
KCAP
FINANCIAL, INC.

Investor Presentation

First Quarter 2013

Forward Looking Information

This presentation includes forward-looking statements. The matters discussed in this presentation, as well as in future oral and written statements by management of KCAP Financial, Inc., 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 presentation 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 / mezzanine and equity
- ◆ CLO Fund investments
- ◆ Asset Manager Affiliates: synergies + stable cash flow and dividend

Low Leverage

- ◆ \$101.4 million in borrowings as of March 31, 2013
- ◆ \$60 million is unsecured, convertible notes at 8.75% with a 2016 maturity
- ◆ \$41.4 million unsecured, senior notes at 7.375% with a 2019 maturity
- ◆ Asset coverage is 362%, well above the minimum 200% (1:1) required for a BDC
- ◆ No amount outstanding under the senior credit facility

Alignment of Interests

- ◆ No external management fees
- ◆ Board members and management own in excess of 14% 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

- ◆ \$151 million in debt securities
- ◆ Average unlevered yield $\approx 7.7\%$
- ◆ Focus on secured investments (87%)

CLO Fund Investments

- ◆ \$78 million investments in CLO Funds
- ◆ Average yield of $\approx 45\%$ on fair value

Managed Funds

Asset Managers Affiliates (AMA)

- ◆ Asset management business
- ◆ \$3.5 billion in AUM
- ◆ \$80 million fair value
- ◆ Current quarterly cash flow run rate: \$3M
- ◆ Distributions contribute to KCAP's net investment income

QUARTERLY DIVIDENDS

2013	<i>Dividend</i>	<i>Yield</i>
First quarter	\$ 0.28	11%
	\$ 0.28	

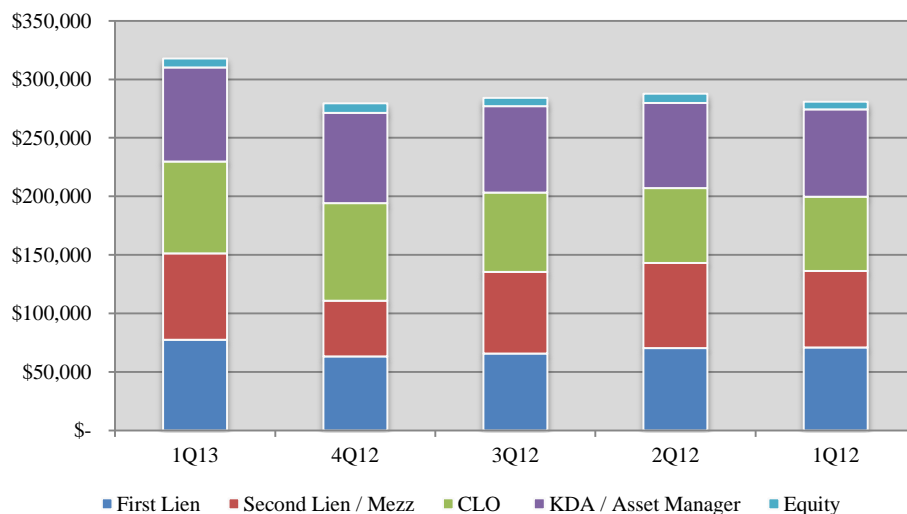
2012	<i>Dividend</i>	<i>Yield</i>
Fourth quarter	\$ 0.28	12%
Third quarter	\$ 0.24	10%
Second quarter	\$ 0.24	13%
First quarter	\$ 0.18	10%
	\$ 0.94	

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	

PORTFOLIO HIGHLIGHTS

ASSET MIX

Investments at Fair Value (in thousands)



	1Q13	4Q12	3Q12	2Q12	1Q12
First Lien	21%	20%	22%	23%	24%
Second Lien / Mezz	20%	15%	23%	24%	22%
CLO	21%	26%	22%	21%	21%
Asset Manager Affiliates	22%	24%	24%	24%	25%
Equity	2%	3%	2%	3%	2%

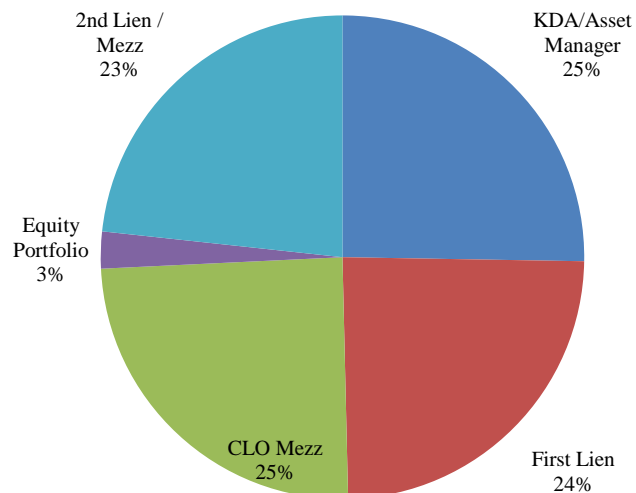
*As a percent of Total Assets

	1Q13	4Q12	3Q12	2Q12	1Q12
First Lien	77,472	63,259	65,869	70,445	71,085
Second Lien / Mezz	74,078	47,779	69,609	72,819	65,272
CLO	78,270	83,258	67,784	63,884	63,404
Asset Manager Affiliates	80,354	77,242	73,989	72,896	74,594
Equity	7,840	8,021	6,912	7,719	6,722

INVESTMENT PORTFOLIO

A balanced investment risk / return profile

1Q13



<u>Investment</u>	<u>Yield</u>
First lien ¹	6.0%
Second lien / Mezz ¹	10.0%
CLO Securities ²	44.7%
Asset Manager Affiliates ³	14.4%
Equity Portfolio	--
Approx. Weighted Average Yield	18.3%

¹ Yield based on par

² Yield based on fv

³ Asset Manager Affiliates estimated yield on cost

Portfolio Statistics

Total Portfolio:

Fair value \$318 million

Portfolio (excluding AMA & CLO Securities):

Fair value \$139 million

Number of issuers 54

Average deal/issuer size \$2.8 million

In default <1%

Fixed rate 11%

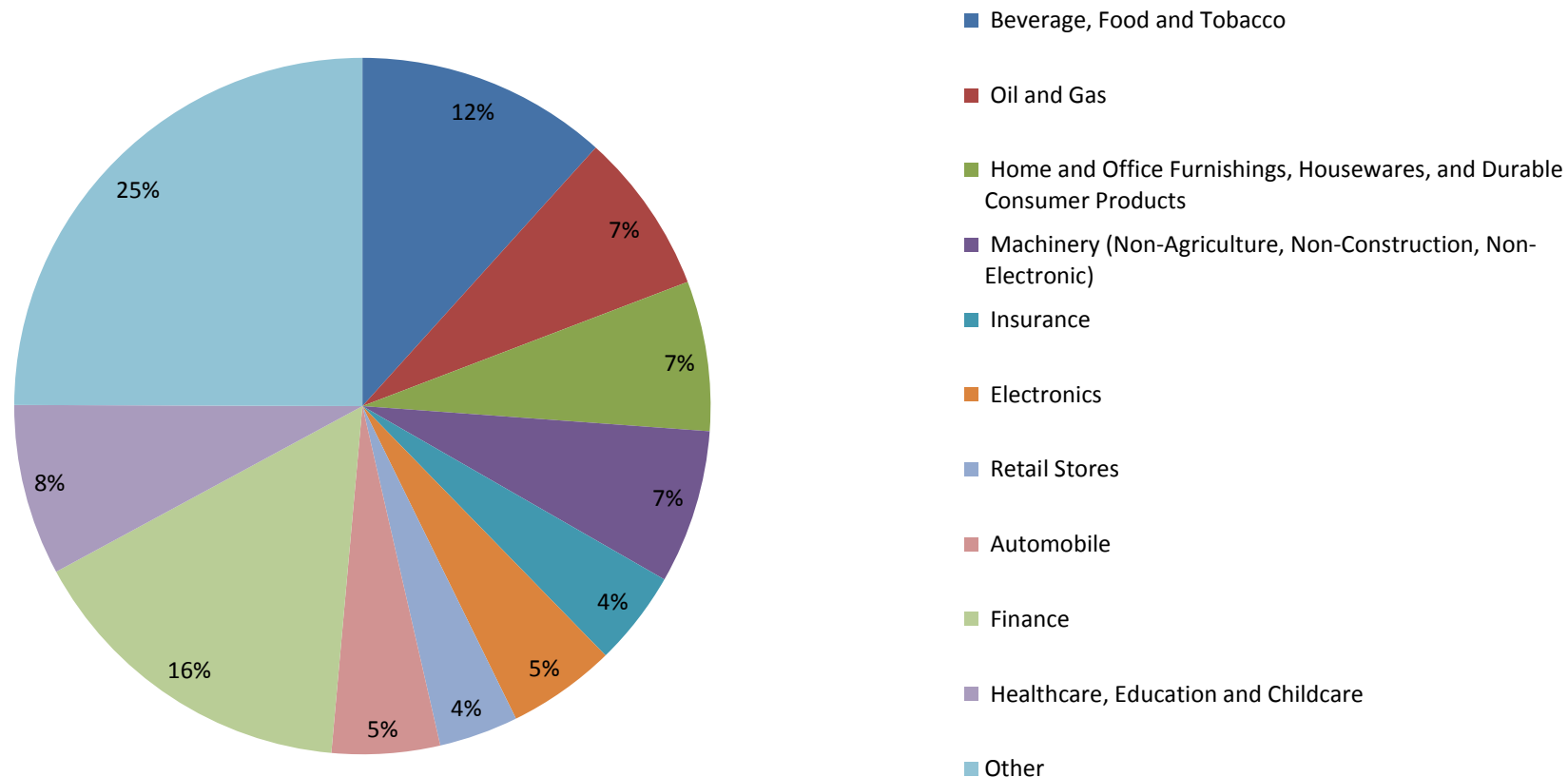
Floating rate 84%

Equity (neither fixed/floating) 4.9%

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

PORTFOLIO HIGHLIGHTS

PORTFOLIO DEBT SECURITIES – INDUSTRY DIVERSIFICATION



STRONG CREDIT QUALITY

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

- ◆ As of March 31, 2013, five portfolio companies were on non-accrual status (representing less than 1% of total investments at fair value)
- ◆ Despite mark-to-market unrealized losses, portfolio assets continue to amortize or pay-off at par
- ◆ 87% of the debt securities portfolio is secured

CLO FUND PORTFOLIO

Understanding risks and return

CLO Fund Structure

Remaining financing term	8.7 years
Current portfolio yield	L + 380 bps
W/A cost of debt capital	<u>L + 74 bps</u>
Net interest spread	<u>306 bps</u>
Fees and expenses	<u>55 bps</u>
Net spread to equity	<u>251bps</u>

Current Actual CLO Portfolio Performance:

-on current carrying value 45%

Data as of most recent trustee report for 3/31/13

CLO Fund Statistics

Fair value	\$78 million
Par	\$106 million
Cost	\$90 million
<i>Diversity:</i>	
Number of CLOs	10
Average number of issuers	127
Average number of industries	25
Average position size	\$2.0 million

CLO EQUITY / ASSET MANAGER SYNERGY

<u>KCAP</u>	
Equity Investment	\$10 million
Rate	14%
Annual	\$1.4 million

<u>Asset Manager Affiliate</u>	
AUM	\$400 million
Net Fee	40 BP
Annual	\$1.6 million

<u>Combined Return</u>	
Return	30%
Investment	\$10 million
Annual	\$3 million

Low Leverage and Room for Growth Relative to Peers

- ◆ \$60 million is unsecured, convertible notes at 8.75% with a 2016 maturity
- ◆ \$41.4 million unsecured, senior notes at 7.375% with a 2019 maturity
- ◆ Debt-to-equity of 0.38x based on net asset value of \$266 million for the quarter ended March 31, 2013
- ◆ Asset coverage at 362% at March 31, 2013; BDC structure requires minimum asset coverage of 200%
- ◆ As of March 31, 2013, convertible senior notes conversion price was \$8.159

FINANCIAL HIGHLIGHTS

	1Q13		4Q12		3Q12		2Q12		1Q12		4Q11	
Earnings per share ¹	\$	0.39	\$	0.44	\$	0.39	\$	0.36	\$	0.30	\$	0.31
Net investment income per share ¹	\$	0.24	\$	0.28	\$	0.27	\$	0.23	\$	0.15	\$	0.18
Net realized and unrealized gain (loss) per share ¹	\$	0.01	\$	0.28	\$	0.23	\$	(0.16)	\$	(0.13)	\$	(0.24)
Net asset value per share ²	\$	8.33	\$	7.85	\$	7.82	\$	7.66	\$	7.78	\$	7.85
Dividend distribution per share ²	\$	0.28	\$	0.28	\$	0.24	\$	0.24	\$	0.18	\$	0.18
Share Price												
High	\$	10.89	\$	9.67	\$	9.36	\$	7.47	\$	7.46	\$	6.88
Low	\$	9.41	\$	7.40	\$	7.27	\$	5.51	\$	6.25	\$	5.50
Close	\$	10.77	\$	9.19	\$	9.26	\$	7.26	\$	6.91	\$	6.31

¹ Based on average number of common shares outstanding for the period.

² Based on number of shares issued and outstanding at end of period.

FINANCIAL HIGHLIGHTS

NET ASSET VALUE

March 31, 2013	Fair Value	NAV per Share
<i>Investments at fair value:</i>		
Debt securities	\$ 151,549,821	\$ 4.75
Time Deposit & Money Market Accounts	38,887,925	1.22
CLO Fund securities	78,270,059	2.45
KDA / asset manager	<u>80,354,000</u>	<u>2.52</u>
Total Investments	349,061,805	10.94
Cash	5,070,802	0.16
Other assets	<u>9,215,655</u>	<u>0.29</u>
Total Assets	\$ <u>371,187,961</u>	\$ <u>11.39</u>
Borrowings	\$ 101,400,000	\$ 3.18
Other Liabilities	<u>3,915,636</u>	<u>0.13</u>
Total Liabilities	\$ <u>105,315,636</u>	\$ <u>3.31</u>
NET ASSET VALUE	\$ <u>265,872,325</u>	\$ <u>8.33</u>

INVESTMENT PORTFOLIO

March 31, 2013	Cost	Fair Value
Time Deposit	\$ -	\$ -
Money Market Account	38,887,925	38,887,925
Senior secured loan	81,306,958	74,471,738
Junior secured loan	54,430,898	39,532,069
Senior subordinated bond	2,728,859	2,749,634
Senior Unsecured Loan	20,000,000	20,000,000
Senior unsecured bond	10,805,507	11,422,500
First lien bond	2,930,343	3,000,000
Preferred stock	400,000	373,880
CLO Fund securities	90,105,528	78,270,058
Equity securities	18,260,007	7,839,699
KDA / asset manager	<u>83,198,191</u>	<u>80,352,434</u>
Total Assets	\$ <u>403,054,216</u>	\$ <u>356,901,504</u>

SUBSEQUENT EVENTS

- On April 4, 2013 \$8,992,000 of the Company's 8.75% Convertible Senior Notes were converted at a price basis per share of \$8.159 into 1,102,093 shares of KCAP common stock. The effect on the March 31, 2013 earnings per share would have been a decrease of \$0.01 per share.

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
