
KCAP

FINANCIAL, INC.

Investor Presentation
Third Quarter 2012

Forward Looking Information

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

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

INVESTMENT HIGHLIGHTS

Innovative Strategy and Platform

- ◆ Internally managed structure
- ◆ 100% ownership of CLO fund Asset Manager Affiliates (Katonah Debt Advisors and Trimaran Advisors)

Highly Experienced Management Team

- ◆ Seasoned management team with average industry tenure of 25+ years
- ◆ Managed loan portfolios through numerous cycles

Dynamic Business Model

- ◆ Compelling middle market opportunities; multi-channel origination capabilities
- ◆ Enhanced portfolio yield through high returns on investments in CLO funds
- ◆ Disciplined investment process with seasoned credit professionals

Strong Portfolio

- ◆ First lien / second lien / mezz and equity
- ◆ CLO Fund investments
- ◆ Asset Manager Affiliates: synergies + stable cash flow and dividend

Low Leverage

- ◆ \$81.5 million in borrowings as of June 30, 2012
- ◆ \$60 million is unsecured, convertible notes at 8.75% with a 2016 maturity
- ◆ \$21.5 million of borrowings through a secured facility at L+ 300
- ◆ Asset coverage is 351%, well above the minimum 200% (1:1) required for a BDC

Alignment of Interests

- ◆ No external management fees
- ◆ Board members and management own 18% of shares

OVERVIEW – BUSINESS MODEL

*Internally managed BDC with a diversified portfolio of corporate credit investments
and an attractive asset management business*



Principal Investing

Corporate Loan Investments

- ◆ \$143 million in debt securities
- ◆ Average unlevered yield \approx 8%
- ◆ Focus on secured investments (79%)

CLO Fund Investments

- ◆ \$64 million investments in CLO Funds
- ◆ Average yield of \approx 48% on fair value

Managed Funds

Asset Managers Affiliates

- ◆ Asset management business
- ◆ \$3.3 billion in AUM
- ◆ \$73 million fair value
- ◆ Current net annual cash flow run rate:
 \approx \$6-8M
- ◆ Distributions contribute to KCAP's net investment income

QUARTERLY DIVIDENDS

2012	<i>Dividend</i>	<i>Yield</i>
Second quarter	\$ 0.24	11%
First quarter	\$ 0.18	10%
	\$ 0.42	

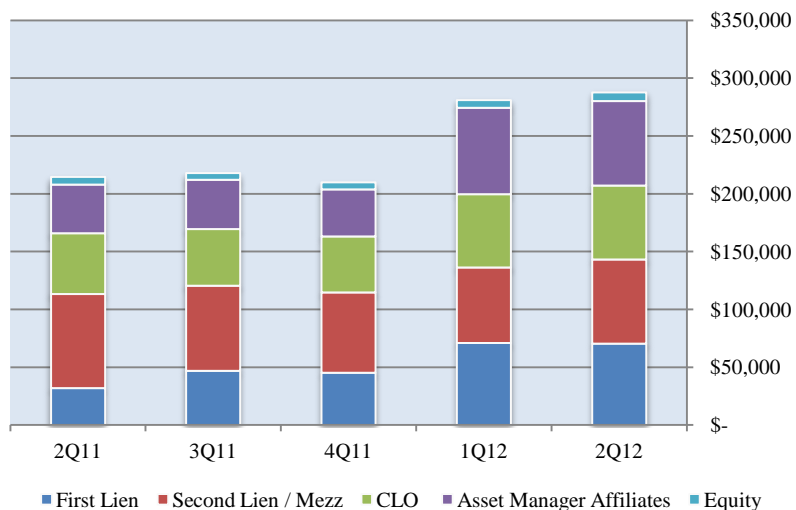
2011	<i>Dividend</i>	<i>Yield</i>
Fourth quarter	\$ 0.18	11%
Third quarter	\$ 0.18	12%
Second quarter	\$ 0.17	9%
First quarter	\$ 0.17	8%
	\$ 0.70	

2010		
Fourth quarter	\$ 0.17	10%
Third quarter	\$ 0.17	10%
Second quarter	\$ 0.17	14%
First quarter	\$ 0.17	12%
	\$ 0.68	

PORTFOLIO HIGHLIGHTS

ASSET MIX

Investments at Fair Value (in thousands)



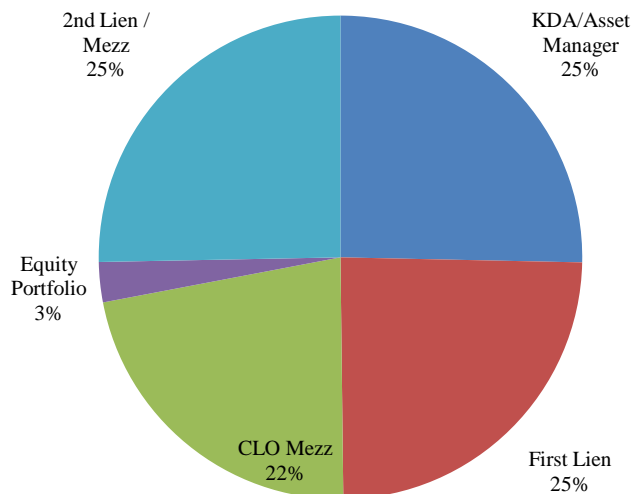
	2Q11	3Q11	4Q11	1Q12	2Q12
First Lien	15%	22%	22%	25%	24%
Second Lien / Mezz	38%	34%	33%	23%	25%
CLO	24%	22%	23%	23%	22%
Asset Manager Affiliates	20%	20%	19%	27%	25%
Equity	3%	3%	3%	2%	3%

	2Q11	3Q11	4Q11	1Q12	2Q12
First Lien	31,871	47,019	45,259	71,085	70,445
Second Lien / Mezz	81,573	73,588	69,414	65,272	72,819
CLO	52,361	48,761	48,438	63,404	63,884
Asset Manager Affiliates	42,201	42,629	40,814	74,594	72,896
Equity	6,721	6,010	6,041	6,722	7,719

INVESTMENT PORTFOLIO

A balanced investment risk / return profile

2Q12



<u>Investment</u>	<u>Yield</u>
First lien ¹	5.5%
Second lien / Mezz ¹	13.4%
CLO Mezz ²	49%
Asset Manager Affiliates ³	8.2%
Equity Portfolio	--
Approx. Weighted Average Yield	17.9%

¹ Yield based on par

² Yield based on fv

³ Asset Manager Affiliates estimated yield on cost; excludes incentive fees

Portfolio Statistics

Total Portfolio:

Fair value \$288 million

Book value \$347 million

Portfolio (excluding KDA & CLO Securities):

Fair value \$151 million

Book value \$184 million

Number of issuers 58

Average deal/issuer size \$2.5 million

In default <1%

Fixed rate 27%

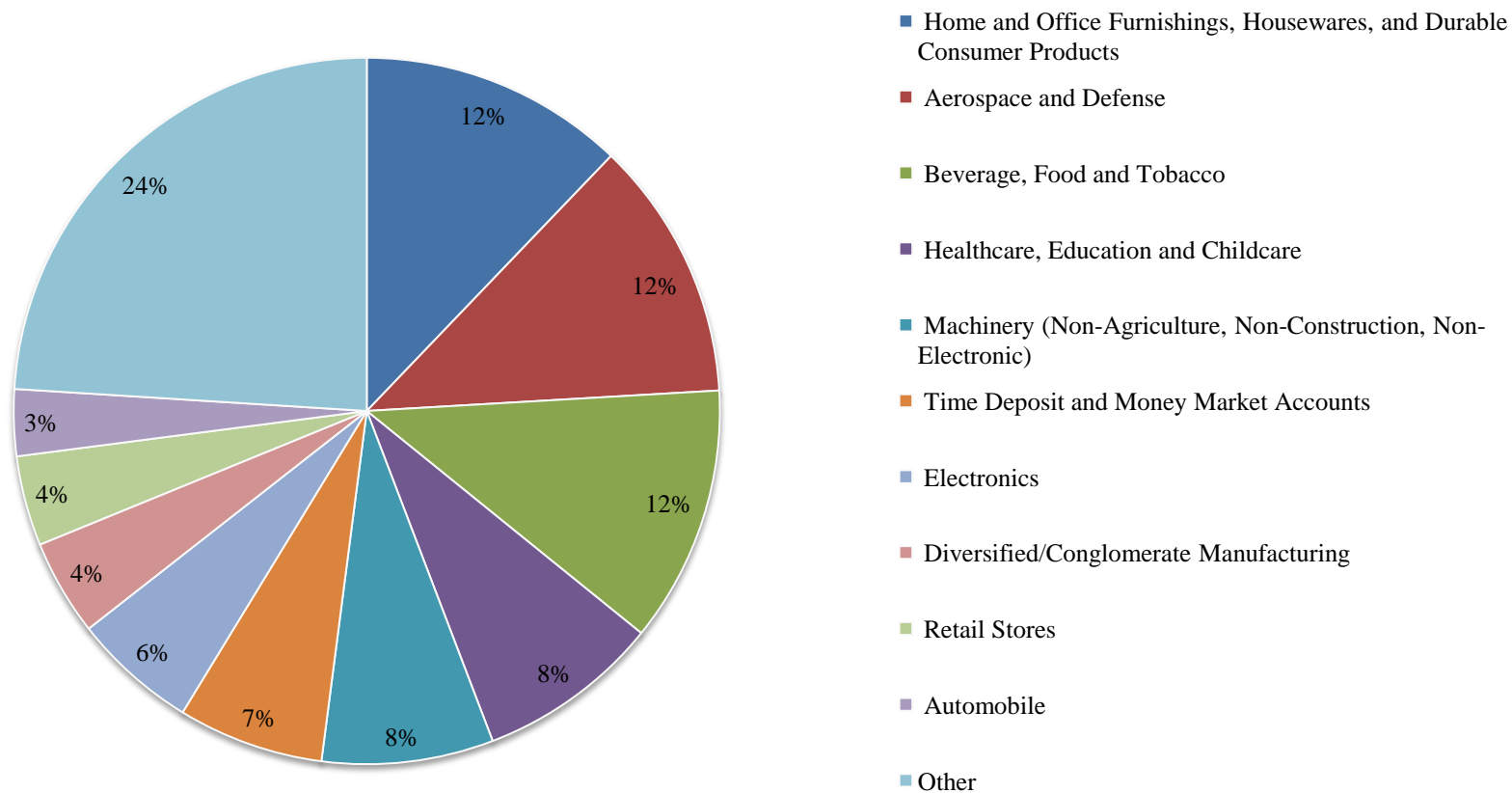
Floating rate 68%

Equity (neither fixed/floating) 5%

Note: Percentages to total fair value excluding KDA & CLO Securities

PORTFOLIO HIGHLIGHTS

PORTFOLIO LOAN SECURITIES - INDUSTRY DIVERSIFICATION



STRONG CREDIT QUALITY

Experienced management team has led to strong credit performance in a challenging environment

- ◆ Only four portfolio companies on non-accrual status as of June 30, 2012
- ◆ Hard Watch List represents less than 1% of total assets (four issuers)
 - ◆ Three of the four watch list assets are senior secured loans
- ◆ Despite mark-to-market unrealized losses, portfolio assets continue to amortize or pay-off at par
- ◆ 79% of corporate loan portfolio is secured

CLO FUND PORTFOLIO

Understanding risks and return

CLO Fund Structure

Remaining financing term	8 years
Current portfolio yield	L + 367 bps
W/A cost of debt capital	<u>L + 55 bps</u>
Net interest spread	<u>312 bps</u>
Fees and expenses	<u>55 bps</u>
Net spread to equity	<u>257bps</u>

Current Actual CLO Portfolio Performance:

-on current carrying value 49%

Data as of most recent trustee report for 2Q12 quarter-end

CLO Fund Statistics

Fair value	\$64 million
Par	\$95 million
Cost	\$79 million
<i>Diversity:</i>	
Number of CLOs	13
Average number of issuers	144
Average number of industries	27
Average position size	\$2.2 million

LEVERAGE

Low Leverage and Room for Growth Relative to Peers

- ◆ \$60 million in convertible notes and \$21.5 million through a secured credit facility
- ◆ Debt-to-equity of 0.40x based on net asset value of \$204 million for the quarter ended June 30, 2012
- ◆ Asset coverage at 351% at June 2012; BDC structure requires minimum asset coverage of 200%
- ◆ Convertible notes are fixed rate, five year (2016) maturity
- ◆ Initial conversion price of \$8.44 (10% premium over pricing date market close and above \$8.21 reported NAV prior to issuance)
- ◆ Secured credit facility is at a spread to LIBOR with an additional \$7.5 million available borrowing capacity

FINANCIAL HIGHLIGHTS

	2Q12	1Q12	4Q11	3Q11	2Q11	1Q11
Earnings per share	\$ 0.36	\$ 0.28	\$ 0.31	\$ 0.32	\$ 0.26	\$ 0.32
Net investment income per share	\$ 0.23	\$ 0.14	\$ 0.18	\$ 0.18	\$ 0.12	\$ 0.22
Net realized and unrealized gain (loss) per share	\$ (0.16)	\$ (0.12)	\$ (0.24)	\$ (0.24)	\$ (0.08)	\$ 0.20
Net asset value per share	\$ 7.66	\$ 7.78	\$ 7.85	\$ 8.29	\$ 8.52	\$ 8.64
Dividend distribution per share	\$ 0.24	\$ 0.18	\$ 0.18	\$ 0.18	\$ 0.17	\$ 0.17
Share Price						
High	\$ 7.47	\$ 7.46	\$ 6.88	\$ 8.34	\$ 8.32	\$ 8.71
Low	\$ 5.51	\$ 6.25	\$ 5.50	\$ 3.42	\$ 7.04	\$ 6.90
Close	\$ 7.26	\$ 6.91	\$ 6.31	\$ 5.85	\$ 7.95	\$ 7.95

FINANCIAL HIGHLIGHTS

NET ASSET VALUE

June 30, 2012	Fair Value	NAV per Share
<i>Investments at fair value:</i>		
Debt securities	\$ 143,264,021	\$ 5.37
CLO Fund securities	63,883,515	2.40
Equity securities	7,719,242	0.29
KDA / asset manager	<u>72,896,000</u>	<u>2.73</u>
Total Investments	287,762,778	10.79
Cash	1,617,867	0.06
Other assets	<u>16,865,117</u>	<u>0.64</u>
Total Assets	\$ <u>306,245,762</u>	\$ <u>11.49</u>
Borrowings	\$ 81,500,000	\$ 3.06
Other Liabilities	<u>20,585,453</u>	<u>0.77</u>
Total Liabilities	\$ <u>102,085,453</u>	\$ <u>3.83</u>
NET ASSET VALUE	\$ <u>204,160,309</u>	\$ <u>7.66</u>

INVESTMENT PORTFOLIO

June 30, 2012	Cost	Fair Value
Senior secured loan	\$ 79,181,781	\$ 70,444,931
Junior secured loan	59,984,315	43,399,869
Mezzanine	10,950,636	11,588,115
Senior subordinated bond	17,383,292	17,435,390
Preferred	400,000	395,720
CLO Fund securities	79,407,564	63,883,515
Equity securities	16,559,610	7,719,242
KDA / asset manager	<u>83,419,910</u>	<u>72,896,000</u>
Total Assets	\$ <u>347,287,107</u>	\$ <u>287,762,782</u>

SUMMARY OF KCAP ATTRIBUTES

Dynamic business model generates sustainable dividends

- ✓ Sustainable, recurring revenues not dependent on capital gains
 - ◆ Recurring interest income from secured loan and CLO portfolios
 - ◆ Stable asset management fee income from Asset Manager Affiliates
 - ✓ New investments in current market environment provide higher returns and enhance portfolio yield
 - ✓ Not reliant on high leverage to generate returns
 - ✓ Floating rate assets, many with minimum index rate floors, provide NAV protection and increased earnings in a rising rate environment
 - ✓ Experienced credit managers with long track records
 - ✓ Interest aligned with shareholders – significant insider ownership and internally managed
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Q & A
