
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2010

OR

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

For the transition period from _____ to _____

Commission file number 001-33559

BLACKROCK KELSO CAPITAL CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

20-2725151
(I.R.S. Employer
Identification No.)

40 East 52nd Street, New York, NY
(Address of Principal Executive Offices)

10022
(Zip Code)

Registrant's Telephone Number, Including Area Code: 212-810-5800

Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report.

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes No

The number of shares of the Registrant's common stock, \$.001 par value per share, outstanding at August 5, 2010 was 65,510,978.

BLACKROCK KELSO CAPITAL CORPORATION
FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2010

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report, and other statements that we may make, may contain forward-looking statements with respect to future financial or business performance, strategies or expectations. Forward-looking statements are typically identified by words or phrases such as “trend,” “opportunity,” “pipeline,” “believe,” “comfortable,” “expect,” “anticipate,” “current,” “intention,” “estimate,” “position,” “assume,” “potential,” “outlook,” “continue,” “remain,” “maintain,” “sustain,” “seek,” “achieve” and similar expressions, or future or conditional verbs such as “will,” “would,” “should,” “could,” “may” or similar expressions.

Forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time. Forward-looking statements speak only as of the date they are made, and we assume no duty to and do not undertake to update forward-looking statements. Actual results could differ materially from those anticipated in forward-looking statements and future results could differ materially from historical performance.

In addition to factors previously identified elsewhere in the reports BlackRock Kelso Capital Corporation has filed with the Securities and Exchange Commission (the “SEC”), the following factors, among others, could cause actual results to differ materially from forward-looking statements or historical performance:

- our future operating results;
- our business prospects and the prospects of our portfolio companies;
- the impact of investments that we expect to make;
- our contractual arrangements and 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;
- the adequacy of our cash resources and working capital, including our ability to obtain continued financing on favorable terms;
- the timing of cash flows, if any, from the operations of our portfolio companies;
- the impact of increased competition;
- the ability of BlackRock Kelso Capital Advisors LLC, our investment advisor (the “Advisor”), to locate suitable investments for us and to monitor and administer our investments;
- potential conflicts of interest in the allocation of opportunities between us and other investment funds managed by the Advisor or its affiliates;
- the ability of the Advisor to attract and retain highly talented professionals;
- fluctuations in foreign currency exchange rates; and
- the impact of changes to tax legislation and, generally, our tax position.

PART 1. FINANCIAL INFORMATION

In this Quarterly Report, “Company”, “we”, “us” and “our” refer to BlackRock Kelso Capital Corporation unless the context states otherwise.

Item 1. Financial Statements

BlackRock Kelso Capital Corporation
Statements of Assets and Liabilities (Unaudited)

	June 30, 2010	December 31, 2009
Assets:		
Investments at fair value:		
Non-controlled, non-affiliated investments (amortized cost of \$772,076,780 and \$963,463,604)	\$ 641,782,785	\$ 810,035,780
Non-controlled, affiliated investments (amortized cost of \$63,489,666 and \$63,942,195)	58,692,298	26,793,989
Controlled investments (amortized cost of \$51,096,865 and \$27,414,204)	53,115,874	9,912,276
Total investments at fair value (amortized cost of \$886,663,311 and \$1,054,820,003)	753,590,957	846,742,045
Cash and cash equivalents	20,384,318	5,048,136
Cash denominated in foreign currency (cost of \$909,784 and \$759,760)	881,628	759,765
Unrealized appreciation on forward foreign currency contracts	1,383,928	203,998
Receivable for investments sold	695,718	—
Interest receivable	18,353,477	18,441,527
Dividends receivable	8,249,511	6,620,903
Prepaid expenses and other assets	8,854,191	1,710,105
Total Assets	\$ 812,393,728	\$ 879,526,479
Liabilities:		
Payable for investments purchased	\$ 272,789	\$ 557,483
Credit facility payable	145,000,000	296,000,000
Interest payable on credit facility	161,351	959,458
Dividend distributions payable	18,157,464	18,072,063
Base management fees payable	4,151,014	4,547,129
Incentive management fees payable	—	16,818,602
Accrued administrative services	220,256	201,728
Other accrued expenses and payables	2,015,058	2,807,254
Total Liabilities	169,977,932	339,963,717
Net Assets:		
Common stock, par value \$.001 per share, 200,000,000 and 100,000,000 common shares authorized, 66,328,753 and 57,436,875 issued and 65,367,074 and 56,475,196 outstanding	66,329	57,437
Paid-in capital in excess of par	912,913,513	826,617,395
Undistributed net investment income	23,879,992	19,463,949
Accumulated net realized loss	(157,293,763)	(93,279,572)
Net unrealized depreciation	(131,724,375)	(207,870,547)
Treasury stock at cost, 961,679 and 961,679 shares held	(5,425,900)	(5,425,900)
Total Net Assets	642,415,796	539,562,762
Total Liabilities and Net Assets	\$ 812,393,728	\$ 879,526,479
Net Asset Value Per Share	\$ 9.83	\$ 9.55

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

BlackRock Kelso Capital Corporation
Statements of Operations (Unaudited)

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Investment Income:				
From non-controlled, non-affiliated investments:				
Interest	\$ 25,008,141	\$ 32,153,777	\$ 50,321,153	\$ 62,489,811
Dividends	541,610	365,547	1,045,255	870,756
Other income	37,500	—	37,500	—
From non-controlled, affiliated investments:				
Interest	1,624,132	433,133	3,084,840	914,518
Dividends	314,411	268,207	616,574	541,414
From controlled investments:				
Interest	685,161	218,964	904,732	434,429
Total investment income	28,210,955	33,439,628	56,010,054	65,250,928
Expenses:				
Base management fees	4,151,014	4,647,032	8,473,485	9,395,250
Incentive management fees	—	—	493,951	—
Interest and credit facility fees	1,699,510	1,712,222	2,821,764	3,548,611
Investment advisor expenses	385,297	340,273	783,961	687,067
Amortization of debt issuance costs	587,884	171,197	756,176	339,489
Administrative services	220,987	201,927	478,710	431,035
Professional fees	192,965	374,516	396,231	606,566
Insurance	182,203	131,864	334,611	261,225
Director fees	91,832	88,863	187,669	184,155
Other	278,626	236,331	597,594	510,745
Net expenses	7,790,318	7,904,225	15,324,152	15,964,143
Net Investment Income	20,420,637	25,535,403	40,685,902	49,286,785
Realized and Unrealized Gain (Loss):				
Net realized gain (loss):				
Non-controlled, non-affiliated investments	(20,391,142)	(7,067,506)	(27,086,218)	(7,062,957)
Non-controlled, affiliated investments	—	—	(36,221,865)	12,240
Controlled investments	634	—	2,515	—
Foreign currency	(1,260,360)	(3,598,580)	(708,623)	(1,487,041)
Net realized gain (loss)	(21,650,868)	(10,666,086)	(64,014,191)	(8,537,758)
Net change in unrealized appreciation or depreciation on:				
Non-controlled, non-affiliated investments	3,529,516	12,328,390	19,116,927	(11,043,289)
Non-controlled, affiliated investments	(1,445,753)	(4,687,450)	36,367,741	(8,972,116)
Controlled investments	18,876,805	(748,728)	19,520,937	(2,350,911)
Foreign currency translation	2,604,495	2,060,171	1,140,567	1,371,919
Net change in unrealized appreciation or depreciation	23,565,063	8,952,383	76,146,172	(20,994,397)
Net realized and unrealized gain (loss)	1,914,195	(1,713,703)	12,131,981	(29,532,155)
Net Increase in Net Assets Resulting from Operations	\$ 22,334,832	\$ 23,821,700	\$ 52,817,883	\$ 19,754,630
Net Investment Income Per Share	\$ 0.36	\$ 0.46	\$ 0.71	\$ 0.89
Earnings Per Share	\$ 0.39	\$ 0.43	\$ 0.93	\$ 0.36
Basic and Diluted Weighted-Average Shares Outstanding	57,490,004	55,621,338	57,045,983	55,433,200
Dividends Declared Per Share	\$ 0.32	\$ 0.16	\$ 0.64	\$ 0.32

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

BlackRock Kelso Capital Corporation
Statements of Changes in Net Assets (Unaudited)

	Six months ended June 30, 2010	Six months ended June 30, 2009
Net Increase in Net Assets Resulting from Operations:		
Net investment income	\$ 40,685,902	\$ 49,286,785
Net realized gain (loss)	(64,014,191)	(8,537,758)
Net change in unrealized appreciation or depreciation	76,146,172	(20,994,397)
Net increase in net assets resulting from operations	<u>52,817,883</u>	<u>19,754,630</u>
Dividend Distributions to Stockholders from:		
Net investment income	<u>(36,269,859)</u>	<u>(17,733,915)</u>
Capital Share Transactions:		
Proceeds from shares sold	88,406,250	—
Less offering costs	(4,514,243)	—
Reinvestment of dividends	2,413,003	3,950,579
Purchases of treasury stock	—	(2,234,892)
Net increase in net assets resulting from capital share transactions	<u>86,305,010</u>	<u>1,715,687</u>
Total Increase in Net Assets	<u>102,853,034</u>	<u>3,736,402</u>
Net assets at beginning of period	539,562,762	510,295,501
Net assets at end of period	<u>\$ 642,415,796</u>	<u>\$ 514,031,903</u>
Capital Share Activity:		
Shares issued from subscriptions	8,625,000	—
Shares issued from reinvestment of dividends	266,878	932,395
Purchases of treasury stock	—	(583,572)
Total increase in shares	<u>8,891,878</u>	<u>348,823</u>
Undistributed net investment income at end of period	<u>\$ 23,879,992</u>	<u>\$ 35,407,886</u>

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

BlackRock Kelso Capital Corporation
Statements of Cash Flows (Unaudited)

	Six months ended June 30, 2010	Six months ended June 30, 2009
Operating Activities:		
Net increase in net assets resulting from operations	\$ 52,817,883	\$ 19,754,630
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:		
Proceeds from dispositions of short-term investments—net	358,276	—
Purchases of investments	(144,288,230)	(27,189,886)
Purchases of foreign currency—net	(734,518)	(3,009,782)
Proceeds from sales/repayments of investments	254,025,286	43,908,566
Net change in unrealized appreciation or depreciation on investments	(75,005,605)	22,366,316
Net change in unrealized appreciation or depreciation on foreign currency translation	(1,140,567)	(1,371,919)
Net realized loss (gain) on investments	63,305,568	7,050,717
Net realized loss (gain) on foreign currency	708,623	1,487,041
Amortization of premium/discount—net	(5,229,514)	(2,663,183)
Amortization of debt issuance costs	756,176	339,489
Increase in receivable for investments sold	(695,718)	—
Decrease in interest receivable	88,050	2,495,556
Increase in dividends receivable	(1,628,608)	(1,281,827)
Decrease (increase) in prepaid expenses and other assets	(98,864)	323,683
Increase (decrease) in payable for investments purchased	(284,694)	2,218,689
Decrease in interest payable on credit facility	(798,107)	(515,595)
Decrease in base management fees payable	(396,115)	(1,077,997)
Decrease in incentive management fees payable	(16,818,602)	—
Increase in accrued administrative services payable	18,528	80,328
Decrease in other accrued expenses and payables	(792,196)	(344,846)
Net cash provided by operating activities	<u>124,167,052</u>	<u>62,569,980</u>
Financing Activities:		
Net proceeds from issuance of common stock	83,892,007	—
Dividend distributions paid	(33,771,455)	(24,343,892)
Borrowings under credit facility	134,600,000	22,000,000
Repayments under credit facility	(285,600,000)	(72,000,000)
Increase in deferred debt issuance costs	(7,801,398)	—
Purchases of treasury stock	—	(2,234,892)
Net cash used in financing activities	<u>(108,680,846)</u>	<u>(76,578,784)</u>
Effect of exchange rate changes on cash and cash equivalents	(28,161)	3,135
Net increase (decrease) in cash	15,458,045	(14,005,669)
Cash and cash equivalents, beginning of period	5,807,901	15,786,271
Cash and cash equivalents, end of period	<u>\$ 21,265,946</u>	<u>\$ 1,780,602</u>
Supplemental disclosure of cash flow information and non-cash financing activities:		
Cash paid during period for:		
Interest	\$ 3,162,381	\$ 3,929,854
Taxes	\$ 1,086,264	\$ 484,257
Dividend distributions reinvested	\$ 2,413,003	\$ 3,950,579

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

BlackRock Kelso Capital Corporation
Schedules of Investments (Unaudited)
June 30, 2010

<u>Portfolio Company</u>	<u>Industry</u>	<u>Principal Amount or Number of Shares/Units</u>	<u>Cost(a)</u>	<u>Fair Value(b)</u>
Senior Secured Notes—13.5%				
AGY Holding Corp., Second Lien, 11.00%, 11/15/14	Glass Yarns/ Fibers	\$ 23,500,000	\$ 23,160,604	\$ 19,740,000
American Residential Services L.L.C. et al., Second Lien, 12.00%, 4/15/15, acquired 4/9/10(c)	HVAC/ Plumbing Services	40,000,000	39,822,320	40,000,000
TriMark USA, Inc., Second Lien, 11.50% (LIBOR + 1.75% cash, 2.00% PIK), 11/30/13	Food Service Equipment	31,818,047	31,818,047	27,204,431
Total Senior Secured Notes			<u>94,800,971</u>	<u>86,944,431</u>
Unsecured Debt—1.3%				
Big Dumpster Acquisition, Inc., 13.50% PIK, 7/5/15	Waste Management Equipment	45,866,390	44,599,248	3,944,510
Marsico Parent Holdco, LLC et al., 12.50% PIK, 7/15/16, acquired 11/28/07(c)	Financial Services	11,995,758	11,725,114	3,022,931
Marsico Parent Superholdco, LLC et al., 14.50% PIK, 1/15/18, acquired 11/28/07(c)	Financial Services	8,366,307	7,827,812	1,472,470
Total Unsecured Debt			<u>64,152,174</u>	<u>8,439,911</u>
Subordinated Debt—19.2%				
A & A Manufacturing Co., Inc., 18.00% (12.00% cash, 6.00% PIK), 4/2/14	Protective Enclosures	20,821,427	20,821,427	18,510,249
Conney Safety Products, LLC, 16.00%, 10/1/14(d)	Safety Products	30,582,734	29,222,314	29,359,425
Mattress Giant Corporation, 11.00% PIK, 12/31/12(d)	Bedding —Retail	6,066,231	3,257,336	1,674,280
MediMedia USA, Inc., 11.38%, 11/15/14, acquired multiple dates(c)	Information Services	8,000,000	8,053,501	7,352,000
The Pay-O-Matic Corp., 14.00% (12.00% cash, 2.00% PIK), 1/15/15	Financial Services	15,366,867	15,366,867	15,628,104
PGA Holdings, Inc., 12.50%, 3/12/16	Healthcare Services	5,000,000	4,929,162	5,100,000
Sarnova HC, LLC et al., 14.00% (12.00% cash, 2.00% PIK), 4/6/16	Healthcare Products	25,118,056	25,118,056	25,118,056
Sentry Security Systems, LLC, 16.00% (14.00% cash, 2.00% PIK), 8/7/12	Security Services	10,943,896	10,943,896	10,648,410
U.S. Security Holdings, Inc., 13.00% (11.00% cash, 2.00% PIK), 5/8/14, acquired 5/10/06(c)	Security Services	7,000,000	7,000,000	7,000,000
Wastequip, Inc., 12.50% (10.00% cash, 2.50% PIK), 2/5/15	Waste Management Equipment	8,237,300	8,065,555	3,130,174
Total Subordinated Debt			<u>132,778,114</u>	<u>123,520,698</u>

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

BlackRock Kelso Capital Corporation
Schedules of Investments (Unaudited)—(Continued)
June 30, 2010

Portfolio Company	Industry	Principal Amount or Number of Shares/Units	Cost(a)	Fair Value(b)
Senior Secured Loans—69.0%(e)				
Alpha Media Group Inc., First Lien, 12.00% PIK, 7/15/13	Publishing	\$ 4,206,983	\$ 3,023,434	\$ 1,805,942
Al Solutions, Inc., First Lien, 10.00%, 6/28/13(f)	Metals	135,000	135,000	135,000
American Safety Razor Company, LLC, Second Lien, 10.50% (Base Rate + 7.25%), 1/30/14(g)	Consumer Products	10,000,000	10,000,000	2,000,000
American SportWorks LLC, Second Lien, 13.00%, 6/16/15(f)	Utility Vehicles	8,000,000	8,000,000	6,400,000
AmQuip Crane Rental LLC, Second Lien, 6.13% (LIBOR + 5.75%), 6/29/14	Construction Equipment	24,089,541	22,468,559	21,632,408
Applied Tech Products Corp. et al., Tranche A, First Lien, 7.75% (Base Rate + 4.50%), 10/24/10(g)	Plastic Packaging	731,669	731,310	252,907
Arclin US Holdings Inc., Second Lien, 7.76% (LIBOR + 6.00%), 1/15/15(h)	Chemicals	1,885,164	1,206,340	1,836,150
Bankruptcy Management Solutions, Inc., Second Lien, 6.60% (LIBOR + 6.25%), 7/31/13	Financial Services	43,216,385	28,348,965	30,208,253
The Bargain! Shop Holdings Inc., Term Loan A, First Lien, 16.00%, 6/29/12(h)	Discount Stores	13,412,952(i)	13,059,220	12,622,173
The Bargain! Shop Holdings Inc., Term Loan B, First Lien, 16.00%, 7/1/12(h)	Discount Stores	18,437,048(i)	17,284,754	17,350,066
Berlin Packaging L.L.C., Second Lien, 6.96% (LIBOR + 6.50%), 8/17/15	Rigid Packaging	24,000,000	23,537,531	24,000,000
Electrical Components International, Inc., Tranche B, First Lien, 9.50% (LIBOR + 6.50%), 5/14/15(f)	Electronics	1,649,968	1,649,968	1,649,968
Event Rentals, Inc., Acquisition Loan, First Lien, 7.75% (LIBOR + 4.25% cash, 2.00% PIK), 12/19/13	Party Rentals	3,170,324	3,170,324	2,567,963
Facet Technologies, LLC, Second Lien, 17.50% PIK, 7/26/12	Medical Devices	37,407,728	36,195,331	9,179,501
Facet Technologies, LLC, Guaranty(j)	Medical Devices	—	—	(240,000)
Fitness Together Franchise Corporation, First Lien, 11.50% (9.50% cash, 2.00% PIK), 11/10/13(f)	Personal Fitness	7,093,352	7,093,352	5,986,789
Heartland Automotive Services II, Inc. et al., Term Loan A, First Lien, 7.25% (Base Rate + 4.00%), 1/30/14	Automobile Repair	3,304,931	3,303,694	3,086,806
Heartland Automotive Services II, Inc. et al., Term Loan B, First Lien, 9.25% (Base Rate + 4.00% cash, 2.00% PIK), 1/30/14	Automobile Repair	2,281,667	2,281,511	2,023,843
Hoffmaster Group, Inc., First Lien, 7.00% (LIBOR + 5.00%), 6/2/16	Consumer Products	17,352,404	17,352,404	17,352,404
Hoffmaster Group, Inc., Second Lien, 13.50%, 6/2/17	Consumer Products	33,000,000	33,000,000	33,000,000

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

BlackRock Kelso Capital Corporation
Schedules of Investments (Unaudited)—(Continued)
June 30, 2010

Portfolio Company	Industry	Principal Amount or Number of Shares/Units	Cost(a)	Fair Value(b)
InterMedia Outdoors, Inc., Second Lien, 7.28% (LIBOR + 6.75%), 1/31/14	Printing/ Publishing	\$10,000,000	\$ 10,000,000	\$ 8,220,000
Isola USA Corp., First Lien, 13.00% (Base Rate + 9.75%), 12/18/12	Electronics	10,901,316	10,152,685	10,901,316
Isola USA Corp., Second Lien, 17.75% (Base Rate + 14.50%), 12/18/13	Electronics	25,000,000	25,000,000	25,000,000
LJVH Holdings Inc., Second Lien, 6.03% (LIBOR + 5.50%), 1/19/15(h)	Specialty Coffee	25,000,000	25,000,000	23,225,000
MCCI Group Holdings, LLC, Second Lien, 8.00% (LIBOR + 7.25%), 6/21/13	Healthcare Services	29,000,000	28,966,834	28,797,000
Navilyst Medical, Inc., Second Lien, 13.00%, 8/14/15	Healthcare Services	15,000,000	14,820,324	14,850,000
New Enterprise Stone & Lime Co., Inc., Second Lien, 12.50%, 7/11/14	Mining/ Construction	35,000,000	34,779,790	35,000,000
Physiotherapy Associates, Inc. et al., Second Lien, 12.00% (Base Rate + 8.75%), 12/31/13	Rehabilitation Centers	17,000,000	17,000,000	16,048,000
Premier Yachts, Inc. et al., Term A, First Lien, 4.10% (LIBOR + 3.75%), 8/22/12	Entertainment Cruises	5,458,146	5,448,398	5,458,146
Premier Yachts, Inc. et al., Term B, First Lien, 7.35% (LIBOR + 7.00%), 8/22/13	Entertainment Cruises	687,342	685,800	687,342
Sunrise Medical LTC LLC et al., Second Lien, 6.85% (LIBOR + 6.50%), 12/28/13	Healthcare Equipment	14,400,000	14,400,000	14,400,000
Total Safety U.S., Inc., Second Lien, 6.85% (LIBOR + 6.50%), 12/8/13	Industrial Safety Equipment	9,000,000	9,000,000	8,658,000
United Subcontractors, Inc., First Lien, 2.04% (LIBOR + 1.50%), 6/30/15(d)	Building and Construction	1,626,814	1,618,495	1,408,821
Water Pik, Inc., Second Lien, 5.85% (LIBOR + 5.50%), 6/15/14	Consumer Products	30,000,000	30,000,000	30,000,000
WBS Group LLC et al., Second Lien, 10.50% (LIBOR + 9.00%), 6/7/13	Software	20,000,000	20,000,000	18,700,000
Wembley, Inc., Second Lien, 8.50% (Base Rate + 5.25%), 8/22/12(g)	Gaming	1,000,000	1,000,000	28,750
Westward Dough Operating Company, LLC, Term Loan A, First Lien, 4.53% (LIBOR + 4.00%), 3/30/11	Restaurants	6,850,000	6,850,000	3,685,300
Westward Dough Operating Company, LLC, Term Loan B, First Lien, 7.53% (LIBOR + 7.00%), 3/30/11(g)	Restaurants	8,334,656	8,334,656	5,494,135
Total Senior Secured Loans			<u>494,898,679</u>	<u>443,411,983</u>
Preferred Stock—0.8%				
Alpha Media Group Holdings Inc., Series A-2(k)	Publishing	5,000	—	—
Facet Holdings Corp., Class A, 12.00% PIK(g)	Medical Devices	900	900,000	—

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

BlackRock Kelso Capital Corporation
Schedules of Investments (Unaudited)—(Continued)
June 30, 2010

<u>Portfolio Company</u>	<u>Industry</u>	<u>Principal Amount or Number of Shares/Units</u>	<u>Cost(a)</u>	<u>Fair Value(b)</u>
Fitness Together Holdings, Inc., Series A(f)(k)	Personal Fitness	187,500	\$ 173,326	\$ —
Fitness Together Holdings, Inc., Series A-1(f)(k)	Personal Fitness	49,056	49,056	—
Fitness Together Holdings, Inc., Series B Convertible(f)(k)	Personal Fitness	13,263,524	7,600,000	197,000
M & M Tradition Holdings Corp., Series A Convertible, 16.00% PIK(d)	Sheet Metal Fabrication	4,968	4,968,000	5,117,040
Total Preferred Stock			13,690,382	5,314,040
Common Stock—9.8%(k)				
Alpha Media Group Holdings Inc., Class B	Publishing	12,500	—	—
Arclin Cayman Holdings Ltd.(h)	Chemicals	450,532	9,722,203	5,320,000
BKC ARS Blocker, Inc. (American Residential)(l)	HVAC/Plumbing Services	1,000	20,798	876,161
BKC ASW Blocker, Inc. (American SportWorks)(f)(m)	Utility Vehicles	1,000	7,428,827	577,117
BKC CSP Blocker, Inc. (Conney Safety)(d)(n)	Safety Products	100	888,910	946,689
BKC DVSH Blocker, Inc. (DynaVox Systems and Sunrise Medical)(o)	Augmentative Communication Products	100	758,068	2,920,256
BKC MTCH Blocker, Inc. (Marquette Transportation)(p)	Transportation	1,000	5,000,000	2,726,000
ECI Holdco, Inc., Class A-1(f)	Electronics	18,848,836	18,848,836	38,170,000
Facet Holdings Corp.	Medical Devices	10,000	100,000	—
Fitness Together Holdings, Inc.(f)	Personal Fitness	173,547	118,500	—
M & M Tradition Holdings Corp.(d)	Sheet Metal Fabrication	500,000	5,000,000	5,000,000
MGHC Holding Corporation (Mattress Giant)(d)	Bedding—Retail	2,285,815	2,285,815	—
USI Senior Holdings, Inc. (United Subcontractors)(d)	Building and Construction	88,330	7,198,797	6,136,043
Total Common Stock			57,370,754	62,672,266
Limited Partnership/Limited Liability Company Interests—3.4%				
Big Dumpster Coinvestment, LLC(k)	Waste Management Equipment	—	5,333,333	—
Marsico Parent Superholdco, LLC, 16.75% PIK, acquired 11/28/07(c)(g)	Financial Services	1,750	1,650,005	—
Penton Business Media Holdings LLC(d)(k)	Information Services	—	9,050,000	9,050,000

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

BlackRock Kelso Capital Corporation
Schedules of Investments (Unaudited)—(Continued)
June 30, 2010

<u>Portfolio Company</u>	<u>Industry</u>	<u>Principal Amount or Number of Shares/Units</u>	<u>Cost(a)</u>	<u>Fair Value(b)</u>
PG Holdco, LLC (Press Ganey), 15.00% PIK	Healthcare Services	333	\$ 333,333	\$ 345,743
PG Holdco, LLC (Press Ganey), Class A(k)	Healthcare Services	16,667	166,667	216,667
Sentry Security Systems Holdings, LLC(k)	Security Services	147,271	147,271	867
Sentry Security Systems Holdings, LLC, 8.00% PIK	Security Services	602,729	602,729	602,729
VSS-AHC Holdings LLC (Advanstar)(k)	Printing/ Publishing	352,941	4,199,161	4,198,939
WBS Group Holdings, LLC, Class B, 16.00% PIK	Software	8,000	8,000,000	7,486,449
Total Limited Partnership/Limited Liability Company Interests			<u>29,482,499</u>	<u>21,901,394</u>
Equity Warrants/Options—0.7%(k)				
Arclin Cayman Holdings Ltd., Tranche 1, expire 1/15/14(h)	Chemicals	230,159	403,815	916,823
Arclin Cayman Holdings Ltd., Tranche 2, expire 1/15/15(h)	Chemicals	230,159	323,052	1,071,769
Arclin Cayman Holdings Ltd., Tranche 3, expire 1/15/14(h)	Chemicals	230,159	484,578	747,423
Arclin Cayman Holdings Ltd., Tranche 4, expire 1/15/15(h)	Chemicals	230,159	403,815	909,256
Kaz, Inc., expire 12/8/16	Consumer Products	49	512,000	728,019
Kaz, Inc., expire 12/8/16	Consumer Products	16	64,000	112,638
Kaz, Inc., expire 12/8/16	Consumer Products	16	24,000	53,224
Kaz, Inc., expire 12/8/16	Consumer Products	16	9,000	26,054
Marsico Superholdco SPV, LLC, expire 12/14/19, acquired 11/28/07(c)	Financial Services	455	444,450	—
Total Equity Warrants/Options			<u>2,668,710</u>	<u>4,565,206</u>
TOTAL INVESTMENTS INCLUDING UNEARNED INCOME			889,842,283	756,769,929
UNEARNED INCOME—(0.5)%			<u>(3,178,972)</u>	<u>(3,178,972)</u>
TOTAL INVESTMENTS—117.3%			<u>\$886,663,311</u>	753,590,957
OTHER ASSETS & LIABILITIES (NET)—(17.3)%				<u>(111,175,161)</u>
NET ASSETS—100.0%				<u>\$ 642,415,796</u>

- (a) Represents amortized cost for fixed income securities and unearned income, and cost for preferred and common stock, limited partnership/limited liability company interests and equity warrants/options.
- (b) Fair value is determined by or under the direction of the Company's Board of Directors (see Note 2).
- (c) These securities are exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions that are exempt from registration, normally to qualified institutional buyers. In the aggregate, these securities represent 9.2% of net assets at June 30, 2010.
- (d) "Non-controlled, affiliated" investments under the Investment Company Act of 1940, whereby the Company owns 5% or more (but not more than 25%) of the portfolio company's outstanding voting securities, are as follows:

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

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<u>Non-controlled, Affiliated Investments</u>	<u>Fair Value at December 31, 2009</u>	<u>Gross Additions (Cost)*</u>	<u>Gross Reductions (Cost)**</u>	<u>Net Unrealized Gain (Loss)</u>	<u>Fair Value at June 30, 2010</u>	<u>Net Realized Gain (Loss)***</u>	<u>Interest Income***</u>	<u>Dividend Income***</u>
BKC CSP Blocker, Inc.								
Common Stock	\$ —	\$ 888,910	\$ —	\$ 57,779	\$ 946,689	\$ —	\$ —	\$ —
Conney Safety Products, LLC								
Subordinated Debt	—	25,205,409	—	4,154,016	29,359,425	—	2,358,336	—
M&M Tradition Holdings Corp.:								
Preferred Stock	5,117,040	—	—	—	5,117,040	—	—	616,574
Common Stock	5,000,000	—	—	—	5,000,000	—	—	—
Mattress Giant Corporation								
Subordinated Debt	3,521,162	736,134	—	(2,583,016)	1,674,280	—	736,232	—
MGHC Holding Corporation								
Common Stock	—	—	—	—	—	—	—	—
Penton Business Media Holdings LLC								
Limited Liability Co. Interest	515,870	9,050,000	(14,943,201)	14,427,331	9,050,000	(14,426,995)	—	—
Penton Media, Inc.								
Senior Secured Loan	4,290,000	14,571	(25,694,870)	21,390,299	—	(21,794,870)	(25,073)	—
United Subcontractors, Inc.								
Senior Secured Loan	1,447,864	826	—	(39,869)	1,408,821	—	15,345	—
USI Senior Holdings, Inc.								
Common Stock	6,902,053	272,789	—	(1,038,799)	6,136,043	—	—	—
Totals	\$26,793,989	\$36,168,639	\$(40,638,071)	\$36,367,741	\$58,692,298	\$(36,221,865)	\$3,084,840	\$616,574

* Gross additions include increases in the cost basis of investments resulting from new portfolio investments, payment-in-kind interest or dividends, the amortization of unearned income, the exchange of one or more existing securities for one or more new securities and the movement of an existing portfolio company into this category from a different category.

** Gross reductions include decreases in the cost basis of investments resulting from principal collections related to investment repayments or sales, the exchange of one or more existing securities for one or more new securities and the movement of an existing portfolio company out of this category into a different category.

*** For the six months ended June 30, 2010.

The aggregate fair value of non-controlled, affiliated investments (net of unearned income) at June 30, 2010 represents 9.1% of net assets.

- (e) Approximately 69% of the senior secured loans to the Company's portfolio companies bear interest at a floating rate that may be determined by reference to the London Interbank Offered Rate (LIBOR) or other base rate (commonly the Federal Funds Rate or the Prime Rate), at the borrower's option. In addition, approximately 14% of such senior secured loans have floors of 1.50% to 7.75% on the LIBOR base rate. The borrower under a senior secured loan generally has the option to select from interest reset periods of one, two, three or six months and may alter that selection at the end of any reset period. The stated interest rate represents the weighted average interest rate at June 30, 2010 of all contracts within the specified loan facility.
- (f) "Controlled" investments under the Investment Company Act of 1940, whereby the Company owns more than 25% of the portfolio company's outstanding voting securities, are as follows:

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

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	Fair Value at December 31, 2009	Gross Additions (Cost)*	Gross Reductions (Cost)**	Net Unrealized Gain (Loss)	Fair Value at June 30, 2010	Net Realized Gain (Loss)***	Interest Income***
Controlled Investments							
Al Solutions, Inc.							
Senior Secured Loan	\$ 150,000	\$ 221	\$ (12,638)	\$ (2,583)	\$ 135,000	\$ 2,362	\$ 7,568
American SportWorks LLC							
Senior Secured Loan	3,262,261	2,000,000	(7,178,673)	8,316,412	6,400,000	153	68,662
BKC ASW Blocker, Inc.							
Common Stock	163,289	7,353,826	(175,000)	(6,764,998)	577,117	—	—
Electrical Components International, Inc.:							
Senior Secured Loan	—	1,649,968	—	—	1,649,968	—	20,900
Senior Secured Loan	—	12,000,000	(12,000,000)	—	—	—	200,267
Senior Secured Loan	—	12,000,000	(12,000,000)	—	—	—	200,251
ECI Holdco, Inc.							
Common Stock	—	18,848,836	—	19,321,164	38,170,000	—	—
Fitness Together Franchise Corporation							
Senior Secured Loan	5,807,656	70,793	—	108,340	5,986,789	—	407,084
Fitness Together Holdings, Inc.:							
Preferred Stock Series A	—	—	—	—	—	—	—
Preferred Stock Series A-1	—	—	—	—	—	—	—
Preferred Stock Series B Convertible	779,000	1,100,000	—	(1,682,000)	197,000	—	—
Common Stock	—	—	—	—	—	—	—
Less: Unearned Income	(249,930)	(332,948)	358,276	224,602	—	—	—
Totals	\$9,912,276	\$54,690,696	\$(31,008,035)	\$19,520,937	\$53,115,874	\$ 2,515	\$904,732

* Gross additions include increases in the cost basis of investments resulting from new portfolio investments, payment-in-kind interest or dividends, the amortization of unearned income, the exchange of one or more existing securities for one or more new securities and the movement of an existing portfolio company into this category from a different category.

** Gross reductions include decreases in the cost basis of investments resulting from principal collections related to investment repayments or sales, the exchange of one or more existing securities for one or more new securities and the movement of an existing portfolio company out of this category into a different category.

*** For the six months ended June 30, 2010. There was no dividend income from these securities during the period.

The aggregate fair value of controlled investments (net of unearned income) at June 30, 2010 represents 8.3% of net assets.

(g) Non-accrual status (in default) at June 30, 2010 and therefore non-income producing. At June 30, 2010, the aggregate fair value and amortized cost of debt investments on non-accrual status represents 1.2% and 2.6% of total debt investments at fair value and amortized cost, respectively.

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

(i) Principal amount is denominated in Canadian dollars.

(j) Guaranty by the Company on behalf of portfolio company Facet Technologies, LLC. The maximum amount of potential future payments under this guaranty is \$6,000,000 at June 30, 2010 with an expiration of December 31, 2011.

(k) Non-income producing equity securities at June 30, 2010.

(l) The Company is the sole stockholder of BKC ARS Blocker, Inc., which is the beneficiary of less than 5% of the voting securities of American Residential Services L.L.C.

(m) The Company is the sole stockholder of BKC ASW Blocker, Inc., which is the beneficiary of more than 25% of the voting securities of American SportWorks LLC.

(n) The Company is the sole stockholder of BKC CSP Blocker, Inc., which is the beneficiary of more than 5% (but less than 25%) of the voting securities of Conney Prime Holdings, LLC.

(o) The Company is the sole stockholder of BKC DVSH Blocker, Inc., which is the beneficiary of less than 5% of the voting securities of each of DynaVox Systems LLC and Sunrise Medical Investors LLC.

(p) The Company is the sole stockholder of BKC MTCH Blocker, Inc., which is the beneficiary of less than 5% of the voting securities of Marquette Transportation Company Holdings, LLC.

PIK Payment-in-kind.

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

BlackRock Kelso Capital Corporation
Schedules of Investments
December 31, 2009

<u>Portfolio Company</u>	<u>Industry(a)</u>	<u>Principal Amount or Number of Shares/Units</u>	<u>Cost(b)</u>	<u>Fair Value(c)</u>
Senior Secured Notes—9.0%				
AGY Holding Corp., Second Lien, 11.00%, 11/15/14	Glass Yarns/ Fibers	\$ 23,500,000	\$ 23,131,937	\$ 19,740,000
TriMark Acquisition Corp., Second Lien, 11.50% (9.50% cash, 2.00% PIK), 11/30/13	Food Service Equipment	31,503,017	31,503,017	28,667,746
Total Senior Secured Notes			<u>54,634,954</u>	<u>48,407,746</u>
Unsecured Debt—23.5%				
ASM Intermediate Holdings Corp. II, 12.00% PIK, 12/27/13	Marketing Services	57,401,749	57,401,749	56,138,911
Big Dumpster Acquisition, Inc., 13.50% PIK, 7/5/15	Waste Management Equipment	42,889,344	42,889,344	14,024,815
Marquette Transportation Company Holdings, LLC, 14.75% PIK, 3/21/14	Transportation	52,253,576	52,253,576	51,365,265
Marsico Parent Holdco, LLC et al., 12.50% PIK, 7/15/16, acquired 11/28/07(d)	Financial Services	11,279,758	11,279,758	3,508,005
Marsico Parent Superholdco, LLC et al., 14.50% PIK, 1/15/18, acquired 11/28/07(d)	Financial Services	7,791,207	7,483,674	1,947,802
Total Unsecured Debt			<u>171,308,101</u>	<u>126,984,798</u>
Subordinated Debt—24.7%				
A & A Manufacturing Co., Inc., 16.00% (14.00% cash, 2.00% PIK), 4/2/14	Protective Enclosures	19,542,243	19,542,243	14,871,647
Conney Safety Products, LLC, 18.00% (16.00% cash, 2.00% PIK), 10/1/14	Safety Products	30,300,750	30,300,750	25,452,630
DynaVox Systems LLC, 15.00%, 6/23/15	Augmentative Communication Products	25,000,000	25,000,000	25,950,000
Mattress Giant Corporation, 11.00% PIK, 12/31/12(e)	Bedding —Retail	5,744,147	2,521,202	3,521,162
MediMedia USA, Inc., 11.38%, 11/15/14, acquired multiple dates(d)	Information Services	8,000,000	8,058,173	6,728,000
The Pay-O-Matic Corp., 14.00% (12.00% cash, 2.00% PIK), 1/15/15	Financial Services	15,366,867	15,366,867	15,643,470
PGA Holdings, Inc., 12.50%, 3/12/16	Healthcare Services	5,000,000	4,923,000	5,100,000
Sentry Security Systems, LLC, 16.00% (14.00% cash, 2.00% PIK), 8/7/12	Security Services	10,834,674	10,834,674	10,607,146
Tri-anim Health Services, Inc. et al., 14.00% (12.00% cash, 2.00% PIK), 6/4/15	Healthcare Products	15,021,667	15,021,667	15,322,100
U.S. Security Holdings, Inc., 13.00% (11.00% cash, 2.00% PIK), 5/8/14, acquired 5/10/06(d)	Security Services	7,000,000	7,000,000	7,000,000
Wastequip, Inc., 12.50% (10.00% cash, 2.50% PIK), 2/5/15	Waste Management Equipment	7,947,596	7,947,596	3,035,981
Total Subordinated Debt			<u>146,516,172</u>	<u>133,232,136</u>

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

BlackRock Kelso Capital Corporation
Schedules of Investments—(Continued)
December 31, 2009

Portfolio Company	Industry(a)	Principal Amount or Number of Shares/Units	Cost(b)	Fair Value(c)
Senior Secured Loans—93.3%(f)				
Alpha Media Group Inc., First Lien, 12.00% PIK, 7/15/13	Publishing	\$ 3,964,202	\$ 2,669,800	\$ 2,055,532
Al Solutions, Inc., First Lien, 10.00%, 6/28/13(g)	Metals	150,000	147,418	150,000
American Residential Services L.L.C., Second Lien, 12.00% (10.00% cash, 2.00% PIK), 4/17/15	HVAC/ Plumbing Services	41,215,100	41,215,100	40,102,293
American Safety Razor Company, LLC, Second Lien, 6.51% (LIBOR + 6.25%), 1/30/14	Consumer Products	10,000,000	10,000,000	9,090,000
American SportWorks LLC, Second Lien, 20.00%, 6/27/14(g)(h)	Utility Vehicles	13,403,274	13,403,274	3,262,261
AmQuip Crane Rental LLC, Second Lien, 6.01% (LIBOR + 5.75%), 6/29/14	Construction Equipment	24,089,541	22,267,464	22,403,273
Applied Tech Products Corp. et al., Tranche A, First Lien, 7.75% (Base Rate + 4.50%), 10/24/10(h)	Plastic Packaging	731,669	730,747	275,359
Arclin US Holdings Inc., First Lien, 7.00% (Base Rate + 3.75%), 7/10/14(h)	Chemicals	6,423,655	3,357,410	5,607,851
Arclin US Holdings Inc., Second Lien, 10.75% (Base Rate + 7.50%), 7/10/15(h)	Chemicals	14,500,000	14,500,000	3,335,290
Bankruptcy Management Solutions, Inc., Second Lien, 6.48% (LIBOR + 6.25%), 7/31/13	Financial Services	24,187,500	24,187,500	17,802,000
The Bargain! Shop Holdings Inc., Term Loan A, First Lien, 14.50% (13.50% cash, 1.00% PIK), 6/29/12(i)	Discount Stores	13,602,460(j)	13,211,257	12,975,113
The Bargain! Shop Holdings Inc., Term Loan B, First Lien, 14.50% (13.50% cash, 1.00% PIK), 7/1/12(i)	Discount Stores	18,697,540(j)	17,511,078	17,835,208
Berlin Packaging L.L.C., Second Lien, 6.76% (LIBOR + 6.50%), 8/17/15	Rigid Packaging	24,000,000	23,492,840	22,680,000
Champion Energy Corporation et al., First Lien, 14.50%, 5/22/11	Heating and Oil Services	30,000,000	30,000,000	30,210,000
Custom Direct, Inc. et al., Second Lien, 6.31% (LIBOR + 6.00%), 12/31/14	Printing	10,000,000	10,000,000	7,990,000
Deluxe Entertainment Services Group Inc., Second Lien, 11.00% (LIBOR + 9.00%), 11/11/13	Entertainment	12,000,000	12,000,000	11,148,000
Electrical Components International, Inc., First Lien, 9.25% (Base Rate + 6.00%), 5/1/14	Electronics	2,974,210	2,052,126	2,562,460
Electrical Components International, Inc., Second Lien, 11.50% (Base Rate + 8.25%), 5/1/14(h)	Electronics	26,000,000	22,891,103	8,874,840
Event Rentals, Inc., Acquisition Loan, First Lien, 7.75% (LIBOR + 4.25% cash, 2.00% PIK), 12/19/13	Party Rentals	3,217,840	3,217,840	2,622,540
Facet Technologies, LLC, Second Lien, 17.50% PIK, 7/26/12	Medical Devices	34,321,490	34,321,490	10,000,012
Facet Technologies, LLC, Guaranty(k)	Medical Devices	—	—	(225,000)

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

BlackRock Kelso Capital Corporation
Schedules of Investments—(Continued)
December 31, 2009

<u>Portfolio Company</u>	<u>Industry(a)</u>	<u>Principal Amount or Number of Shares/Units</u>	<u>Cost(b)</u>	<u>Fair Value(c)</u>
Fitness Together Franchise Corporation, First Lien, 11.50% (9.50% cash, 2.00% PIK), 11/10/13(g)	Personal Fitness	\$ 7,022,559	\$ 7,022,559	\$ 5,807,656
Heartland Automotive Services II, Inc. et al., Term Loan A, First Lien, 7.25% (Base Rate + 4.00%), 1/30/14	Automobile Repair	3,325,862	3,324,445	3,026,535
Heartland Automotive Services II, Inc. et al., Term Loan B, First Lien, 9.25% (Base Rate + 4.00% cash, 2.00% PIK), 1/30/14	Automobile Repair	2,258,858	2,258,680	1,951,653
HIT Entertainment, Inc., Second Lien, 5.78% (LIBOR + 5.50%), 2/26/13	Entertainment	1,000,000	1,000,000	550,000
InterMedia Outdoors, Inc., Second Lien, 7.00% (LIBOR + 6.75%), 1/31/14	Printing/ Publishing	10,000,000	10,000,000	8,520,000
Isola USA Corp., First Lien, 13.00% (Base Rate + 9.75%), 12/18/12	Electronics	10,901,316	10,002,294	10,138,224
Isola USA Corp., Second Lien, 17.75% (Base Rate + 14.50%), 12/18/13	Electronics	25,000,000	25,000,000	22,050,000
LJVH Holdings Inc., Second Lien, 5.75% (LIBOR + 5.50%), 1/19/15(i)	Specialty Coffee	25,000,000	25,000,000	22,700,000
MCCI Group Holdings, LLC, Second Lien, 7.51% (LIBOR + 7.25%), 6/21/13	Healthcare Services	29,000,000	28,961,307	28,710,000
Navilyst Medical, Inc., Second Lien, 12.25%, 8/14/15	Healthcare Services	15,000,000	14,802,935	14,700,000
New Enterprise Stone & Lime Co., Inc., Second Lien, 12.50%, 7/11/14	Mining/ Construction	35,000,000	34,752,695	35,000,000
Oriental Trading Company, Inc., Second Lien, 6.24% (LIBOR + 6.00%), 1/31/14	Party Supplies and Novelties	3,000,000	3,000,000	802,500
Penton Media, Inc. et al., Second Lien, 5.28% (LIBOR + 5.00%), 2/1/14(e)	Information Services	26,000,000	25,680,299	4,290,000
Physiotherapy Associates, Inc. et al., Second Lien, 12.00% (Base Rate + 8.75%), 12/31/13	Rehabilitation Centers	17,000,000	17,000,000	15,759,000
PQ Corporation, Second Lien, 6.74% (LIBOR + 6.50%), 7/30/15	Specialty Chemicals	10,000,000	8,970,517	8,520,000
Premier Yachts, Inc. et al., Term A, First Lien, 3.98% (LIBOR + 3.75%), 8/22/12	Entertainment Cruises	5,973,418	5,960,283	5,973,418
Premier Yachts, Inc. et al., Term B, First Lien, 7.23% (LIBOR + 7.00%), 8/22/13	Entertainment Cruises	1,265,983	1,263,002	1,265,983
Sunrise Medical LTC LLC et al., Second Lien, 6.74% (LIBOR + 6.50%), 12/28/13	Healthcare Equipment	14,400,000	14,400,000	14,097,600
Total Safety U.S., Inc., Second Lien, 6.74% (LIBOR + 6.50%), 12/8/13	Industrial Safety Equipment	9,000,000	9,000,000	8,514,000
United Subcontractors, Inc., First Lien, 1.76% (LIBOR + 1.50%), 6/30/15(e)	Building and Construction	1,626,814	1,617,669	1,447,864
Water Pik, Inc., Second Lien, 5.73% (LIBOR + 5.50%), 6/15/14	Consumer Products	30,000,000	30,000,000	30,000,000
WBS Group LLC et al., Second Lien, 6.54% (LIBOR + 6.25%), 6/7/13	Software	20,000,000	20,000,000	17,000,000

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

BlackRock Kelso Capital Corporation
Schedules of Investments—(Continued)
December 31, 2009

<u>Portfolio Company</u>	<u>Industry(a)</u>	<u>Principal Amount or Number of Shares/Units</u>	<u>Cost(b)</u>	<u>Fair Value(c)</u>
Wembley, Inc., Second Lien, 8.50% (Base Rate + 5.25%), 8/22/12(h)	Gaming	\$ 1,000,000	\$ 1,000,000	\$ 67,500
Westward Dough Operating Company, LLC, Term Loan A, First Lien, 4.25% (LIBOR + 4.00%), 3/30/11	Restaurants	6,850,000	6,850,000	4,719,650
Westward Dough Operating Company, LLC, Term Loan B, First Lien, 7.25% (LIBOR + 7.00%), 3/30/11(h)	Restaurants	8,334,656	8,334,656	6,784,379
Total Senior Secured Loans			<u>616,377,788</u>	<u>503,152,994</u>
Preferred Stock—1.1%				
Alpha Media Group Holdings Inc., Series A-2(l)	Publishing	5,000	—	—
Facet Holdings Corp., Class A, 12.00% PIK(h)	Medical Devices	900	900,000	—
Fitness Together Holdings, Inc., Series A(g)(l)	Personal Fitness	187,500	173,326	—
Fitness Together Holdings, Inc., Series A-1(g)(l)	Personal Fitness	49,056	49,056	—
Fitness Together Holdings, Inc., Series B Convertible(g)(l)	Personal Fitness	11,343,804	6,500,000	779,000
M & M Tradition Holdings Corp., Series A Convertible, 16.00% PIK(e)	Sheet Metal Fabrication	4,968	4,968,000	5,117,040
Total Preferred Stock			<u>12,590,382</u>	<u>5,896,040</u>
Common Stock—3.5%(l)				
Alpha Media Group Holdings Inc., Class B	Publishing	12,500	—	—
BKC ARS Blocker, Inc. (American Residential)(m)	HVAC/ Plumbing Services	1,000	192,418	1,610,000
BKC ASW Blocker, Inc. (American SportWorks)(g)(n)	Utility Vehicles	1,000	250,001	163,289
BKC DVSH Blocker, Inc. (DynaVox Systems)(o)	Augmentative Communication Products	100	1,000,000	2,560,000
BKC MTCH Blocker, Inc. (Marquette Transportation)(p)	Transportation	1,000	5,000,000	2,635,000
Facet Holdings Corp.	Medical Devices	10,000	100,000	—
Fitness Together Holdings, Inc.(g)	Personal Fitness	173,547	118,500	—
M & M Tradition Holdings Corp.(e)	Sheet Metal Fabrication	500,000	5,000,000	5,000,000
MGHC Holding Corporation (Mattress Giant)(e)	Bedding— Retail	2,285,815	2,285,815	—
USI Senior Holdings, Inc. (United Subcontractors)(e)	Building and Construction	79,237	6,926,008	6,902,053
Total Common Stock			<u>20,872,742</u>	<u>18,870,342</u>

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

BlackRock Kelso Capital Corporation
Schedules of Investments—(Continued)
December 31, 2009

Portfolio Company	Industry(a)	Principal Amount or Number of Shares/Units	Cost(b)	Fair Value(c)
Limited Partnership/Limited Liability				
Company Interests—2.4%				
Big Dumpster Coinvestment, LLC(l)	Waste Management Equipment	—	\$ 5,333,333	\$ —
Marsico Parent Superholdco, LLC, 16.75% PIK, acquired 11/28/07(d)(h)	Financial Services	1,750	1,650,005	—
PG Holdco, LLC (Press Ganey), 15.00% PIK	Healthcare Services	333	333,333	346,654
PG Holdco, LLC (Press Ganey), Class A(l)	Healthcare Services	16,667	166,667	250,000
Prism Business Media Holdings LLC (Penton Media)(e)(l)	Information Services	68	14,943,201	515,870
Sentry Security Systems Holdings, LLC(l)	Security Services	147,271	147,271	479
Sentry Security Systems Holdings, LLC, 8.00% PIK	Security Services	602,729	602,729	602,729
VSS-AHC Holdings LLC (Advanstar)(l)	Printing/Publishing	352,941	4,199,161	4,198,939
WBS Group Holdings, LLC, Class B, 16.00% PIK	Software	8,000	8,000,000	7,167,857
Total Limited Partnership/Limited Liability Company Interests			<u>35,375,700</u>	<u>13,082,528</u>
Equity Warrants/Options—0.2%(l)				
Kaz, Inc., expire 12/8/16	Consumer Products	49	512,000	770,160
Kaz, Inc., expire 12/8/16	Consumer Products	16	64,000	136,373
Kaz, Inc., expire 12/8/16	Consumer Products	16	24,000	75,141
Kaz, Inc., expire 12/8/16	Consumer Products	16	9,000	43,073
Marsico Superholdco SPV, LLC, expire 12/14/19, acquired 11/28/07(d)	Financial Services	455	444,450	—
Total Equity Warrants/Options			<u>1,053,450</u>	<u>1,024,747</u>
TOTAL INVESTMENTS INCLUDING UNEARNED INCOME			<u>1,058,729,289</u>	<u>850,651,331</u>
UNEARNED INCOME—(0.7)%			<u>(3,909,286)</u>	<u>(3,909,286)</u>
TOTAL INVESTMENTS—156.9%			<u>\$1,054,820,003</u>	<u>846,742,045</u>
OTHER ASSETS & LIABILITIES (NET)—(56.9)%				<u>(307,179,283)</u>
NET ASSETS—100.0%				<u>\$ 539,562,762</u>

(a) Unaudited.

(b) Represents amortized cost for fixed income securities and unearned income, and cost for preferred and common stock, limited partnership/limited liability company interests and equity warrants/options.

(c) Fair value is determined by or under the direction of the Company's Board of Directors (see Note 2).

(d) These securities are exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions that are exempt from registration, normally to qualified institutional buyers. In the aggregate, these securities represent 3.6% of net assets at December 31, 2009.

(e) "Non-controlled, affiliated" investments under the Investment Company Act of 1940, whereby the Company owns 5% or more (but not more than 25%) of the portfolio company's outstanding voting securities, are as follows:

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

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Non-controlled, Affiliated Investments	Fair Value at December 31, 2008	Gross Additions (Cost)*	Gross Reductions (Cost)**	Net Unrealized Gain (Loss)	Fair Value at December 31, 2009	Net Realized Gain (Loss)***	Interest Income***	Dividend Income***
American SportWorks LLC								
Senior Secured Loan	\$ 5,716,023	\$ —	\$(3,572,448)	\$ (2,143,575)	\$ — †	\$ —	\$ 27,617	\$ —
BKC ASW Blocker, Inc.								
Common Stock	16,399	—	(5,883)	(10,516)	— †	—	—	—
M&M Tradition Holdings Corp.:								
Preferred Stock	5,537,280	—	(408,000)	(12,240)	5,117,040	12,240	—	1,110,885
Common Stock	6,095,000	—	—	(1,095,000)	5,000,000	—	—	—
Mattress Giant Corporation								
Subordinated Debt	—	2,521,202	—	999,960	3,521,162	—	773,581	—
MGHC Holding Corporation								
Common Stock	—	2,285,815	—	(2,285,815)	—	—	—	—
Penton Media, Inc.								
Senior Secured Loan	18,226,000	78,211	—	(14,014,211)	4,290,000	—	1,437,763	—
Prism Business Media Holdings LLC								
Limited Liability Co. Interest	4,730,000	—	—	(4,214,130)	515,870	—	—	—
United Subcontractors, Inc.								
Senior Secured Loan	—	1,617,669	—	(169,805)	1,447,864	—	16,210	—
USI Senior Holdings, Inc.								
Common Stock	—	6,926,008	—	(23,955)	6,902,053	—	—	—
Less: Unearned Income	(305,622)	305,622	—	—	—	—	—	—
Totals	\$40,015,080	\$13,734,527	\$(3,986,331)	\$(22,969,287)	\$26,793,989	\$12,240	\$2,255,171	\$1,110,885

* Gross additions include increases in the cost basis of investments resulting from new portfolio investments, payment-in-kind interest or dividends, the amortization of unearned income, the exchange of one or more existing securities for one or more new securities and the movement of an existing portfolio company into this category from a different category.

** Gross reductions include decreases in the cost basis of investments resulting from principal collections related to investment repayments or sales, the exchange of one or more existing securities for one or more new securities and the movement of an existing portfolio company out of this category into a different category.

*** For the year ended December 31, 2009.

† Investment moved out of the non-controlled, affiliated category into the controlled category during the year.

The aggregate fair value of non-controlled, affiliated investments (net of unearned income) at December 31, 2009 represents 5.0% of net assets.

(f) Approximately 66% of the senior secured loans to the Company's portfolio companies bear interest at a floating rate that may be determined by reference to the London Interbank Offered Rate (LIBOR) or other base rate (commonly the Federal Funds Rate or the Prime Rate), at the borrower's option. In addition, approximately 9% of such senior secured loans have floors of 1.50% to 3.25% on the LIBOR base rate. The borrower under a senior secured loan generally has the option to select from interest reset periods of one, two, three or six months and may alter that selection at the end of any reset period. The stated interest rate represents the weighted average interest rate at December 31, 2009 of all contracts within the specified loan facility.

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

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- (g) “Controlled” investments under the Investment Company Act of 1940, whereby the Company owns more than 25% of the portfolio company’s outstanding voting securities, are as follows:

Controlled Investments	Fair Value at December 31, 2008	Gross Additions (Cost)*	Net Unrealized Gain (Loss)	Fair Value at December 31, 2009	Net Realized Loss**	Interest/Other Income**
Al Solutions, Inc.						
Senior Secured Loan	\$ —	\$ 147,418	\$ 2,582	\$ 150,000	\$ —	\$ 5,821
Subordinated Debt	—	71,373	(71,373)	—	(13,395,134)	71,373
American SportWorks LLC						
Senior Secured Loan	—	3,572,448	(310,187)	3,262,261	—	78,075
BKC ASW Blocker, Inc.						
Common Stock	—	5,883	157,406	163,289	—	—
Fitness Together Franchise Corporation						
Senior Secured Loan	6,496,555	140,615	(829,514)	5,807,656	—	808,583
Fitness Together Holdings, Inc.:						
Preferred Stock Series A	—	—	—	—	—	—
Preferred Stock Series A-1	—	—	—	—	—	—
Preferred Stock Series B Convertible	4,700,000	—	(3,921,000)	779,000	—	—
Common Stock	—	—	—	—	—	—
Tygem Holdings, Inc.:						
Preferred Stock	—	—	—	—	(10,826,867)	—
Preferred Stock Series B Convertible	—	—	—	—	(14,725,535)	—
Common Stock	—	—	—	—	(3,608,956)	—
Less: Unearned Income	—	(249,930)	—	(249,930)	—	—
Totals	<u>\$ 11,196,555</u>	<u>\$ 3,687,807</u>	<u>\$(4,972,086)</u>	<u>\$ 9,912,276</u>	<u>\$(42,556,492)</u>	<u>\$ 963,852</u>

* Gross additions include increases in the cost basis of investments resulting from new portfolio investments, payment-in-kind interest or dividends, the amortization of unearned income, the exchange of one or more existing securities for one or more new securities and the movement of an existing portfolio company into this category from a different category.

** For the year ended December 31, 2009. There was no dividend income from these securities during the year.

The aggregate fair value of controlled investments (net of unearned income) at December 31, 2009 represents 1.8% of net assets.

- (h) Non-accrual status (in default) at December 31, 2009 and therefore non-income producing. At December 31, 2009, the aggregate fair value and amortized cost of debt investments on non-accrual status represents 3.5% and 6.5% of total debt investments at fair value and amortized cost, respectively.
- (i) Non-U.S. company or principal place of business outside the U.S.
- (j) Principal amount is denominated in Canadian dollars.
- (k) Guaranty by the Company on behalf of portfolio company Facet Technologies, LLC. The maximum amount of potential future payments under this guaranty is \$6,000,000 at December 31, 2009 with an expiration of December 31, 2011.
- (l) Non-income producing equity securities at December 31, 2009.
- (m) The Company is the sole stockholder of BKC ARS Blocker, Inc., which is the beneficiary of less than 5% of the voting securities of American Residential Services L.L.C.
- (n) The Company is the sole stockholder of BKC ASW Blocker, Inc., which is the beneficiary of more than 25% of the voting securities of American SportWorks LLC.
- (o) The Company is the sole stockholder of BKC DVSH Blocker, Inc., which is the beneficiary of less than 5% of the voting securities of DynaVox Systems LLC.
- (p) The Company is the sole stockholder of BKC MTCH Blocker, Inc., which is the beneficiary of less than 5% of the voting securities of Marquette Transportation Company Holdings, LLC.
- PIK Payment-in-kind.

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

BlackRock Kelso Capital Corporation
Notes to Financial Statements (Unaudited)

1. Organization

BlackRock Kelso Capital Corporation (the “Company”) was organized as a Delaware corporation on April 13, 2005 and was initially funded on July 25, 2005. The Company has elected to be regulated as a business development company (“BDC”) under the Investment Company Act of 1940 (the “1940 Act”). In addition, for tax purposes the Company has qualified and has elected to be treated as a regulated investment company (“RIC”) under the Internal Revenue Code of 1986 (the “Code”). The Company’s investment objective is to generate both current income and capital appreciation through debt and equity investments. The Company invests primarily in middle-market companies in the form of senior and junior secured and unsecured debt securities and loans, each of which may include an equity component, and by making direct preferred, common and other equity investments in such companies.

On July 25, 2005, the Company completed a private placement of 35,366,589 shares of its common stock at a price of \$15.00 per share receiving net proceeds of approximately \$529 million. On July 2, 2007, the Company completed an initial public offering through which it sold an additional 10,000,000 shares of its common stock at a price of \$16.00 per share and listed its shares on The NASDAQ Global Select Market. The Company received net proceeds of approximately \$150 million from this offering.

On June 22, 2010, the Company closed an add-on public offering and sold 7,500,000 shares of its common stock at a price of \$10.25 per share receiving net proceeds of approximately \$73 million. On June 28, 2010, the underwriters of the add-on offering exercised their over-allotment option under the underwriting agreement and elected to purchase an additional 1,125,000 shares of common stock at a price of \$10.25 per share resulting in net proceeds of approximately \$11 million.

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). In the opinion of management, all adjustments, consisting solely of normal recurring accruals, considered necessary for the fair presentation of financial statements for the interim periods, have been included. The results of operations for interim periods are not necessarily indicative of results to be expected for the full year. Certain prior year amounts have been reclassified to conform to the current year presentation.

Certain financial information that is normally included in annual financial statements, including certain financial statement footnotes, prepared in accordance with GAAP, is not required for interim reporting purposes and has been condensed or omitted herein. These financial statements should be read in conjunction with the Company’s financial statements and notes related thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2009, which was filed with the Securities and Exchange Commission (“SEC”) on March 12, 2010.

2. Significant accounting policies

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reported period. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ and such differences could be material.

The significant accounting policies consistently followed by the Company are:

- (a) Investments for which market quotations are readily available are valued at such market quotations unless they are deemed not to represent fair value. The Company generally obtains market quotations from an independent pricing service or one or more broker-dealers or market makers and utilizes the average of the range of bid and ask quotations as a practical expedient for fair value. However, debt investments with remaining maturities within 60 days are valued at amortized cost, which approximates fair value. Debt and equity securities for which market quotations are not readily available or for which market quotations are deemed not to represent fair value are valued at fair value as determined in good faith by or under the direction of the Company’s Board of Directors. Because the Company expects that there will not be a readily available market value for substantially all of the investments in its portfolio, the Company expects to value substantially all of its portfolio investments at fair value as determined in good faith by or under the direction of the Board of Directors using a consistently applied valuation process in accordance with a documented valuation policy that has been reviewed and approved by the Board of Directors. Due to the inherent uncertainty and subjectivity of determining the fair value of investments that do not have a readily available market value, the fair value of the

BlackRock Kelso Capital Corporation
Notes to Financial Statements (Unaudited)—Continued

Company's investments may differ significantly from the values that would have been used had a readily available market value existed for such investments and may differ materially from the values that the Company may ultimately realize. In addition, changes in the market environment and other events may have differing impacts on the market quotations used to value some of the Company's investments than on the fair values of the Company's investments for which market quotations are not readily available. Market quotations may be deemed not to represent fair value in certain circumstances where BlackRock Kelso Capital Advisors LLC, the Company's investment advisor (the "Advisor"), believes that facts and circumstances applicable to an issuer, a seller or purchaser or the market for a particular security cause current market quotations to not reflect the fair value of the security. Examples of these events could include cases where a security trades infrequently causing a quoted purchase or sale price to become stale, where there is a "forced" sale by a distressed seller, where market quotations vary substantially among market makers, or where there is a wide bid-ask spread or significant increase in the bid-ask spread.

With respect to the Company's investments for which market quotations are not readily available or for which market quotations are deemed not to represent fair value, the Board of Directors undertakes a multi-step valuation process each quarter, as described below:

- (i) The quarterly valuation process begins with each portfolio company or investment being initially evaluated and rated by the investment professionals of the Advisor responsible for the portfolio investment;
- (ii) The investment professionals provide recent portfolio company financial statements and other reporting materials to independent valuation firms engaged by the Board of Directors, such firms conduct independent appraisals each quarter and their preliminary valuation conclusions are documented and discussed with senior management of the Advisor;
- (iii) The audit committee of the Board of Directors reviews the preliminary valuations of the independent valuation firms; and
- (iv) The Board of Directors discusses valuations and determines the fair value of each investment in the portfolio in good faith based on the input of the Advisor, the respective independent valuation firms and the audit committee.

Those investments for which market quotations are not readily available or for which market quotations are deemed not to represent fair value are valued utilizing a market approach, an income approach, or both approaches, as appropriate. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business). The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts. In following these approaches, the types of factors that the Company may take into account in determining the fair value of its investments include, as relevant and among other factors: available current market data, including relevant and applicable market trading and transaction comparables, applicable market yields and multiples, security covenants, call protection provisions, information rights, the nature and realizable value of any collateral, the portfolio company's ability to make payments, its earnings and discounted cash flows, the markets in which the portfolio company does business, comparisons of financial ratios of peer companies that are public, M&A comparables, the Company's principal market (as the reporting entity) and enterprise values.

Until the end of the second calendar quarter following its acquisition, each unquoted investment in a new portfolio company generally is valued at cost, which approximates fair value. As of that date, an independent valuation firm conducts an initial independent appraisal of the investment.

Accounting Standards Codification ("ASC") 820-10, *Fair Value Measurements and Disclosures* ("ASC 820-10"), issued by the Financial Accounting Standards Board ("FASB"), defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. ASC 820-10 defines fair value as the price that the Company would receive upon selling an investment or pay to transfer a liability in an orderly transaction to a market participant in the principal or most advantageous market for the investment. ASC 820-10 emphasizes that valuation techniques maximize the use of observable market inputs and minimize the use of unobservable inputs. Inputs refer broadly to the assumptions that market participants would use in pricing an asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing an asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions market participants would use in pricing an asset or liability developed based on the best information available in the circumstances.

BlackRock Kelso Capital Corporation
Notes to Financial Statements (Unaudited)—Continued

ASC 820-10 establishes a hierarchy that classifies these inputs into the three broad levels listed below:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 – Valuations based on unadjusted quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The inputs into the determination of fair value may require significant management judgment or estimation. Even if observable market data is available, such information may be the result of consensus pricing information or broker quotes which include a disclaimer that the broker would not be held to such a price in an actual transaction. The non-binding nature of consensus pricing and/or quotes accompanied by disclaimer would result in classification as Level 3 information, assuming no additional corroborating evidence.

Transfers between levels, if any, represent the value as of the beginning of the period of any investment where a change in the pricing level occurred from the beginning to the end of the period.

The Company's valuation policy is consistent with ASC 820-10. In accordance with this valuation policy, the Company evaluates the source of inputs, including any markets in which its investments are trading, in determining fair value.

- (b) Security transactions are accounted for on the trade date unless there are substantial conditions to the purchase.
- (c) Gains or losses on the sale of investments are calculated using the specific identification method.
- (d) Interest income, adjusted for amortization of premium and accretion of discount, and dividend income are recorded on an accrual basis to the extent that the Company expects to collect such amounts. For loans and securities with payment-in-kind ("PIK") income, which represents contractual interest or dividends accrued and added to the principal balance and generally due at maturity, PIK income is accrued only to the extent that the portfolio company valuation indicates that the PIK income is likely to be collected. Origination, structuring, closing, commitment and other upfront fees and discounts and premiums on investments purchased are accreted/amortized over the life of the respective investment. Unamortized origination, structuring, closing, commitment and other upfront fees are recorded as unearned income. Upon the prepayment of a loan or debt security, any prepayment penalties and unamortized loan origination, structuring, closing, commitment and other upfront fees are recorded as interest income. Expenses are recorded on an accrual basis.
- (e) The Company has elected to be taxed as a RIC under Subchapter M of the Code and currently qualifies, and intends to continue to qualify each year, as a RIC under the Code.

In order to qualify for favorable tax treatment as a RIC, the Company is required to distribute annually to its stockholders at least 90% of its investment company taxable income, as defined by the Code. To avoid federal excise taxes, the Company must distribute annually at least 98% of its income (both ordinary income and net capital gains). The Company, at its discretion, may carry forward taxable income in excess of calendar year distributions and pay a 4% excise tax on this income. If the Company chooses to do so, all other things being equal, this would increase expenses and reduce the amount available to be distributed to stockholders. The Company will accrue excise tax on estimated excess taxable income as required.

The Company holds 100% of the common stock of certain companies as indicated in the accompanying schedules of investments. These wholly owned companies are recorded at fair value in the statements of assets and liabilities, net of any applicable income tax liabilities. An income tax provision has been provided at the wholly owned company level on all income of such companies, including realized and unrealized gains. Such wholly owned companies are held in connection with the Company's election to be taxed as a RIC. In general, these wholly owned companies earn income that, if earned directly by the Company, would not be qualifying income for purposes of the Company qualifying as a RIC. Dividends from these wholly owned companies and gains from the sale of their stock are qualifying income for this purpose. The Company makes investments in securities in accordance with its investment policies through these wholly owned companies.

- (f) Dividends and distributions to common stockholders are recorded on the ex-dividend date. The amount to be paid out as a dividend is determined by the Board of Directors. Net realized capital gains, if any, generally are distributed at least annually, although the Company may decide to retain such capital gains for investment.
- (g) Loans are placed on non-accrual status, as a general matter, when principal or interest payments are past due 30 days or more or when there is reasonable doubt that principal or interest will be collected. Accrued interest generally is reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment. Non-accrual loans are restored to accrual status when past due principal and interest is paid and, in management's judgment, are likely to remain current. The Company may make exceptions to this treatment if the loan has sufficient collateral value and is in the process of collection.

BlackRock Kelso Capital Corporation
Notes to Financial Statements (Unaudited)—Continued

(h) Recently Issued Accounting Pronouncements:

In January 2010, the FASB issued Accounting Standards Update 2010-06, *Fair Value Measurements and Disclosures* (“ASU 2010-06”). ASU 2010-06 amends ASC 820-10 to require new disclosures with regard to transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements within the Level 3 fair value rollforward. ASU 2010-06 also clarifies existing fair value disclosures about the appropriate level of disaggregation and about inputs and valuation techniques for both recurring and nonrecurring fair value measurements that fall in either Level 2 or Level 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales and settlements in the rollforward of activity in Level 3 fair value measurements, which are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption on January 1, 2010 of the applicable additional disclosure requirements of ASU 2010-06 did not materially impact the Company’s financial statements. The adoption of the additional disclosure requirements, which will be effective in 2011, is not expected to materially impact the Company’s financial statement disclosures.

3. Agreements and related party transactions

The Company has entered into an Investment Management Agreement (the “Management Agreement”) with the Advisor, under which the Advisor, subject to the overall supervision of the Company’s Board of Directors, manages the day-to-day operations of, and provides investment advisory services to, the Company. For providing these services, the Advisor receives a base management fee (the “Management Fee”) from the Company quarterly in arrears at an annual rate of 2.0% of the Company’s total assets, including any assets acquired with the proceeds of leverage.

For the three and six months ended June 30, 2010, the Advisor earned \$4,151,014 and \$8,473,485, respectively, in base management fees from the Company. For the three and six months ended June 30, 2009, the Advisor earned \$4,647,032 and \$9,395,250, respectively, in such fees from the Company.

The Management Agreement provides that the Advisor or its affiliates may be entitled to an incentive management fee (the “Incentive Fee”) under certain circumstances. The determination of the Incentive Fee, as described in more detail below, will result in the Advisor or its affiliates receiving no Incentive Fee payments if returns to Company stockholders do not meet an 8.0% annualized rate of return during the applicable fee measurement period and will result in the Advisor or its affiliates receiving less than the full amount of the Incentive Fee percentage until returns to stockholders exceed an approximate 13.3% annualized rate of return during such period. Annualized rate of return in this context is computed by reference to the Company’s net asset value and does not take into account changes in the market price of the Company’s common stock.

The Advisor will be entitled to receive the Incentive Fee if the Company’s performance exceeds a “hurdle rate” during different measurement periods: trailing four quarters’ periods (which applies only to the portion of the Incentive Fee based on income) and annual periods (which applies only to the portion of the Incentive Fee based on capital gains). The “trailing four quarters’ periods” for purposes of determining the income portion of the Incentive Fee payable for the three months ended June 30, 2010 and 2009 was determined by reference to the four quarter periods ended on June 30, 2010 and 2009, respectively. The term “annual period” means the period beginning on July 1 of each calendar year and ending on June 30 of the next calendar year.

The hurdle rate for each measurement period is 2.0% multiplied by the Company’s net asset values at the beginning of each calendar quarter during the measurement period, calculated after giving effect to any distributions that occurred during the measurement period. A portion of the Incentive Fee is based on the Company’s income and a portion is based on capital gains. Each portion of the Incentive Fee is described below.

Quarterly Incentive Fee Based on Income. For each trailing four quarters’ period, the Company pays the Advisor an Incentive Fee based on the amount by which (A) aggregate distributions and amounts distributable out of taxable net income (excluding any capital gain and loss) during the period less the amount, if any, by which net unrealized capital depreciation exceeds net realized capital gains during the period exceeds (B) the hurdle rate for the period. The amount of the excess of (A) over (B) described in this paragraph for each period is referred to as the excess income amount.

The portion of the Incentive Fee based on income for each period will equal 50% of the period’s excess income amount, until the cumulative Incentive Fee payments for the period equal 20% of the period’s income amount distributed or distributable to stockholders as described in clause (A) of the preceding paragraph. Thereafter, the portion of the Incentive Fee based on income for the period will equal 20% of the period’s remaining excess income amount.

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Periodic Incentive Fee Based on Capital Gains. The portion of the Incentive Fee based on capital gains is calculated on an annual basis. For each annual period, the Company pays the Advisor an Incentive Fee based on the amount by which (A) net realized capital gains, if any, to the extent they exceed gross unrealized capital depreciation, if any, occurring during the period exceeds (B) the amount, if any, by which the period's hurdle rate exceeds the amount of income used in the determination of the Incentive Fee based on income for the period. The amount of the excess of (A) over (B) described in this paragraph is referred to as the excess gain amount.

The portion of the Incentive Fee based on capital gains for each period will equal 50% of the period's excess gain amount, until such payments equal 20% of the period's capital gain amount distributed or distributable to stockholders. Thereafter, the portion of the Incentive Fee based on capital gains for the period equals an amount such that the portion of the Incentive Fee payments to the Advisor based on capital gains for the period equals 20% of the period's remaining excess gain amount. The result of this formula is that, if the portion of the Incentive Fee based on income for the period exceeds the period's hurdle, then the portion of the Incentive Fee based on capital gains will be capped at 20% of the capital gain amount.

In calculating whether the portion of the Incentive Fee based on capital gains is payable with respect to any period, the Company accounts for its assets on a security-by-security basis. In addition, the Company uses the "period-to-period" method pursuant to which the portion of the Incentive Fee based on capital gains for any period is based on realized capital gains for the period reduced by realized capital losses and gross unrealized capital depreciation for the period. Based on current interpretations of Section 205(b)(3) of the Investment Advisers Act of 1940 by the SEC and its staff, the calculation of unrealized depreciation for each portfolio security over a period is based on the fair value of the security at the end of the period compared to the fair value at the beginning of the period. Incentive Fees earned in any of the periods described above are not subject to modification or repayment based upon performance in a subsequent period.

For the three and six months ended June 30, 2010, the Advisor earned zero and \$493,951, respectively, in Incentive Fees from the Company. For the three and six months ended June 30, 2009, the Advisor earned no incentive fees from the Company.

The Management Agreement provides that the Company will reimburse the Advisor for costs and expenses incurred by the Advisor for office space rental, office equipment and utilities allocable to the Advisor under the Management Agreement, as well as any costs and expenses incurred by the Advisor relating to any non-investment advisory, administrative or operating services provided by the Advisor to the Company. For the three and six months ended June 30, 2010, the Company incurred \$385,297 and \$783,961, respectively, for costs and expenses reimbursable to the Advisor under the Management Agreement. Reimbursements to the Advisor for the three and six months ended June 30, 2009 were \$340,273 and \$687,067, respectively.

From time to time, the Advisor may pay amounts owed by the Company to third party providers of goods or services. The Company will subsequently reimburse the Advisor for such amounts paid on its behalf. Reimbursements to the Advisor for the three and six months ended June 30, 2010 were \$356,428 and \$1,715,197, respectively. Reimbursements to the Advisor for the three and six months ended June 30, 2009 were \$333,945 and \$674,568, respectively.

No person who is an officer, director or employee of the Advisor and who serves as a director of the Company receives any compensation from the Company for such services. Directors who are not affiliated with the Advisor receive compensation for their services and reimbursement of expenses incurred to attend meetings.

The Company also has entered into an administration agreement with BlackRock Financial Management, Inc. (the "Administrator") under which the Administrator provides administrative services to the Company. For providing these services, facilities and personnel, the Company reimburses the Administrator for the Company's allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under the administration agreement, including rent and the Company's allocable portion of the cost of certain of the Company's officers and their respective staffs. For the three and six months ended June 30, 2010, the Company incurred \$175,581 and \$391,367, respectively, for administrative services expenses payable to the Administrator under the administration agreement. For the three and six months ended June 30, 2009, the Company incurred \$153,726 and \$333,975, respectively, in such expenses.

The PNC Financial Services Group, Inc. ("PNC") is a significant stockholder of the ultimate parent of the Administrator. PNC Global Investment Servicing Inc. ("PGIS"), until recently a subsidiary of PNC, provides

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Notes to Financial Statements (Unaudited)—Continued

administrative and accounting services to the Company pursuant to a Sub-Administration and Accounting Services Agreement. PFPC Trust Company, until recently another subsidiary of PNC, provides custodian services to the Company pursuant to a Custodian Services Agreement. Also, PGIS provides transfer agency and compliance support services to the Company pursuant to a Transfer Agency Agreement and a Compliance Support Services Agreement, respectively. For the services provided to the Company by PGIS and its affiliates, PGIS is entitled to an annual fee of 0.02% of the Company's average net assets plus reimbursement of reasonable expenses, and a base fee, payable monthly. PFPC Trust Company may charge the Company additional fees for cash overdraft balances or for sweeping excess cash balances.

For the three and six months ended June 30, 2010, the Company incurred \$60,584 and \$109,755, respectively, for administrative, accounting, custodian and transfer agency services fees payable to PGIS and its affiliates under the related agreements. For the three and six months ended June 30, 2009, the Company incurred \$55,590 and \$110,429, respectively, for such fees payable to PGIS and its affiliates.

Effective July 1, 2010, PGIS and PFPC Trust Company were acquired by subsidiaries of The Bank of New York Mellon Corporation and will no longer be considered related parties of the Company as of and after that date.

In November 2007, the Company's Board of Directors authorized the purchase by the Advisor from time to time in the open market of an indeterminate number of shares of the Company's common stock, in the Advisor's discretion, subject to compliance with the Company's and the Advisor's applicable policies and requirements of law. Pursuant to this authorization, during the six months ended June 30, 2009, the Advisor purchased 80,867 shares of the Company's common stock in the open market for \$312,322, including brokerage commissions. There were no such purchases during the six months ended June 30, 2010.

At June 30, 2010 and December 31, 2009, the Advisor owned directly approximately 470,000 and 555,000 shares, respectively, of the Company's common stock, representing approximately 0.7% and 1.0% of the total shares outstanding. At June 30, 2010 and December 31, 2009, other entities affiliated with the Administrator and PGIS beneficially owned indirectly approximately 1,867,000 and 2,611,000 shares, respectively, of the Company's common stock, representing approximately 2.9% and 4.6% of the total shares outstanding. An entity affiliated with the Administrator and PGIS has ownership and financial interests in the Advisor.

4. Earnings per share

The following information sets forth the computation of basic and diluted net increase in net assets per share (earnings per share) resulting from operations for the three and six months ended June 30, 2010 and 2009.

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Numerator for basic and diluted net increase in net assets per share	\$ 22,334,832	\$ 23,821,700	\$ 52,817,883	\$ 19,754,630
Denominator for basic and diluted weighted average shares	57,490,004	55,621,338	57,045,983	55,433,200
Basic/diluted net increase in net assets per share resulting from operations	\$ 0.39	\$ 0.43	\$ 0.93	\$ 0.36

Diluted net increase in net assets per share resulting from operations equals basic net increase in net assets per share resulting from operations for each period because there were no common stock equivalents outstanding during the above periods.

5. Investments

Purchases of investments for the three months ended June 30, 2010 and 2009 totaled \$127,846,687 and \$11,916,326, respectively, and for the six months ended June 30, 2010 and 2009 totaled \$144,288,230 and \$27,189,886, respectively. Sales/repayments of investments for the three months ended June 30, 2010 and 2009 totaled \$181,349,009 and \$43,188,200, respectively, and for six months ended June 30, 2010 and 2009 totaled \$254,025,286 and \$43,908,566, respectively.

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At June 30, 2010, investments consisted of the following:

	<u>Cost</u>	<u>Fair Value</u>
Senior secured notes	\$ 94,800,971	\$ 86,944,431
Unsecured debt	64,152,174	8,439,911
Subordinated debt	132,778,114	123,520,698
Senior secured loans:		
First lien	102,175,005	92,468,921
Second/other priority lien	392,723,674	350,943,062
Total senior secured loans	<u>494,898,679</u>	<u>443,411,983</u>
Preferred stock	13,690,382	5,314,040
Common stock	57,370,754	62,672,266
Limited partnership/limited liability company interests	29,482,499	21,901,394
Equity warrants/options	2,668,710	4,565,206
Total investments including unearned income	889,842,283	756,769,929
Unearned income	<u>(3,178,972)</u>	<u>(3,178,972)</u>
Total investments	<u>\$886,663,311</u>	<u>\$753,590,957</u>

At December 31, 2009, investments consisted of the following:

	<u>Cost</u>	<u>Fair Value</u>
Senior secured notes	\$ 54,634,954	\$ 48,407,746
Unsecured debt	171,308,101	126,984,798
Subordinated debt	146,516,172	133,232,136
Senior secured loans:		
First lien	119,531,264	115,409,425
Second/other priority lien	496,846,524	387,743,569
Total senior secured loans	<u>616,377,788</u>	<u>503,152,994</u>
Preferred stock	12,590,382	5,896,040
Common stock	20,872,742	18,870,342
Limited partnership/limited liability company interests	35,375,700	13,082,528
Equity warrants/options	1,053,450	1,024,747
Total investments including unearned income	1,058,729,289	850,651,331
Unearned income	<u>(3,909,286)</u>	<u>(3,909,286)</u>
Total investments	<u>\$1,054,820,003</u>	<u>\$846,742,045</u>

The industry composition of the portfolio at fair value at June 30, 2010 and December 31, 2009 was as follows:

<u>Industry</u>	<u>June 30, 2010</u>	<u>December 31, 2009</u>
Consumer Products	12.2%	6.0%
Healthcare	11.5	10.0
Electronics	10.4	8.5
Other Services	10.2	9.4
Manufacturing	7.6	7.6
Distribution	7.3	4.8
Business Services	7.0	12.6
Financial Services	6.6	4.6
Retail	4.9	4.6
Metals	4.6	4.1
Beverage, Food and Tobacco	4.3	4.0
Chemicals	4.0	4.4
Containers and Packaging	3.2	2.7
Printing, Publishing and Media	3.1	3.2
Entertainment and Leisure	1.7	2.6
Building and Real Estate	1.0	1.0
Transportation	0.4	6.3
Utilities	—	3.6
Total	<u>100.0%</u>	<u>100.0%</u>

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The geographic composition of the portfolio at fair value at June 30, 2010 was United States 92.2% and Canada 7.8%, and at December 31, 2009 was United States 93.7%, Canada 6.3% and United Kingdom and other less than 0.1%. The geographic composition is determined by the location of the corporate headquarters of the portfolio company.

In the ordinary course of its business, the Company manages a variety of risks relating to its investments, including market risk and credit risk. Market risk is the risk of potential adverse changes to the values of investments because of changes in market conditions such as interest rate movements and volatility in investment prices. Credit risk is the risk of default or non-performance by portfolio companies equivalent to the investment's carrying amount. The Company is also exposed to credit risk related to maintaining all of its cash and cash equivalents at a major financial institution.

The Company has investments in lower rated and comparable quality unrated senior and junior secured, unsecured and subordinated debt securities and loans, which are subject to a greater degree of credit risk than more highly rated investments. The risk of loss due to default by the issuer is significantly greater for holders of such securities and loans, particularly in cases where the investment is unsecured or subordinated to other creditors of the issuer.

6. Foreign currency transactions

The Company may enter into forward foreign currency contracts from time to time to facilitate settlement of purchases and sales of investments denominated in foreign currencies or to help mitigate the impact that an adverse change in foreign exchange rates would have on the value of the Company's investments denominated in foreign currencies. A forward foreign currency contract is a commitment to purchase or sell a foreign currency at a future date (usually the security transaction settlement date) at a negotiated forward rate. These contracts are marked-to-market by recognizing the difference between the contract exchange rate and the current market rate as unrealized appreciation or depreciation. Realized gains or losses are recognized when contracts are settled. The Company's forward foreign currency contracts generally have terms of approximately three months. The volume of open contracts at the end of each reporting period is reflective of the typical volume of transactions during each calendar quarter. Risks may arise as a result of the potential inability of the counterparties to meet the terms of their contracts. The Company attempts to limit this risk by dealing with creditworthy counterparties.

At June 30, 2010, details of open forward foreign currency contracts were as follows:

<u>Foreign Currency</u>	<u>Settlement Date</u>	<u>Amount and Transaction</u>	<u>US\$ Value at Settlement Date</u>	<u>US\$ Value at June 30, 2010</u>	<u>Unrealized Appreciation</u>
Canadian dollar	July 28, 2010	31,850,000 Sold	\$ 31,367,103	\$ 29,983,175	\$ 1,383,928

At December 31, 2009, details of open forward foreign currency contracts were as follows:

<u>Foreign Currency</u>	<u>Settlement Date</u>	<u>Amount and Transaction</u>	<u>US\$ Value at Settlement Date</u>	<u>US\$ Value at December 31, 2009</u>	<u>Unrealized Appreciation</u>
Canadian dollar	January 27, 2010	795,444 Purchased	\$ (759,501)	\$ (760,561)	\$ 1,060
Canadian dollar	January 27, 2010	31,500,000 Sold	30,316,883	30,118,610	198,273
Canadian dollar	January 27, 2010	800,000 Sold	769,582	764,917	4,665
Total			<u>\$ 30,326,964</u>	<u>\$ 30,122,966</u>	<u>\$ 203,998</u>

All realized and unrealized gains and losses on forward foreign currency contracts are included in earnings (changes in net assets) and are reported as separate line items within the Company's statements of operations. Unrealized gains and losses on forward foreign currency contracts are also reported as separate line items within the Company's statements of assets and liabilities.

7. Credit facility and borrowings

Under the terms of the Company's amended and restated Senior Secured, Multi-Currency Credit Agreement (the "Credit Facility"), as amended on December 28, 2007, certain lenders agreed to extend credit to the Company in an aggregate principal amount not to exceed \$545,000,000 outstanding, at any one time, consisting of \$400,000,000

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in revolving loan commitments and \$145,000,000 in term loan commitments. On April 20, 2010, the Company amended the Credit Facility to extend through December 6, 2013 certain existing lenders' commitments. These extended commitments, together with the addition of commitments from new lenders, total \$375,000,000, consisting of \$275,000,000 of revolving loan commitments and \$100,000,000 of term loan commitments. Non-extending lender commitments of \$245,000,000, consisting of \$200,000,000 of revolving loan commitments and \$45,000,000 of term loan commitments, mature on December 6, 2010 unless extended prior to such date. The Credit Facility is secured by substantially all of the assets in the Company's portfolio, including cash and cash equivalents. Subject to certain exceptions, pricing for outstanding borrowings made by extending lenders and new lenders is at LIBOR plus an applicable spread of either 3.00% or 3.25% for revolving loans, based on a pricing grid depending on the Company's credit rating, and LIBOR plus 3.00% for term loans. Pricing for outstanding borrowings made by non-extending lenders remains at LIBOR plus 0.875% with respect to revolving loans and LIBOR plus 1.50% with respect to term loans. The Credit Facility does not contain a LIBOR floor requirement. At June 30, 2010, the effective LIBOR spread under the Credit Facility was 2.53%. Term loan commitments under the Credit Facility have been fully drawn and, once repaid, may not be reborrowed. The Credit Facility also includes an "accordion" feature that allows the Company, under certain circumstances, to increase the size of the Credit Facility by up to an additional \$275,000,000 of revolving loan commitments and \$250,000,000 of term loan commitments. The Credit Facility is used to supplement the Company's equity capital to make additional portfolio investments and for other general corporate purposes.

At June 30, 2010, the Company had \$145,000,000 drawn on the Credit Facility versus \$296,000,000 at December 31, 2009. The average debt outstanding on the Credit Facility during the three and six months ended June 30, 2010 was \$220,993,407 and \$240,760,221, respectively. The maximum amounts borrowed during the three and six months ended June 30, 2010 were \$275,700,000 and \$314,000,000, respectively, and during the three and six months ended June 30, 2009 were \$429,500,000 and \$434,000,000. The remaining amount available under the Credit Facility was \$475,000,000 at June 30, 2010, of which \$245,000,000 expires December 6, 2010.

The weighted average annual interest cost under the Credit Facility for the three and six months ended June 30, 2010 was 2.51% and 1.98%, respectively, and for the three and six months ended June 30, 2009 was 1.55% and 1.66%, exclusive of commitment fees and of other prepaid expenses related to establishing the Credit Facility. With respect to any unused portion of the commitments under the Credit Facility, the Company incurs an annual commitment fee of 0.50% to extending lenders and new lenders and 0.17% to non-extending lenders. Commitment fees incurred for the three and six months ended June 30, 2010 were \$300,788 and \$426,540, respectively, and for the three and six months ended June 30, 2009 were \$55,276 and \$104,589.

The April 2010 amendment to the Credit Facility did not substantially change the financial and operational covenants required under the previous agreement. At June 30, 2010, the Company was in compliance with all such covenants.

8. Capital stock

As a closed-end investment company regulated as a BDC under the 1940 Act, the Company is prohibited from selling shares of its common stock at a price below the current net asset value of the stock, or NAV, unless the Company's stockholders approve such a sale and its Board of Directors makes certain determinations. On February 8, 2010, subject to certain Board of Director determinations, the Company's stockholders approved the ability to sell or otherwise issue shares of the Company's common stock at a price below its then current net asset value per share for a twelve month period expiring on the anniversary of the date of stockholder approval. In any such case, the price at which the Company's common stock would be issued and sold may not be less than a price that, in the determination of the Company's Board of Directors, closely approximates the market value of such common stock. Any sale of the Company's common stock at a price below NAV would have a dilutive effect on NAV.

In 2008, the Company's Board of Directors approved a share repurchase plan under which the Company may repurchase up to 2.5 percent of its outstanding shares of common stock from time to time in open market or privately negotiated transactions. In 2009, the Board of Directors approved an extension and increase to the plan which authorized the Company to repurchase up to an additional 2.5 percent of its outstanding shares of common stock. In May 2010, the repurchase plan was further extended through the earlier of June 30, 2011 or until the approved number of shares has been repurchased. During the three and six months ended June 30, 2009, the Company purchased a total of 82,208 and 583,572 shares of its common stock on the open market for \$357,233 and \$2,234,892, respectively, including brokerage commissions. There were no such purchases during the three and six months ended June 30, 2010. Since inception of the repurchase plan through June 30, 2010, the Company has purchased 961,679 shares of its common stock on the open market for \$5,425,900, including brokerage commissions. At June 30, 2010, the total number of remaining shares authorized for repurchase was 1,794,971. The Company currently holds the shares it repurchased in treasury.

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On June 7, 2010, the Company's stockholders approved an amendment to the Company's Certificate of Incorporation to increase the number of authorized shares of the Company's common stock from 100,000,000 to 200,000,000. The amendment was effective on that date.

9. Guarantees and commitments

In the normal course of business, the Company may enter into guarantees on behalf of portfolio companies. Under these arrangements, the Company would be required to make payments to third parties if the portfolio companies were to default on their related payment obligations. At June 30, 2010 and December 31, 2009, the maximum amount of potential future payments under such guarantees was \$6,000,000, with an expiration of December 31, 2011. Guarantees made on behalf of portfolio companies are considered in determining the fair value of the Company's investments. The potential liability under such guarantees is reflected at fair value in the Company's schedules of investments.

In the normal course of business, the Company enters into contractual agreements that provide general indemnifications against losses, costs, claims and liabilities arising from the performance of individual obligations under such agreements. The Company has had no prior claims or payments pursuant to such agreements. The Company's individual maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred. However, based on management's experience, the Company expects the risk of loss to be remote.

From time to time, the Company may be a party to certain legal proceedings incidental to the normal course of its business, including the enforcement of the Company's rights under contracts with its portfolio companies. While the Company cannot predict the outcome of these legal proceedings with certainty, it does not expect that these proceedings will have a material effect on its financial statements.

10. Fair value of financial instruments

The carrying values of the Company's financial instruments approximate fair value. The carrying values of receivables, other assets, accounts payable and accrued expenses approximate fair value due to their short maturities. The carrying and fair values of the Company's Credit Facility payable were \$145,000,000 and \$145,000,000 at June 30, 2010 and \$296,000,000 and \$287,120,000 at December 31, 2009, respectively.

The following tables summarize the fair values of the Company's cash and cash equivalents, investments and forward foreign currency contracts based on the inputs used at June 30, 2010 and December 31, 2009 in determining such fair values:

	Fair Value at June 30, 2010	Fair Value Inputs at June 30, 2010		
		Price Quotations (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Senior secured notes	\$ 86,944,431	\$ —	\$ —	\$ 86,944,431
Unsecured debt	8,260,675	—	—	8,260,675
Subordinated debt	122,465,964	—	—	122,465,964
Senior secured loans	441,466,981	—	—	441,466,981
Preferred stock	5,314,040	—	—	5,314,040
Common stock	62,672,266	—	—	62,672,266
Limited partnership/limited liability company interests	21,901,394	—	—	21,901,394
Equity warrants/options	4,565,206	—	—	4,565,206
Total investments	753,590,957	—	—	753,590,957
Forward foreign currency contracts	1,383,928	—	1,383,928	—
Cash and cash equivalents	21,265,946	21,265,946	—	—
Total	\$776,240,831	\$21,265,946	\$ 1,383,928	\$753,590,957

	Fair Value at December 31, 2009	Fair Value Inputs at December 31, 2009		
		Price Quotations (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Senior secured notes	\$ 48,407,746	\$ —	\$ —	\$ 48,407,746
Unsecured debt	126,312,042	—	—	126,312,042
Subordinated debt	131,337,094	—	—	131,337,094
Senior secured loans	501,811,506	—	—	501,811,506
Preferred stock	5,896,040	—	—	5,896,040
Common stock	18,870,342	—	—	18,870,342
Limited partnership/limited liability company interests	13,082,528	—	—	13,082,528
Equity warrants/options	1,024,747	—	—	1,024,747
Total investments	846,742,045	—	—	846,742,045
Forward foreign currency contracts	203,998	—	203,998	—
Cash and cash equivalents	5,807,901	5,807,901	—	—
Total	\$852,753,944	\$ 5,807,901	\$ 203,998	\$846,742,045

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In determining the fair values of the Company's forward foreign currency contracts at June 30, 2010 and December 31, 2009, the Company used unadjusted indicative price quotations for similar assets (Level 2). The following tables summarize the valuation techniques used at June 30, 2010 and December 31, 2009 in determining the fair values of the Company's investments for which significant unobservable inputs (Level 3) were used in determining fair value:

	Valuation Techniques at June 30, 2010		
	Fair Value at June 30, 2010	Broker Quote(s) for Identical Assets	Market Approach, Income Approach or Both, Utilizing One or More Third-Party Valuation Firms
Senior secured notes	\$ 86,944,431	\$ —	\$ 86,944,431
Unsecured debt	8,260,675	—	8,260,675
Subordinated debt	122,465,964	—	122,465,964
Senior secured loans	441,466,981	2,596,713	438,870,268
Preferred stock	5,314,040	—	5,314,040
Common stock	62,672,266	—	62,672,266
Limited partnership/limited liability company interests	21,901,394	—	21,901,394
Equity warrants/options	4,565,206	—	4,565,206
Total investments	<u>\$753,590,957</u>	<u>\$ 2,596,713</u>	<u>\$ 750,994,244</u>

	Valuation Techniques at December 31, 2009		
	Fair Value at December 31, 2009	Broker Quote(s) for Identical Assets	Market Approach, Income Approach or Both, Utilizing One or More Third-Party Valuation Firms
Senior secured notes	\$ 48,407,746	\$ —	\$ 48,407,746
Unsecured debt	126,312,042	—	126,312,042
Subordinated debt	131,337,094	—	131,337,094
Senior secured loans	501,811,506	4,042,540	497,768,966
Preferred stock	5,896,040	—	5,896,040
Common stock	18,870,342	—	18,870,342
Limited partnership/limited liability company interests	13,082,528	—	13,082,528
Equity warrants/options	1,024,747	—	1,024,747
Total investments	<u>\$846,742,045</u>	<u>\$ 4,042,540</u>	<u>\$ 842,699,505</u>

The following are reconciliations for the three months ended June 30, 2010 of investments for which Level 3 inputs were used in determining fair value:

	Fair Value at March 31, 2010	Amortization of Premium/ Discount - Net	Net Realized Gain (Loss)	Net Change in Unrealized Appreciation or Depreciation	Net Purchases, Sales or Redemptions	Net Transfers in or out of (Level 3)	Fair Value at June 30, 2010
Senior secured notes	\$ 48,265,219	\$ 20,492	\$ —	\$ (1,472,710)	\$ 40,131,430	\$ —	\$ 86,944,431
Unsecured debt	74,641,210	78,451	—	(7,597,259)	(58,861,727)	—	8,260,675
Subordinated debt	135,569,589	960,846	—	(102,768)	(13,961,703)	—	122,465,964
Senior secured loans	488,497,173	2,128,953	(21,452,437)	18,248,245	(45,954,953)	—	441,466,981
Preferred stock	6,123,040	—	—	(1,309,000)	500,000	—	5,314,040
Common stock	24,489,162	—	1,061,929	12,471,205	24,649,970	—	62,672,266
Limited partnership/limited liability company interests	21,938,853	—	—	(37,459)	—	—	21,901,394
Equity warrants/ options	3,804,892	—	—	760,314	—	—	4,565,206
Total investments	<u>\$803,329,138</u>	<u>\$ 3,188,742</u>	<u>\$(20,390,508)</u>	<u>\$ 20,960,568</u>	<u>\$(53,496,983)</u>	<u>\$ —</u>	<u>\$753,590,957</u>

BlackRock Kelso Capital Corporation
Notes to Financial Statements (Unaudited)—Continued

The following are reconciliations for the six months ended June 30, 2010 of investments for which Level 3 inputs were used in determining fair value:

	Fair Value at December 31, 2009	Amortization of Premium/ Discount - Net	Net Realized Gain (Loss)	Net Change in Unrealized Appreciation or Depreciation	Net Purchases, Sales or Redemptions	Net Transfers in or out of (Level 3)	Fair Value at June 30, 2010
Senior secured notes	\$ 48,407,746	\$ 34,586	\$ —	\$ (1,629,331)	\$ 40,131,430	\$ —	\$ 86,944,431
Unsecured debt	126,312,042	567,988	—	(11,388,961)	(107,230,394)	—	8,260,675
Subordinated debt	131,337,094	1,642,656	358	4,026,620	(14,540,764)	—	122,465,964
Senior secured loans	501,811,506	2,626,008	(49,940,860)	61,738,099	(74,767,772)	—	441,466,981
Preferred stock	5,896,040	—	—	(1,682,000)	1,100,000	—	5,314,040
Common stock	18,870,342	—	1,061,929	7,303,912	35,436,083	—	62,672,266
Limited partnership/ limited liability company interests	13,082,528	—	(14,426,995)	14,712,067	8,533,794	—	21,901,394
Equity warrants/ options	1,024,747	—	—	1,925,199	1,615,260	—	4,565,206
Total investments	\$846,742,045	\$ 4,871,238	\$(63,305,568)	\$ 75,005,605	\$(109,722,363)	\$ —	\$753,590,957

All realized and unrealized gains and losses are included in earnings (changes in net assets) and are reported as separate line items within the Company's statements of operations.

The following table contains information with respect to net unrealized appreciation or depreciation on investments for which Level 3 inputs were used in determining fair value that are still held by the Company at June 30, 2010.

	Net Change in Unrealized Appreciation or Depreciation for the Six Months Ended June 30, 2010 on Investments Held at June 30, 2010	Net Unrealized Depreciation on Investments Held at June 30, 2010
Senior secured notes	\$ (1,629,331)	\$ (7,856,540)
Unsecured debt	(13,540,110)	(55,712,264)
Subordinated debt	4,976,620	(9,257,415)
Senior secured loans	14,736,320	(51,486,696)
Preferred stock	(1,682,000)	(8,376,342)
Common stock	7,681,325	5,301,512
Limited partnership/limited liability company interests	285,072	(7,581,105)
Equity warrants/options	1,925,199	1,896,496
Total investments	\$ 12,753,095	\$(133,072,354)

11. Financial highlights

The following per share data and ratios have been derived from information provided in the financial statements. The following is a schedule of financial highlights for a common share outstanding during the six months ended June 30, 2010 and 2009.

	Six months ended June 30, 2010	Six months ended June 30, 2009
Per Share Data:		
Net asset value, beginning of period	\$ 9.55	\$ 9.23
Net investment income	0.71	0.89
Net realized and unrealized gain (loss)	0.22	(0.53)
Total from investment operations	0.93	0.36
Dividend distributions to stockholders from net investment income	(0.64)	(0.32)
Issuance of stock at prices below net asset value	(0.01)	(0.08)
Purchases of treasury stock at prices below net asset value	—	0.05
Net increase in net assets	0.28	0.01
Net asset value, end of period	\$ 9.83	\$ 9.24
Market price, end of period	\$ 9.87	\$ 6.23
Total return ⁽¹⁾⁽²⁾	24.32%	(34.43)%
Ratios / Supplemental Data:		
Ratio of operating expenses to average net assets ⁽³⁾	4.20%	4.76%
Ratio of credit facility related expenses to average net assets ⁽³⁾	1.28%	1.53%
Ratio of total expenses to average net assets ⁽³⁾	5.48%	6.29%
Ratio of net investment income to average net assets ⁽³⁾	14.54%	19.41%
Net assets, end of period	\$ 642,415,796	\$ 514,031,903
Average debt outstanding	\$ 240,760,221	\$ 428,185,814
Weighted average shares outstanding	57,045,983	55,433,200
Average debt per share ⁽⁴⁾	\$ 4.22	\$ 7.72
Portfolio turnover ⁽²⁾	33%	3%

BlackRock Kelso Capital Corporation
Notes to Financial Statements (Unaudited)—Continued

- (1) Total return is based on the change in market price per share during the respective periods. Total return calculations take into account dividends and distributions, if any, reinvested in accordance with the Company's dividend reinvestment plan and do not reflect brokerage commissions.
- (2) Not annualized.
- (3) Annualized.
- (4) Average debt per share is calculated as average debt outstanding divided by the weighted average shares outstanding during the applicable period.

12. Subsequent events

On August 4, 2010, the Company's Board of Directors declared a dividend of \$0.32 per share, payable on October 1, 2010 to stockholders of record at the close of business on September 17, 2010.

In addition to the subsequent events included in these notes to the financial statements, the Company conducted a review for additional subsequent events and determined that no additional subsequent events had occurred that would require accrual or additional disclosures.

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

The information contained in this section should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report.

Overview

We were incorporated in Delaware on April 13, 2005 and were initially funded on July 25, 2005. Our investment objective is to provide a combination of current income and capital appreciation. We intend to invest primarily in debt and equity securities of private U.S. middle-market companies.

We are externally managed and have elected to be regulated as a BDC under the 1940 Act. As a BDC, we are required to comply with certain regulatory requirements. For instance, we generally have to invest at least 70% of our total assets in "qualifying assets," including securities of private or thinly traded public U.S. companies, cash, cash equivalents, U.S. Government securities and high-quality debt investments that mature in one year or less.

On July 25, 2005, we completed a private placement of 35,366,589 shares of our common stock at a price of \$15.00 per share that raised approximately \$529 million in net proceeds. On July 2, 2007, we completed an initial public offering of 10,000,000 shares of our common stock at a price of \$16.00 per share that raised approximately \$150 million in net proceeds. On June 22, 2010, we closed an add-on public offering and sold 7,500,000 shares of our common stock at a price of \$10.25 per share receiving approximately \$73 million in net proceeds. On June 28, 2010, the underwriters of the add-on offering exercised their over-allotment option under the underwriting agreement and elected to purchase an additional 1,125,000 shares of common stock at a price of \$10.25 per share resulting in approximately \$11 million of net proceeds.

Investments

Our level of investment activity can and does vary substantially from period to period depending on many factors, including the amount of debt and equity capital available to middle-market companies, the level of merger and acquisition activity, the general economic environment and the competitive environment for the types of investments we make.

As a BDC, we must not acquire any assets other than "qualifying assets" specified in the 1940 Act unless, at the time the acquisition is made, at least 70% of our total assets are qualifying assets (with certain limited exceptions). Qualifying assets include investments in "eligible portfolio companies." Under the relevant SEC rules, the term "eligible portfolio company" includes all private companies, companies whose securities are not listed on a national securities exchange, and certain public companies that have listed their securities on a national securities exchange and have a market capitalization of less than \$250 million. These rules also permit us to include as qualifying assets certain follow-on investments in companies that were eligible portfolio companies at the time of initial investment but that no longer meet the definition.

Revenues

We generate revenues primarily in the form of interest on the debt we hold, dividends on our equity interests and capital gains on the sale of warrants and other debt or equity interests that we acquire in portfolio companies. Our investments in fixed income instruments generally have an expected maturity of three to ten years, although we have no lower or upper constraint on maturity, and typically bear interest at a fixed or floating rate. Interest on our debt securities is generally payable quarterly or semi-annually. Payments of principal of our debt investments may be amortized over the stated term of the investment, deferred for several years or due entirely at maturity. In some cases, our debt instruments and preferred stock investments may defer payments of cash interest or dividends or pay interest or dividends in-kind. Any outstanding principal amount of our debt securities and any accrued but unpaid interest will generally become due at the maturity date. In addition, we may generate revenue in the form of prepayment fees, commitment, origination, structuring or due diligence fees, fees for providing significant managerial assistance and consulting fees.

Expenses

Our primary operating expenses include the payment of a base management fee and, depending on our operating results, an incentive management fee, expenses reimbursable under the management agreement, administration fees and the allocable portion of overhead under the administration agreement. The base management fee and incentive management fee compensate the Advisor for work in identifying, evaluating, negotiating, closing and monitoring our investments. Our management agreement with the Advisor provides that we will reimburse the Advisor for costs and expenses incurred by the Advisor for office space rental, office equipment and utilities allocable to the Advisor under the management agreement, as well as any costs and expenses incurred by the Advisor relating to any non-investment advisory, administrative or operating services provided by the Advisor to us. We bear all other costs and expenses of our operations and transactions.

Critical accounting policies

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Changes in the economic environment, financial markets and any other parameters used in determining such estimates could cause actual results to differ. Our critical accounting policies are further described in the notes to the financial statements and in Note 2 to the financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, which was filed with the SEC on March 12, 2010. See Note 2 to the financial statements in this Quarterly Report for a description of recently issued accounting pronouncements.

Financial and operating highlights

At June 30, 2010:

Investment Portfolio: \$774.9 million
Net Assets: \$642.4 million
Net Indebtedness (borrowings less cash and cash equivalents): \$123.7 million
Net Asset Value per share: \$9.83

Portfolio Activity for the Three Months Ended June 30, 2010:

Cost of investments during period: \$127.8 million
Sales, repayments and other exits during period: \$181.3 million
Number of portfolio companies at end of period: 51

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Operating Results for the Three Months Ended June 30, 2010:

Net investment income before Incentive Fees per share: \$0.36
Net investment income per share: \$0.36
Dividends declared per share: \$0.32
Net increase in net assets from operations per share: \$0.39
Net investment income before Incentive Fees: \$20.4 million
Net investment income: \$20.4 million
Net realized and unrealized gains: \$1.9 million
Net increase in net assets from operations: \$22.3 million

Portfolio and investment activity

During the three months ended June 30, 2010, we invested approximately \$127.8 million across one new and several existing portfolio companies. The new investments consisted primarily of senior loans secured by first liens (\$17.8 million, or 14% of the total) or second liens (\$34.5 million, or 27%), senior secured notes (\$45.1 million, or 35%), equity securities (\$19.1 million, or 15%) and unsecured or subordinated debt securities (\$11.3 million, or 9%). Additionally, we received proceeds from sales/repayments of investment principal of approximately \$181.3 million during the three months ended June 30, 2010.

At June 30, 2010, our net portfolio of \$775 million (at fair value) consisted of 51 portfolio companies and was invested 57% in senior secured loans, 17% in unsecured or subordinated debt securities, 12% in equity investments, 11% in senior secured notes and 3% in cash and cash equivalents. Our average portfolio company investment at amortized cost was approximately \$17.4 million. Our largest portfolio company investment by value was approximately \$50.4 million and our five largest portfolio company investments by value comprised approximately 26% of our portfolio at June 30, 2010. At December 31, 2009, our net portfolio of \$853 million (at fair value) consisted of 57 portfolio companies and was invested 59% in senior secured loans, 30% in unsecured or subordinated debt securities, 6% in senior secured notes, 5% in equity investments and less than 1% in cash and cash equivalents. Our average portfolio company investment at amortized cost was approximately \$18.5 million at December 31, 2009. Our largest portfolio company investment by value was approximately \$56.1 million and our five largest portfolio company investments by value comprised approximately 26% of our portfolio at December 31, 2009.

The weighted average yield of the debt and income producing equity securities in our portfolio at fair value was 12.4% at June 30, 2010 and 13.7% at December 31, 2009. The weighted average yields on our senior secured loans and other debt securities at fair value were 11.2% and 15.1%, respectively, at June 30, 2010, versus 11.6% and 17.2% at December 31, 2009. The weighted average yield of the debt and income producing equity securities in our portfolio at their current cost basis was 10.5% at June 30, 2010 and 11.2% at December 31, 2009. The weighted average yields on our senior secured loans and other debt securities at their current cost basis were 10.0% and 11.3%, respectively, at June 30, 2010, versus 9.4% and 14.2% at December 31, 2009. Yields are computed using interest rates and dividend yields as of the balance sheet date and include amortization of loan origination and commitment fees, original issue discount and market premium or discount. Yields exclude common equity investments, preferred equity investments with no stated dividend rate, short-term investments, cash and cash equivalents.

At June 30, 2010, 51% of our debt investments bore interest based on floating rates, such as LIBOR, the Federal Funds Rate or the Prime Rate, and 49% bore interest at fixed rates. The percentage of our total debt investments that bore floating rate interest based on an interest rate floor was 10% at June 30, 2010. At December 31, 2009, 41% of our debt investments bore interest based on floating rates and 59% bore interest at fixed rates. The percentage of our total debt investments that bore floating rate interest based on an interest rate floor was 5% at December 31, 2009.

The Advisor employs a grading system for our entire portfolio. The Advisor grades all loans on a scale of 1 to 4. This system is intended to reflect the performance of the borrower's business, the collateral coverage of the loans and other factors considered relevant. Generally, the Advisor assigns only one loan grade to each portfolio company for all loan investments in that portfolio company; however, the Advisor will assign multiple ratings when appropriate for different investments in one portfolio company. The following is a description of the conditions associated with each investment rating:

Grade 1: Investments in portfolio companies whose performance is substantially within the Advisor's expectations and whose risk factors are neutral to favorable to those at the time of the original investment.

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Grade 2: Investments in portfolio companies whose performance is below the Advisor's expectations and that require closer monitoring; however, no loss of investment return (interest and/or dividends) or principal is expected.

Grade 3: Investments in portfolio companies whose performance is below the Advisor's expectations and for which risk has increased materially since origination. Some loss of investment return is expected, but no loss of principal is expected. Companies graded 3 generally will be out of compliance with debt covenants and will be unlikely to make debt repayments on their original schedule.

Grade 4: Investments in portfolio companies whose performance is materially below the Advisor's expectations where business trends have deteriorated and risk factors have increased substantially since the original investment. Investments graded 4 are those for which some loss of principal is expected.

The Advisor monitors and, when appropriate, changes the investment ratings assigned to each investment in our portfolio. In connection with our valuation process, the Advisor and Board of Directors review these investment ratings on a quarterly basis. Our average investment rating was 1.35 at June 30, 2010 versus 1.46 at December 31, 2009. The following is a distribution of the investment ratings of our portfolio companies at June 30, 2010 and December 31, 2009:

	<u>June 30, 2010</u>	<u>December 31, 2009</u>
Grade 1	\$537,937,638	\$ 553,361,682
Grade 2	187,965,987	224,552,728
Grade 3	13,434,902	51,207,962
Grade 4	17,431,402	21,528,959
Total investments including unearned income	756,769,929	850,651,331
Unearned income	(3,178,972)	(3,909,286)
Total investments	<u>\$753,590,957</u>	<u>\$ 846,742,045</u>

Results comparisons for the three months ended June 30, 2010 and 2009.

Investment income

Investment income totaled \$28,210,955 and \$33,439,628, respectively, for the three months ended June 30, 2010 and 2009, of which \$15,576,232 and \$19,179,036 were attributable to interest and fees on senior secured loans, \$11,738,087 and \$13,622,931 to interest earned on other debt securities, \$856,021 and \$633,754 to dividends from preferred equity securities, \$3,115 and \$3,907 to interest earned on cash equivalents and \$37,500 and zero to other income, respectively. The decrease in investment income for the three months ended June 30, 2010 primarily reflects a reduction in the size of our portfolio due to sales, repayments and restructurings, as well as the impact of lower levels of LIBOR on interest income from our floating rate debt investments, which generally bear interest based on LIBOR. Total investments at their current cost basis were \$886,663,311 at June 30, 2010, compared to \$1,216,208,699 at June 30, 2009.

Expenses

Expenses for the three months ended June 30, 2010 and 2009 were \$7,790,318 and \$7,904,225, respectively, which consisted of \$4,151,014 and \$4,647,032 in base management fees, \$1,699,510 and \$1,712,222 in interest expense and fees related to the Credit Facility, \$385,297 and \$340,273 in Advisor expenses, \$587,884 and \$171,197 in amortization of debt issuance costs, \$220,987 and \$201,927 in administrative services, \$192,965 and \$374,516 in professional fees, \$182,203 and \$131,864 in insurance expenses, \$91,832 and \$88,863 in director fees and \$278,626 and \$236,331 in other expenses, respectively. The decrease in base management fees reflects a decline in the quarterly portfolio values on which the fees are paid (in arrears). The increase in amortization of debt issuance costs reflects the incurrence of structuring and arrangement fees in connection with the amendment of our Credit Facility in April 2010. The decrease in professional fees reflects lower fees for legal and accounting services.

Net investment income

Net investment income was \$20,420,637 and \$25,535,403 for the three months ended June 30, 2010 and 2009, respectively. The decrease is primarily a result of a decline in interest income.

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Net realized gain or loss

Net realized loss of \$(21,650,868) for the three months ended June 30, 2010 was the result of \$(20,390,508) in net losses realized from the disposition or restructuring of our investments and \$(1,260,360) in net loss realized on foreign currency transactions. Net realized loss on investments for the three months ended June 30, 2010 resulted primarily from the restructuring of our investment in Electrical Components International, Inc. Foreign currency losses mainly represent losses on forward currency contracts used to hedge our investments denominated in foreign currencies. For the three months ended June 30, 2009, net realized loss was \$(10,666,086), which was comprised of \$(7,067,506) in net losses realized from the disposition or restructuring of our investments and \$(3,598,580) in net loss realized on foreign currency transactions.

Net unrealized appreciation or depreciation

For the three months ended June 30, 2010 and 2009, the change in net unrealized appreciation was a decrease in net unrealized depreciation of \$23,565,063 and \$8,952,383, respectively. The decrease in net unrealized depreciation for the three months ended June 30, 2010 was comprised of a decrease in net unrealized depreciation on investments of \$20,960,568 and a net unrealized foreign currency translation gain of \$2,604,495. The decrease in net unrealized depreciation on investments for the three months ended June 30, 2010 includes \$16,219,514 relating to reversals of prior periods' net unrealized depreciation as a result of investment restructurings and dispositions. The decrease in net unrealized depreciation during the second quarter of 2010 was primarily a result of the reversals described above and changes in capital market conditions. The valuations of our investments were favorably impacted by increased multiples used to estimate the fair value of some of our investments. Market-wide movements and trading multiples are not necessarily indicative of any fundamental change in the condition or prospects of our portfolio companies. The decrease in net unrealized depreciation for the three months ended June 30, 2009 was comprised of increases in net unrealized appreciation on investments of \$6,892,212 and a net unrealized foreign currency translation gain of \$2,060,171.

Net increase or decrease in net assets resulting from operations

The net increase or decrease in net assets resulting from operations for the three months ended June 30, 2010 and 2009 was an increase of \$22,334,832 and \$23,821,700, respectively. As compared to the prior period, the increase primarily reflects the decrease in net unrealized depreciation on investments, net of realized gains and losses, for the three months ended June 30, 2010.

Results comparisons for the six months ended June 30, 2010 and 2009.

Investment income

Investment income totaled \$56,010,054 and \$65,250,928, respectively, for the six months ended June 30, 2010 and 2009, of which \$30,570,467 and \$37,020,547 were attributable to interest and fees on senior secured loans, \$23,736,914 and \$26,808,331 to interest earned on other debt securities, \$1,661,829 and \$1,412,170 to dividends from preferred equity securities, \$3,344 and \$9,880 to interest earned on cash equivalents and \$37,500 and zero to other income, respectively. The decrease in investment income for the six months ended June 30, 2010 primarily reflects a reduction in the size of our portfolio due to sales, repayments and restructurings, as well as the impact of lower levels of LIBOR on interest income from our floating rate debt investments, which generally bear interest based on LIBOR. Total investments at their current cost basis were \$886,663,311 at June 30, 2010, compared to \$1,216,208,699 at June 30, 2009.

Expenses

Expenses for the six months ended June 30, 2010 and 2009 were \$15,324,152 and \$15,964,143, respectively, which consisted of \$8,473,485 and \$9,395,250 in base management fees, \$493,951 and zero in incentive management fees, \$2,821,764 and \$3,548,611 in interest expense and fees related to the Credit Facility, \$783,961 and \$687,067 in Advisor expenses, \$756,176 and \$339,489 in amortization of debt issuance costs, \$478,710 and \$431,035 in administrative services, \$396,231 and \$606,566 in professional fees, \$334,611 and \$261,225 in insurance expenses, \$187,669 and \$184,155 in director fees and \$597,594 and \$510,745 in other expenses, respectively. The decrease in base management fees reflects a decline in the quarterly portfolio values on which the fees are paid (in arrears). The increase in incentive management fees is due to continued strong investment earnings, without the substantial net capital depreciation (including net realized and unrealized gains and losses) that had occurred in the prior period. The decrease in interest expense and fees related to the Credit Facility is mainly a result of reduced borrowing levels and lower prevailing levels of LIBOR. Total borrowings were \$145,000,000 at June 30, 2010, compared to \$376,000,000 at June 30, 2009. The increase in amortization of debt issuance costs reflects the incurrence of structuring and arrangement fees in connection with the amendment of our Credit Facility in April 2010. The decrease in professional fees reflects lower fees for legal and accounting services.

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Net investment income

Net investment income was \$40,685,902 and \$49,286,785 for the six months ended June 30, 2010 and 2009, respectively. The decrease is primarily a result of a decline in interest income.

Net realized gain or loss

Net realized loss of \$(64,014,191) for the six months ended June 30, 2010 was the result of \$(63,305,568) in net losses realized from the disposition or restructuring of our investments and \$(708,623) in net loss realized on foreign currency transactions. Net realized loss on investments for the six months ended June 30, 2010 resulted primarily from the restructuring of our investments in Penton Media Inc., Arclin US Holdings Inc and Electrical Components International, Inc. Nearly the entire net realized loss on investments represents amounts that had been reflected in unrealized depreciation on investments in prior periods. Foreign currency losses mainly represent losses on forward currency contracts used to hedge our investments denominated in foreign currencies. For the six months ended June 30, 2009, net realized loss was \$(8,537,758), which was comprised of \$(7,050,717) in net losses realized from the disposition or restructuring of our investments and \$(1,487,041) in net loss realized on foreign currency transactions.

Net unrealized appreciation or depreciation

For the six months ended June 30, 2010 and 2009, the change in net unrealized depreciation was a decrease (increase) in net unrealized depreciation of \$76,146,172 and \$(20,994,397), respectively. The decrease in net unrealized depreciation for the six months ended June 30, 2010 was comprised of a decrease in net unrealized depreciation on investments of \$75,005,605 and a net unrealized foreign currency translation gain of \$1,140,567. The decrease in net unrealized depreciation on investments for the six months ended June 30, 2010 includes \$62,252,511 relating to reversals of prior periods' net unrealized depreciation as a result of investment restructurings and dispositions. The decrease in net unrealized depreciation during the first six months of 2010 was primarily a result of the reversals described above and improved capital market conditions. The valuations of our investments were favorably impacted by market-wide decreases in interest yields, as well as increases in multiples used to estimate the fair value of some of our investments. Market-wide movements and trading multiples are not necessarily indicative of any fundamental change in the condition or prospects of our portfolio companies. The increase in net unrealized depreciation for the six months ended June 30, 2009 was comprised of increases in net unrealized depreciation on investments of \$(22,366,316) and a net unrealized foreign currency translation gain of \$1,371,919.

Net increase or decrease in net assets resulting from operations

The net increase or decrease in net assets resulting from operations for the six months ended June 30, 2010 and 2009 were increases of \$52,817,883 and \$19,754,630, respectively. As compared to the prior period, the increase primarily reflects the decrease in net unrealized depreciation on investments, net of realized gains and losses, for the six months ended June 30, 2010.

Supplemental information

We report our financial results on a GAAP basis; however, management believes that evaluating our ongoing operating results may be enhanced if investors have additional non-GAAP basis financial measures. Management reviews non-GAAP financial measures to assess ongoing operations and, for the reasons described below, considers them to be effective indicators, for both management and investors, of our financial performance over time. Management does not advocate that investors consider such non-GAAP financial measures in isolation from, or as a substitute for, financial information prepared in accordance with GAAP.

We record our liability for Incentive Fees as we become legally obligated to pay them, based on a hypothetical liquidation at the end of each reporting period. Our obligation to pay Incentive Fees with respect to any fiscal quarter is based on a formula that reflects our results over a trailing four-fiscal quarter period ending with the current fiscal quarter. We are legally obligated to pay the amount resulting from the formula less any cash payments of Incentive Fees during the prior three quarters. The formula's requirement to reduce the Incentive Fees by amounts paid with respect to Incentive Fees in the prior three quarters has caused our Incentive Fees expense to become, and currently is expected to be, concentrated in the fourth quarter of each year. Management believes that reflecting Incentive Fees throughout the year, as the related investment income is earned, is an effective measure of our profitability and financial performance that facilitates comparison of current results with historical results and with those of our peers. Our "as adjusted" results reflect Incentive Fees based on the formula we utilize for each trailing four-fiscal quarter period, with the formula applied to the current quarter's incremental earnings and without any reduction for Incentive Fees paid during the prior three quarters. The resulting amount represents an upper limit of each quarter's incremental Incentive Fees that we may become legally obligated to pay at the end of the year. Prior year amounts are estimated in the same manner. These estimates represent upper limits because, in any calendar year, subsequent quarters' investment underperformance could reduce the Incentive Fees payable with respect to prior quarters'

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operating results. Changes in the economic environment, financial markets and other parameters used in determining such estimates could cause actual results to differ and such differences could be material. See Note 3 to the financial statements in this Quarterly Report for a more detailed description of the Company's incentive management fee.

Computations for all periods are derived from our financial statements as follows:

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
GAAP Basis:				
Net Investment Income	\$ 20,420,637	\$ 25,535,403	\$ 40,685,902	\$ 49,286,785
Net Increase in Net Assets from Operations	22,334,832	23,821,700	52,817,883	19,754,630
Net Asset Value at end of period	642,415,796	514,031,903	642,415,796	514,031,903
Less: Incremental Incentive Fee expense using existing formula as applied to current period operating results	(4,130,722)	(4,701,094)	(7,631,808)	(9,317,859)
As Adjusted:				
Net Investment Income	\$ 16,289,915	\$ 20,834,309	\$ 33,054,094	\$ 39,968,926
Net Increase in Net Assets from Operations	18,204,110	19,120,606	45,186,075	10,436,771
Net Asset Value at end of period	634,783,988	504,714,044	634,783,988	504,714,044
Per Share Amounts, GAAP Basis:				
Net Investment Income	\$ 0.36	\$ 0.46	\$ 0.71	\$ 0.89
Net Increase in Net Assets from Operations	0.39	0.43	0.93	0.36
Net Asset Value at end of period	9.83	9.24	9.83	9.24
Per Share Amounts, As Adjusted:				
Net Investment Income	\$ 0.28	\$ 0.37	\$ 0.58	\$ 0.72
Net Increase in Net Assets from Operations	0.32	0.34	0.79	0.19
Net Asset Value at end of period	9.71	9.07	9.71	9.07

Financial condition, liquidity and capital resources

During the six months ended June 30, 2010, we generated operating cash flows primarily from interest earned and fees received on senior secured loans and other debt securities, as well as from sales of selected portfolio company investments or repayments of principal.

Net cash provided by operating activities during the six months ended June 30, 2010 was \$124,167,052. Our primary sources of cash from operating activities during the period consisted of a net increase in net assets from operations of \$52,817,883 and sales/repayments of investments (net of purchases) of \$109,737,056.

We used \$108,680,846 for financing activities during the six months ended June 30, 2010. Our primary uses of cash for financing activities were \$33,771,455 of dividend distributions, \$151,000,000 of net repayments under our Credit Facility and \$7,801,398 of debt issuance costs incurred in connection with our Credit Facility amendment. During the period, we raised \$83,892,007 in net proceeds from an add-on public offering of our common stock.

Our senior secured, multi-currency Credit Facility provides us with \$620,000,000 in total availability, consisting of \$475,000,000 in revolving loan commitments and \$145,000,000 in term loan commitments. Commitments that mature on December 6, 2013 total \$375,000,000, consisting of \$275,000,000 of available revolving loans and \$100,000,000 of available term loans. Commitments that mature on December 6, 2010, unless extended prior to such date, total \$245,000,000, consisting of \$200,000,000 of available revolving loans and \$45,000,000 of available term loans. Subject to certain conditions, we have the ability in the future to seek additional commitments from new and existing lenders up to an additional \$275,000,000 of revolving loan commitments and \$250,000,000 of term loan commitments. The interest rates applicable to the commitments that mature in December 2013 are generally LIBOR plus a spread of either 3.00% or 3.25% for revolving loans, based on a pricing grid depending on our credit rating, and LIBOR plus 3.00% for term loans. The interest rates applicable to the commitments that mature in December 2010 are generally LIBOR plus 0.875% with respect to revolving loans and LIBOR plus 1.50% with respect to term loans. The facility does not contain a LIBOR floor requirement. At June 30, 2010, the effective LIBOR spread under the Credit Facility was 2.53%. The term loans have been fully drawn and, once repaid, may not be reborrowed. The Credit Facility is secured by substantially all of the assets in our portfolio, including cash and cash equivalents. At June 30, 2010, we had \$145,000,000 drawn and outstanding under the Credit Facility, with \$475,000,000 available to us, subject to compliance with customary affirmative and negative covenants,

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including the maintenance of a minimum stockholders' equity, the maintenance of a ratio of not less than 200% of total assets (less total liabilities other than indebtedness) to total indebtedness, and restrictions on certain payments and issuance of debt.

At June 30, 2010, we had \$21,265,946 in cash and cash equivalents.

The primary use of existing funds is expected to be purchases of investments in portfolio companies, cash distributions to our stockholders, repayment of indebtedness and other general corporate purposes.

On June 7, 2010, our stockholders approved an amendment to our Certificate of Incorporation to increase the number of authorized shares of our common stock from 100,000,000 to 200,000,000. The amendment became effective on that date.

Our shelf registration permits us to offer, from time to time, up to approximately \$900 million of our common stock, preferred stock, debt securities, warrants representing rights to purchase shares of our common stock, preferred stock or debt securities and subscription rights. As a closed-end investment company regulated as a BDC under the 1940 Act, we are prohibited from selling shares of our common stock at a price below the current net asset value of the stock, or NAV, unless our stockholders approve such a sale and our Board of Directors makes certain determinations. On February 8, 2010, subject to certain Board of Director determinations, our stockholders approved our ability to sell or otherwise issue shares of our common stock at a price below its then current net asset value per share for a twelve month period expiring on the anniversary of the date of stockholder approval. In any such case, the price at which our common stock would 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 common stock. Any sale of the Company's common stock at a price below NAV would have a dilutive effect on our NAV.

Contractual obligations

A summary of our significant contractual payment obligations for the repayment of outstanding borrowings under our Credit Facility at June 30, 2010 is as follows:

	Payments Due By Period (dollars in millions)				
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
Credit Facility Payable(1)	\$145.0	\$ 45.0	\$ —	\$ 100.0	\$ —
Interest and Commitment Fees Payable on Credit Facility	0.5	—	—	0.5	—

(1) At June 30, 2010, \$475.0 million remained unused under our Credit Facility.

Off-balance sheet arrangements

In the normal course of business, the Company may enter into guarantees on behalf of portfolio companies. Under these arrangements, the Company would be required to make payments to third parties if the portfolio companies were to default on their related payment obligations. At June 30, 2010 and December 31, 2009, the maximum amount of potential future payments under such guarantees was \$6,000,000, with an expiration of December 31, 2011. Guarantees made on behalf of portfolio companies are considered in determining the fair value of the Company's investments.

Dividends

Our quarterly dividends, if any, are determined by our Board of Directors. Dividends are declared considering our estimate of annual taxable income available for distribution to stockholders and the amount of taxable income carried over from the prior year for distribution in the current year. We cannot assure stockholders that they will receive any dividends and distributions or dividends and distributions at a particular level. Dividends declared by the Company since July 25, 2005 (inception of operations) have been as follows:

Dividend Amount Per Share Outstanding	Record Date	Pay Date
\$0.20	December 31, 2005	January 31, 2006
\$0.20	March 15, 2006	March 31, 2006
\$0.23	June 15, 2006	June 30, 2006
\$0.30	September 15, 2006	September 29, 2006
\$0.42	December 31, 2006	January 31, 2007
\$0.42	March 15, 2007	March 30, 2007
\$0.42	May 15, 2007	May 31, 2007
\$0.42	September 14, 2007	September 28, 2007
\$0.43	December 14, 2007	December 31, 2007
\$0.43	March 17, 2008	March 31, 2008
\$0.43	June 16, 2008	June 30, 2008
\$0.43	September 15, 2008	September 30, 2008
\$0.43	December 15, 2008	December 31, 2008
\$0.16	March 20, 2009	April 3, 2009
\$0.16	June 19, 2009	July 2, 2009
\$0.16	September 18, 2009	October 2, 2009
\$0.32	December 21, 2009	January 4, 2010
\$0.32	March 22, 2010	April 5, 2010
\$0.32	May 17, 2010	July 2, 2010
\$0.32	September 17, 2010	October 1, 2010

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Tax characteristics of all dividends are reported to stockholders on Form 1099 after the end of the calendar year.

We have qualified and elected and intend to continue to qualify for the tax treatment applicable to regulated investment companies under Subchapter M of the Code, and, among other things, have made and intend to continue to make the requisite distributions to its stockholders which will relieve us from federal income taxes. Therefore, no provision has been recorded for federal income taxes. We may, at our discretion, carry forward taxable income in excess of calendar year distributions and pay a 4% excise tax on this income. We will accrue excise tax on estimated undistributed taxable income as required.

In order to qualify for favorable tax treatment as a RIC, we are required to distribute annually to our stockholders at least 90% of investment company taxable income, as defined by the Code. To avoid federal excise taxes, we must distribute annually at least 98% of our income (both ordinary income and net capital gains).

We maintain an “opt out” dividend reinvestment plan for our common stockholders. As a result, except as discussed below, if we declare a dividend, stockholders’ cash dividends will be automatically reinvested in additional shares of our common stock, unless they specifically “opt out” of the dividend reinvestment plan so as to receive cash dividends. With respect to our dividends and distributions paid to stockholders during the six months ended June 30, 2010 and 2009, dividends reinvested pursuant to our dividend reinvestment plan totaled \$2,413,003 and \$3,950,579, respectively.

Under the terms of our amended and restated dividend reinvestment plan adopted on March 4, 2009, dividends may be paid in newly issued or treasury shares of our common stock at a price equal to 95% of the market price on the dividend payment date. This feature of the plan means that, under certain circumstances, we may issue shares of our common stock at a price below net asset value per share, which could cause our stockholders to experience dilution.

Income we receive from origination, structuring, closing, commitment and other upfront fees associated with investments in portfolio companies is treated as taxable income when received and accordingly, distributed to stockholders. For financial reporting purposes, such fees are recorded as unearned income and accreted/amortized over the life of the respective investment. For the three and six months ended June 30, 2010, these fees totaled \$2,373,462 and \$2,400,962. For the three and six months ended June 30, 2009, there were no such fees. We anticipate earning additional upfront fees in the future and such fees may cause our taxable income to exceed our GAAP income, although the differences are expected to be temporary in nature.

In order to satisfy the annual distribution requirement applicable to RICs, we have the ability to declare a large portion of a dividend in shares of our common stock instead of in cash. As long as a portion of such dividend is paid in cash (which portion can be as low as 10% for our taxable years ending on or before December 31, 2011) and certain requirements are met, the entire distribution would be treated as a dividend for U.S. federal income tax purposes.

Recent developments

On August 4, 2010, our Board of Directors declared a dividend of \$0.32 per share, payable on October 1, 2010 to stockholders of record at the close of business on September 17, 2010.

Notice is hereby given in accordance with Section 23 of the 1940 Act that from time to time we may purchase shares of our common stock in the open market at prevailing market prices.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to financial market risks, including changes in interest rates. At June 30, 2010, 51% of our debt investments bore interest based on floating rates, such as LIBOR, the Federal Funds Rate or the Prime Rate. The interest rates on such investments generally reset by reference to the current market index after one to six months. At June 30, 2010, the percentage of our total debt investments that bore floating rate interest based on an interest rate floor was 10%. Floating rate investments subject to a floor generally reset by reference to the current market index after one to six months only if the index exceeds the floor.

To illustrate the potential impact of changes in interest rates, we have performed the following analysis based on our June 30, 2010 balance sheet and assuming no changes in our investment structure. Net asset value is analyzed using the assumptions that interest rates, as defined by the LIBOR and U.S. Treasury yield curves, increase or decrease and that the yield curves of the rate shocks will be parallel to each other. Under this analysis, an instantaneous 100 basis point increase in LIBOR and U.S. Treasury yields would cause a decline of approximately \$8,600,000, or \$0.13 per share, in the value of our net assets at June 30, 2010 and a corresponding 100 basis point decrease in LIBOR and U.S. Treasury yields would cause an increase of approximately \$7,500,000, or \$0.11 per share, in the value of our net assets on that date.

While hedging activities may help to insulate us against adverse changes in interest rates, they also may limit our ability to participate in the benefits of lower interest rates with respect to our portfolio of investments. During the three and six months ended June 30, 2010 and 2009, we did not engage in any interest rate hedging activity.

Item 4. Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15 under the Securities Exchange Act of 1934). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our current disclosure controls and procedures are effective in timely alerting them to material information relating to us that is required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934.

There have been no changes in our internal control over financial reporting that occurred during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we and the Advisor may be a party to certain legal proceedings incidental to the normal course of our business, including the enforcement of our rights under contracts with our portfolio companies. While we cannot predict the outcome of these legal proceedings with certainty, we do not expect that these proceedings will have a material effect on our financial statements.

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in our most recent Form 10-K filing.

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

Sales of unregistered securities

None.

Issuer purchases of equity securities

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. [Reserved]

Item 5. Other Information

None.

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Item 6. Exhibits.

(a) Exhibits.

- 10.1 Underwriting Agreement dated June 16, 2010 by and among BlackRock Kelso Capital Corporation, BlackRock Kelso Capital Advisors LLC and Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Credit Suisse Securities (USA) LLC, and UBS Securities LLC as representatives of the several underwriters named in Schedule A thereto.
- 31.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification of CEO and CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

BLACKROCK KELSO CAPITAL CORPORATION

Date: August 5, 2010

By: _____ /s/ JAMES R. MAHER
James R. Maher
Chief Executive Officer

Date: August 5, 2010

By: _____ /s/ FRANK D. GORDON
Frank D. Gordon
Chief Financial Officer

7,500,000 Shares

Common Stock
(\$.001 Par Value Per Share)**UNDERWRITING AGREEMENT**

June 16, 2010

Citigroup Global Markets Inc.
388 Greenwich Street, 35th Floor
New York, NY 10013Merrill Lynch, Pierce, Fenner & Smith
Incorporated
One Bryant Park
New York, NY 10036Credit Suisse Securities (USA) LLC
11 Madison Avenue
New York, NY 10010UBS Securities LLC
299 Park Avenue
New York, NY 10171As representatives (the "Representatives") of the several Underwriters
named in Schedule A hereto

Ladies and Gentlemen:

BlackRock Kelso Capital Corporation, a Delaware corporation (the "**Company**"), proposes to issue and sell an aggregate of 7,500,000 shares (the "**Firm Shares**") of common stock, \$.001 par value per share (the "**Common Stock**"), of the Company. It is understood that, subject to the conditions hereinafter stated, the Firm Shares will be sold by the Company to the several Underwriters named in Schedule A hereto (the "**Underwriters**") in connection with the offer and sale of such Firm Shares. Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Credit Suisse Securities (USA) LLC and UBS Securities LLC shall act as representatives of the Underwriters (the "**Representatives**").

In addition, solely for the purpose of covering over-allotments, the Company proposes to grant to the Underwriters the option to purchase from the Company up to an additional 1,125,000 shares of Common Stock (the "**Additional Shares**"). The Firm Shares and the Additional Shares are hereinafter collectively sometimes referred to as the "**Shares**." The Shares are described in the Prospectus which is referred to below.

The Company has filed, in accordance with the provisions of the Securities Act of 1933, as amended, and the rules and regulations thereunder (collectively, the "**Act**"), with the Securities and Exchange Commission (the "**Commission**") a registration statement on Form N-2 (File No. 333-148638) relating to the offer and sale of \$1,000,000,000 in aggregate offering price of Common Stock, including the Shares, and other securities as described therein. The registration statement, as it may have heretofore been amended at the time it became effective or any amendment became effective, including the information (if any) deemed to be part of the registration statement at the time of effectiveness pursuant to Rule 430C under the Act, is hereinafter referred to as the "**Registration Statement**;" the preliminary prospectus, dated as of May 5, 2010, included in the Registration Statement at the time it became effective on May 5, 2010 (including the information, if any, deemed to be part of the

Registration Statement at the time of effectiveness pursuant to Rule 430C and Rule 497 under the Act) is hereinafter referred to as the "**Base Prospectus**;" the preliminary prospectus supplement to the Base Prospectus dated June 16, 2010, filed with the Commission pursuant to Rule 497, is hereinafter referred to as the "**Pre-Pricing Prospectus Supplement**" (together with the Base Prospectus as so supplemented, the "**Pre-Pricing Prospectus**"); the prospectus supplement to the Base Prospectus to be filed with the Commission pursuant to Rule 497 after the Execution Time (as defined below) and to be used to confirm sales of Shares is hereinafter referred to as the "**Prospectus Supplement**" (together with the Base Prospectus as so supplemented, the "**Prospectus**"). 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 Act (File No. 814-00712) (the "**Notification of Election**") was filed with the Commission on July 22, 2005 under the Investment Company Act of 1940, as amended, and the rules and regulations thereunder (collectively, the "**Investment Company Act**"). As used herein, "**business day**" shall mean a day on which the Nasdaq Global Select Market is open for trading.

The Company has entered into an investment advisory and management agreement, dated as of July 25, 2005, as amended on April 27, 2007, June 22, 2007 and June 22, 2008 (the "**Investment Management Agreement**"), with BlackRock Kelso Capital Advisors LLC, a Delaware limited liability company registered as an investment adviser (the "**Adviser**") under the Investment Advisers Act of 1940, as amended, and the rules and regulations thereunder (collectively, the "**Advisers Act**").

The Company has entered into an administration agreement, dated as of August 4, 2005 (the "**Administration Agreement**"), with BlackRock Financial Management, Inc., a Delaware corporation (the "**Administrator**").

The Company, the Adviser and the Underwriters agree as follows:

1. **Sale and Purchase.** Upon the basis of the representations and warranties and subject to the terms and conditions herein set forth, the Company agrees to issue and sell to the respective Underwriters and each of the Underwriters, severally and not jointly, agrees to purchase from the Company the number of Firm Shares set forth opposite the name of such Underwriter in Schedule A attached hereto, subject to adjustment in accordance with Section 9 hereof, in each case at a purchase price of \$9.78875 per Share.

In addition, the Company hereby grants to the several Underwriters the option to purchase, and upon the basis of the representations and warranties and subject to the terms and conditions herein set forth, the Underwriters shall have the right to purchase, severally and not jointly, from the Company, ratably in accordance with the number of Firm Shares to be purchased by each of them, all or a portion of the Additional Shares as may be necessary to cover over-allotments made in connection with the offering of the Firm Shares, at the same purchase price per share to be paid by the Underwriters to the Company for the Firm Shares. This option may be exercised by the Representatives on behalf of the several Underwriters at any time on or before the 30th day following the date of the Prospectus, by written notice to the Company. Such notice shall set forth the aggregate number of Additional Shares as to which the option is being exercised, and the date and time when the Additional Shares are to be delivered (such date and time being herein referred to as the "**additional time of purchase**"); provided, however, that the additional time of purchase shall not be earlier than the time of purchase (as defined below) nor, following the time of purchase, earlier than the second business day after the date on which the option shall have been exercised nor later than the tenth business day after the date on which the option shall have been exercised. The number of Additional Shares to be sold to each Underwriter shall be the number which bears the same proportion to the aggregate number of Additional Shares being purchased as the number of Firm Shares set forth opposite the name of such Underwriter on Schedule A hereto bears to the total number of Firm Shares (subject, in each case, to such adjustment as you may determine to eliminate fractional shares), subject to adjustment in accordance with Section 9 hereof.

2. **Payment and Delivery.** Payment of the purchase price for the Firm Shares shall be made to the Company by Federal Funds wire transfer, against delivery of the certificates for the Firm Shares to you through the facilities of The Depository Trust Company ("**DTC**") for the respective accounts of the Underwriters. Such payment and delivery shall be made at 10:00 A.M., New York City time, on June 22, 2010 (unless another time shall be agreed to by you and the Company or unless postponed in accordance with the provisions of Section 9 hereof). The time at which such payment and delivery are to be made is hereinafter sometimes called "**the time of purchase.**" Electronic transfer of the Firm Shares shall be made to you at the time of purchase in such names and in such denominations as you shall specify.

Payment of the purchase price for the Additional Shares shall be made at the additional time of purchase, if any, in the same manner and at the same office as the payment for the Firm Shares. Electronic transfer of the Additional Shares shall be made to you at the additional time of purchase in such names and in such denominations as you shall specify.

Deliveries of the documents described in Section 7 hereof with respect to the purchase of the Shares shall be made at the offices of Sutherland Asbill & Brennan LLP, 1275 Pennsylvania Avenue, N.W., Washington, D.C. 20004 at 9:00 A.M., New York City time, on the date of the closing of the purchase of the Firm Shares or the Additional Shares, as the case may be.

3. Representations and Warranties of the Company. The Company represents and warrants to and agrees with each of the Underwriters, and the Adviser represents and warrants to and agrees with each of the Underwriters that:

(a) the Registration Statement has been declared effective under the Act; no stop order of the Commission preventing or suspending the use of the Pre-Pricing Prospectus or the Prospectus or the effectiveness of the Registration Statement has been issued and no proceedings for such purpose have been instituted or, to the Company's knowledge, are contemplated by the Commission; the Pre-Pricing Prospectus, together with the price to the public, the number of Firm Shares and the number of Additional Shares to be included on the cover page of the Prospectus (the "**Pricing Information**"), as of the date and time that this Agreement is executed and delivered by the parties hereto (the "**Execution Time**"), did not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; the Registration Statement complied when it became effective, and complies and will comply, when the Prospectus is first filed in accordance with Rule 497 and at the time of purchase and the additional time of purchase, if any, in all material respects with the requirements of the Act and the Prospectus (and any supplements thereto) will comply when first filed in accordance with Rule 497 and at the time of purchase and the additional time of purchase, if any, in all material respects with the requirements of the Act, and any statutes, regulations, contracts or other documents that are required to be described in the Registration Statement, the Pre-Pricing Prospectus or the Prospectus or to be filed as exhibits to the Registration Statement have been and will be so described or filed; the Company is eligible to use Form N-2; the Registration Statement did not, when it became effective, does not and will not, when the Prospectus is first filed in accordance with Rule 497 and at the time of purchase and any additional time of purchase, 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 and the Prospectus (and any supplements thereto) will not contain when first filed in accordance with Rule 497 and at the time of purchase and the additional time of purchase, if any, 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; provided, however, that the Company makes no warranty or representation with respect to any statement contained in the Pre-Pricing Prospectus, the Registration Statement or the Prospectus in reliance upon and in conformity with information concerning an Underwriter and furnished in writing by or on behalf of such Underwriter through you to the Company expressly for use in the Pre-Pricing Prospectus, the Registration Statement or the Prospectus; and the Company has not distributed and will not distribute any offering material in connection with the offering or sale of the Shares other than the Registration Statement, the Pre-Pricing Prospectus, the Prospectus and any press releases relating to the offering required to be filed pursuant to Rule 482(h) under the Act. No statement of material fact included in the Prospectus has been omitted from the Pre-Pricing Prospectus taken together with the Pricing Information and no statement of material fact included in the Pre-Pricing Prospectus taken together with the Pricing Information that is required to be included in the Prospectus will be omitted therefrom;

(b) as of the dates indicated in the Pre-Pricing Prospectus and the Prospectus, the Company had an authorized and outstanding capitalization as set forth under the heading "Actual" in the section of the Pre-Pricing Prospectus and the Prospectus entitled "Capitalization" and, if the time of purchase and the additional time of purchase had occurred as of the dates indicated in the Pre-Pricing Prospectus and the Prospectus, the Company would have had an authorized and outstanding capitalization as set forth under the heading "As Adjusted" in the section of the Prospectus entitled "Capitalization" (subject, in the case of the time of purchase and in the event that the time of purchase and the additional time of purchase occur concurrently, to the issuance of the Additional Shares, and subject, in the case of the additional time of purchase, to the issuance of the Additional Shares); all of the issued and outstanding shares of capital stock, including the Common Stock, of the Company have been duly authorized and validly issued and are fully paid and non-assessable, have been issued in compliance with all federal and state securities laws and were not issued in violation of any preemptive right or right of first refusal;

(c) the Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Delaware, with full corporate power and authority to own, lease and operate its properties and conduct its business as described in the Pre-Pricing Prospectus, the Prospectus and the Registration Statement, to execute and deliver this Agreement and to issue, sell and deliver the Shares as contemplated herein;

(d) the Company is duly qualified to do business as a foreign corporation and is in good standing in each jurisdiction where the ownership or leasing of its properties or the conduct of its business requires such qualification, except where the failure to be so qualified or to be in good standing would not, individually or in the aggregate, have a material adverse effect on the business, financial condition, results of operation or prospects of the Company (a “**Material Adverse Effect**”);

(e) the Company has no subsidiaries other than BKC ARS Blocker, Inc., BKC ASW Blocker, Inc., BKC DVSH Blocker, Inc., BKC MTCH Blocker, Inc. and BKC CSP Blocker, Inc.; except as disclosed in the Pre-Pricing Prospectus, the Prospectus and the Registration Statement, the Company does not own, directly or indirectly, any shares of stock or any other equity or long-term debt securities of any corporation or have any equity interest in any firm, partnership, joint venture, association or other entity except for investments that either appear or will appear in the Company’s Schedule of Investments as presented in the Company’s financial statements; complete and correct copies of the articles of incorporation and bylaws of the Company, and all amendments thereto through the date hereof, have been delivered to you.

(f) the Shares have been duly and validly authorized and, when issued and delivered against payment therefor by you as provided herein, will be duly and validly issued, fully paid and non-assessable and free of statutory and contractual preemptive rights or rights of first refusal;

(g) the capital stock of the Company, including the Shares, conforms in all material respects to the description thereof contained in the Prospectus and the certificates for the Shares are in due and proper form and the holders of the Shares will not be subject to personal liability by reason of being such holders;

(h) this Agreement, the Investment Management Agreement and the Administration Agreement have been duly authorized, executed and delivered by the Company, and, assuming due authorization, execution and delivery by the other parties hereto and thereto, constitute valid and legally binding agreements of the Company enforceable in accordance with their respective terms, except as (i) the enforceability thereof may be limited by bankruptcy, reorganization, insolvency, moratorium (including, without limitation, all laws relating to fraudulent transfers) or similar laws now or thereafter in effect affecting creditors’ rights generally and (ii) rights to indemnification and contribution may be limited by equitable principles of general applicability whether in a proceeding of equity or in law or by state or federal securities laws or the policies underlying such laws;

(i) The Company is not in breach or violation of or in default under (nor has any event occurred which with notice, lapse of time or both would reasonably be expected to result in any breach or violation of, constitute a default under or give the holder of any indebtedness (or a person acting on such holder’s behalf) the right to require the repurchase, redemption or repayment of all or a part of such indebtedness under) (i) its charter, by-laws, certificate of formation, or other organizational documents of the Company or the Adviser, as applicable, or (ii) any indenture, mortgage, deed of trust, bank loan or credit agreement or other evidence of indebtedness, or any license, lease, contract or other agreement or instrument to which the Company is a party, except, with respect to clause (ii), to the extent that such contravention would not have a Material Adverse Effect and would not adversely affect the consummation of the transactions contemplated hereby, and the execution, delivery and performance by the Company of this Agreement, the Investment Management Agreement and Administration Agreement, the issuance and sale of the Shares and the consummation of the transactions contemplated hereby and thereby will not conflict with, result in any breach or violation of or constitute a default under (nor constitute any event which with notice, lapse of time or both would result in any breach or violation of or constitute a default under) (i) the charter or by-laws of the Company, or (ii) any indenture, mortgage, deed of trust, bank loan or credit agreement or other evidence of indebtedness, or any license, lease, contract or other agreement or instrument to which the Company is a party, or (iii) any federal, state, local or foreign law, regulation or rule or any decree, judgment or order applicable to the Company, except, with respect to clauses (ii) and (iii), to the extent that such contravention would not have a Material Adverse Effect and would not adversely affect the consummation of the transactions contemplated hereby;

(j) no approval, authorization, consent or order of or filing with any federal, state, local or foreign governmental or regulatory commission, board, body, authority or agency is required in connection with the issuance and sale of the Shares or the consummation by the Company of the transactions contemplated hereby other than registration of the Shares under the Act, which has been effected, and any necessary qualification under the securities or blue sky laws of the various jurisdictions in which the Shares are being offered by the Underwriters or under the rules and regulations of the Financial Industry Regulatory Authority (“FINRA”);

(k) except as set forth in the Registration Statement, the Pre-Pricing Prospectus and the Prospectus, (i) no person has the right, contractual or otherwise, to cause the Company to issue or sell to it any shares of Common Stock or shares of any other capital stock or other equity interests of the Company, (ii) no person has any preemptive rights or rights of first refusal to purchase any shares of Common Stock or shares of any other capital stock or other equity interests of the Company, and (iii) no person has the right to act as an underwriter or as a financial advisor to the Company in connection with the offer and sale of the Shares, in the case of each of the foregoing clauses (i), (ii) and (iii), whether as a result of the filing or effectiveness of the Registration Statement or the sale of the Shares as contemplated thereby or otherwise; no person has the right, contractual or otherwise, to cause the Company to register under the Act any shares of Common Stock or shares of any other capital stock or other equity interests of the Company, or to include any such shares or interests in the Registration Statement or the offering contemplated thereby;

(l) the Company has all necessary licenses, authorizations, consents and approvals (collectively, the “**Consents**”) and has made all necessary filings required under any federal, state, local or foreign law, regulation or rule, and has obtained all necessary authorizations, consents and approvals from other persons, in order to conduct its business, except where the failure to make such filing or to obtain such consent would not have a Material Adverse Effect; the Company is not in violation of, or in default under, or has received notice of any proceedings relating to revocation or modification of, any such license, authorization, consent or approval or any federal, state, local or foreign law, regulation or rule or any decree, order or judgment applicable to the Company, except where such violation, default, revocation or modification would not, individually or in the aggregate, have a Material Adverse Effect;

(m) all legal proceedings and governmental proceedings known to the Company, affiliate transactions, contracts, licenses, agreements, leases or documents of a character required to be described in the Pre-Pricing Prospectus and the Prospectus or to be filed as an exhibit to the Registration Statement have been so described or filed as required;

(n) there are no actions, suits, claims, investigations or proceedings pending or, to the Company’s knowledge, threatened to which the Company, or any of its directors or officers is or would be a party or of which any of its properties is or would be subject at law or in equity, before or by any federal, state, local or foreign governmental or regulatory commission, board, body, authority or agency, except any such action, suit, claim, investigation or proceeding which would not result in a judgment, decree or order having, individually or in the aggregate, a Material Adverse Effect or preventing consummation of the transactions contemplated hereby;

(o) Deloitte & Touche LLP, who has audited the annual financial statements of the Company included in the Prospectus, is an independent registered public accounting firm as required by the Act;

(p) the financial statements of the Company included in the Pre-Pricing Prospectus, the Prospectus and the Registration Statement, together with the related notes, present fairly the financial position and results of operations of the Company as of the dates indicated and for the indicated periods; such financial statements have been prepared in accordance with United States generally accepted accounting principles, consistently applied throughout the periods presented except as noted in the notes thereon, and all adjustments necessary for a fair presentation of results for such periods have been made; and the selected financial information included in the Registration Statement, Pre-Pricing Prospectus and Prospectus presents fairly the information shown therein and has been compiled on a basis consistent with the financial statements presented therein; there are no financial statements that are required to be included in the Pre-Pricing Prospectus, the Prospectus and the Registration Statement that are not included as required; the Company does not have any material liabilities or obligations (other than a draw down on the Company’s credit facility), direct or contingent (including any off-balance sheet obligations), not disclosed in the Pre-Pricing Prospectus, the Prospectus and the Registration Statement; and all disclosures contained in the Pre-Pricing Prospectus, the Prospectus and the Registration Statement regarding “non-GAAP financial measures” (as

such term is defined by the rules and regulations of the Commission), if any, comply in all material respects with Regulation G of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder (collectively, the “Exchange Act”) and Item 10 of Regulation S-K under the Act, to the extent applicable;

(q) subsequent to the date of the Pre-Pricing Prospectus and the Prospectus (exclusive of any amendments or supplements thereto subsequent to the date of this Agreement) and for so long as the delivery of a prospectus is required in connection with the offering or sale of Shares prior to the time of purchase, there has not been (i) any Material Adverse Effect, or any development involving a prospective Material Adverse Effect, (ii) any transaction which is material to the Company, (iii) any obligation, direct or contingent (including any off-balance sheet obligations), incurred by the Company, which is material to the Company; (iv) any material change in the capital stock or outstanding indebtedness of the Company (other than repayments or draw down on the Company’s credit facility); or (v) any dividend of any kind declared, paid, or made on the capital stock of the Company;

(r) the Company has obtained for the benefit of the Underwriters the agreement (a “**Lock-Up Agreement**”), in the form set forth as Exhibit A hereto, of each of the persons and entities named in Exhibit A-1 hereto;

(s) the Company is not and, after giving effect to the offering and sale of the Shares, will not be a “registered management investment company” or an entity “controlled” by a “registered management investment company,” as such terms are used under the Investment Company Act;

(t) when the Notification of Election was filed with the Commission, it (i) 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 (ii) did not include any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein not misleading;

(u) the Company owns, or has obtained valid and enforceable licenses for, or other rights to use, the trademarks (both registered and unregistered), tradenames and other proprietary information described in the Registration Statement, the Pre-Pricing Prospectus and the Prospectus as being licensed by it or which are necessary for the conduct of its businesses (collectively, “**Intellectual Property**”), except where the failure to own, license or have such rights would not, individually or in the aggregate, have a Material Adverse Effect; the Company has not received notice and is not otherwise aware of any infringement of, or conflict with, asserted rights of third parties with respect to any Intellectual Property or of any facts or circumstances which would render any Intellectual Property invalid or inadequate to protect the interest of the Company therein, and which infringement or conflict (if the subject of any unfavorable decision, ruling or finding) or invalidity or inadequacy, would result in a Material Adverse Effect;

(v) the Company maintains insurance covering its properties, operations, personnel and businesses as the Company deems necessary and adequate; such insurance insures against such losses and risks to an extent which is adequate in accordance with customary industry practice to protect the Company and its business; all such insurance is fully in force on the date hereof and will be fully in force at the time of purchase and any additional time of purchase;

(w) the Company has not sent or received any communication regarding termination of, or intent not to renew, any of the contracts or agreements referred to or described in, or filed as an exhibit to, the Registration Statement, and no such termination or non-renewal has been threatened by the Company or, to the Company’s knowledge, any other party to any such contract or agreement;

(x) the Company maintains a system of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management’s general or specific authorization; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets; (iii) access to assets is permitted only in accordance with management’s general or specific authorization; and (iv) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Since the end of the Company’s most recent audited fiscal year, there has been (1) to the knowledge of the Company, no material weakness in the Company’s internal control over financial reporting (whether or not remediated) and (2) no change in the Company’s internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting;

(y) the Company has established and maintains disclosure controls and procedures (as such term is defined in Rules 13a-15 and 15d-15 under the Exchange Act); such disclosure controls and procedures are designed to ensure that material information relating to the Company, including material information pertaining to the Company's operations and assets managed by the Adviser, is made known to the Company's Chief Executive Officer and Chief Financial Officer by others within the Company and the Adviser, and such disclosure controls and procedures are effective to perform the functions for which they were established;

(z) the Company has not, directly or indirectly, extended credit, arranged to extend credit, or renewed any extension of credit, in the form of a personal loan, to or for any director or executive officer of the Company, or to or for any family member or affiliate of any director or executive officer of the Company;

(aa) neither the Company nor, to the Company's knowledge, any employee or agent of the Company has made any payment of funds of the Company or received or retained any funds in violation of any law, rule or regulation, which payment, receipt or retention of funds is of a character required to be disclosed in the Prospectus;

(bb) neither the Company nor, to the Company's knowledge, any of its respective directors, officers, affiliates or controlling persons has taken, directly or indirectly, any action designed, or which has constituted or might reasonably be expected to cause or result in, under the Exchange Act, the stabilization or manipulation of the price of any security of the Company to facilitate the sale of the Shares;

(cc) any statistical and market-related data included in the Registration Statement, the Pre-Pricing Prospectus and the Prospectus are based on or derived from sources that the Company believes to be reliable and accurate, and the Company has obtained the written consent to the use of such data from such sources to the extent required;

(dd) to the Company's knowledge, there are no affiliations or associations between any member of the FINRA and any of the Company's officers, directors or securityholders, except as set forth in any FINRA questionnaires, the Registration Statement, Pre-Pricing Prospectus and the Prospectus to the extent required;

(ee) the terms of the Investment Management Agreement, including compensation terms, comply in all material respects with all applicable provisions of the Investment Company Act and the Advisers Act and the applicable published rules and regulations thereunder;

(ff) the approvals by the board of directors and/or the stockholders of the Company of the Investment Management Agreement have been made in accordance with the requirements of Section 15 of the Investment Company Act applicable to companies that have elected to be regulated as business development companies under the Investment Company Act;

(gg) except as disclosed in the Registration Statement, the Pre-Pricing Prospectus and the Prospectus, (i) no person is serving or acting as an officer, director or investment adviser of the Company, in contravention of any of the provisions of the Investment Company Act and the Advisers Act and the applicable published rules and regulations thereunder, and (ii) to the knowledge of the Company, no director of the Company is an "affiliated person" (as defined in the Investment Company Act) of any of the underwriters;

(hh) the Company has duly elected to be treated by the Commission under the Investment Company Act as a business development company and has not withdrawn that election, and the Commission has not ordered that such election be withdrawn nor to the best of the Company's knowledge have proceedings to effectuate such withdrawal been initiated or threatened by the Commission. All required action has been taken by the Company under the Investment Company Act and the Act to make the public offering and consummate the sale of the Shares as provided in this Agreement; the provisions of the corporate charter and by-laws of the Company comply in all material respects with the requirements of the Investment Company Act;

(ii) the operations of the Company are in compliance in all material respects with the provisions of the Investment Company Act applicable to business development companies and the rules and regulations of the Commission thereunder;

(jj) the Company and, to its knowledge, its directors and officers (in such capacity) are in substantial compliance with the applicable provisions of the Sarbanes-Oxley Act of 2002 (the "**Sarbanes-Oxley Act**") and the Commission's applicable published rules promulgated thereunder;

(kk) the Company has filed all foreign, federal, state and local tax returns that are required to be filed or has requested extensions thereof (except in any case in which the failure so to file would not have a Material Adverse Effect) and has paid all taxes required to be paid by it and any other assessment, fine or penalty levied against it, to the extent that any of the foregoing is due and payable, except for any such assessment, fine or penalty that is currently being contested in good faith or as would not have a Material Adverse Effect;

(ll) except as disclosed in the Pre-Pricing Prospectus and the Prospectus, the Company (i) does not have any material lending or other relationship with a bank or lending institution affiliated with any of the Underwriters and (ii) does not intend to use any of the proceeds from the sale of the Shares hereunder to repay any outstanding debt owed to any bank or lending institution affiliated with any of the Underwriters;

(mm) neither the Company nor, to the knowledge of the Company, any director, officer, employee or affiliate of the Company is aware of or has taken any action, directly or indirectly, that would result in a violation by such entities or persons of the Foreign Corrupt Practices Act of 1977, as amended, and the rules and regulations thereunder; and

(nn) neither the Company nor, to the knowledge of the Company, any director, officer, agent, employee or affiliate of the Company 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 use the proceeds of the offering, or lend, contribute or otherwise make available such proceeds to any other person or entity, for the purpose of financing the activities of any person currently subject to any U.S. sanctions administered by OFAC.

(oo) the operations of the Company are and have been conducted at all times in compliance with applicable financial recordkeeping and reporting requirements and money laundering statutes and the rules and regulations thereunder (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 with respect to the Money Laundering Laws is pending or, to the best knowledge of the Company, threatened.

In addition, any certificate signed by any duly appointed officer of the Company and delivered to the Underwriters or counsel for the Underwriters in connection with the offering of the Shares shall be deemed to be a representation and warranty by the Company as to matters covered thereby, to each Underwriter.

4. Representations and Warranties of the Adviser. The Adviser represents and warrants to the Underwriters that:

(a) the Adviser has been duly formed and is validly existing as a Delaware limited liability company, in good standing under the laws of the State of Delaware, with full power and authority to own, lease and operate its properties and to conduct its business as described in the Pre-Pricing Prospectus, the Prospectus and the Registration Statement and to execute and deliver this Agreement; the Adviser has full power and authority to execute and deliver the Investment Management Agreement; and the Adviser is duly qualified to do business as a foreign entity and is in good standing in each jurisdiction where the ownership or leasing of its properties or the conduct of its business requires such qualification, except where the failure to be so qualified and in good standing would not, individually or in the aggregate, constitute a material adverse change in the business, financial condition, capitalization or regulatory status of such entity, or otherwise reasonably be expected to prevent such entity from carrying out its obligations under the Investment Management Agreement (collectively, a “**Material Adverse Change**”);

(b) the Adviser is duly registered with the Commission as an investment adviser under the Advisers Act and is not prohibited by the Advisers Act, the Investment Company Act or the applicable published rules and regulations thereunder from acting under the Investment Management Agreement for the Company as contemplated by the Prospectus. There does not exist any proceeding or, to the Adviser’s knowledge, any facts or circumstances the existence of which could lead to any proceeding which might materially adversely affect the registration of the Adviser with the Commission;

(c) there are no actions, suits, claims, investigations or proceedings pending or, to the knowledge of the Adviser, threatened to which the Adviser or any of its officers or members are or would be a party or of which any

of their properties are or would be subject at law or in equity, or before or by any federal, state, local or foreign governmental or regulatory commission, board, body, authority or agency, except any such action, suit, claim, investigation or proceeding which would not result in a judgment, decree or order either (A) constituting, individually or in the aggregate, a Material Adverse Change, or (B) preventing the consummation of the transactions contemplated hereby;

(d) the Adviser is not in breach or violation of, or in default under (nor has any event occurred which with notice, lapse of time, or both would reasonably be expected to result in any breach or violation of, constitute a default under or give the holder of any indebtedness (or person acting on such holder's behalf), the right to require the repurchase, redemption or repayment of all or part of such indebtedness under) (i) its charter, bylaws, certificate of formation, limited liability company operating agreement, or other organizational documents, as applicable, or (ii) any indenture, mortgage, deed of trust, bank loan or credit agreement or other evidence of indebtedness, or any license, lease, contract or other agreement or instrument to which the Adviser is a party, or (iii) any federal, state, local or foreign law, regulation or rule or any decree, judgment or order applicable to the Adviser, as the case may be, except, with respect to clauses (ii) and (iii), to the extent that any such contravention would not constitute a Material Adverse Change and would not adversely affect the consummation of the transactions contemplated hereby, and the execution, delivery and performance of this Agreement, and the Investment Management Agreement, and consummation of the transactions contemplated hereby and thereby, will not conflict with, result in any breach or violation of or constitute a default under (nor constitute any event which with notice, lapse of time or both would reasonably be expected to result in any breach or violation of or constitute a default under) (i) its charter, bylaws, certificate of formation, limited liability company operating agreement, or other organizational documents, as applicable, or (ii) any indenture, mortgage, deed of trust, bank loan or credit agreement or other evidence of indebtedness, or any license, lease, contract or other agreement or instrument to which the Adviser is a party, or (iii) any federal, state, local or foreign law, regulation or rule or any decree, judgment or order applicable to the Adviser, as the case may be, except, with respect to clauses (ii) and (iii), to the extent that any such contravention would not have a Material Adverse Change and would not adversely affect the consummation of the transactions contemplated hereby;

(e) this Agreement and the Investment Management Agreement have been duly authorized, executed and delivered by the Adviser, and, assuming due authorization, execution and delivery by the other parties hereto and thereto, constitute valid and legally binding agreements of the Adviser, enforceable in accordance with their respective terms, except as (i) the enforceability thereof may be limited by bankruptcy, reorganization, insolvency, moratorium (including, without limitation, all laws relating to fraudulent transfers) or similar laws now or thereafter in effect affecting creditors' rights generally and (ii) rights to indemnification and contribution may be limited by equitable principles of general applicability whether in a proceeding of equity or in law or by state or federal securities laws or the policies underlying such laws;

(f) the description of the Adviser contained in the Pre-Pricing Prospectus, the Prospectus and the Registration Statement is true, accurate and complete in all material respects;

(g) the Adviser has the financial resources available to it necessary for the performance of its services and obligations as contemplated in the Pre-Pricing Prospectus, the Prospectus and the Registration Statement and under this Agreement and the Investment Management Agreement;

(h) subsequent to the date of the Pre-Pricing Prospectus and the Prospectus, there has not been any Material Adverse Change, or any development involving a prospective Material Adverse Change that would otherwise prevent the Adviser from carrying out its obligations under the Investment Management Agreement;

(i) the Adviser has all Consents and has made all necessary filings required under any federal, state, local or foreign law, regulation or rule and has obtained all necessary Consents from other persons, in order to conduct its business, except where the failure to make such filings on or to obtain such Consents would not constitute a Material Adverse Change; the Adviser is not in violation of, or in default under, nor has the Adviser received notice of any proceedings relating to revocation or modification of any such Consent or any federal, state, local or foreign law, regulation or rule or any decree, order or judgment applicable to the Adviser, except where such revocation or modification would not, individually or in the aggregate, constitute a Material Adverse Change;

(j) the Adviser and any of its partners, officers, affiliates or controlling persons have not taken, directly or indirectly, any action designed, under the Exchange Act, to result in the stabilization or manipulation of the price of any security of the Company to facilitate the sale of the Shares;

(k) the Adviser is not aware that (i) any executive, key employee or significant group of employees of the Company, if any, or the Adviser plans to terminate employment with the Company or the Adviser or (ii) any such executive or key employee is subject to any noncompete, nondisclosure, confidentiality, employment, consulting or similar agreement that would be violated by the present or proposed business activities of the Company or the Adviser except where such termination or violation would not constitute a Material Adverse Change; and

(l) the Adviser maintains a system of internal controls sufficient to provide reasonable assurance that (i) transactions effectuated by it under the Investment Management Agreement are executed in accordance with its management's general or specific authorization; and (ii) access to the Company's assets is permitted only in accordance with its management's general or specific authorization.

5. Certain Covenants of the Company and the Adviser. The Company agrees, and the Adviser agrees:

(a) to furnish such information as may be required and otherwise to cooperate in qualifying the Shares for offering and sale under the securities or blue sky laws of such states or other jurisdictions as you may designate and to use its reasonable best efforts to maintain such qualifications in effect so long as you may reasonably request for the distribution of the Shares; provided that, in connection therewith, the Company shall not be required to do business in any jurisdiction where it is not now qualified or to take any action that would subject it to the service of process under the laws of any such jurisdiction (except a limited consent to service of process with respect to the offering and sale of the Shares); and to advise you promptly of the receipt by the Company of any notification with respect to the suspension of the qualification of the Shares for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose;

(b) to furnish to the Underwriters, as many copies of the Pre-Pricing Prospectus and the Prospectus (or of the Pre-Pricing Prospectus and the Prospectus as amended or supplemented if the Company shall have made any amendments or supplements thereto after the date of the Pre-Pricing Prospectus) as the Underwriters may reasonably request for the purposes contemplated by, and so long as required by, the Act;

(c) that if, at the time this Agreement is executed and delivered, it is necessary for the Registration Statement or any post-effective amendment thereto to be declared effective before the Shares may be sold, the Company will endeavor to cause the Registration Statement or such post-effective amendment to become effective as soon as reasonably possible, and the Company will advise you promptly and, if requested by you, will confirm such advice in writing, (i) when the Registration Statement and any such post-effective amendment thereto has become effective, and (ii) if Rule 430C under the Act is used, when the Prospectus is filed with the Commission pursuant to Rule 497 under the Act (which the Company agrees to file in a timely manner under such Rule);

(d) to advise you promptly, and, if requested, confirming such advice in writing, of any request by the Commission prior to the termination of the offering of the Shares for amendments or supplements to the Registration Statement or the Prospectus or for additional information with respect thereto, or of notice of institution of proceedings for, or the entry of a stop order, suspending the effectiveness of the Registration Statement and, if the Commission should enter a stop order suspending the effectiveness of the Registration Statement prior to the time of purchase, to use its reasonable best efforts to obtain the lifting or removal of such order as soon as reasonably possible; to advise you promptly of any proposal to amend or supplement the Registration Statement, the Pre-Pricing Prospectus or the Prospectus, and to provide you and Underwriters' counsel copies of any such documents for review and comment a reasonable amount of time prior to any proposed filing and to file no such amendment or supplement to which you shall reasonably object;

(e) subject to Section 5(d) hereof, to file promptly all reports and any definitive proxy or information statement required to be filed by the Company with the Commission in order to comply with the Exchange Act subsequent to the date of the Prospectus and for so long as the delivery of a prospectus is required in connection with the offering or sale of the Shares; and to promptly notify you of such filing only to the extent not otherwise available on the Commission's EDGAR system;

(f) to furnish to you and to each of the other Underwriters, only to the extent not otherwise available on the Commission's EDGAR system or the Company's website, for a period of one year from the date of this Agreement (i) copies of any reports, proxy statements, or other communications which the Company shall send to its stockholders or shall from time to time publish or publicly disseminate, (ii) copies of all annual, quarterly and current reports filed with the Commission on Forms 10-K, 10-Q and 8-K, or such other similar forms as may be designated by the Commission, (iii) copies of documents or reports filed with any national securities exchange on which any class of securities of the Company is listed or quoted, and (iv) such other information as you may reasonably request regarding the Company;

(g) if necessary or appropriate, to file a registration statement pursuant to Rule 462(b) under the Act (a "462(b) Registration Statement");

(h) to advise the Underwriters promptly of the happening of any event within the time during which a prospectus relating to the Shares is required to be delivered under the Act which could require the making of any change in the Prospectus then being used so that the Prospectus would not include an untrue statement of material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they are made, not misleading, and, during such time, subject to Section 5(d) hereof, to prepare, at any time prior to 60 days after the date of this Agreement, at the Company's expense, and thereafter, at the Underwriters' expense, and furnish to the Underwriters promptly such amendments or supplements to such Prospectus as may be necessary to reflect any such change;

(i) that, as soon as practicable, the Company will make generally available to its security holders an earnings statement or statements of the Company which will satisfy the provisions of Section 11(a) of the Act and Rule 158 under the Act;

(j) to apply the net proceeds from the sale of the Shares in the manner set forth under the caption "Use of Proceeds" in the Pre-Pricing Prospectus and the Prospectus;

(k) the Company will use its reasonable best efforts to maintain its status as a business development company; provided, however, the Company may change the nature of its business so as to cease to be, or to withdraw its election as, a business development company, with the approval of the board of directors and a vote of stockholders as required by Section 58 of the Investment Company Act or any successor provision;

(l) that the Company will use its reasonable best efforts to maintain its qualification as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended (the "**Code**") for each full fiscal year during which it is a business development company under the Investment Company Act; provided that, at the discretion of the Company's board of directors, it may elect not to be so treated;

(m) to pay all costs, expenses, fees and taxes in connection with (i) the preparation and filing of the Pre-Pricing Prospectus, the Prospectus, and any amendments or supplements thereto, and the printing and furnishing of copies of the Pre-Pricing Prospectus and Prospectus to the Underwriters and to dealers (including costs of mailing and shipment), (ii) the registration, issue, sale and delivery of the Shares, including the fees, disbursements and expenses of the Company's counsel and accountants incurred in connection therewith, and any stock or transfer taxes and stamp or similar duties payable upon the sale, issuance or delivery of the Shares to the Underwriters, (iii) the qualification of the Shares for offering and sale under state or foreign laws and the determination of their eligibility for investment under state or foreign law as aforesaid (including the reasonable legal fees and filing fees and other reasonable disbursements of counsel related to the offering of the Shares for the Underwriters) and the furnishing of copies of any blue sky surveys or legal investment surveys to the Underwriters and to dealers, (iv) any quotation of the Shares on the Nasdaq Global Select Market, (v) any filing for review of the public offering of the Shares by the FINRA, including the filing fees and reasonable legal fees and other reasonable disbursements of counsel related to the offering of the Shares to the Underwriters, (vi) all travel expenses of the Company's officers, directors, employees and affiliates and any other expense of the Company incurred in connection with attending or hosting meetings with prospective purchasers of the Shares; (vii) the fees and disbursements of any transfer agent or registrar for the Shares, and (viii) the performance of the Company's other obligations hereunder which are not specifically provided for in this Section 5(m);

(n) not to sell, offer to sell, contract or agree to sell, hypothecate, pledge, grant any option to purchase or otherwise dispose of or agree to dispose of, directly or indirectly, any Common Stock or securities convertible into

or exchangeable or exercisable for Common Stock or warrants or other rights to purchase Common Stock or any other securities of the Company that are substantially similar to Common Stock, or file or cause to be declared effective a registration statement under the Act relating to the offer and sale of any shares of Common Stock or securities convertible into or exercisable or exchangeable for Common Stock or other rights to purchase Common Stock or any other securities of the Company that are substantially similar to Common Stock for a period of 60 days after the date hereof (the "**Lock-Up Period**"), without the prior written consent of Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, except for (i) the registration of the Shares and the sales to the Underwriters pursuant to this Agreement; and (ii) any issuance of shares of Common Stock pursuant to the Company's dividend reinvestment plan. Notwithstanding the foregoing, for the purpose of allowing the Underwriters to comply with NASD Rule 2711(f)(4), if (i) during the last 17 days of the Lock-Up Period, the Company releases earnings results or publicly announces other material news or a material event relating to the Company occurs or (ii) prior to the expiration of the Lock-Up Period, the Company announces that it will release earnings results during the 16 day period beginning on the last day of the Lock-Up Period, then in each case the Lock-Up Period will be extended until the expiration of the 18 day period beginning on the date of release of the earnings results or the public announcement regarding the material news or the occurrence of the material event, as applicable, unless Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated waive, in writing, such extension;

(o) to use its reasonable best efforts to cause the continued listing of the Common Stock on the Nasdaq Global Select Market, and to use its reasonable best efforts to comply with all of the requirements of the Nasdaq Global Select Market applicable to the Company; and

(p) to maintain a transfer agent and, if necessary under the jurisdiction of incorporation of the Company, a registrar for the Common Stock;

6. **Reimbursement of Underwriters' Expenses.** If the Shares are not delivered for any reason other than the termination of this Agreement pursuant to the fifth paragraph of Section 9 hereof or the default by one or more of the Underwriters in its or their respective obligations hereunder, the Company shall, in addition to paying the amounts described in Section 5(o) hereof, reimburse the non-defaulting Underwriters for all of their out-of-pocket expenses incurred, including the reasonable fees and disbursements of their counsel incurred in connection with this Agreement and the transactions contemplated hereunder.

7. **Conditions of Underwriters' Obligations.** The several obligations of the Underwriters hereunder are subject to the accuracy of the representations and warranties on the part of the Company and the Adviser on the date hereof, at the time of purchase and, if applicable, at the additional time of purchase, the performance by the Company and the Adviser of each of its obligations hereunder and to the following additional conditions precedent:

(a) The Company shall furnish to you at the time of purchase and, if applicable, at the additional time of purchase, an opinion of Skadden, Arps, Meagher & Flom LLP, counsel for the Company and the Adviser, addressed to the Underwriters, and dated the time of purchase or the additional time of purchase, as the case may be, with reproduced copies for each of the other Underwriters and in form and substance reasonably satisfactory to Sutherland Asbill & Brennan LLP, counsel for the Underwriters, substantially to the effect set forth in Exhibit B hereto.

(b) You shall have received from Deloitte & Touche LLP letters dated, respectively, the Execution Time, the time of purchase and, if applicable, the additional time of purchase, and addressed to the Underwriters (with reproduced copies for each of the Underwriters) in the forms heretofore approved by the Representatives containing statements and information of the type ordinarily included in accountants' "comfort letters" to underwriters with respect to the financial statements and certain financial information contained in the Registration Statement, the Pre-Pricing Prospectus and the Prospectus.

(c) You shall have received at the time of purchase and, if applicable, at the additional time of purchase, the favorable opinion of Sutherland Asbill & Brennan LLP, counsel for the Underwriters, dated the time of purchase or the additional time of purchase, as the case may be, with respect the sale of the Shares and other related matters as the Underwriters may require.

(d) No prospectus or amendment or supplement to the Registration Statement, the Pre-Pricing Prospectus or the Prospectus shall have been filed to which you reasonably object.

(e) All filings with the Commission required by Rule 497 of the Act in connection with the offer and sale of the Shares shall have been made within the applicable time period prescribed for such filing by Rule 497.

(f) Prior to the time of purchase, and, if applicable, the additional time of purchase, (i) no stop order with respect to the effectiveness of the Registration Statement shall have been issued under the Act or, to the Company's knowledge, proceedings initiated under Section 8(d) or 8(e) of the Act; (ii) the Registration Statement and all amendments thereto shall 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; and (iii) the Prospectus, as then amended or supplemented, shall 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 are made, not misleading.

(g) Between the time of execution of this Agreement and the time of purchase or the additional time of purchase, as the case may be, no material adverse change or any development involving a reasonably foreseeable prospective material adverse change in the business, properties, management, financial condition, or results of operations of the Company or the Adviser shall occur or become known.

(h) Each of the Company and the Adviser will, at the time of purchase and, if applicable, at the additional time of purchase, deliver to you a certificate of its Chief Executive Officer and its Chief Financial Officer in the form attached as Exhibit C hereto.

(i) You shall have received signed Lock-up Agreements referred to in Section 3(r) hereof.

(j) The Shares shall have been approved for quotation on the Nasdaq Global Select Market, subject only to notice of issuance at or prior to the time of purchase and the additional time of purchase, as the case may be.

(k) The Company shall have furnished to you such other documents and certificates as to the accuracy and completeness of any statement in the Registration Statement, the Pre-Pricing Prospectus and the Prospectus as of the time of purchase and, if applicable, the additional time of purchase, as you may reasonably request.

8. Termination. The obligations of the several Underwriters hereunder shall be subject to termination in any of the Representatives' judgment or the judgment of such group, if (x) since the time of execution of this Agreement or the earlier respective dates as of which information is given in the Registration Statement, the Pre-Pricing Prospectus and the Prospectus, there has been any material adverse change or any development involving a prospective material adverse change in the business, properties, management, financial condition, or results of operations of the Company or the Adviser, which would, in any of the Representative's judgment, make it impracticable or inadvisable to proceed with the public offering or the delivery of the Shares on the terms and in the manner contemplated in the Registration Statement, the Pre-Pricing Prospectus and the Prospectus, or (y) since execution of this Agreement, there shall have occurred: (i) a suspension or material limitation in trading in securities generally on the New York Stock Exchange, the American Stock Exchange or the Nasdaq Global Select Market; (ii) a suspension or material limitation in trading in the Company's securities on the Nasdaq Global Select Market; (iii) a general moratorium on commercial banking activities declared by either federal or New York State authorities or a material disruption in commercial banking or securities settlement or clearance services in the United States; (iv) an outbreak or escalation of hostilities or acts of terrorism involving the United States or a declaration by the United States of a national emergency or war; or (v) any other calamity or crisis or any change in financial, political or economic conditions in the United States or elsewhere, if the effect of any such event specified in clause (iv) or (v) in any of the Representatives' judgment or the judgment of such group makes it impracticable or inadvisable to proceed with the public offering or the delivery of the Shares on the terms and in the manner contemplated in the Registration Statement and the Prospectus.

If in any of the Representatives' judgment or the judgment of such group a decision is made to elect to terminate this Agreement as provided in this Section 8, the Company and each other Underwriter shall be notified promptly in writing.

If the sale to the Underwriters of the Shares, as contemplated by this Agreement, is not carried out by the Underwriters for any reason permitted under this Agreement, or if such sale is not carried out because the Company shall be unable to comply with any of the terms of this Agreement, the Company shall not be under any obligation

or liability under this Agreement (except to the extent provided in Sections 6 and 10 hereof), and the Underwriters shall be under no obligation or liability to the Company under this Agreement (except to the extent provided in Section 10 hereof) or to one another hereunder.

9. Increase in Underwriters' Commitments. Subject to Sections 7 and 8 hereof, if any Underwriter shall default in its obligation to take up and pay for the Firm Shares to be purchased by it hereunder (otherwise than for a failure of a condition set forth in Section 7 hereof or a reason sufficient to justify the termination of this Agreement under the provisions of Section 8 hereof) and if the number of Firm Shares which all Underwriters so defaulting shall have agreed but failed to take up and pay for does not exceed 10% of the total number of Firm Shares, the non-defaulting Underwriters shall take up and pay for (in addition to the aggregate number of Firm Shares they are obligated to purchase pursuant to Section 1 hereof) the number of Firm Shares agreed to be purchased by all such defaulting Underwriters, as hereinafter provided. Such Shares shall be taken up and paid for by such non-defaulting Underwriters in such amount or amounts as you may designate with the consent of each Underwriter so designated or, in the event no such designation is made, such Shares shall be taken up and paid for by all non-defaulting Underwriters pro rata in proportion to the aggregate number of Firm Shares set opposite the names of such non-defaulting Underwriters in Schedule A.

Without relieving any defaulting Underwriter from its obligations hereunder, the Company agrees with the non-defaulting Underwriters that it will not sell any Firm Shares hereunder unless all of the Firm Shares are purchased by the Underwriters (or by substituted Underwriters selected by you with the approval of the Company or selected by the Company with your approval).

If a new Underwriter or Underwriters are substituted by the Underwriters or by the Company for a defaulting Underwriter or Underwriters in accordance with the foregoing provision, the Company or you shall have the right to postpone the time of purchase for a period not exceeding five business days in order that any necessary changes in the Registration Statement and the Prospectus and other documents may be effected.

The term Underwriter as used in this Agreement shall refer to and include any Underwriter substituted under this Section 9 with like effect as if such substituted Underwriter had originally been named in Schedule A.

If the aggregate number of Firm Shares which the defaulting Underwriter or Underwriters agreed to purchase exceeds 10% of the total number of Firm Shares which all Underwriters agreed to purchase hereunder, and if neither the non-defaulting Underwriters nor the Company shall make arrangements within the five business day-period stated above for the purchase of all the Firm Shares which the defaulting Underwriter or Underwriters agreed to purchase hereunder, this Agreement shall terminate without further act or deed and without any liability on the part of the Company to any non-defaulting Underwriter and without any liability on the part of any non-defaulting Underwriter to the Company. Nothing in this paragraph, and no action taken hereunder, shall relieve any defaulting Underwriter from liability in respect of any default of such Underwriter under this Agreement.

10. Indemnity and Contribution.

(a) (1) The Company agrees to indemnify, defend and hold harmless each Underwriter, its partners, directors, officers, employees, agents and affiliates and any person who controls any Underwriter within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, and the successors and assigns of all of the foregoing persons, from and against any loss, damage, expense, liability or claim (including the reasonable cost of any investigation incurred in connection therewith) which, jointly or severally, any such Underwriter or any such person may incur under the Act, the Exchange Act, the common law or otherwise, insofar as such loss, damage, expense, liability or claim arises out of or is based upon (i) any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (or in the Registration Statement as amended by any post-effective amendment thereof by the Company), the Pre-Pricing Prospectus, the Pricing Information or the Prospectus (as amended or supplemented by the Company), or arises out of or is based upon any omission or alleged omission to state a material fact required to be stated in either the Registration Statement, the Pre-Pricing Prospectus, the Pricing Information or the Prospectus or necessary to make the statements made therein not misleading, except insofar as any such loss, damage, expense, liability or claim arises out of or is based upon any untrue statement or alleged untrue statement of a material fact contained in and in conformity with information concerning such Underwriter furnished in writing by or on behalf of such Underwriter through you to the Company expressly for use in the Registration Statement, the Pre-Pricing Prospectus, the Pricing Information or the Prospectus or arises out of or is

based upon any omission or alleged omission to state a material fact in connection with such information required to be stated in the Registration Statement, the Pre-Pricing Prospectus, the Pricing Information or Prospectus or necessary to make such information not misleading.

(2) The Adviser agrees to indemnify, defend and hold harmless each Underwriter and each other person specified in subsection (a)(1) of this Section 10 from and against any loss, damage, expense, liability or claim (including the reasonable cost of any investigation incurred in connection therewith) any such Underwriter or any such other person may incur as specified in such subsection, insofar as such loss, damage, expense, liability or claim arises out of or is based upon (x) any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (or in the Registration Statement as amended by any post-effective amendment thereof by the Company), the Pre-Pricing Prospectus or the Prospectus (as amended or supplemented by the Company) regarding the Adviser, or arises out of or is based upon any omission or alleged omission to state a material fact regarding the Adviser required to be stated in either the Registration Statement, the Pre-Pricing Prospectus or the Prospectus or necessary to make the statements made therein not misleading with respect to the Adviser.

(3) If any action, suit or proceeding (each, a "Proceeding") is brought against an Underwriter or any such person in respect of which indemnity may be sought against the Company or the Adviser, as appropriate, pursuant to the foregoing paragraph, such Underwriter or such person shall promptly notify the Company or the Adviser, as appropriate, in writing of the institution of such Proceeding and the Company or the Adviser, as appropriate, shall assume the defense of such Proceeding, including the employment of counsel reasonably satisfactory to such indemnified party and payment of all fees and expenses; provided, however, that the omission to so notify the Company or the Adviser, as appropriate, shall not relieve the Company or the Adviser, as appropriate, from any liability which the Company or the Adviser, as appropriate, may have to any Underwriter or any such person or otherwise. Such Underwriter or such person shall have the right to employ its or their own counsel in any such case, but the fees and expenses of such counsel shall be at the expense of such Underwriter or of such person unless the employment of such counsel shall have been authorized in writing by the Company or the Adviser, as appropriate, in connection with the defense of such Proceeding or the Company or the Adviser, as appropriate, shall not have, within a reasonable period of time in light of the circumstances, employed counsel to have charge of the defense of such Proceeding or such indemnified party or parties shall have reasonably concluded that there may be defenses available to it or them which are different from, additional to or in conflict with those available to the Company or the Adviser, as appropriate, (in which case the Company or the Adviser, as appropriate, shall not have the right to direct the defense of such Proceeding on behalf of the indemnified party or parties), in any of which events such fees and expenses shall be borne by the Company or the Adviser, as appropriate, and paid as incurred (it being understood, however, that the Company or the Adviser, as appropriate, shall not be liable for the expenses of more than one separate counsel (in addition to any local counsel) in any one Proceeding or series of related Proceedings in the same jurisdiction representing the indemnified parties who are parties to such Proceeding). The Company or the Adviser, as appropriate, shall not be liable for any settlement of any Proceeding effected without its written consent but if settled with the written consent of the Company or the Adviser, as appropriate, the Company or the Adviser, as appropriate, agrees to indemnify and hold harmless any Underwriter and any such person from and against any loss or liability by reason of such settlement. Notwithstanding the foregoing sentence, if at any time an indemnified party shall have requested an indemnifying party to reimburse the indemnified party for fees and expenses of counsel as contemplated by the second sentence of this paragraph, then the indemnifying party agrees that it shall be liable for any settlement of any Proceeding effected without its written consent if (i) such settlement is entered into more than 60 business days after receipt by such indemnifying party of the aforesaid request, (ii) such indemnifying party shall not have fully reimbursed the indemnified party in accordance with such request prior to the date of such settlement and (iii) such indemnified party shall have given the indemnifying party at least 30 days' prior notice of its intention to settle. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened Proceeding in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party, unless such settlement includes an unconditional release of such indemnified party from all liability on claims that are the subject matter of such Proceeding and does not include an admission of fault, culpability or a failure to act, by or on behalf of such indemnified party.

(b) Each Underwriter severally agrees to indemnify, defend and hold harmless the Company and the Adviser, their directors, partners and officers, and any person who controls the Company or the Adviser within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, and the successors and assigns of all of the foregoing persons, from and against any loss, damage, expense, liability or claim (including the reasonable cost of any

investigation incurred in connection therewith) which, jointly or severally, the Company or the Adviser, or any such person may incur under the Act, the Exchange Act, the common law or otherwise, insofar as such loss, damage, expense, liability or claim arises out of or is based upon any untrue statement or alleged untrue statement of a material fact contained in and in conformity with information concerning such Underwriter furnished in writing by or on behalf of such Underwriter through you to the Company expressly for use in the Pre-Pricing Prospectus, the Pricing Information or in the Prospectus, or arises out of or is based upon any omission or alleged omission to state a material fact in connection with such information required to be stated in the Pre-Pricing Prospectus, the Pricing Information or the Prospectus or necessary to make such information not misleading.

If any Proceeding is brought against the Company or the Adviser, or any such person in respect of which indemnity may be sought against any Underwriter pursuant to the foregoing paragraph, the Company or the Adviser, or such person shall promptly notify such Underwriter in writing of the institution of such Proceeding and such Underwriter shall assume the defense of such Proceeding, including the employment of counsel reasonably satisfactory to such indemnified party and payment of all fees and expenses; provided, however, that the omission to so notify such Underwriter shall not relieve such Underwriter from any liability which such Underwriter may have to the Company or the Adviser, or any such person or otherwise. The Company or the Adviser, or such person shall have the right to employ its own counsel in any such case, but the fees and expenses of such counsel shall be at the expense of the Company or the Adviser, or such person unless the employment of such counsel shall have been authorized in writing by such Underwriter in connection with the defense of such Proceeding or such Underwriter shall not have, within a reasonable period of time in light of the circumstances, employed counsel to defend such Proceeding or such indemnified party or parties shall have reasonably concluded that there may be defenses available to it or them which are different from or additional to or in conflict with those available to such Underwriter (in which case such Underwriter shall not have the right to direct the defense of such Proceeding on behalf of the indemnified party or parties, but such Underwriter may employ counsel and participate in the defense thereof but the fees and expenses of such counsel shall be at the expense of such Underwriter), in any of which events such fees and expenses shall be borne by such Underwriter and paid as incurred (it being understood, however, that such Underwriter shall not be liable for the expenses of more than one separate counsel (in addition to any local counsel) in any one Proceeding or series of related Proceedings in the same jurisdiction representing the indemnified parties who are parties to such Proceeding). No Underwriter shall be liable for any settlement of any such Proceeding effected without the written consent of such Underwriter but if settled with the written consent of such Underwriter, such Underwriter agrees to indemnify and hold harmless the Company and any such person from and against any loss or liability by reason of such settlement. Notwithstanding the foregoing sentence, if at any time an indemnified party shall have requested an indemnifying party to reimburse the indemnified party for fees and expenses of counsel as contemplated by the second sentence of this paragraph, then the indemnifying party agrees that it shall be liable for any settlement of any Proceeding effected without its written consent if (i) such settlement is entered into more than 60 business days after receipt by such indemnifying party of the aforesaid request, (ii) such indemnifying party shall not have reimbursed the indemnified party in accordance with such request prior to the date of such settlement and (iii) such indemnified party shall have given the indemnifying party at least 30 days' prior notice of its intention to settle. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened Proceeding in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party, unless such settlement includes an unconditional release of such indemnified party from all liability on claims that are the subject matter of such Proceeding.

(c) If the indemnification provided for in this Section 10 is unavailable to an indemnified party under subsections (a) and (b) of this Section 10 or insufficient to hold an indemnified party harmless in respect of any losses, damages, expenses, liabilities or claims referred to therein, then each applicable indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of such losses, damages, expenses, liabilities or claims (i) in such proportion as is appropriate to reflect the relative benefits received by the indemnifying party on the one hand and the indemnified party on the other hand from the offering of the Shares 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 indemnifying party on the one hand and of the indemnified party on the other in connection with the statements or omissions which resulted in such losses, damages, expenses, liabilities or claims, as well as any other relevant equitable considerations. The relative benefits received by the indemnifying party on the one hand and the indemnified party on the other shall be deemed to be in the same respective proportions as the total proceeds from

the offering (net of underwriting discounts and commissions but before deducting expenses) received by the Company and the total underwriting discounts and commissions received by the Underwriters, bear to the aggregate public offering price of the Shares. The relative fault of the indemnifying party on the one hand and of the indemnified party on the other shall be determined by reference to, among other things, whether the untrue statement or alleged untrue statement of a material fact or omission or alleged omission relates to information supplied by such party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The amount paid or payable by a party as a result of the losses, damages, expenses, liabilities and claims referred to in this subsection shall be deemed to include any legal or other fees or expenses reasonably incurred by such party in connection with investigating, preparing to defend or defending any Proceeding.

(d) The Company, the Adviser and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 10 were 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 account of the equitable considerations referred to in subsection (c) above. Notwithstanding the provisions of this Section 10, no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Shares underwritten by such Underwriter and distributed to the public were offered to the public exceeds the amount of any damage which such Underwriter has otherwise been required to pay by reason of such untrue statement or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations to contribute pursuant to this Section 10 are several in proportion to their respective underwriting commitments and not joint.

(e) The indemnity and contribution agreements contained in this Section 10 and the covenants, warranties and representations of the Company and the Adviser contained in this Agreement shall remain in full force and effect regardless of any investigation made by or on behalf of any Underwriter, its partners, directors, officers, employees, agents and affiliates or any person (including each partner, officer or director of such person) who controls any Underwriter within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, or by or on behalf of the Company, its directors or officers or any person who controls the Company within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, and shall survive any termination of this Agreement or the issuance and delivery of the Shares. The Company, the Adviser and each Underwriter agree promptly to notify each other of the commencement of any Proceeding against it and, in the case of the Company or the Adviser, against any of the Company's officers or directors, the Adviser or its partners or officers in connection with the issuance and sale of the Shares, or in connection with the Registration Statement, the Pre-Pricing Prospectus, the Pricing Information or the Prospectus.

11. Information Furnished by the Underwriters. The Company acknowledges that (i) the statements set forth in the last paragraph of the cover page regarding delivery of Firm Shares and, under the heading "Underwriting," (ii) the list of Underwriters and their respective participation in the sale of the Firm Shares, (iii) the sentences relating to concessions and reallowances to securities dealers and (iv) the sentences related to short sales, stabilization, syndicate covering transactions, penalty bids and passive market making transactions in the Pre-Pricing Prospectus and the Prospectus constitute the only information furnished by or on behalf of the several Underwriters for inclusion in the Pre-Pricing Prospectus and the Prospectus.

12. Notices. Except as otherwise herein provided, all statements, requests, notices and agreements shall be in writing or by telegram and, if to the Underwriters, shall be sufficient in all respects if faxed to Citigroup Global Markets Inc., General Counsel (fax number: (212) 816-7912) and confirmed to the General Counsel, Citigroup Global Markets Inc., 388 Greenwich Street, New York, New York, 10013, Attention: General Counsel, and, if to the Company, shall be sufficient in all respects if delivered or sent to the Company at the offices of the Company at 40 East 52nd Street, New York, NY 10022, facsimile no. (212) 810-5801, Attention: Chief Financial Officer.

13. Governing Law; Construction. This Agreement and any claim, counterclaim or dispute of any kind or nature whatsoever arising out of or in any way relating to this Agreement ("**Claim**"), directly or indirectly, shall be governed by, and construed in accordance with, the laws of the State of New York applicable to contracts formed and to be performed entirely within the State of New York, without regard to the applicability or effect of conflict of law principles or rules thereof, to the extent such principles would require or permit the application of the laws of another jurisdiction. The section headings in this Agreement have been inserted as a matter of convenience of reference and are not a part of this Agreement.

14. Submission to Jurisdiction. Except as set forth below, no Claim 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 each of the Company and the Adviser consents to the jurisdiction of such courts and personal service with respect thereto. Each of the Company and the Adviser 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 the Representatives or any indemnified party. Each of the Representatives, the Company (on its behalf and, to the extent permitted by applicable law, on behalf of its stockholders and affiliates) and the Adviser 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. Each of the Company and the Adviser agrees that a final judgment in any such action, proceeding or counterclaim brought in any such court shall be conclusive and binding upon the Company and the Adviser, as appropriate, and may be enforced in any other courts to the jurisdiction of which the Company and the Adviser, as appropriate, is or may be subject, by suit upon such judgment.

15. Parties at Interest. The Agreement herein set forth has been and is made solely for the benefit of the Underwriters and the Company and to the extent provided in Section 10 hereof the controlling persons, partners, directors and officers referred to in such section, and their respective successors, assigns, heirs, personal representatives and executors and administrators. No other person, partnership, association or corporation (including a purchaser, as such purchaser, from any of the Underwriters) shall acquire or have any right under or by virtue of this Agreement.

16. Counterparts. This Agreement may be signed by the parties in one or more counterparts which together shall constitute one and the same agreement among the parties.

17. Successors and Assigns. This Agreement shall be binding upon the Underwriters, the Company and the Adviser and their successors and assigns and any successor or assign of any substantial portion of the Company's and the Adviser's and any of the Underwriters' respective businesses and/or assets.

18. Acknowledgement. The Company acknowledges and agrees that (i) the sale through the Underwriters of any Shares pursuant to this Agreement, including the determination of the price of the Shares and any related compensation, discounts or commissions, is an arm's-length commercial transaction between the Company, on the one hand, and the Underwriters, on the other hand, (ii) in connection with the offering of the Shares and the process leading to such transactions each Underwriter will act solely as an agent and not as a fiduciary of the Company or its stockholders, creditors, employees or any other party, (iii) no Underwriter will assume an advisory or fiduciary responsibility in favor of the Company with respect to the offering of Shares contemplated hereby or the process leading thereto (irrespective of whether such Underwriter has advised or is currently advising the Company on other matters) and no Underwriter will have any obligation to the Company with respect to the offering of Shares except the obligations expressly set forth herein, (iv) each Underwriter and its respective affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Company, and (v) no Underwriter has provided and will provide any legal, accounting, regulatory or tax advice with respect to the offering of the Shares and the Company has consulted and will consult its own legal, accounting, regulatory and tax advisors to the extent it deemed appropriate.

[Remainder of Page Intentionally Left Blank]

If the foregoing correctly sets forth the understanding among the Company, the Adviser and the several Underwriters, please so indicate in the space provided below for that purpose, whereupon this agreement and your acceptance shall constitute a binding agreement among the Company, the Adviser and the Underwriters, severally.

Very truly yours,

BLACKROCK KELSO CAPITAL CORPORATION

By: _____
Name:
Title:

BLACKROCK KELSO CAPITAL ADVISORS LLC

By: _____
Name:
Title:

Accepted and agreed to as of the date first above written, on behalf of themselves and the other several Underwriters named in Schedule A

CITIGROUP GLOBAL MARKETS INC.
MERRILL LYNCH, PIERCE, FENNER & SMITH
INCORPORATED
CREDIT SUISSE SECURITIES (USA) LLC
UBS SECURITIES LLC

By: CITIGROUP GLOBAL MARKETS INC.
Name:
Title:

By: MERRILL LYNCH, PIERCE, FENNER & SMITH
INCORPORATED
Name:
Title:

By: CREDIT SUISSE SECURITIES (USA) LLC
Name:
Title:

By: UBS SECURITIES LLC
Name:
Title:

SCHEDULE A

<u>Underwriter</u>	<u>Number of Firm Shares</u>
CITIGROUP GLOBAL MARKETS INC.	2,100,000
MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED	2,100,000
CREDIT SUISSE SECURITIES (USA) LLC	1,050,000
UBS SECURITIES LLC	1,050,000
BMO CAPITAL MARKETS LLC	900,000
LAZARD CAPITAL MARKETS LLC	300,000
Total	

CEO CERTIFICATION

I, James R. Maher, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of BlackRock Kelso Capital Corporation;

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

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

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

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

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

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

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

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

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

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

Date: August 5, 2010

By: /s/ James R. Maher

James R. Maher

Chairman of the Board and Chief Executive Officer

CFO CERTIFICATION

I, Frank D. Gordon, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of BlackRock Kelso Capital Corporation;

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

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

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

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

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

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

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

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

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

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

Date: August 5, 2010

By: /s/ Frank D. Gordon

Frank D. Gordon

Chief Financial Officer and Treasurer

**Certification of CEO and CFO Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q of BlackRock Kelso Capital Corporation (the "Company") for the quarter ended June 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), James R. Maher, as Chief Executive Officer of the Company, and Frank D. Gordon, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ James R. Maher

Name: James R. Maher

Title: Chief Executive Officer

Date: August 5, 2010

/s/ Frank D. Gordon

Name: Frank D. Gordon

Title: Chief Financial Officer

Date: August 5, 2010