization, issuance, sale and delivery of the Underwritten Securities, involving any stamp or transfer taxes in connection with the original issuance and sale of the Underwritten Securities and any Warrant Securities issuable upon exercise of the Debt Warrants, and the preparation and printing of certificates for the foregoing; (b) the preparation, printing and filing under the Securities Act of the Registration Statement (including any exhibits thereto), any Preliminary Prospectus, the Prospectus and any amendment or supplement thereto; (c) the distribution of the Registration Statement (including any exhibits thereto), any Preliminary Prospectus, the Prospectus and any amendment or supplement thereto, all as provided in this Agreement; (d) the production and distribution of this Agreement, any supplemental agreement among Underwriters, the Indenture, any other related documents in connection with the offering, purchase, sale and delivery of the Underwritten Securities and, if applicable, the Warrant Agreement; (e) any required review by the FINRA of the terms of sale of the Underwritten Securities (including related fees and expenses of counsel to the Underwriters not to exceed $[ ] in the aggregate); (f) the inclusion of the Underwritten Securities or, if applicable, any Warrant Securities on [ ]; (g) the qualification of the Underwritten Securities under the securities laws of the several jurisdictions as provided in Section 5(ix) and the preparation, printing and distribution of a blue sky memorandum (including related fees and expenses of counsel to the Underwriters); (h) the investor presentations on any “road show” undertaken in connection with the marketing of the Underwritten Securities, including, without limitation, expenses associated with any electronic roadshow, travel and lodging expenses of the officers of the Company and one-half of the cost of any aircraft chartered in connection with the road show; and (i) all other costs and expenses incident to the performance of the obligations of

the Company under this Agreement and any transfer taxes payable in connection with its sales of Underwritten Securities to the Underwriters, provided that, except as provided in this Section 6 and Section 11, the Underwriters shall pay their own costs and expenses, including the costs and expenses of their counsel, any transfer taxes on the Underwritten Securities which they may sell and the expenses of advertising any such offering of the Underwritten Securities made by the Underwriters, and the travel and lodging expenses of the Underwriters and one-half the cost of any aircraft chartered in connection with the roadshow.

7. Conditions of Underwriters' Obligations. The respective obligations of the Underwriters hereunder are subject to the accuracy, when made and on each Delivery Date, of the representations and warranties of the Company contained herein, to the performance by the Company of its obligations hereunder, and to each of the following additional terms and conditions:

(a) The Registration Statement (including any filing pursuant to Rule 462(b) of the Securities Act Rules and Regulations), has become effective; no stop order suspending the effectiveness of the Registration Statement or preventing or suspending the use of the Prospectus shall have been issued and no proceeding or examination for such purpose shall have been initiated or threatened by the Commission; and any request of the Commission for inclusion of additional information in the Registration Statement or the Prospectus or otherwise shall have been complied with. A prospectus containing the Rule 430C Information shall have been filed with the Commission in accordance with Rule 497 of the Securities Act Rules and Regulations.

(b) No Underwriter shall have discovered and disclosed to the Company on or prior to such Delivery Date that the Registration Statement, the Prospectus or the Pricing Disclosure Package, or any amendment or supplement thereto, contains an untrue statement of a fact which, in the opinion of [ ], counsel for the Underwriters, is material or omits to state a fact which, in the opinion of such counsel, is material and is required to be stated therein or is necessary to make the statements therein not misleading.

(c) All corporate proceedings and other legal matters incident to the authorization, form and validity of this Agreement, the Underwritten Securities, the Registration Statement and the Prospectus, and all other legal matters relating to this Agreement and the transactions contemplated hereby shall be reasonably satisfactory in all material respects to counsel for the Underwriters, and the Company shall have furnished to such counsel all documents and information that they may reasonably request to enable them to pass upon such matters.

(d) Ropes & Gray LLP shall have furnished to the Representatives its written opinion, as counsel to the Company, addressed to the Underwriters and dated such Delivery Date, in form and substance reasonably satisfactory to the Representatives, and covering the matters substantially in the form attached hereto as Exhibit B-1, along with its negative assurance letter substantially in the form attached hereto as Exhibit B-2.

(e) The Representatives shall have received from [ ], counsel for the Underwriters, such opinion or opinions, dated such Delivery Date, with respect to the issuance and sale of the Underwritten Securities, the Registration Statement, the Prospectus and the Pricing Disclosure Package and other related matters as the Representatives may reasonably require, and the Company shall have furnished to such counsel such documents as they reasonably request for the purpose of enabling them to pass upon such matters.

(f) At the time of execution of this Agreement, the Representatives shall have received from [ ] a letter, in form and substance satisfactory to the Representatives, addressed to the Underwriters and dated the date hereof (i) confirming that they are independent public accountants within the meaning of the Securities Act and are in compliance with the applicable requirements relating to the qualification of accountants under Rule 2-01 of Regulation S-X of the Commission and (ii) stating, as of the date hereof (or, with respect to matters involving changes or developments since the respective dates as of which specified financial information is given in the most recent Preliminary Prospectus, as of a date not more than three days prior to the date hereof), the conclusions and findings of such firm with respect to the financial information and other matters ordinarily covered by accountants' "comfort letters" to underwriters in connection with registered public offerings.

(g) With respect to the letter of [ ] referred to in the preceding paragraph and delivered to the Representatives concurrently with the execution of this Agreement (the "initial letter"), the Company shall have caused [ ] to furnish to the Representatives a letter (the "bring down letter") of such accountants, addressed to the Underwriters and dated such Delivery Date (i) confirming that they are independent public accountants within the meaning of the Securities Act and are in compliance with the applicable requirements relating to the qualification of accountants under Rule 2-01 of Regulation S-X of the Commission, (ii) stating, as of the date of the bring down letter (or, with respect to matters involving changes or developments since the respective dates as of which specified financial information is given in the Prospectus, as of a date not more than three days prior to the date of the bring down letter), the conclusions and findings of such firm with respect to the financial information and other matters covered by the initial letter and (iii) confirming in all material respects the conclusions and findings set forth in the initial letter.

(h) The Company shall have furnished to the Representatives a certificate, dated such Delivery Date, executed on its behalf by its (a) Chief Executive Officer or President or equivalent officer (or other authorized officer) and (b) its Chief Financial Officer or equivalent officer (or other authorized officer) stating that:

(i) The representations, warranties and agreements of the Company in Section 1 are true and correct on and as of such Delivery Date, except for any such representation or warranty that speaks only as of an earlier date or time, which is true and correct as of such earlier specified date and time, and the Company has complied in all material respects with all its agreements contained herein and satisfied all the conditions on its part to be performed or satisfied hereunder at or prior to such Delivery Date;

(ii) No stop order suspending the effectiveness of the Registration Statement has been issued; and no proceedings or examination for that purpose have been instituted or, to the knowledge of such officers, threatened; and

(iii) They have reviewed the Registration Statement, the Prospectus and the General Disclosure Package, and, in their opinion, (A) (1) the Registration Statement, as of the Effective Date, (2) the Prospectus, as of its date and on the applicable Delivery Date, or (3) the General Disclosure Package, as of the Applicable Time, did not and do not contain any untrue statement of a material fact and did not and do not omit to state a material fact required to be stated therein or

necessary to make the statements therein (except in the case of the Registration Statement, in light of the circumstances under which they were made) not misleading and (B) since the Effective Date, no event has occurred that is required to be set forth and which has not been set forth in a supplement or amendment to the Registration Statement or the Prospectus;

(i) Prior to such Delivery Date, the Company and KDA shall have furnished to the Representatives such further information, certificates and documents as the Representatives may reasonably request.

(j) (A) Neither the Company nor KDA shall have sustained since the date of their respective formation, any loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree or (B) since such date there shall not have been any change in the capital stock (except as otherwise disclosed in the Preliminary Prospectus) or long term debt of the Company or KDA or any change, or any development involving a prospective change, in or affecting the condition (financial or otherwise), results of operations, stockholders' equity, properties, management, business or prospects of the Company and KDA taken as a whole, the effect of which, in any such case described in clause (A) or (B), is, in the judgment of the Representatives, so material and adverse as to make it impracticable or inadvisable to proceed with the public offering or the delivery of the Underwritten Securities being delivered on such Delivery Date on the terms and in the manner contemplated in the Prospectus.

(k) Subsequent to the execution and delivery of this Agreement there shall not have occurred any of the following: (i) trading in securities generally on the New York Stock Exchange, The NASDAQ Global Select Market or the American Stock Exchange, or trading in any securities of the Company on any exchange, shall have been suspended or materially limited or the settlement of such trading generally shall have been materially disrupted or minimum prices shall have been established on any such exchange by the Commission, by such exchange or by any other regulatory body or governmental authority having jurisdiction, (ii) a banking moratorium shall have been declared by United States Federal or state authorities, (iii) the United States shall have become engaged in hostilities, there shall have been an escalation in hostilities involving the United States or there shall have been a declaration of a national emergency or war by the United States or (iv) there shall have occurred such a material adverse change in general economic, political or financial conditions, including, without limitation, as a result of terrorist activities after the date hereof (or the effect of international conditions on the financial markets in the United States shall be such), as to make it, in the judgment of the Representatives, impracticable or inadvisable to proceed with the public offering or delivery of the Underwritten Securities being delivered on such Delivery Date on the terms and in the manner contemplated in the Prospectus.

(l) [ ] shall have approved [ ] for inclusion, subject only to official notice of issuance and evidence of satisfactory distribution.

(m) The Lock Up Agreements, in substantially the form attached hereto as Exhibit A, between the Representatives and the officers, directors and stockholders of the Company set forth on Schedule 2, delivered to the Representatives on or before the date of this Agreement, shall be in full force and effect on such Delivery Date.

(n) At or prior to the Initial Delivery Date, the Company and the Trustee shall have executed and delivered the Indenture.

(o) [On the applicable Delivery Date, the Underwritten Securities shall be rated at least by [ ], and since the date of this Agreement there shall not have occurred a downgrading in the rating assigned to the Underwritten Securities by any "nationally recognized statistical rating agency," as that term is defined by the Commission for purposes of Rule 436(g)(2) of the Securities Act Rules and Regulations, and no such organization shall have publicly announced it has under surveillance or review its rating of the Underwritten Securities.]

All opinions, letters, evidence and certificates mentioned above or elsewhere in this Agreement shall be deemed to be in compliance with the provisions hereof only if they are in form and substance reasonably satisfactory to counsel for the Underwriters.

8. Indemnification and Contribution.

(a) The Company shall indemnify and hold harmless each Underwriter, its directors, officers and employees and each person, if any, who controls any Underwriter within the meaning of Section 15 of the Securities Act, from and against any loss, claim, damage or liability, joint or several, or any action in respect thereof (including, but not limited to, any loss, claim, damage, liability or action relating to purchases and sales of Underwritten Securities), to which that Underwriter, director, officer, employee or controlling person may become subject, under the Securities Act or otherwise, insofar as such loss, claim, damage, liability or action arises out of, or is based upon, (i) any untrue statement or alleged untrue statement of a material fact contained in (A) any Preliminary Prospectus, the Registration Statement, the Prospectus or in any amendment or supplement thereto, including the Rule 430C Information (including the information on Schedule B hereto), or the General Disclosure Package; (B) any Rule 482 Statement; (C) any Marketing Materials or (D) any Blue Sky application or other document prepared or executed by the Company (or based upon any written information furnished by the Company for use therein) specifically for the purpose of qualifying any or all of the Underwritten Securities under the securities laws of any state or other jurisdiction (any such application, document or information being hereinafter called a "Blue Sky Application"), (ii) the omission or alleged omission to state in any Preliminary Prospectus, the Registration Statement, the Prospectus or in any amendment or supplement thereto, including the Rule 430C Information (including the information on Schedule B hereto), the General Disclosure Package, any Rule 482 Statement, any Marketing Materials or any Blue Sky Application, any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made in the case of any Preliminary Prospectus or Rule 482 Statement, or any amendment or supplement thereto, not misleading or (iii) any act or failure to act or any alleged act or failure to act by any Underwriter in connection with, or relating in any manner to, the Underwritten Securities or the offering contemplated hereby, and which is included as part of or referred to in any loss, claim, damage, liability or action arising out of or based upon matters covered by clause (i) or (ii) above (provided that the Company shall not be liable under this clause (iii) to the extent that it is determined in a final judgment by a court of competent jurisdiction that such loss, claim, damage, liability or action resulted directly from any such acts or failures to act undertaken or omitted to be taken by such Underwriter through its gross negligence or willful misconduct), and shall reimburse each Underwriter and each such director, officer, employee or controlling person promptly upon demand for any legal or other expenses reasonably incurred by that Underwriter,

director, officer, employee or controlling person in connection with investigating or defending or preparing to defend against any such loss, claim, damage, liability or action as such expenses are incurred; provided, however, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage, liability or action arises out of, or is based upon, any untrue statement or alleged untrue statement or omission or alleged omission made in any Preliminary Prospectus, the Registration Statement, the Prospectus, or in any such amendment or supplement thereto, including the Rule 430C Information (including the information on Schedule B hereto), the General Disclosure Package, any Rule 482 Statement, any Marketing Materials or any Blue Sky Application, in reliance upon and in conformity with written information furnished to the Company through the Representative by or on behalf of any Underwriter specifically for inclusion therein, which information is limited to the information set forth in Section 8(e). The foregoing indemnity agreement is in addition to any liability which the Company may otherwise have to any Underwriter or to any director, officer, employee or controlling person of that Underwriter.

(b) Each Underwriter, severally and not jointly, shall indemnify and hold harmless the Company, its respective directors (including any person who, with his or her consent, is named in the Registration Statement as about to become a director of the Company), officers and employees, and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act, from and against any loss, claim, damage or liability, joint or several, or any action in respect thereof, to which the Company or any such director, officer, employee or controlling person may become subject, under the Securities Act or otherwise, insofar as such loss, claim, damage, liability or action arises out of, or is based upon, (i) any untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, the Registration Statement, the Prospectus, or in any amendment or supplement thereto, including the Rule 430C Information (including the information on Schedule B hereto), the General Disclosure Package, any Rule 482 Statement, any Marketing Materials or Blue Sky Application, or (ii) the omission or alleged omission to state in any Preliminary Prospectus, the Registration Statement, the Prospectus, or in any amendment or supplement thereto, the Rule 430C Information (including the information on Schedule B hereto), the General Disclosure Package, any Rule 482 Statement, any Marketing Materials or Blue Sky Application, any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made in the case of any Preliminary Prospectus or Rule 482 Statement, or any amendment or supplement thereto, not misleading, but in each case only to the extent that the untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information concerning such Underwriter furnished to the Company through the Representative by or on behalf of that Underwriter specifically for inclusion therein, which information is limited to the information set forth in Section 8(e). The foregoing indemnity agreement is in addition to any liability that any Underwriter may otherwise have to the Company or any such director, officer, employee or controlling person.

(c) Promptly after receipt by an indemnified party under this Section 8 of notice of any claim or the commencement of any action, the indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party under this Section 8, notify the indemnifying party in writing of the claim or the commencement of that action; provided, however, that the failure to notify the indemnifying party shall not relieve it from any liability which it may have under this Section 8 except to the extent it has been materially prejudiced by such failure and, provided, further, that the failure to notify the

indemnifying party shall not relieve it from any liability which it may have to an indemnified party otherwise than under this Section 8. If any such claim or action shall be brought against an indemnified party, and it shall notify the indemnifying party thereof, the indemnifying party shall be entitled to participate therein and, to the extent that it wishes, jointly with any other similarly notified indemnifying party, to assume the defense thereof with counsel reasonably satisfactory to the indemnified party. After notice from the indemnifying party to the indemnified party of its election to assume the defense of such claim or action, the indemnifying party shall not be liable to the indemnified party under this Section 8 for any legal or other expenses subsequently incurred by the indemnified party in connection with the defense thereof other than reasonable costs of investigation; provided, however, that the Representative shall have the right to employ counsel to represent jointly the Representative and those other Underwriters and their respective directors, officers, employees and controlling persons who may be subject to liability arising out of any claim in respect of which indemnity may be sought by the Underwriters against the Company under this Section 8 if (i) the Company and the Underwriters shall have so mutually agreed; (ii) the Company has failed within a reasonable time to retain counsel reasonably satisfactory to the Underwriters; (iii) the Underwriters and their respective directors, officers, employees and controlling persons shall have reasonably concluded based upon the advice of counsel that there may be legal defenses available to them that are different from or in addition to those available to the Company; or (iv) the named parties in any such proceeding (including any impleaded parties) include both the Underwriters or their respective directors, officers, employees or controlling persons, on the one hand, and the Company, on the other hand, and representation of both sets of parties by the same counsel would be inappropriate due to actual or potential differing interests between them, and in any such event the fees and expenses of such separate counsel shall be paid by the Company. No indemnifying party shall (i) without the prior written consent of the indemnified parties (which consent shall not be unreasonably withheld), settle or compromise or consent to the entry of any judgment with respect to any pending or threatened claim, action, suit or proceeding in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified parties are actual or potential parties to such claim or action) unless such settlement, compromise or consent includes an unconditional release of each indemnified party from all liability arising out of such claim, action, suit or proceeding and does not include any findings of fact or admissions of fault or culpability as to the indemnified party or (ii) be liable for any settlement of any such action effected without its written consent (which consent shall not be unreasonably withheld), but if settled with the consent of the indemnifying party or if there be a final judgment for the plaintiff in any such action, the indemnifying party agrees to indemnify and hold harmless any indemnified party from and against any loss or liability by reason of such settlement or judgment.

(d) If the indemnification provided for in this Section 8 shall for any reason be unavailable or insufficient to hold harmless an indemnified party under Section 8(a) or 8(b) in respect of any loss, claim, damage or liability, or any action in respect thereof, referred to therein, then each indemnifying party shall, in lieu of indemnifying such indemnified party, contribute to the amount paid or payable by such indemnified party as a result of such loss, claim, damage liability or action in respect thereof, (i) in such proportion as shall be appropriate to reflect the relative benefits received by the Company, on the one hand, and the Underwriters, on the other, from the offering of the Underwritten Securities or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i)

above but also the relative fault of the Company, on the one hand, and the Underwriters, on the other, with respect to the statements or omissions that resulted in such loss, claim, damage, liability or action in respect thereof, as well as any other relevant equitable considerations. The relative benefits received by the Company, on the one hand, and the Underwriters, on the other, with respect to such offering shall be deemed to be in the same proportion as the total net proceeds from the offering of the Underwritten Securities purchased under this Agreement (before deducting expenses) received by the Company, as set forth in the table on the cover page of the Prospectus, on the one hand, and the total underwriting discounts and commissions received by the Underwriters with respect to the shares of the Underwritten Securities purchased under this Agreement, as set forth in the table on the cover page of the Prospectus, on the other hand. The relative fault shall be determined by reference to whether the untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the Company or the Underwriters, the intent of the parties and their relative knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Underwriters agree that it would not be just and equitable if contributions pursuant to this Section 8(d) were to be determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation that does not take into account the equitable considerations referred to herein. The amount paid or payable by an indemnified party as a result of the loss, claim, damage liability or action in respect thereof, referred to above in this Section 8(d) shall be deemed to include, for purposes of this Section 8(d), any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 8(d), no Underwriter shall be required to contribute any amount in excess of the amount by which the net proceeds from the sale of the Underwritten Securities underwritten by it exceeds the amount of any damages that such Underwriter has otherwise paid or become liable to pay by reason of any untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations to contribute as provided in this Section 8(d) are several in proportion to their respective underwriting obligations and not joint.

(e) The Underwriters severally confirm and the Company acknowledges and agrees that the statements regarding delivery of the aggregate principal amount of the Underwritten Securities by the Underwriters set forth on the cover page of the Preliminary Prospectus and the Registration Statement, the concession and reallowance figures by the Underwriters and the aggregate principal amount of the Underwritten Securities being purchased by such Underwriters, and the paragraphs appearing under the headings "Stabilization and Short Positions" and "Electronic Distribution" in the "Underwriting" section of the most recent Preliminary Prospectus and the Prospectus are correct and constitute the only information concerning such Underwriters furnished in writing to the Company by or on behalf of the Underwriters specifically for inclusion in any Preliminary Prospectus, the Registration Statement, the Pricing Disclosure Package, the Prospectus or in any amendment or supplement thereto, including the Rule 430C Information, any Rule 482 Statement, any Marketing Materials or Blue Sky Application.

9. Defaulting Underwriters. If, on any Delivery Date, any Underwriter defaults in the performance of its obligations under this Agreement, the remaining non defaulting Underwriters shall be obligated to purchase the Underwritten Securities as to which such defaulting Underwriter failed

to deliver payment on such Delivery Date in the respective proportions which the aggregate principal amount of the Initial Securities set forth opposite the name of each remaining non defaulting Underwriter in Schedule 1 hereto bears to the aggregate principal amount of the Initial Securities set forth opposite the names of all the remaining non defaulting Underwriters in Schedule 1 hereto; provided, however, that the remaining non defaulting Underwriters shall not be obligated to purchase any of the Underwritten Securities on such Delivery Date if the aggregate principal amount of the Underwritten Securities as to which the defaulting Underwriter failed to deliver payment on such date exceeds [ ]% of the aggregate principal amount of the Underwritten Securities to be delivered on such Delivery Date, and any remaining non defaulting Underwriter shall not be obligated to purchase more than [ ]% of the aggregate principal amount of the Underwritten Securities that it agreed to purchase on such Delivery Date pursuant to the terms of Section 2. If the foregoing maximums are exceeded, the remaining non defaulting Underwriters, or those other underwriters satisfactory to the Representatives who so agree, shall have the right, but shall not be obligated, to purchase, in such proportion as may be agreed upon among them, all the Underwritten Securities to be purchased on such Delivery Date. If the remaining Underwriters or other underwriters satisfactory to the Representatives do not elect to purchase the shares as to which the defaulting Underwriter or Underwriters agreed but failed to deliver payment on such Delivery Date, this Agreement (or, with respect to any Option Securities Delivery Date, the obligation of the Underwriters to purchase, and of the Company to sell, the Option Securities) shall terminate without liability on the part of any non defaulting Underwriter or the Company, except that the Company will continue to be liable for the payment of expenses to the extent set forth in Sections 6 and 11. As used in this Agreement, the term "Underwriter" includes, for all purposes of this Agreement unless the context requires otherwise, any party not listed in Schedule 1 hereto that, pursuant to this Section 9, purchases Underwritten Securities that a defaulting Underwriter agreed but failed to purchase. Nothing contained herein shall relieve a defaulting Underwriter of any liability it may have to the Company for damages caused by its default. If other Underwriters are obligated or agree to purchase the Underwritten Securities of a defaulting or withdrawing Underwriter, either the Representatives or the Company may postpone the Delivery Date for up to seven full business days in order to effect any changes that in the opinion of counsel for the Company or counsel for the Underwriters may be necessary in the Registration Statement, the Prospectus or in any other document or arrangement. For purposes of this Section 9 only, if the Underwritten Securities as to which such defaulting Underwriter failed to deliver payment on such Delivery Date include Debt Warrants, the aggregate amount or aggregate principal amount of Underwritten Securities shall mean the aggregate principal amount of any Underwritten Securities plus the public offering price of any Debt Warrants included in the relevant Underwritten Securities.

10. Termination. The obligations of the Underwriters hereunder may be terminated by the Representatives by notice given to and received by the Company prior to delivery of and payment for the Initial Securities if, prior to that time, any of the events described in Sections 7(j) and 7(k) shall have occurred or if the Underwriters shall decline to purchase the Underwritten Securities for any reason permitted under this Agreement.

11. Reimbursement of Underwriters' Expenses. If (a) the Company shall fail to tender the Underwritten Securities for delivery to the Underwriters by reason of any failure, refusal or inability on the part of the Company to perform any agreement on its part to be performed, or because any other condition to the Underwriters' obligations hereunder required to be fulfilled by the Company is not fulfilled for any reason or (b) the Underwriters shall decline to purchase the Underwritten Securities for any reason permitted under this Agreement, the Company will reimburse the Underwriters for all reasonable out of pocket expenses (including fees and disbursements of counsel) incurred by the Underwriters in connection with this Agreement and

the proposed purchase of the Underwritten Securities, and upon demand the Company shall pay the full amount thereof to the Representatives. If this Agreement is terminated pursuant to Section 9 by reason of the default of one or more Underwriters, the Company shall not be obligated to reimburse any defaulting Underwriter on account of those expenses.

12. Research Analyst Independence. The Company acknowledges that the Underwriters' research analysts and research departments are required to be independent from their respective investment banking divisions and are subject to certain regulations and internal policies, and that such Underwriters' research analysts may hold views and make statements or investment recommendations and/or publish research reports with respect to the Company and/or the offering that differ from the views of their respective investment banking divisions. The Company hereby waives and releases, to the fullest extent permitted by law, any claims that the Company may have against the Underwriters with respect to any conflict of interest that may arise from the fact that the views expressed by their independent research analysts and research departments may be different from or inconsistent with the views or advice communicated to the Company by such Underwriters' investment banking divisions. The Company acknowledges that each of the Underwriters is a full service securities firm and as such from time to time, subject to applicable securities laws, may effect transactions for its own account or the account of its customers and hold long or short positions in debt or equity securities of the companies that may be the subject of the transactions contemplated by this Agreement.

13. No Fiduciary Duty. The Company acknowledges and agrees that in connection with this offering, sale of the Underwritten Securities or any other services the Underwriters may be deemed to be providing hereunder, notwithstanding any preexisting relationship, advisory or otherwise, between the parties or any oral representations or assurances previously or subsequently made by the Underwriters: (i) no fiduciary or agency relationship between the Company and any other person, on the one hand, and the Underwriters, on the other, exists; (ii) the Underwriters are not acting as advisors, expert or otherwise, to the Company, including, without limitation, with respect to the determination of the public offering price of the Underwritten Securities, and such relationship between the Company, on the one hand, and the Underwriters, on the other, is entirely and solely commercial, based on arms length negotiations; (iii) any duties and obligations that the Underwriters may have to the Company shall be limited to those duties and obligations specifically stated herein; and (iv) the Underwriters and their respective affiliates may have interests that differ from those of the Company. The Company hereby waives any claims that the Company may have against the Underwriters with respect to any breach of fiduciary duty in connection with this offering.

14. Notices. All statements, requests, notices and agreements hereunder shall be in writing, and:

(a) if to the Underwriters, shall be delivered or sent by mail or facsimile transmission to:

[ ]

With a copy (for informational purposes only) to:

[ ]

And in the case of any notice pursuant to Section 7(d), a copy to:

[ ]

(b) if to the Company, shall be delivered or sent by mail or facsimile transmission to:

Kohlberg Capital Corporation
295 Madison Avenue, 6th Floor
New York, New York 10017
Attention: Michael I. Wirth
Facsimile: (212) 455-8300

With a copy (for informational purposes only) to:

Ropes & Gray LLP
One International Place
Boston, Massachusetts 02110
Attention: Craig E. Marcus, Esq.
Facsimile: (617) 951-7050

Any such statements, requests, notices or agreements shall take effect at the time of receipt thereof. The Company shall be entitled to act and rely upon any request, consent, notice or agreement given or made on behalf of the Underwriters by [ ] on behalf of the Representatives.

15. Persons Entitled to Benefit of Agreement. This Agreement shall inure to the benefit of and be binding upon the Underwriters, the Company, and their respective successors. This Agreement and the terms and provisions hereof are for the sole benefit of only those persons, except that (A) the representations, warranties, indemnities and agreements of the Company contained in this Agreement shall also be deemed to be for the benefit of the directors, officers and employees of the Underwriters and each person or persons, if any, who control any Underwriter within the meaning of Section 15 of the Securities Act and (B) the indemnity agreement of the Underwriters contained in Section 8(b) of this Agreement shall be deemed to be for the benefit of the directors of the Company, the officers of the Company who have signed the Registration Statement and any person controlling the Company within the meaning of Section 15 of the Securities Act. Nothing in this Agreement is intended or shall be construed to give any person, other than the persons referred to in this Section 15, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision contained herein.

16. Survival. The respective indemnities, representations, warranties and agreements of the Company and the Underwriters contained in this Agreement or made by or on behalf of them, respectively, pursuant to this Agreement, shall survive the delivery of and payment for the Underwritten Securities and shall remain in full force and effect, regardless of any investigation made by or on behalf of any of them or any person controlling any of them.

17. Definition of the Terms "Business Day" and "Subsidiary." For purposes of this Agreement, (a) "business day" means each Monday, Tuesday, Wednesday, Thursday or Friday that is not a day on which banking institutions in New York are generally authorized or obligated by law or executive order to close and (b) "subsidiary" has the meaning set forth in Rule 405 of the Securities Act Rules and Regulations.

18. Governing Law. **This Agreement shall be governed by and construed in accordance with the laws of the State of New York.**

19. Counterparts. This Agreement may be executed in one or more counterparts and, if executed in more than one counterpart, the executed counterparts shall each be deemed to be an original but all such counterparts shall together constitute one and the same instrument.

20. Headings. The headings herein are inserted for convenience of reference only and are not intended to be part of, or to affect the meaning or interpretation of, this Agreement.

[Remainder of Page Intentionally Left Blank.]

If the foregoing correctly sets forth the agreement between the Company and the Underwriters, please indicate your acceptance in the space provided for that purpose below.

Very truly yours,

KOHLBERG CAPITAL CORPORATION

By: _____
Name:
Title:

Accepted:

For itself and as Representative
of the several Underwriters named
in Schedule 1 hereto

By: _____
Authorized Representative

Exhibit h.3

Up to [ ] Shares of Common Stock
Issuable Upon Exercise of [Transferable] Rights
to Subscribe for such Shares

DEALER MANAGER AGREEMENT

New York, New York
[ ]

[ ]

Ladies and Gentlemen:

Kohlberg Capital Corporation, a Delaware corporation (the "Company"), hereby confirms the agreement with and appointment of each of [ ] to act as a dealer manager (each a "Dealer Manager" and, collectively, the "Deal Managers") in connection with the issuance by the Company to the holders of record (the "Record Date Stockholders") at the close of business on the record date set forth in the Prospectus (as defined herein) (the "Record Date") [transferable] rights entitling such Record Date Stockholders [, and any transferees of rights thereof] (such [transferees and the] Record Date Stockholders, collectively, the "Holders"), to collectively subscribe for up to [ ] shares (each a "Share" and, collectively, the "Shares") of common stock, par value $0.01 per share (the "Common Shares"), of the Company (the "Offer"). Pursuant to the terms of the Offer, the Company is issuing each Record Date Stockholder one [transferable] right (each a "Right" and, collectively, the "Rights") for each [ ] ([ ]) Common Shares held by such Record Date Stockholder on the Record Date. Such Rights entitle their holders to acquire during the subscription period set forth in the Prospectus (the "Subscription Period"), at the price of [ ]% of the volume-weighted average of the sales prices of a share of the Company's Common Shares on The NASDAQ Global Select Market for the [ ] consecutive trading days ending on the Expiration Date (as hereinafter defined) (the "Subscription Price"), [ ] Share[s] for each Right exercised, on the terms and subject to the conditions set forth in such Prospectus. [No fractional Rights will be issued; fractional Rights will be rounded up to the next whole Right.] [Pursuant to the over-subscription privilege in connection with the Offer (the "Over-Subscription Privilege"), (i) Record Date Stockholders who fully exercise all Rights issued to them may subscribe for additional Shares not subscribed for by other Holders, on the terms and subject to the conditions set forth in the Prospectus, including as to proration, and (ii) any Holders other than Record Date Stockholders who exercise Rights transferred to them may subscribe for additional Shares not subscribed for by other Holders or by Record Date Stockholders pursuant to their Over-Subscription Privilege, on the terms and subject to the conditions set forth in the Prospectus, including as to proration.] The Rights [are transferable and] are expected to be listed on The NASDAQ Global Select Market under the symbol "[ ]".

The Company has prepared a registration statement on Form N-2 (File No. [ ]) under the Securities Act of 1933, as amended (the "Securities Act"), and the rules and regulations of the Commission under the Securities Act (the "Securities Act Rules and Regulations"), and has filed such registration statement and any amendments to such registration statement on Form N-2 with the Securities and Exchange Commission (the "Commission"), as may have been required as of the date hereof. If the registration statement has not become effective, a further amendment to such registration statement, including forms of a final prospectus necessary to permit such registration statement to become effective, will promptly be filed by the Company with the Commission. If the registration statement has become effective and any prospectus contained therein omits certain information at the time of effectiveness pursuant to Rule 430A or Rule 430C, as applicable, of the Securities Act Rules and Regulations, a final prospectus containing such omitted information will promptly be filed by the Company with the

Commission in accordance with Rule 497 of the Securities Act Rules and Regulations. The term "Registration Statement" means the registration statement, as amended, at the time it becomes or became effective, including financial statements and all exhibits and all documents, if any, incorporated therein by reference, and any information deemed to be included by Rule 430A or Rule 430C, as applicable, of the Securities Act Rules and Regulations. The term "Prospectus" means (except as otherwise specified herein) the final prospectus in the form filed with the Commission pursuant to Rule 497 of the Securities Act Rules and Regulations, as from time to time amended or supplemented pursuant to the Securities Act.

The Prospectus and letters to Record Date Stockholders of the Company, subscription certificates and other forms used to exercise rights, brochures, wrappers, any letters from the Company to securities dealers, commercial banks and other nominees and any newspaper announcements, press releases and other offering materials and information that the Company may use, approve, prepare or authorize for use in connection with the Offer are collectively referred to hereinafter as the "Offering Materials".

1. Representations and Warranties.

(a) The Company represents and warrants to, and agrees with, the Dealer Managers as of the date hereof and as of the date and time of the commencement of the Offer (such later date and time being hereinafter referred to as the "Representation Date") and as of the date and time of the expiration of the Offer set forth in the Prospectus, as it may be extended as provided in the Prospectus (the "Expiration Date") that:

(i) The Company is eligible to use Form N-2 under the Securities Act and the Securities Act Rules and Regulations. At the time the Registration Statement became or becomes effective, the Registration Statement did or will contain all statements required to be stated therein in accordance with, and did or will comply, and any amendment to thereto will comply, in all material respects with the requirements of the Securities Act, the Securities Act Rules and Regulations, the Investment Company Act of 1940, as amended (the "Investment Company Act"), and the rules and regulations of the Commission under the Investment Company Act (the "Investment Company Act Rules and Regulations," and, together with the Securities Act Rules and Regulations, the "Rules and Regulations"), and did not or will not contain an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading. From the time the Registration Statement became or becomes effective through the Expiration Date, the Prospectus and the Offering Materials did or will comply, and any amendment thereto will comply, in all material respects with the Securities Act, the Investment Company Act and the Rules and Regulations, and did not or will not contain an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading; provided, however, that the representations and warranties in this subsection shall not apply to statements in or omissions from the Registration Statement, Prospectus or Offering Materials made in reliance upon and in conformity with information relating to the Dealer Managers furnished to the Company in writing by the Dealer Managers expressly for use in the Registration Statement, Prospectus or Offering Materials.

(ii) The Commission has not issued any order preventing or suspending the use of the Prospectus or the Offering Materials, or suspended the effectiveness of the

Registration Statement, and no proceeding or examination for such purpose has been instituted or, to the knowledge of the Company, threatened by the Commission.

(iii) The Prospectus and Offering Materials delivered to the Dealer Managers in connection with the offering were identical to the electronically transmitted copies filed with the Commission pursuant to its Electronic Data Gathering, Analysis and Retrieval System ("EDGAR"), except as may be permitted by Regulation S-T under the Securities Act.

(iv) The Company has been duly organized, is validly existing and is in good standing as a corporation in the State of Delaware and is duly qualified to do business and in good standing as a foreign corporation in each jurisdiction in which its ownership or lease of property or the conduct of its businesses requires such qualification, except where the failure to be so qualified or in good standing would not, in the aggregate, reasonably be expected to have a material adverse effect on the condition (financial or otherwise), results of operations, stockholders' equity, properties or business of the Company (a "Material Adverse Effect"); the Company has all corporate power and authority necessary to own or hold its properties and to conduct the businesses in which it is engaged.

(v) The Company's only subsidiaries are listed on Exhibit 21.1 of the Company's Form 10-K for the year ended [ ] (each, a "Subsidiary" and collectively, the "Subsidiaries") Each of the Subsidiaries has been duly organized, is validly existing as a limited liability company under the laws of the State of Delaware and is duly qualified to do business and in good standing as a foreign limited liability company in each jurisdiction in which its ownership or lease of property or the conduct of its businesses requires such qualification, except where the failure to be so qualified or in good standing would not, in the aggregate, reasonably be expected to have a Material Adverse Effect; the Subsidiaries have all limited liability company power and authority necessary to own or hold their properties and to conduct the businesses in which they are engaged.

(vi) The Company has an authorized capitalization as set forth in the Registration Statement and the Prospectus under the caption "Capitalization," and all of the issued shares of capital stock of the Company have been duly authorized and validly issued, are fully paid and non-assessable, conform to the description thereof contained in the Prospectus and were issued in compliance with federal and state securities laws and not in violation of any preemptive right, resale right, right of first refusal or similar right. No options, warrants or other rights to purchase or exchange any securities for shares of the Company's capital stock are outstanding, except as disclosed in the Registration Statement and the Prospectus, and except for subsequent issuances, if any, pursuant to this Agreement, pursuant to the Company's Dividend Reinvestment Plan or pursuant to reservations, agreements or employee benefit plans referred to in the Prospectus or pursuant to the exercise of convertible securities or options referred to in the Prospectus. All of the limited liability company interests of the Subsidiaries have been duly authorized and validly issued, are fully paid and non-assessable and are owned directly or indirectly by the Company, free

and clear of all liens, encumbrances, equities or claims, except for such liens, encumbrances, equities or claims as would not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

(vii) The Rights and the Shares to be issued by the Company hereunder have been duly authorized and, upon payment and delivery in accordance with this dealer manager agreement (the "Agreement"), the Shares will be validly issued, fully paid and non-assessable, will conform to the description thereof contained in the Registration Statement and the Prospectus, will be issued in compliance with federal and state securities laws and will be free of statutory and contractual preemptive rights, rights of first refusal and similar rights.

(viii) The Company has all requisite corporate power and authority to execute, deliver and perform its obligations under this Agreement;

(ix) This Agreement has been duly authorized, executed and delivered by the Company and constitutes a legal, valid, binding and enforceable instrument of the Company (subject, as to the enforcement of remedies, to applicable bankruptcy, reorganization, insolvency, moratorium or other laws affecting creditors' rights generally from time to time in effect and to general principles of equity regardless of whether in a proceeding at equity or at law);

(x) The execution, delivery and performance of this Agreement by the Company, the consummation of the transactions contemplated thereby and the application of the proceeds from the sale of the Shares as described under "Use of Proceeds" in the Registration Statement and the Prospectus will not (A) conflict with or result in a breach or violation of any of the terms or provisions of, impose any lien, charge or encumbrance upon any property or assets of the Company, Katonah Debt Advisors, L.L.C., a Delaware limited liability company ("KDA") or Kohlberg Capital Funding LLC I, a Delaware limited liability company ("Kohlberg Funding"), or constitute a default under, any indenture, mortgage, deed of trust, loan agreement, license or other agreement or instrument to which the Company, KDA or Kohlberg Funding is a party or by which the Company, KDA or Kohlberg Funding is bound or to which any of the property or assets of the Company, KDA or Kohlberg Funding is subject, except for such conflicts, breaches or violations that would not, in the aggregate, reasonably be expected to result in a Material Adverse Effect; (B) result in any violation of the provisions of the charter or bylaws or other organizational documents of the Company, KDA or Kohlberg Funding; or (C) to the knowledge of the Company, KDA or Kohlberg Funding, result in any violation of any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Company, KDA or Kohlberg Funding or any of their properties or assets.

(xi) No consent, approval, authorization or order of, or filing or registration with, any court or governmental agency or body having jurisdiction over the Company, KDA or Kohlberg Funding or any of their properties or assets is required to be obtained by the Company for the execution, delivery and performance of this Agreement by the Company, the consummation of the transactions contemplated hereby and the application of the proceeds from the sale of the Rights as described under "Use of Proceeds" in the Registration

Statement and the Prospectus, except for the registration of the Rights and the Shares under the Securities Act and such consents, approvals, authorizations, registrations or qualifications as may be required under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and applicable state securities laws in connection with the sale [or the transfer] of the Rights and sale of the Shares.

(xii) Except as identified in the Registration Statement and the Prospectus, there are no contracts, agreements or understandings between the Company and any person granting such person the right to require the Company to file a registration statement under the Securities Act with respect to any securities of the Company owned or to be owned by such person or to require the Company to include such securities in the securities registered pursuant to the Registration Statement.

(xiii) The Company has not sold or issued any securities that would be required to be integrated with the Offer of the Rights and the sale and delivery of the Shares contemplated by this Agreement pursuant to the Securities Act or the Securities Act Rules and Regulations.

(xiv) Since [ ], except as disclosed in the Registration Statement and the Prospectus, there has not been any material change in the capital stock or long term debt of the Company, KDA or Kohlberg Funding or any material adverse change in or affecting the condition (financial or otherwise), results of operations, stockholders' equity, properties, management or business of the Company, KDA and Kohlberg Funding taken as a whole, in each case except as would not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

(xv) Since the date as of which information is given in the Prospectus and except as may otherwise be described in the Prospectus, the Company has not (A) incurred any material liability or obligation, direct or contingent, other than liabilities and obligations that were incurred in the ordinary course of business; (B) entered into any material transaction not in the ordinary course of business; or (C) declared or paid any dividend on its capital stock.

(xvi) The financial statements (including the related notes and supporting schedules) included in the Registration Statement and the Prospectus comply as to form in all material respects with the requirements of Regulation S-X under the Securities Act and present fairly the financial condition, results of operations and cash flows of the entities purported to be shown thereby at the dates and for the periods indicated and have been prepared in conformity with accounting principles generally accepted in the United States applied on a consistent basis throughout the periods involved.

(xvii) [ ], who has audited certain financial statements of the Company, whose report appears in the Prospectus and who have delivered their letter referred to in Section 6(e) hereof, are independent public accountants as required by the Securities Act, The Investment Company Act, the Rules and Regulations and the rules of the Public Company Accounting Oversight Board.

(xviii) The Company, KDA and Kohlberg Funding have good and marketable title in fee simple to all real property, have valid rights to lease or otherwise use and have good and marketable title to all personal property owned by them, material to the respective businesses of each of the Company, KDA and Kohlberg Funding, in each case free and clear of all liens, encumbrances and defects, except such as (A) are described in the Registration Statement and the Prospectus; (B) do not materially interfere with the use made and proposed to be made of such property by the Company, KDA and Kohlberg Funding; or (C) would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect; and all assets held under lease by the Company, KDA and Kohlberg Funding are held by them under valid, subsisting and enforceable leases, with such exceptions as do not materially interfere with the use made and proposed to be made of such assets by the Company, KDA and Kohlberg Funding.

(xix) The statistical and market related data included under the caption "Business" in the Registration Statement and the Prospectus are based on or derived from sources that the Company believes to be reliable and accurate in all material respects.

(xx) Neither the Company, KDA nor Kohlberg Funding is, and after the Expiration Date, after giving effect to the offer and sale of the Shares and the application of the proceeds therefrom as described under "Use of Proceeds" in the Registration Statement and the Prospectus, will be, required to register as a "registered management investment company" under the Investment Company Act.

(xxi) (A) The Company has duly elected to be regulated by the Commission as a business development company ("BDC") under the Investment Company Act, and no order of suspension or revocation has been issued or proceedings therefor initiated or, to the knowledge of the Company, threatened by the Commission. Subject to the filing of the Registration Statement and the Prospectus, all required action has been taken by the Company under the Securities Act and the Investment Company Act to make the public offering and consummate the sale of the Shares as provided in this Agreement; (B) the provisions of the Company's charter and bylaws and the investment objective, policies and restrictions described in the Registration Statement and the Prospectus, assuming they are implemented as described, will comply in all material respects with the requirements of the Investment Company Act; and (C) the operations of the Company are in compliance in all material respects with the provisions of the Investment Company Act applicable to BDCs.

(xxii) When the notification of election was filed with the Commission, it (A) contained all statements required to be stated therein in accordance with, and complied in all material respects with the requirements of the Investment Company Act and (B) did not include any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances in which they were made, not misleading.

(xxiii) There are no legal or governmental proceedings pending to which the Company, KDA or Kohlberg Funding is a party or of which any property or

assets of the Company, KDA or Kohlberg Funding is the subject that would, in the aggregate, reasonably be expected to have a Material Adverse Effect or would, in the aggregate, reasonably be expected to have a material adverse effect on the performance of this Agreement or the consummation of the transactions contemplated hereby; and to the Company's knowledge, no such proceedings are threatened by governmental authorities or others.

(xxiv) There are no legal or governmental proceedings or contracts or other documents of a character required to be described in the Registration Statement or the Prospectus or, in the case of documents, to be filed as exhibits to the Registration Statement that are not described and filed as required; and that statements made in the Registration Statement and the Prospectus under the captions "Election to be Regulated as a Business Development Company and a Regulated Investment Company," "Distributions," "Determination of Net Asset Value," "Regulation," "Certain U.S. Federal Income Tax Considerations," "Description of Capital Stock" and "Shares Eligible for Future Sale," insofar as they purport to constitute summaries of the terms of statutes, rules or regulations, legal or governmental proceedings or contracts and other documents, constitute accurate summaries of the terms of such statutes, rules and regulations, legal and governmental proceedings and contracts and other documents in all material respects.

(xxv) Except as described in the Registration Statement and the Prospectus, no relationship, direct or indirect, exists between or among the Company, on the one hand, and the directors, officers or stockholders of the Company, on the other hand, that is required to be described in the Registration Statement or the Prospectus which is not so described.

(xxvi) No labor disturbance by the employees of the Company, KDA or Kohlberg Funding exists or, to the knowledge of the Company, is threatened that would reasonably be expected to have a Material Adverse Effect.

(xxvii) (A) Each "employee benefit plan" (within the meaning of Section 3(3) of the Employee Retirement Security Act of 1974, as amended ("ERISA")) for which the Company or any member of its "Controlled Group" (defined as any organization which is a member of a controlled group of corporations within the meaning of Section 414 of the Internal Revenue Code of 1986, as amended (the "Code"), would have any liability (each a "Plan"), has been maintained in compliance with its terms and with the requirements of all applicable statutes, rules and regulations including ERISA and the Code except where failure to so comply would not reasonably be expected to have Material Adverse Effect; (B) with respect to each Plan subject to Title IV of ERISA (1) no "reportable event" (within the meaning of Section 4043(c) of ERISA) has occurred or is reasonably expected to occur, (2) no "accumulated funding deficiency" (within the meaning of Section 302 of ERISA or Section 412 of the Code), whether or not waived, has occurred or is reasonably expected to occur, (3) the fair market value of the assets under each Plan exceeds the present value of all benefits accrued under such Plan (determined based on those assumptions used to fund such Plan) and (4) neither the Company nor any member of its Controlled Group has incurred, or reasonably expects to incur, any liability under Title IV of ERISA (other than contributions to the Plan or premiums to the Pension

Benefit Guaranty Corporation in the ordinary course and without default) in respect of a Plan (including a "multiemployer plan" within the meaning of Section 4001(c)(3) of ERISA); and (C) each Plan that is intended to be qualified under Section 401(a) of the Code has received a prototype determination or opinion letter to the effect that the form of such Plan is so qualified and the company and, as to the form of such Plan, the Plan may rely on such letter or opinion (without an individual application) under applicable the rules of the Internal Revenue Service, and, to the knowledge of the Company nothing has occurred, whether by action or by failure to act, which would reasonably be expected to cause the loss of such qualification.

(xxviii) The Company, KDA and Kohlberg Funding have (A) filed all Federal, state, local and foreign tax returns required to be filed through the date hereof, subject to permitted extensions, and all such tax returns are true, complete and correct in all material respects; and (B) paid all material taxes required to be paid, and no tax deficiency has been determined adversely to the Company, KDA or Kohlberg Funding, nor does the Company, KDA or Kohlberg Funding have any knowledge of any tax deficiencies that would, in the aggregate, reasonably be expected to have a Material Adverse Effect.

(xxix) Commencing with its short taxable year ended December 31, 2006, the Company has qualified as a regulated investment company ("RIC") (within the meaning of Section 851(a) of the Code).

(xxx) Neither the Company, KDA nor Kohlberg Funding (A) is in violation of its charter, bylaws or other organizational documents; (B) is in default, and no event has occurred that, with notice or lapse of time or both, would constitute such a default, in the due performance or observance of any term, covenant or condition contained in any indenture, mortgage, deed of trust, loan agreement, license or other agreement or instrument to which it is a party or by which it is bound or to which any of its properties or assets is subject; or (C) is in violation of any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over it or its property or assets or has failed to obtain any license, permit, certificate, franchise or other governmental authorization or permit necessary to the ownership of its property or to the conduct of its business, except in the case of clauses (B) and (C), to the extent any such conflict, breach, violation or default would not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

(xxxi) The Company makes and keeps accurate books and records and the Company maintains effective internal control over financial reporting as defined in Rule 13a-15 under the Exchange Act and a system of internal accounting controls sufficient to provide reasonable assurance that (A) transactions are executed in accordance with management's general or specific authorization; (B) transactions are recorded as necessary to permit preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States and to maintain accountability for its assets; (C) access to the Company's assets is permitted only in accordance with management's general or specific authorization; and (D) the recorded accountability for the Company's assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(xxxii) (A) The Company has established and maintains disclosure controls and procedures (as such term is defined in Rule 13a-15 under the Exchange Act); (B) such disclosure controls and procedures are designed to ensure that the information required to be disclosed by the Company in the reports it will file or submit under the Exchange Act is accumulated and communicated to management of the Company, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure to be made; and (C) such disclosure controls and procedures are effective in all material respects to perform the functions for which they were established.

(xxxiii) There is and has been no failure on the part of the Company and any of the Company's directors or officers, in their capacities as such, to comply with the applicable provisions of the Sarbanes Oxley Act of 2002 (the "Sarbanes Oxley Act") and the rules and regulations promulgated thereunder.

(xxxiv) The Company, KDA and Kohlberg Funding have such permits, licenses, patents, franchises, certificates of need and other approvals or authorizations of governmental or regulatory authorities ("Permits") as are necessary under applicable law to own their properties and conduct their businesses in the manner described in the Registration Statement and the Prospectus, except for any of the foregoing that would not, in the aggregate, reasonably be expected to have a Material Adverse Effect; each of the Company, KDA and Kohlberg Funding has fulfilled and performed all of its obligations with respect to the Permits, and no event has occurred that allows, or after notice or lapse of time would allow, revocation or termination thereof or results in any other impairment of the rights of the holder or any such Permits, except for any of the foregoing that would not reasonably be expected to have a Material Adverse Effect.

(xxxv) The Company, KDA and Kohlberg Funding own or possess adequate rights to use all material patents, patent applications, trademarks, service marks, trade names, trademark registrations, service mark registrations, copyrights, licenses, know how, software, systems and technology (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures) necessary for the conduct of their respective businesses and have no reason to believe that the conduct of their respective businesses will conflict with, and have not received any notice of any claim of conflict with, any such rights of others.

(xxxvi) Neither the Company, KDA nor Kohlberg Funding is in violation of or has received notice of any violation with respect to any federal or state law relating to discrimination in the hiring, promotion or pay of employees, nor any applicable federal or state wage and hour laws, nor any state law precluding the denial of credit due to the neighborhood in which a property is situated, the violation of any of which would reasonably be expected to have a Material Adverse Affect.

(xxxvii) KDA is not currently prohibited, directly or indirectly, under any agreement or other instrument to which it is a party or is subject, from paying any dividends to the Company, from making any other distribution on its limited liability company interests, from repaying to the Company any loans or advances to it from the Company or from transferring any of its property or assets to the Company, except as described in or contemplated in the Registration Statement and the Prospectus.

(xxxviii) Neither the Company, KDA nor Kohlberg Funding, nor, to the knowledge of the Company, any director, officer, agent, employee or other person acting on behalf of the Company, KDA or Kohlberg Funding, has (A) used any corporate funds for any unlawful contribution, gift, entertainment or other unlawful expense relating to political activity; (B) made any direct or indirect unlawful payment to any foreign or domestic government official or employee from corporate funds; (C) violated or is in violation of any provision of the U.S. Foreign Corrupt Practices Act of 1977; or (D) made any bribe, rebate, payoff, influence payment, kickback or other unlawful payment.

(xxxix) The operations of the Company, KDA and Kohlberg Funding are and have been conducted at all times in compliance with applicable financial recordkeeping and reporting requirements of the Currency and Foreign Transactions Reporting Act of 1970, as amended, the money laundering statutes of all jurisdictions, the rules and regulations thereunder and any related or similar rules, regulations or guidelines, issued, administered or enforced by any governmental agency (collectively, the "Money Laundering Laws") and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company, KDA or Kohlberg Funding with respect to the Money Laundering Laws is pending or, to the knowledge of the Company, threatened, except, in each case, as would not reasonably be expected to have a Material Adverse Effect.

(xl) Neither the Company, KDA nor Kohlberg Funding nor, to the knowledge of the Company, any director, officer, agent, or employee of the Company, KDA or Kohlberg Funding is currently subject to any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Treasury Department ("OFAC"); and the Company will not directly or indirectly knowingly use the proceeds of the offering, or lend, contribute or otherwise knowingly make available such proceeds to any subsidiary, joint venture partner or other person or entity, for the purpose of financing the activities of any person currently subject to any U.S. sanctions administered by OFAC.

(xli) The Company has not distributed and, prior to the occurrence of the Expiration Date and completion of the distribution of the Shares, will not distribute any offering material in connection with the Offer of the Rights and the sale and delivery of the Shares other than any Prospectus, Offering Materials or any statement made in accordance with Rule 482 of the Securities Act (a "Rule 482 Statement") to which the Dealer Managers have consented.

(xlii) The Company (A) has not taken, directly or indirectly, any action designed to cause or to result in, or that has constituted or which might reasonably be expected to constitute, the stabilization or manipulation of the price of any

security of the Company to facilitate the issuance of the Rights or the sale or resale of the Rights and the Shares; (B) has not since the filing of the Registration Statement sold, bid for or purchased, or paid anyone any compensation for soliciting purchases of, Common Shares of the Company (except for the solicitation of exercises of the Rights pursuant to this Agreement); and (C) will not, until the later of the expiration of the Rights or the completion of the distribution (within the meaning of the anti-manipulation rules under the Exchange Act) of the Shares, sell, bid for or purchase, pay or agree to pay to any person any compensation for soliciting another to purchase any other securities of the Company (except for the solicitation of exercises of the Rights pursuant to this Agreement).

(xliii) The Rights have been approved for inclusion, subject to official notice of issuance and evidence of satisfactory distribution, in The NASDAQ Global Select Market.

(b) Any certificate signed by any officer of the Company and delivered to the Dealer Managers in connection with the Offer of the Rights and the sale and delivery of the Shares shall be deemed a representation and warranty by the Company as to matters covered thereby, to such Dealer Managers.

2. Agreement to Act as Dealer Managers.

(a) On the basis of the representations and warranties herein contained, and subject to the terms and conditions herein set forth:

(i) The Company hereby authorizes the Dealer Managers and other soliciting dealers entering into a Soliciting Dealer Agreement, in the form attached hereto as Exhibit A, with the Dealer Managers (each a "Soliciting Dealer" and, collectively, the "Soliciting Dealers"), to solicit, in accordance with the Securities Act, the Investment Company Act and the Exchange Act, the rules and regulations under those acts, any applicable securities laws of any state or jurisdiction, the applicable rules and regulation of any self-regulatory organization or registered national securities exchange and the customary practice of investment banking firms engaged in connection with similar transactions, the exercise of the Rights [and the Over-Subscription Privilege], and the Dealer Managers agree to act in such capacity, and in accordance with such terms and the procedures described in the Prospectus and, where applicable, the terms and conditions of such Soliciting Dealer Agreement; and

(ii) To the extent available, the Company agrees to furnish, or cause to be furnished, to the Dealer Managers lists, or copies of those lists, showing (to the knowledge of the Company) the names and addresses of, and number of shares of Common Stock held by, Record Date Holders and the Dealer Managers agree to use such information only in connection with the Offer, and not to furnish the information to any other person or entity, except that the Dealer Managers may furnish necessary and appropriate information to the Soliciting Dealers.

(b) The Dealer Managers agree to provide to the Company, in addition to the services described in Section 2(a), financial advisory and marketing services in connection with

the Offer. No fee or reimbursement, other than the fees provided for in Section 3 of this Agreement and the reimbursement of the Dealer Managers' out-of-pocket expenses as described in Section 5 of this Agreement, will be payable by the Company to the Dealer Managers in connection with any services provided or costs or expenses incurred by the Dealer Managers pursuant to this Agreement.

(c) The Company and the Dealer Managers agree that each of the Dealer Managers is an independent contractor with respect to the solicitation of the exercise of the Rights [and the Over-Subscription Privilege], and that each Dealer Manager's performance of financial advisory, marketing and soliciting services for the Company is pursuant to a contractual relationship created solely by this Agreement entered into on an arm's length basis, and in no event do the parties intend that any of the Dealer Managers act or be responsible as a fiduciary to the Company, its management, stockholders, creditors or any other person, including Soliciting Dealers, in connection with any activity that a Dealer Manager may undertake or has undertaken in furtherance of its engagement pursuant to this Agreement, either before or after the date hereof. It is understood that the Dealer Managers are being engaged hereunder solely to provide the services described herein on behalf of the Company and that the Dealer Managers are not acting as agents or fiduciaries of, and shall have no duties or liability to, the equity holders of the Company or any other third party in connection with their engagement hereunder. It is further understood that the Dealer Managers may independently offer for sale Common Shares, including shares of the Common Shares acquired through the purchase and exercise of the Rights, at prices they set. They may realize profits or losses from such sales independent of the fees set forth in Section 3 hereof.

(d) The Dealer Managers agree to perform those services with respect to the Offer in accordance with customary practice of investment banking firms engaged in connection with similar transactions, including (but not limited to) using their reasonable best efforts to solicit the exercise of Rights [and the Over-Subscription Privilege] pursuant to the Offer and in communicating with the Soliciting Dealers.

(e) In rendering the services contemplated by this Agreement, the Dealer Managers will not be subject to any liability to the Company or KDA or any of their affiliates, for any act or omission on the part of any securities broker or dealer (except with respect to any Dealer Manager acting in such capacity) or any other person, and the Dealer Managers will not be liable for acts or omissions in performing its obligations under this Agreement, except for any losses, claims, damages, liabilities and expenses that are finally judicially determined to have resulted primarily from the bad faith, willful misfeasance or gross negligence of the Dealer Managers or by reason of the reckless disregard of the obligations and duties of the Dealer Managers under this Agreement (including, in each case, the employees and authorized agents of the Dealer Managers); provided, however, that the foregoing shall not apply to any loss, liability, claim, damage or expense to the extent arising out of any untrue statement or omission, or alleged untrue statement or omission, made in reliance upon and in conformity with written information furnished to the Company by the Dealer Managers expressly for use in the Registration Statement (or any amendment thereto) or the Prospectus (or any amendment or supplement thereto) or in any Offering Materials.

3. Dealer Managers' and Soliciting Fees. In full payment for the financial advisory, marketing, soliciting and other services rendered and to be rendered hereunder by the Dealer Managers, the Company agrees to pay the Dealer Managers a fee (the "Dealer Managers' Fee") equal to [ ]%

of the aggregate Subscription Price for the Shares issued pursuant to the exercise of Rights [, including pursuant to the Over-Subscription Privilege]. In full payment for the soliciting efforts to be rendered, the Dealer Managers agree to reallow soliciting fees (the "Soliciting Fees") to Soliciting Dealers of up to [ ]% of the Subscription Price per Share for each Share issued pursuant to the exercise of Rights [, including pursuant to the Over-Subscription Privilege,] where such Soliciting Dealer is so designated on the subscription form, subject to a maximum fee based on the number of Common Shares held by such Soliciting Dealer through The Depository Trust Company ("DTC") on the Record Date. The Dealer Managers agree to pay the Soliciting Fees to the Soliciting Dealer designated on the applicable portion of the form used by the Holder to exercise Rights [, including pursuant to the Over-Subscription Privilege], and if no Soliciting Dealer is so designated or a Soliciting Dealer is otherwise not entitled to receive compensation pursuant to the terms of the Soliciting Dealer Agreement, then the Dealer Managers shall retain such Soliciting Fee for Shares issued pursuant to the exercise of Rights [, including pursuant to the Over-Subscription Privilege]; the Company shall have no obligation to pay (or reimburse the Dealer Managers) for any Soliciting Fees. Payment to the Dealer Managers by the Company will be in the form of a wire transfer of same day funds to an account or accounts identified by the Dealer Managers. Such payment will be made on the day following each date on which the Company issues Shares after the Expiration Date. Payment to Soliciting Dealer will be made by the Dealer Managers directly to such Soliciting Dealer by check to an address identified by such Soliciting Dealer. Such payments to Soliciting Dealers shall be made on or before the [ ] ([ ]) business day following each date on which the Company issues Shares after the Expiration Date.

4. Further Agreements of the Company and the Dealer Managers.

(a) The Company covenants with the Dealer Managers as follows:

(i) The Company will use its best efforts to cause the Registration Statement to become effective and maintain its effectiveness under the Securities Act, and will advise the Dealer Managers promptly as to the time at which the Registration Statement and any amendments thereto (including any post-effective amendment) become so effective.

(ii) The Company will notify, and confirm the notice in writing to, the Dealer Managers promptly (A) of the effectiveness of the Registration Statement and any amendment thereto (including any post-effective amendment), (B) of the receipt of any comments from the Commission relating to the Registration Statement, (C) of any request by the Commission for any amendment to the Registration Statement or any amendment or supplement to the Prospectus or for additional information, (D) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or the initiation of any proceedings or examination for that purpose and (E) of the receipt of any written notice regarding the suspension of the qualification of the Shares or the Rights for offering or sale in any jurisdiction. The Company will make every reasonable effort to prevent the issuance of any stop order described in subsection (D) hereunder and, if any such stop order is issued, to obtain the lifting thereof at the earliest possible moment.

(iii) During any period that a prospectus relating to the Rights or the Shares is required to be delivered under the Securities Act (but in any event through the Expiration Date), the Company will give the Dealer Managers notice of its intention to file any amendment to the Registration Statement (including any

post-effective amendment) or any amendment or supplement to the Prospectus (including any revised Prospectus which the Company proposes for use by the Dealer Managers in connection with the Offer, which differs from the prospectus on file at the Commission at the time the Registration Statement becomes effective, whether or not such revised prospectus is required to be filed pursuant to Rule 497(c), (e) or (h) of the Rules and Regulations), whether pursuant to the Investment Company Act, the Securities Act, or otherwise, and will furnish the Dealer Managers with copies of any such amendment or supplement a reasonable amount of time prior to such proposed filing or use, as the case may be, and will not file any such amendment or supplement to which the Dealer Managers or counsel for the Dealer Managers shall reasonably object.

(iv) The Company has furnished or will, without charge, deliver to the Dealer Managers, as soon as practicable, the number of conformed copies of the Registration Statement as originally filed and of each amendment thereto as it may reasonably request, in each case with the exhibits filed therewith.

(v) The Company will, without charge, furnish to the Dealer Managers, from time to time during the period when the Prospectus is required to be delivered under the Securities Act, such number of copies of the Prospectus (as amended or supplemented) as the Dealer Managers may reasonably request for the purposes contemplated by the Securities Act or the Securities Act Rules and Regulations.

(vi) If any event shall occur as a result of which it is necessary, in the reasonable opinion of counsel for the Dealer Managers or for the Company, to amend or supplement the Registration Statement or the Prospectus (or the other Offering Materials) to make the Registration Statement or the Prospectus (or such other Offering Materials) not contain an untrue statement of material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein not misleading in the light of the circumstances existing at the time it is delivered to a purchaser, or if it shall be necessary, in the opinion of such counsel, at any such time to amend the Registration Statement or amend or supplement the Prospectus in order to comply with the requirements of the Securities Act or the Securities Act Rules and Regulations, the Company will promptly prepare and file with the Commission, subject to Section 4(a)(iii), such amendment or supplement as may be necessary to correct such statement or omission or to make the Registration Statement or the Prospectus comply with such requirements, and the Company will furnish to the Dealer Managers such number of copies of such amendment or supplement as the Dealer Managers may reasonably request.

(vii) The Company will use its commercially reasonable efforts, in cooperation with the Dealer Managers and their counsel, to qualify the Rights and the Shares for offering and sale under the applicable securities laws of such states and other jurisdictions of the United States as the Dealer Managers may designate and to maintain such qualifications in effect for the duration of the Offer; provided, however, that the Company will not be obligated to file any general consent to service of process, or to qualify as a foreign corporation or as a dealer in securities in any jurisdiction in which it is not now so qualified or to subject itself to taxation in respect of doing business in any jurisdiction in which it is not otherwise so subject.

(viii) During the period during which the Prospectus is required to be delivered under the Securities Act, to file all documents required to be filed with the Commission pursuant to the Exchange Act within the time period required by the Exchange Act and the rules and regulations of the Commission thereunder.

(ix) The Company will use the net proceeds from the Offer in the manner set forth under "Use of Proceeds" in the Registration Statement and the Prospectus.

(x) For a period of [ ] ([ ]) days from the date of the Prospectus (the "Lock Up Period"), the Company will not, without the prior consent of the Dealer Managers, offer or sell, or enter into any agreement to sell, any equity or equity related securities of the Company or securities convertible into such securities, other than the Rights and the Shares and the Common Shares issued in reinvestment of dividends or distributions or pursuant to reservations, agreements or employee benefits plans referred to in the Prospectus or pursuant to the exercise of convertible securities or options referred to in the Prospectus; notwithstanding the foregoing, if (1) during the last [ ] days of the Lock Up Period, the Company issues an earnings release or material news or a material event relating to the Company occurs or (2) prior to the expiration of the Lock Up Period, the Company announces that it will release earnings results during the [ ]-day period beginning on the last day of the Lock Up Period, then the restrictions imposed in the preceding paragraph shall continue to apply until the expiration of the [ ]-day period beginning on the issuance of the earnings release or the announcement of the material news or the occurrence of the material event, unless the Dealer Managers, waive such extension in writing. In addition, the Company will cause each officer and director of the Company set forth on Schedule 2 hereto to furnish to the Dealer Managers, prior to the Expiration Date, a letter or letters, substantially in the form of Exhibit D hereto (the "Lock Up Agreements").

(xi) The Company will use its commercially reasonable efforts to cause the Rights and the Shares to be duly authorized for listing by The NASDAQ Global Select Market prior to the time the Rights and the Shares are issued, respectively.

(xii) The Company will apply the net proceeds from the Offer in such a manner as to continue to comply with the requirements of the Registration Statement, the Prospectus and the Investment Company Act.

(xiii) The Company will advise or cause [ ] (the "Subscription Agent") to advise the Dealer Managers, from day to day during the period of, and promptly after the termination of, the Offer, as to the names and addresses of all Holders exercising Rights, the total number of Rights exercised by each Holder during the immediately preceding day, indicating the total number of Rights verified to be in proper form for exercise, rejected for exercise and being processed and, for each Dealer Manager and each Soliciting Dealer, the number of Rights exercised on exercise forms indicating such Dealer Manager or such Soliciting Dealer, as the case may be, as the broker-dealer with respect to such exercise, and as to such other information as such Dealer Manager may reasonably

request; and will use its commercially reasonable efforts to cause the Subscription Agent to notify the Dealer Managers and each Soliciting Dealer, not later than 5:00 P.M., New York City time, on the first business day following the Expiration Date, of the total number of Rights exercised and Shares related thereto, the total number of Rights verified to be in proper form for exercise, rejected for exercise and being processed and, for each Dealer Manager and each Soliciting Dealer, the number of Rights exercised on exercise forms indicating such Dealer Manager or such Soliciting Dealer, as the case may be, as the broker-dealer with respect to such exercise, and as to such other information as the Dealer Managers may reasonably request.

(xiv) The Company will use its commercially reasonable efforts to establish and maintain a system of internal accounting controls sufficient to provide reasonable assurances that (A) material information relating to the Company and the assets managed by KDA is promptly made known to the officers responsible for establishing and maintaining the system of internal accounting controls; and (B) any significant deficiencies or weaknesses in the design or operation of internal accounting controls which could adversely affect the Company's ability to record, process, summarize and report financial data, and any fraud whether or not material that involves management or other employees who have a significant role in internal controls, are adequately and promptly disclosed to the Company's independent auditors and the audit committee of the Company's board of directors.

(xv) To, during a period of at least 12 months from the Expiration Date, use its commercially reasonable efforts to maintain its status as a BDC under the Investment Company Act; provided, however, the Company may cease to be, or withdraw its election as a BDC under the Investment Company Act, with the approval of its board of directors and a vote of its stockholders as required by Section 58 of the Investment Company Act, or a successor provision.

(xvi) To use its commercially reasonable efforts to maintain its qualification as a RIC under the Code for each taxable year during which it is a BDC under the Investment Company Act.

(b) The Company will not take, directly or indirectly, any action designed to cause or to result in, or that has constituted or which might reasonably be expected to constitute, the stabilization or manipulation of the price of any security of the Company to facilitate the issuance of the Rights or the sale or resale of the Rights or the Shares; provided that any action in connection with the Company's dividend reinvestment plan will not be deemed to be within the meaning of this Section 4(b).

(c) Except as required by applicable law, the use of any reference to the Dealer Managers in any Offering Materials or any other document or communication prepared, approved or authorized by the Company in connection with the Offer is subject to the prior approval of the Dealer Managers, provided that if such reference to the Dealer Managers is required by applicable law, the Company agrees to notify the Dealer Managers within a reasonable time prior to such use but the Company is nonetheless permitted to use such reference. The Dealer Managers hereby confirm they have consented to all references to them in the Registration Statement, the Prospectus and the Offering Materials as filed with the Commission on the date hereof.

5. Payment of Expenses.

(a) The Company will pay all expenses incident to the performance of its obligations under this Agreement and in connection with the Offer, including, but not limited to, (i) the preparation, printing and filing of the Registration Statement as originally filed and of each amendment thereto; (ii) the preparation, issuance and delivery of the exercise forms relating to the Rights and the certificates for the Shares; (iii) the fees and disbursements of the Company's counsel and accountants; (iv) expenses relating to the qualification of the Rights and the Shares under securities laws in accordance with the provisions of Section 4(a)(vii) of this Agreement, including filing fees; (v) expenses relating to the printing or other production and delivery to the Dealer Managers of copies of the Registration Statement as originally filed and of each amendment thereto and of the Prospectus and any amendments or supplements thereto; (vi) the filing fees incidental to, and, subject to Section 5(b), the reasonable fees and disbursement of counsel to the Dealer Managers in connection with, the review by the Financial Industry Regulatory Authority ("FINRA") of the terms of the Offer and the sale of the Shares; (vii) the fees and expenses incurred in connection with the listing of the Rights and the Shares on The NASDAQ Global Select Market; (viii) the printing or other production, mailing and delivery expenses incurred in connection with Offering Materials; (ix) subject to Section 5(b), all reasonable out-of-pocket fees and expenses, if any, incurred by the Dealer Managers and Soliciting Dealers in connection with their customary mailing and handling of materials related to the Offer to their customers; (x) the fees and expenses incurred by the Company under the Subscription Agent Agreement and the Information Agent Agreement; and (xi) all other fees and expenses (excluding the announcement, if any, of the Offer in The Wall Street Journal) incurred in connection with or relating to the Offer.

(b) In addition to any fees that may be payable to the Dealer Managers under this Agreement, whether or not the Offer is consummated, the Company agrees to reimburse the Dealer Managers upon request made from time to time for their reasonable expenses incurred in connection with their activities under this Agreement, including the reasonable fees and disbursements of their legal counsel (inclusive of any reimbursement pursuant to Section 5(a)(iv)), upon proper presentation of documentation therefor, in an amount not to exceed $[ ]. The Company shall not be obligated to reimburse the Dealer Managers for any expenses arising under or in connection with this Agreement in excess of $[ ].

6. Conditions of the Dealer Managers' Obligations. The obligations of the Dealer Managers hereunder are subject to the accuracy of the representations and warranties of the Company contained in Section 1 hereof or in certificates of any officer of the Company, to the performance by the Company of its obligations hereunder, and to the following further conditions:

(a) The Registration Statement has become effective and no stop order suspending the effectiveness of the Registration Statement shall have been issued under the Securities Act or proceedings therefor initiated or threatened by the Commission, and any request on the part of the Commission for additional information shall have been complied with to the reasonable satisfaction of counsel to the Dealer Managers. A prospectus with respect to the Rights Offering shall have been filed with the Commission in accordance with Rule 497.

(b) The Dealer Managers shall have received from Ropes & Gray LLP, counsel for the Company, such favorable written opinions or letters, dated the Representation Date and

the Expiration Date, in form and substance reasonably satisfactory to counsel for the Dealer Managers, to the effect set forth in Exhibit B and Exhibit C, and the Company shall have furnished to such counsel such documents as they reasonably request for the purpose of enabling them to pass upon such matters. Ropes & Gray LLP may state that, insofar as such opinion or letter involves factual matters, it has relied upon certificate of officers of the Company and/or any subsidiary and certificates of public officials.

(c) The Dealer Managers shall have received from [ ], counsel for the Dealer Managers, such favorable written opinions or letters, dated the Representation Date and the Expiration Date, with respect to the Offer, the Registration Statement, the Prospectus, the Offering Materials and other related matters as the Dealer Managers may reasonably require. [ ] may state that, insofar as such opinion involves factual matters, it has relied upon certificate of officers of the Company and/or any subsidiary and certificates of public officials.

(d) The Company shall have furnished to the Dealer Managers certificates of the Company, signed on behalf of the Company by (1) the Chief Executive Officer or President of the Company and (2) the Chief Financial Officer of the Company, dated the Representation Date and the Expiration Date, to the effect that:

(i) the representations and warranties of the Company in Section 1(a) of this Agreement are true and correct in all material respects on and as of the Representation Date or the Expiration Date, as the case may be, with the same effect as if made on the Representation Date or the Expiration Date, as the case may be, and the Company has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied at or prior to the Representation Date or the Expiration Date, as the case may be;

(ii) no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or, to their knowledge, threatened; and

(iii) since the date of the most recent balance sheet included or incorporated by reference in the Registration Statement and the Prospectus, there has been no material adverse change in the condition (financial or otherwise), business prospects, earnings or results of operations of the Company (excluding fluctuations in the Company's net asset value due to investment activities in the ordinary course of business), except as set forth in the Registration Statement and the Prospectus.

(e) [ ] shall have furnished to the Dealer Managers letters, dated the Representation Date and the Expiration Date, in form and substance satisfactory to the Dealer Managers and [ ], stating in effect that:

(i) it is an independent registered public accounting firm with respect to the Company within the meaning of the Securities Act and the applicable Securities Act Rules and Regulations, and the rules and regulations adopted by the Commission and the Public Accounting Oversight Board (United States);

(ii) in its opinion, the audited financial statements examined by it and included or incorporated by reference in the Registration Statement comply as to form in all

material respects with the applicable accounting requirements of the Securities Act and the Investment Company Act and the respective Rules and Regulations with respect to registration statements on Form N 2;

(iii) it has performed procedures specified by the Public Accounting Oversight Board for a review of the interim financial information for the period ended [ ];

(iv) it has performed specified procedures, not constituting an audit in accordance with generally accepted auditing standards, including a reading of the latest available unaudited financial information of the Company, a reading of the minute books of the Company, and inquiries of officials of the Company responsible for financial and accounting matters, and on the basis of such inquiries and procedures nothing came to its attention that caused it to believe that at a specified date prior to the Representation Date or the Expiration Date, as the case may be, there was any change in the Common Shares, any decrease in net assets or any increase in long term debt of the Company as compared with amounts shown in the most recent statement of assets and liabilities included or incorporated by reference in the Registration Statement, except as the Registration Statement discloses has occurred or may occur, or they shall state any specific changes, increases or decreases; and

(v) in addition to the procedures referred to in clause (iii) above, it has compared certain dollar amounts (or percentages as derived from such dollar amounts) and other financial information regarding the operations of the Company appearing in the Registration Statement, which have previously been specified by the Dealer Managers and which shall be specified in such letter, and have found such items to be in agreement with the accounting and financial records of the Company.

(f) Prior to their issuance, the Shares and the Rights will have been duly approved for listing, subject to official notice of issuance, on The NASDAQ Global Select Market.

(g) The FINRA has confirmed that it has not raised any objection with respect to the fairness and reasonableness of the terms and arrangements of the Offer.

(h) At the Representation Date and the Expiration Date, counsel for the Dealer Managers shall have been furnished with such documents as they may reasonably require for the purpose of enabling them to pass upon the issuance of the Rights and the issuance and sale of the Shares as herein contemplated, or in order to evidence the accuracy of any of the representations or warranties, or the fulfillment of any of the conditions, herein contained; and all proceedings taken by the Company in connection with the issuance of the Rights and the issuance and sale of the Shares as herein contemplated shall be reasonably satisfactory in form and substance to the Dealer Managers and counsel for the Dealer Managers.

(i) A Lock Up Agreement, in substantially the form attached hereto as Exhibit D, shall have been signed by each of the Company and each officer or director of the Company listed on Schedule 2 and delivered to the Dealer Managers on or before the date of this Agreement.

(j) If any condition specified in this Section 6 shall not have been fulfilled when and as required to be fulfilled, this Agreement may be terminated by the Dealer Managers by notice to the Company at any time at or prior to the Expiration Date and such termination shall be without liability of any party to any other party except as provided in Section 5 and except that Sections 7, 8 and 9 shall survive any such termination and remain in full force and effect.

7. Indemnification.

(a) The Company agrees to indemnify and hold harmless each Dealer Manager and each person, if any, who controls any of the Dealer Managers within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, as follows:

(i) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, arising out of any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (or any amendment thereto), Rule 482 Statement, if any, any preliminary prospectus, the Prospectus or any Offering Materials, or the omission or alleged omission therefrom of a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(ii) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, to the extent of the aggregate amount paid in settlement of any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or of any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission; provided that (subject to Section 7(d) below) any such settlement is effected with the written consent of the Company; and

(iii) against any and all expense whatsoever, as incurred (including the fees and disbursements of counsel chosen by the Dealer Managers), reasonably incurred in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission, to the extent that any such expense is not paid under (i) or (ii) above;

provided, however, that this indemnity agreement shall not apply to any loss, liability, claim, damage or expense to the extent arising out of any untrue statement or omission or alleged untrue statement or omission made in reliance upon and in conformity with written information furnished to the Company by the Dealer Managers expressly for use in the Registration Statement (or any amendment thereto), Rule 482 Statement, if any, any preliminary prospectus, the Prospectus or any Offering Materials.

(b) The Dealer Managers agree to indemnify and hold harmless the Company, its directors, each of the Company's officers, and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act against any and all loss, liability, claim, damage and expense described in the indemnity contained in subsection (a) of this Section, as incurred, but only with respect to untrue statements or omissions, or alleged untrue statements or omissions, made in the Registration Statement (or any amendment thereto), Rule 482 Statement, if any, any preliminary prospectus, the Prospectus or any Offering Materials in reliance upon and in

conformity with written information furnished to the Company by the Dealer Managers expressly for use in the Registration Statement, any preliminary prospectus, the Prospectus, any Offering Materials or such Rule 482 Statement, if any.

(c) Each indemnified party shall give notice as promptly as reasonably practicable to each indemnifying party of any action commenced against it in respect of which indemnity may be sought hereunder, but failure to so notify an indemnifying party shall not relieve such indemnifying party from any liability hereunder to the extent it is not materially prejudiced as a result thereof and in any event shall not relieve it from any liability which it may have otherwise than on account of this indemnity agreement. In the case of parties indemnified pursuant to Section 7(a) above, counsel to the indemnified parties shall be selected by such indemnified Dealer Manager(s), and, in the case of parties indemnified pursuant to Section 7(b) above, counsel to the indemnified parties shall be selected by the Company. An indemnifying party may participate at its own expense in the defense of any such action; provided, however, that counsel to the indemnifying party shall not (except with the consent of the indemnified party) also be counsel to the indemnified party. In no event shall the indemnifying parties be liable for fees and expenses of more than one counsel (in addition to any local counsel) separate from their own counsel for all indemnified parties in connection with any one action or separate but similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances. No indemnifying party shall, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever in respect of which indemnification or contribution may be sought under this Section 7 or Section 8 hereof (whether or not the indemnified parties are actual or potential parties thereto), unless such settlement, compromise or consent (i) includes an unconditional release of each indemnified party from all liability arising out of such litigation, investigation, proceeding or claim and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act by or on behalf of any indemnified party. Notwithstanding anything to the contrary herein, neither the assumption of the defense of any such action nor the payment of any fees or expenses related thereto shall be deemed to be an admission by the indemnifying party that it has an obligation to indemnify any person pursuant to this Agreement.

(d) If at any time an indemnified party shall have requested an indemnifying party to reimburse the indemnified party for fees and expenses of counsel, such indemnifying party agrees that it shall be liable for any settlement of the nature contemplated by Section 7(a)(ii) effected without its written consent if (i) such settlement is entered into more than [ ] days after receipt by such indemnifying party of the aforesaid request, (ii) such indemnifying party shall have received notice of the terms of such settlement at least [ ] days prior to such settlement being entered into, and (iii) such indemnifying party shall not have reimbursed such indemnified party in accordance with such request prior to the date of such settlement.

8. Contribution.

(a) If the indemnification provided for in Section 7 hereof is for any reason unavailable to or insufficient to hold harmless an indemnified party in respect of any losses, claims, damages, liabilities or expenses referred to therein, then each indemnifying party shall contribute to the aggregate amount of such losses, claims, damages, liabilities or

expenses incurred by such indemnified party, as incurred, (i) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the Dealer Managers on the other hand from the Offer of the Rights and the delivery of the Shares pursuant to the Offer, or (ii) if the allocation provided by clause (i) is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company on the one hand and the Dealer Managers on the other in connection with the statements or omissions that resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Dealer Managers on the other hand in connection with the Offer of the Rights and the delivery of the Shares pursuant to the Offer shall be deemed to be in the same respective proportions as the total net proceeds from the Offer (before deducting expenses) received by the Company bears to the total fees received by the Dealer Managers in connection with the Offer (whether from the Company or otherwise). The relative fault of the Company on the one hand and the Dealer Managers on the other hand shall be determined by reference to, among other things, whether any such untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or by the Dealer Managers and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

(b) The Company and the Dealer Managers agree that it would not be just and equitable if contribution pursuant to this Section 8 were determined by pro rata allocation or by any other method of allocation that does not take account of the equitable considerations referred to above in this Section 8. The aggregate amount of the losses, claims, damages, liabilities and expenses incurred by an indemnified party and referred to above in this Section 8 shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue or alleged untrue statement or omission or alleged omission. Notwithstanding the provisions of this Section 8, no Dealer Manager shall be required to contribute any amount in excess of the fees received by it. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this Section 8, each person, if any, who controls any Dealer Manager within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act shall have the same rights to contribution as each Dealer Manager, and each director of the Company, each officer of the Company, and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act shall have the same rights to contribution as the Company. Notwithstanding any other provision of Section 7 and this Section 8, no party shall be entitled to indemnification or contribution under this Agreement in violation of Section 17(i) of the Investment Company Act. The Dealer Managers' respective obligations to contribute pursuant to this Section 8 are several and not joint. The Company agrees to indemnify each Soliciting Dealer and controlling person to the same extent and subject to the same conditions, including with respect to contribution, provided for in Section 7 hereof and this Section 8, to the extent that a court of competent jurisdiction determines that such Soliciting Dealer or such controlling person is a statutory underwriter under the Securities Act.

9. Representations, Warranties and Agreements to Survive Delivery. All representations, warranties and agreements contained in this Agreement or in certificates of officers of the Company submitted pursuant hereto shall remain operative and in full force and effect regardless of (i) any investigation made by or on behalf of the Dealer Managers or the Company, any person controlling any of the Dealer Managers or the Company or their respective officers or directors, (ii) issuance of the Rights and (iii) delivery of and payment for the Shares pursuant to the Offer.

10. Termination of Agreement.

(a) The Dealer Managers may terminate this Agreement, by notice to the Company, at any time at or prior to the Expiration Date (i) if there has been, since the time of execution of this Agreement or since the respective dates as of which information is given in the Registration Statement, the Prospectus or the Offering Materials, a Material Adverse Effect, or (ii) if there has occurred any material adverse change in the financial markets in the United States or the international financial markets, any outbreak of hostilities or escalation thereof or other calamity or crisis or any change or development involving a prospective change in national or international political, financial or economic conditions, in each case the effect of which is such as to make it, in the judgment of the Dealer Managers, impracticable or inadvisable to market the Rights or the Shares, or (iii) if trading in the Rights or Common Stock has been suspended or materially limited by the Commission or the NASDAQ Global Select Market, or (iv) if trading generally on the American Stock Exchange or the New York Stock Exchange or in the NASDAQ Global Select Market has been suspended or materially limited, or minimum or maximum prices for trading have been fixed, or maximum ranges for prices have been required, by any of said exchanges or by such system or by order of the Commission, FINRA or any other governmental authority, or (v) a material disruption has occurred in commercial banking or securities settlement or clearance services in the United States, or (vi) if a banking moratorium has been declared by either Federal or New York authorities. The Company may in its sole discretion, at any time prior to delivery of the Securities, terminate the Offer and this Agreement if the Subscription Price is less than [ ]% of the net asset value attributable to a share of Common Stock disclosed in the Company's most recent periodic report filed with the Commission. In addition, at any time prior to the Expiration Date, upon providing five days' prior written notice specifying the grounds for such termination, the Company may terminate this Agreement with respect to any or all of the Dealer Managers in the event such Dealer Manager(s) is in breach of its obligations set forth in Section 2.

(b) If this Agreement is terminated pursuant to this Section with respect to any party, such termination shall be without liability of any party to any other party except as provided in Section 5 hereof; provided, further, that Sections 7, 8 and 9 hereof shall survive such termination and remain in full force and effect.

11. Tax Disclosure. Notwithstanding any other provision of this Agreement, from the commencement of discussions with respect to the transactions contemplated hereby, the Company (and each employee, representative or other agent of the Company) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure (as such terms are used in Sections 6011, 6111 and 6112 of the Code and the Treasury Regulations promulgated thereunder) of the transactions contemplated by this Agreement and all materials of any kind (including opinions or other tax analyses) that are provided relating to such tax treatment and tax structure.

12. Notices. All statements, requests, notices and agreements hereunder shall be in writing, and:

(a) if to the Dealer Managers, shall be delivered or sent by mail or facsimile transmission to:

[ ]

With a copy (for informational purposes only) to:

[ ]

And in the case of any notice pursuant to Section 7(d), a copy to:

[ ]

(b) if to the Company, shall be delivered or sent by mail or facsimile transmission to:

Kohlberg Capital Corporation
295 Madison Avenue, 6th Floor
New York, New York 10017
Attention: Michael I. Wirth
Facsimile: (212) 455-8300

With a copy (for informational purposes only) to:

Ropes & Gray LLP
One International Place
Boston, Massachusetts 02110
Attention: Craig E. Marcus, Esq.
Facsimile: (617) 951-7050

Any such statements, requests, notices or agreements shall take effect at the time of receipt thereof.

13. Persons Entitled to Benefit of Agreement. This Agreement shall inure to the benefit of and be binding upon the Dealer Managers and the Company and their respective successors. Nothing expressed or mentioned in this Agreement is intended or shall be construed to give any person, firm or corporation, other than the Dealer Managers and the Company and their respective successors and the controlling persons and officers and directors referred to in Sections 7 and 8 and their heirs and legal representatives, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision herein contained. This Agreement and all conditions and provisions hereof are intended to be for the sole and exclusive benefit of the Dealer Managers and the Company and their respective successors, and said controlling persons and officers and directors and their heirs and legal representatives, and for the benefit of no other person, corporation or other entity.

14. Definition of the Terms "Business Day" and "Subsidiary." For purposes of this Agreement, (a) "business day" means each Monday, Tuesday, Wednesday, Thursday or Friday that is not a day on which banking institutions in New York are generally authorized or obligated by law or executive order to close and (b) "subsidiary" has the meaning set forth in Rule 405 under the Securities Act.

15. Applicable Law. This Agreement will be governed by and construed in accordance with the laws of the State of New York.

16. Submission to Jurisdiction. Except as set forth below, no claim (a "Claim") which relates to the terms of this Agreement or the transactions contemplated hereby may be commenced, prosecuted

or continued in any court other than the courts of the State of New York located in the City and County of New York or in the United States District Court for the Southern District of New York, which courts shall have jurisdiction over the adjudication of such matters, and both the Dealer Managers and the Company consent to the jurisdiction of such courts and personal service with respect thereto. The Company hereby consents to personal jurisdiction, service and venue in any court in which any Claim arising out of or in any way relating to this Agreement is brought by any third party against any Dealer Manager or any indemnified party. Each of the Dealer Managers and the Company (on its behalf and, to the extent permitted by applicable law, on behalf of its stockholders and affiliates) waives all right to trial by jury in any action, proceeding or counterclaim (whether based upon contract, tort or otherwise) in any way arising out of or relating to this Agreement.

17. Counterparts. This Agreement may be executed in one or more counterparts and, if executed in more than one counterpart, the executed counterparts shall each be deemed to be an original but all such counterparts shall together constitute one and the same instrument.

18. Headings. The headings herein are inserted for convenience of reference only and are not intended to be part of, or to affect the meaning or interpretation of, this Agreement.

[*Remainder of Page Intentionally Left Blank.*]

If the foregoing is in accordance with your understanding of our agreement, please so indicate in the space provided below for that purpose, whereupon this letter shall constitute a binding agreement between the Company and the Dealer Managers.

Very truly yours,

KOHLBERG CAPITAL CORPORATION

By: _____
Name:
Title:

The foregoing Agreement is hereby confirmed and accepted as of the date first above written.

[ ]

Exhibit l

ROPES & GRAY LLP
ONE INTERNATIONAL PLACE
BOSTON, MA 02110-2624
WWW.ROPESGRAY.COM

May 29, 2008

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

Re: Kohlberg Capital Corporation

Ladies and Gentlemen:

This opinion is furnished to you in connection with the registration statement on Form N-2 (the "Registration Statement"), including the prospectus that is part of the Registration Statement (the "Prospectus"), filed by Kohlberg Capital Corporation, a Delaware corporation (the "Company"), with the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended (the "Securities Act"). The Prospectus provides that it will be supplemented in the future by one or more supplements to such Prospectus (each, a "Prospectus Supplement"). The Prospectus, as supplemented by the various Prospectus Supplements, will provide for the issuance and sale by the Company from time to time pursuant to Rule 415 under the Securities Act of up to $200,000,000 aggregate offering price of: (i) common stock, par value $0.01 per share (the "Common Stock"); (ii) preferred stock, par value $0.01 per share (the "Preferred Stock"); (iii) subscription rights to purchase Common Stock (the "Rights"); (iv) debt securities (the "Debt Securities"); and (v) warrants to purchase Common Stock, Preferred Stock or Debt Securities (the "Warrants" and, together with the Common Stock, the Preferred Stock, the Rights and the Debt Securities, collectively, the "Securities"). The Debt Securities will be issued under one or more indentures (each an "Indenture") between the Company and a trustee to be selected by the Company. This opinion is being furnished in accordance with the requirements of Item 25.2(l) of Part C of Form N-2.

We have examined and relied upon the information set forth in the Registration Statement and such other records, agreements, certificates and documents, and have made such other and further legal and factual inquiries, as we have deemed necessary as a basis for the opinions expressed herein. As to questions of fact not independently verified by us, we have relied upon certificates of public officials and officers of the Company.

The opinions expressed herein are limited to the laws of the State of New York, the Delaware General Corporation Law and the Federal laws of the United States of America.

Based upon the foregoing and subject to the additional qualifications set forth below, we are of the opinion that:

1. When the issuance and the terms of the sale of the shares of Common Stock or Preferred Stock, as applicable, have been duly authorized by the board of directors of the Company in conformity with its certificate of incorporation, and such shares have been issued and delivered against payment of the purchase price therefor in an amount in excess of the par value thereof, in accordance with any applicable definitive purchase, underwriting or similar agreement, and, in each case, as contemplated by the Registration Statement, the Prospectus and the related Prospectus Supplement (including upon the exercise of any Rights or Warrants), and, if issued upon the conversion or exchange of any Debt Securities, when such shares have been duly issued and delivered as contemplated by the terms of the applicable Indenture, the shares of Common Stock or Preferred Stock, as applicable, will be validly issued, fully paid and nonassessable.

2. When the issuance and the terms of the sale of the Debt Securities have been duly authorized by the board of directors of the Company and duly established in conformity with the applicable Indenture so as not to violate any applicable law or result in a default under, or breach of, any agreement or instrument binding upon the Company and so as to comply with any requirement or restriction imposed by any court or governmental or regulatory body having jurisdiction over the Company or any of its property, and the Debt Securities have been duly executed, authenticated, issued, delivered and sold in accordance with the applicable definitive purchase, underwriting or similar agreement, as contemplated by the Registration Statement, the Prospectus and the related Prospectus Supplement, and in the manner provided for in the applicable Indenture against payment of the purchase price therefor, the Debt Securities will (subject to the qualifications in the penultimate paragraph set forth below) constitute valid and binding obligations of the Company enforceable against the Company in accordance with their respective terms.

3. When the issuance and the terms of the sale of the Warrants or Rights, as applicable, have been duly authorized by the board of directors of the Company in conformity with its certificate of incorporation, and duly established with the applicable Warrant certificate or Rights certificate or other documents or agreements setting forth the terms of such Warrants or Rights so as not to violate any applicable law or result in a default under, or breach of, any agreement or instrument binding upon the Company and so as to comply with any requirement or restriction imposed by any court or governmental or regulatory body having jurisdiction over the Company or any of its property, the issuance of the Warrants or Rights, as applicable, will be duly authorized.

In rendering the opinions set forth above, we have assumed that (i) the Registration Statement will have become effective under the Securities Act, a Prospectus Supplement will have been prepared and filed with the Commission describing the Securities offered thereby and such Securities will have been issued and sold in accordance with the terms of such Prospectus Supplement; (ii) if applicable, a definitive purchase, underwriting or similar agreement with

respect to such Securities will have been duly authorized, executed and delivered by the Company and the other parties thereto; (iii) the Securities will be duly authorized by all necessary corporate action by the Company and the Indenture and any other agreement pursuant to which such Securities may be issued will be duly authorized, executed and delivered by the Company and the other parties thereto; (iv) the terms of the Securities as established and the issuance and sale thereof comply with the applicable requirements of the Investment Company Act of 1940, as amended; (v) the Company is a will remain duly organized, validly existing and in good standing under applicable law; and (vi) the Company has reserved a sufficient number of shares of its duly authorized, but unissued, Common Stock and Preferred Stock as is necessary to provide for the issuance of the shares of Common Stock and Preferred Stock pursuant to the Registration Statement.

Our opinion in paragraph 2 that the Debt Securities constitute valid and binding obligations of the Company, enforceable against the Company in accordance with their respective terms is subject to, and we express no opinion with respect to, (i) bankruptcy, insolvency, reorganization, receivership, liquidation, fraudulent conveyance, moratorium or similar laws of general application affecting the rights and remedies of creditors and secured parties, and (ii) general principles of equity, regardless of whether such enforceability is considered in a proceeding in equity or at law. Our opinion in paragraph 2 is also subject to the qualification that no term or provision shall be included in any Indenture, any supplemental indenture to any such Indenture or any other agreement or instrument pursuant to which any of the Debt Securities are to be issued that would affect the validity of such opinion.

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

Very truly yours,

/S/ ROPES & GRAY LLP

Ropes & Gray LLP

Exhibit n.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the use in this Registration Statement on Form N-2 which is to be filed on or about May 29, 2008, of our reports, each dated March 14, 2008, relating to the financial statements and financial highlights of Kohlberg Capital Corporation for the year ended December 31, 2007 (which expresses an unqualified opinion and includes an explanatory paragraph relating to the valuation of investments whose fair values have been estimated by management in the absence of readily determinable fair values), and the effectiveness of Kohlberg Capital Corporation's internal control over financial reporting, appearing in the Prospectus, which is part of such Registration Statement, and to the references to us under the headings "Selected Financial Data" and "Independent Registered Public Accounting Firm."

/s/ Deloitte & Touche LLP

New York, New York
May 29, 2008