

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

Form 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2015
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File No. 814-00735

KCAP Financial, Inc.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
Incorporation or organization)

20-5951150
(I.R.S. Employer
Identification Number)

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes 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, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input type="radio"/>	Accelerated filer	<input checked="" type="radio"/>
Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input type="radio"/>

(Do not check if a smaller reporting company)

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

The number of outstanding shares of common stock of the registrant as of November 2, 2015 was 37,100,825.

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KCAP FINANCIAL, INC.

CONSOLIDATED BALANCE SHEETS

	As of September 30, 2015 (unaudited)	As of December 31, 2014
ASSETS		
Investments at fair value:		
Money market accounts (cost: 2015 - \$3,345,723; 2014 - \$1,602,741)	\$ 3,345,723	\$ 1,602,741
Debt securities (cost: 2015 - \$306,613,274; 2014 - \$322,884,934)	296,284,441	320,143,170
CLO Fund securities managed by affiliates (cost: 2015 - \$80,790,584; 2014 - \$85,355,897)	63,682,491	74,139,696
CLO Fund securities managed by non-affiliates (cost: 2015 - \$5,497,863; 2014 - \$5,533,293)	3,038,291	3,375,206
Equity securities (cost: 2015 - \$8,514,487; 2014 - \$8,828,812)	6,936,653	8,119,681
Asset Manager Affiliates (cost: 2015 - \$57,189,159; 2014 - \$60,292,677)	64,121,000	72,326,000
Total Investments at Fair Value (cost: 2015 - \$461,951,090; 2014 - \$484,498,354)	437,408,599	479,706,494
Cash	1,566,274	1,220,798
Restricted cash	8,334,124	19,325,550
Interest receivable	2,229,547	1,748,821
Due from affiliates	2,634,589	3,027,409
Other assets	4,735,669	5,417,725
Total Assets	<u>\$ 456,908,802</u>	<u>\$ 510,446,797</u>
LIABILITIES		
Convertible Notes	\$ 33,647,000	\$ 38,647,000
7.375% Notes Due 2019	41,400,000	41,400,000
Notes issued by KCAP Senior Funding I, LLC (net of discount: 2015 - \$3,060,315; 2014 - \$3,512,407)	144,289,685	143,837,593
Payable for open trades	—	18,293,725
Accounts payable and accrued expenses	1,797,885	2,166,400
Accrued interest payable	860,939	1,566,255
Payable to officers and directors	—	107,750
Due to affiliates	313,411	31,000
Shareholder distribution payable	—	9,080,373
Total Liabilities	<u>222,308,920</u>	<u>255,130,096</u>
COMMITMENTS AND CONTINGENCIES (Note 8)		
STOCKHOLDERS' EQUITY		
Common stock, par value \$0.01 per share, 100,000,000 common shares authorized; 37,088,923 issued, and 37,052,575 outstanding at September 30, 2015, and 36,775,127 common shares issued and outstanding at December 31, 2014	370,526	367,751
Capital in excess of par value	364,371,732	362,411,830
Excess distribution of net investment income	(22,013,276)	(25,579,865)
Accumulated net realized losses	(81,788,040)	(75,512,134)
Net unrealized depreciation on investments	(26,121,123)	(6,370,881)
Treasury stock at cost	(219,937)	—
Total Stockholders' Equity	<u>234,599,882</u>	<u>255,316,701</u>
Total Liabilities and Stockholders' Equity	<u>\$ 456,908,802</u>	<u>\$ 510,446,797</u>
NET ASSET VALUE PER COMMON SHARE	<u>\$ 6.33</u>	<u>\$ 6.94</u>

See accompanying notes to consolidated financial statements.

KCAP FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Investment Income:				
Interest from investments in debt securities	\$ 6,302,777	\$ 5,391,997	\$ 18,380,536	\$ 15,812,747
Interest from cash and time deposits	2,726	831	7,084	2,341
Investment income on CLO Fund Securities managed by affiliates	3,684,802	3,374,704	11,624,644	9,013,831
Investment income on CLO Fund Securities managed by non-affiliates	196,965	230,529	821,042	829,203
Dividends from Asset Manager Affiliates	1,547,069	1,424,415	4,196,483	4,181,347
Capital structuring service fees	45,009	412,772	263,074	764,971
Total investment income	<u>11,779,348</u>	<u>10,835,248</u>	<u>35,292,863</u>	<u>30,604,440</u>
Expenses:				
Interest and amortization of debt issuance costs	3,007,283	2,891,724	8,965,252	8,775,697
Compensation	892,119	1,431,825	3,022,393	3,921,913
Professional fees	762,357	566,320	2,638,931	1,783,443
Insurance	107,028	112,109	326,561	359,576
Administrative and other	469,481	315,769	1,459,447	1,183,367
Total expenses	<u>5,238,268</u>	<u>5,317,747</u>	<u>16,412,584</u>	<u>16,023,996</u>
Net Investment Income	6,541,080	5,517,501	18,880,279	14,580,444
Realized And Unrealized Gains (Losses) On Investments:				
Net realized (losses) from investment transactions	(6,231,759)	(2,141,591)	(6,133,352)	(1,896,806)
Net change in unrealized (depreciation) appreciation on:				
Debt securities	(6,334,456)	7,420,256	(7,587,070)	7,919,575
Equity securities	(605,432)	1,215,992	(868,703)	1,435,014
CLO Fund securities managed by affiliates	(261,695)	(11,986,471)	(5,891,498)	(8,402,287)
CLO Fund securities managed by non-affiliates	(152,980)	3,100,201	(301,488)	3,333,111
Asset Manager Affiliates investments	(8,863,069)	5,110,585	(5,101,483)	6,961,675
Total net change in unrealized appreciation (depreciation)	<u>(16,217,632)</u>	<u>4,860,563</u>	<u>(19,750,242)</u>	<u>11,247,088</u>
Net realized and unrealized appreciation (depreciation) on investments	<u>(22,449,391)</u>	<u>2,718,972</u>	<u>(25,883,594)</u>	<u>9,350,282</u>
Realized losses on extinguishments of debt	(142,554)	—	(142,554)	—
Net (Decrease) Increase In Stockholders' Equity Resulting From Operations	\$ (16,050,865)	\$ 8,236,473	\$ (7,145,869)	\$ 23,930,726
Net (Decrease) Increase In Stockholders' Equity Resulting from Operations per Common Share:				
Basic:	\$ (0.43)	\$ 0.24	\$ (0.19)	\$ 0.71
Diluted:	\$ (0.43)	\$ 0.23	\$ (0.19)	\$ 0.68
Net Investment Income Per Common Share:				
Basic:	\$ 0.18	\$ 0.16	\$ 0.51	\$ 0.44
Diluted:	\$ 0.18	\$ 0.16	\$ 0.51	\$ 0.43
Weighted Average Shares of Common Stock Outstanding—Basic	37,046,906	33,746,159	36,923,212	33,497,934
Weighted Average Shares of Common Stock Outstanding—Diluted	37,046,906	40,125,660	36,923,212	39,877,326

See accompanying notes to consolidated financial statements.

KCAP FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
(unaudited)

	Nine Months Ended September 30,	
	2015	2014
Operations:		
Net investment income	\$ 18,880,279	\$ 14,580,444
Net realized losses from investment transactions	(6,133,352)	(1,896,806)
Realized losses from extinguishments of debt	(142,554)	—
Net change in unrealized (depreciation) appreciation on investments	(19,750,242)	11,247,088
Net (decrease) increase in net assets resulting from operations	(7,145,869)	23,930,726
Stockholder distributions:		
Distribution of ordinary income	(15,313,691)	(16,603,434)
Return of capital	-	-
Net decrease in net assets resulting from stockholder distributions	(15,313,691)	(16,603,434)
Capital transactions:		
(Repurchase) issuance of common stock for:		
Common stock withheld for payroll taxes upon vesting of restricted stock	(220,301)	—
Dividend reinvestment plan	811,517	561,662
Stock based compensation	1,151,525	768,427
Net increase in net assets resulting from capital transactions	1,742,741	1,330,089
Net assets at beginning of period	255,316,701	250,369,693
Net assets at end of period (including undistributed net investment income of \$0 in 2015 and \$0 in 2014)	<u>\$ 234,599,882</u>	<u>\$ 259,027,074</u>
Net asset value per common share	\$ 6.33	\$ 7.67
Common shares outstanding at end of period	37,052,575	33,753,672

See accompanying notes to consolidated financial statements.

KCAP FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Nine Months Ended September 30,	
	2015	2014
OPERATING ACTIVITIES:		
Net (decrease) increase in stockholder's equity resulting from operations	\$ (7,145,869)	\$ 23,930,726
Adjustments to reconcile net (decrease) increase in stockholder's equity resulting from operations to net cash provided by in operating activities:		
Net realized losses on investment transactions	6,133,352	1,896,806
Net change in unrealized depreciation (appreciation) on investments	19,750,242	(11,247,086)
Purchases of investments	(100,476,581)	(165,876,071)
Proceeds from sales and redemptions of investments	111,864,151	169,182,675
Net (accretion) amortization on investments	6,123,977	4,311,245
Amortization of original issue discount on indebtedness	452,092	328,838
Amortization of debt issuance costs	897,566	838,726
Realized losses on extinguishments of debt	142,554	—
Payment-in-kind interest income	(1,097,244)	(132,622)
Stock-based compensation	1,151,525	767,101
Changes in operating assets and liabilities:		
(Decrease) increase in payable for open trades	(18,293,725)	4,282,000
Increase in interest and dividends receivable	(480,726)	(76,286)
Increase in other assets	(358,065)	(519,467)
Decrease (increase) in due from affiliates	392,820	(24,683)
Increase in due to affiliates	282,411	—
(Decrease) in accounts payable and accrued expenses	(1,181,580)	(1,421,978)
Net cash provided by operating activities	18,156,900	26,239,924
FINANCING ACTIVITIES:		
Issuance of restricted shares	1,820	1,326
Distributions to stockholders	(23,584,369)	(24,374,804)
Repurchase of Convertible Notes	(5,000,000)	—
Common Stock withheld for payroll taxes upon vesting of restricted stock	(220,301)	—
Decrease (increase) in restricted cash	10,991,426	(1,364,637)
Net cash used in financing activities	(17,811,424)	(25,738,115)
CHANGE IN CASH	345,476	501,809
CASH, BEGINNING OF PERIOD	1,220,798	3,433,675
CASH, END OF PERIOD	\$ 1,566,274	\$ 3,935,484
Supplemental Information:		
Interest paid during the period	\$ 8,320,809	\$ 8,547,252
Dividends paid during the period under the dividend reinvestment plan	\$ 811,517	\$ 561,662

See accompanying notes to consolidated financial statements.

KCAP FINANCIAL, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS
As of September 30, 2015

(unaudited)

Debt Securities Portfolio

Portfolio Company / Principal Business	Investment Interest Rate¹ / Maturity	Principal	Amortized Cost	Fair Value²
1A Smart Start LLC ^{9, 10} <i>Consumer goods: Non-durable</i>	Senior Secured Loan — Term Loan 5.8% Cash, 1.0% Libor Floor, Due 2/22	\$ 3,000,000	\$ 2,970,355	\$ 2,970,000
4L Technologies Inc. (fka Clover Holdings, Inc.) ^{9, 10} <i>Consumer goods: Non-durable</i>	Senior Secured Loan — Term Loan 5.5% Cash, 1.0% Libor Floor, Due 5/20	2,772,000	2,750,704	2,661,673
Advanced Lighting Technologies, Inc. ^{9, 10} <i>Consumer goods: Durable</i>	First Lien Bond — 10.5% - 06/2019 - 00753CAE2 10.5% Cash, Due 6/19	3,000,000	2,976,651	2,317,500
Advantage Sales & Marketing Inc. ⁹ <i>Services: Business</i>	Junior Secured Loan — Term Loan (Second Lien) 7.5% Cash, 1.0% Libor Floor, Due 7/22	1,000,000	1,002,149	960,000
Alere Inc. (fka IM US Holdings, LLC) ¹⁰ <i>Healthcare & Pharmaceuticals</i>	Senior Secured Loan — B Term Loan 4.3% Cash, 1.0% Libor Floor, Due 6/22	1,246,875	1,243,869	1,248,627
American Seafoods Group LLC ^{9, 10} <i>Beverage, Food and Tobacco</i>	Senior Secured Loan — Term Loan (First Lien) 6.0% Cash, 1.0% Libor Floor, Due 8/21	4,000,000	3,980,330	3,980,000
Anaren, Inc. ^{9, 10} <i>Aerospace and Defense</i>	Senior Secured Loan — Term Loan (First Lien) 5.5% Cash, 1.0% Libor Floor, Due 2/21	1,965,000	1,949,825	1,931,006
Aristotle Corporation, The ^{9, 10} <i>Consumer goods: Non-durable</i>	Senior Secured Loan — Term Loan 5.5% Cash, 1.0% Libor Floor, Due 6/21	3,990,000	3,970,809	3,970,050
Asurion, LLC (fka Asurion Corporation) ^{9, 10} <i>Banking, Finance, Insurance & Real Estate</i>	Senior Secured Loan — Incremental Tranche B-1 Term Loan 5.0% Cash, 1.3% Libor Floor, Due 5/19	941,254	945,393	900,310
Asurion, LLC (fka Asurion Corporation) ^{9, 10} <i>Banking, Finance, Insurance & Real Estate</i>	Senior Secured Loan — Incremental Tranche B-4 Term Loan 5.0% Cash, 1.0% Libor Floor, Due 8/22	898,299	893,894	851,561

Portfolio Company / Principal Business	Investment Interest Rate¹ / Maturity	Principal	Amortized Cost	Fair Value²
Avalign Technologies, Inc. ⁹ <i>Healthcare & Pharmaceuticals</i>	Junior Secured Loan — Initial Term Loan (Second Lien) 9.3% Cash, 1.0% Libor Floor, Due 7/22	\$ 1,000,000	\$ 990,282	\$ 990,000
Avalign Technologies, Inc. ^{9, 10} <i>Healthcare & Pharmaceuticals</i>	Senior Secured Loan — Initial Term Loan (First Lien) 5.5% Cash, 1.0% Libor Floor, Due 7/21	3,000,000	2,985,494	2,985,000
Bankruptcy Management Solutions, Inc. ⁹ <i>Services: Business</i>	Senior Secured Loan — Term B Loan 7.0% Cash, 1.0% Libor Floor, Due 6/18	687,043	687,043	670,485
BarBri, Inc. (Gemini Holdings, Inc.) ^{9, 10} <i>Services: Consumer</i>	Senior Secured Loan — Term Loan 4.5% Cash, 1.0% Libor Floor, Due 7/19	2,731,875	2,723,181	2,714,664
BBB Industries US Holdings, Inc. ^{9, 10} <i>Automotive</i>	Senior Secured Loan — Initial Term Loan (First Lien) 6.0% Cash, 1.0% Libor Floor, Due 11/21	2,985,000	2,932,990	2,992,433
Bellisio Foods, Inc. ^{9, 10} <i>Beverage, Food and Tobacco</i>	Senior Secured Loan — U.S. Term B Loans 5.3% Cash, 1.0% Libor Floor, Due 8/19	1,941,681	1,935,177	1,858,965
Bestop, Inc. ^{9, 10} <i>Automotive</i>	Senior Secured Loan — Revolving Loan 6.3% Cash, 1.0% Libor Floor, Due 7/20	40,000	34,207	39,400
Bestop, Inc. ^{9, 10} <i>Automotive</i>	Senior Secured Loan — Term Loan 6.3% Cash, 1.0% Libor Floor, Due 7/21	1,600,000	1,576,690	1,576,000
Carolina Beverage Group LLC ⁹ <i>Beverage, Food and Tobacco</i>	Senior Secured Bond — 10.625% - 08/2018 - 143818AA0 144A 10.6% Cash, Due 8/18	1,500,000	1,511,590	1,481,250
CCS Intermediate Holdings, LLC ^{9, 10} <i>Healthcare & Pharmaceuticals</i>	Senior Secured Loan — Initial Term Loan (First Lien) 5.0% Cash, 1.0% Libor Floor, Due 7/21	2,970,000	2,957,569	2,782,890
Cengage Learning Acquisitions, Inc. (fka TL Acquisitions, Inc.) ^{9, 10} <i>Media: Advertising, Printing & Publishing</i>	Senior Secured Loan — Term Loan 7.0% Cash, 1.0% Libor Floor, Due 3/20	2,979,950	2,974,213	2,961,325
Checkout Holding Corp. (fka Catalina Marketing) ^{9, 10} <i>Media: Advertising, Printing & Publishing</i>	Senior Secured Loan — Term B Loan (First Lien) 4.5% Cash, 1.0% Libor Floor, Due 4/21	987,500	983,596	849,250

Portfolio Company / Principal Business	Investment Interest Rate¹ / Maturity	Principal	Amortized Cost	Fair Value²
Consolidated Communications, Inc. ¹⁰ <i>Telecommunications</i>	Senior Secured Loan — Initial Term Loan 4.3% Cash, 1.0% Libor Floor, Due 12/20	\$ 2,969,773	\$ 2,979,451	\$ 2,969,179
CRGT Inc. ^{9, 10} <i>High Tech Industries</i>	Senior Secured Loan — Term Loan 7.5% Cash, 1.0% Libor Floor, Due 12/20	3,937,421	3,883,316	3,927,577
Crowley Holdings Preferred, LLC ⁹ <i>Transportation: Cargo</i>	Preferred Stock — 12.000% - 12/2049 - Series A Income Preferred Securities 10.0% Cash, 2.0% PIK, Due 12/49	10,359,873	10,359,873	10,681,029
Crowne Group, LLC ^{9, 10} <i>Automotive</i>	Senior Secured Loan — Term Loan (First Lien) 6.0% Cash, 1.0% Libor Floor, Due 9/20	3,960,000	3,910,360	3,813,876
CSM Bakery Solutions Limited (fka CSM Bakery Supplies Limited) ⁹ <i>Beverage, Food and Tobacco</i>	Junior Secured Loan — Term Loan (Second Lien) 8.8% Cash, 1.0% Libor Floor, Due 7/21	3,000,000	3,014,477	2,857,500
CT Technologies Intermediate Holdings, Inc. (Smart Holdings Corp.) (aka HealthPort) ^{9, 10} <i>Healthcare & Pharmaceuticals</i>	Senior Secured Loan — Term Loan 5.3% Cash, 1.0% Libor Floor, Due 11/21	2,977,538	2,948,937	2,972,580
DBI Holding LLC ⁹ <i>Services: Business</i>	Senior Unsecured Bond — 13% - 09/2019 – PIK Note 0.0% Cash, 16.0% PIK, Due 9/19	3,884,871	3,688,411	3,657,995
DBI Holding LLC ⁹ <i>Services: Business</i>	Senior Subordinated Bond — 13% - 09/2019 - Senior Subordinated Note 12.0% Cash, 4.0% PIK, Due 9/19	4,435,792	4,420,467	4,221,543
Drew Marine Group Inc. ⁹ <i>Transportation: Cargo</i>	Junior Secured Loan — Term Loan (Second Lien) 8.0% Cash, 1.0% Libor Floor, Due 5/21	2,500,000	2,495,280	2,445,500
ELO Touch Solutions, Inc. ^{9, 10} <i>High Tech Industries</i>	Senior Secured Loan — Term Loan (First Lien) 8.0% Cash, 1.5% Libor Floor, Due 6/18	1,586,611	1,545,105	1,582,328
EWT Holdings III Corp. (fka WTG Holdings III Corp.) ⁹ <i>Environmental Industries</i>	Junior Secured Loan — Term Loan (Second Lien) 8.5% Cash, 1.0% Libor Floor, Due 1/22	4,000,000	3,984,260	3,798,800
Fender Musical Instruments Corporation ^{9, 10} <i>Consumer goods: Durable</i>	Senior Secured Loan — Initial Loan 5.8% Cash, 1.3% Libor Floor, Due 4/19	1,630,443	1,639,197	1,630,443

Portfolio Company / Principal Business	Investment Interest Rate¹ / Maturity	Principal	Amortized Cost	Fair Value²
FHC Health Systems, Inc. ^{9, 10} <i>Healthcare & Pharmaceuticals</i>	Senior Secured Loan — Initial Term Loan 5.0% Cash, 1.0% Libor Floor, Due 12/21	\$ 3,887,607	\$ 3,852,677	\$ 3,841,461
First American Payment Systems, L.P. ⁹ <i>Banking, Finance, Insurance & Real Estate</i>	Junior Secured Loan — Term Loan (Second Lien) 10.8% Cash, 1.3% Libor Floor, Due 4/19	2,796,448	2,766,004	2,715,351
Getty Images, Inc. ^{9, 10} <i>Media: Advertising, Printing & Publishing</i>	Senior Secured Loan — Initial Term Loan 4.8% Cash, 1.3% Libor Floor, Due 10/19	2,168,441	2,174,087	1,420,784
GK Holdings, Inc. (aka Global Knowledge) ⁹ <i>Services: Business</i>	Junior Secured Loan — Initial Term Loan (Second Lien) 10.5% Cash, 1.0% Libor Floor, Due 1/22	1,500,000	1,472,798	1,477,500
GK Holdings, Inc. (aka Global Knowledge) ^{9, 10} <i>Services: Business</i>	Senior Secured Loan — Initial Term Loan (First Lien) 6.5% Cash, 1.0% Libor Floor, Due 1/21	2,481,250	2,459,141	2,434,603
Global Tel*Link Corporation ⁹ <i>Telecommunications</i>	Junior Secured Loan — Term Loan (Second Lien) 9.0% Cash, 1.3% Libor Floor, Due 11/20	4,000,000	3,943,818	3,768,000
Gold Standard Baking, Inc. ^{9, 10} <i>Beverage, Food and Tobacco</i>	Senior Secured Loan — Term Loan 5.5% Cash, 1.0% Libor Floor, Due 4/21	2,493,750	2,482,053	2,469,561
Grande Communications Networks LLC ^{9, 10} <i>Telecommunications</i>	Senior Secured Loan — Initial Term Loan 4.5% Cash, 1.0% Libor Floor, Due 5/20	3,910,079	3,914,563	3,909,688
Grupo HIMA San Pablo, Inc. ⁹ <i>Healthcare & Pharmaceuticals</i>	Senior Secured Loan — Term B Loan (First Lien) 8.5% Cash, 1.5% Libor Floor, Due 1/18	2,925,000	2,897,657	2,866,500
Grupo HIMA San Pablo, Inc. ⁹ <i>Healthcare & Pharmaceuticals</i>	Junior Secured Loan — Term Loan (Second Lien) 13.8% Cash, Due 7/18	7,000,000	6,916,737	6,650,000
Gymboree Corporation., The ^{9, 10} <i>Retail</i>	Senior Secured Loan — Term Loan 5.0% Cash, 1.5% Libor Floor, Due 2/18	1,421,105	1,402,760	941,305
Hargray Communications Group, Inc. (HCP Acquisition LLC) ^{9, 10} <i>Media: Broadcasting & Subscription</i>	Senior Secured Loan — Initial Term Loan 5.3% Cash, 1.0% Libor Floor, Due 6/19	2,927,271	2,908,947	2,928,442

Portfolio Company / Principal Business	Investment Interest Rate¹ / Maturity	Principal	Amortized Cost	Fair Value²
Harland Clarke Holdings Corp. (fka Clarke American Corp.) ^{9, 10} <i>Media: Advertising, Printing & Publishing</i>	Senior Secured Loan — Tranche B-3 Term Loan 7.0% Cash, 1.5% Libor Floor, Due 5/18	\$ 3,303,125	\$ 3,282,743	\$ 3,302,464
Harland Clarke Holdings Corp. (fka Clarke American Corp.) ^{9, 10} <i>Media: Advertising, Printing & Publishing</i>	Senior Secured Loan — Tranche B-4 Term Loan 6.0% Cash, 1.0% Libor Floor, Due 8/19	1,434,375	1,429,354	1,431,506
Hoffmaster Group, Inc. ⁹ <i>Forest Products & Paper</i>	Junior Secured Loan — Initial Term Loan (Second Lien) 10.0% Cash, 1.0% Libor Floor, Due 5/21	2,000,000	1,975,937	1,998,600
Hoffmaster Group, Inc. ^{9, 10} <i>Forest Products & Paper</i>	Senior Secured Loan — Initial Term Loan (First Lien) 5.3% Cash, 1.0% Libor Floor, Due 5/20	3,950,000	3,919,537	3,946,307
Hunter Defense Technologies, Inc. ^{9, 10} <i>Aerospace and Defense</i>	Senior Secured Loan — Term Loan (First Lien) 6.5% Cash, 1.0% Libor Floor, Due 8/19	2,850,000	2,827,819	2,722,605
Integra Telecom Holdings, Inc. ^{9, 10} <i>Telecommunications</i>	Senior Secured Loan — Term B-1 Loan 5.3% Cash, 1.0% Libor Floor, Due 8/20	2,969,848	2,959,523	2,967,769
International Architectural Products, Inc. ^{7, 9} <i>Metals & Mining</i>	Senior Secured Loan — Term Loan 0.0% Cash, 3.3% PIK, 2.5% Libor Floor, Due 5/15	247,636	228,563	1,000
Kellermeyer Bergensons Services, LLC ^{9, 10} <i>Services: Business</i>	Senior Secured Loan — Initial Term Loan (First Lien) 6.0% Cash, 1.0% Libor Floor, Due 10/21	1,985,000	1,967,713	1,960,188
Key Safety Systems, Inc. ^{9, 10} <i>Automotive</i>	Senior Secured Loan — Initial Term Loan 4.8% Cash, 1.0% Libor Floor, Due 8/21	1,485,000	1,478,731	1,454,506
Kinetic Concepts, Inc. ^{9, 10} <i>Healthcare & Pharmaceuticals</i>	Senior Secured Loan — Dollar Term E-1 Loan 4.5% Cash, 1.0% Libor Floor, Due 5/18	2,969,773	2,963,987	2,966,372
Landslide Holdings, Inc. (Crimson Acquisition Corp.) ^{9, 10} <i>High Tech Industries</i>	Senior Secured Loan — New Term Loan (First Lien) 5.0% Cash, 1.0% Libor Floor, Due 2/20	3,430,263	3,437,455	3,313,291
MB Aerospace ACP Holdings III Corp. ^{9, 10} <i>Aerospace and Defense</i>	Senior Secured Loan — Dollar Term Loan 5.0% Cash, 1.0% Libor Floor, Due 5/19	3,642,024	3,619,743	3,642,024

Portfolio Company / Principal Business	Investment Interest Rate¹ / Maturity	Principal	Amortized Cost	Fair Value²
Medical Specialties Distributors, LLC ^{9, 10} <i>Healthcare & Pharmaceuticals</i>	Senior Secured Loan — Term Loan 6.5% Cash, 1.0% Libor Floor, Due 12/19	\$ 3,930,000	\$ 3,902,594	\$ 3,823,104
MGOC, Inc. (fka Media General, Inc.) ¹⁰ <i>Media: Broadcasting & Subscription</i>	Senior Secured Loan — Term B Loan 4.0% Cash, 1.0% Libor Floor, Due 7/20	2,717,813	2,720,774	2,700,555
Millennium Health, LLC (fka Millennium Laboratories, LLC) ⁹ <i>Healthcare & Pharmaceuticals</i>	Senior Secured Loan — Tranche B Term Loan 5.3% Cash, 1.0% Libor Floor, Due 4/21	2,969,925	2,969,925	954,088
Nellson Nutraceutical, LLC ^{9, 10} <i>Beverage, Food and Tobacco</i>	Senior Secured Loan — Term A-1 Loan (First Lien) 6.0% Cash, 1.0% Libor Floor, Due 12/21	2,380,576	2,361,697	2,333,441
Nellson Nutraceutical, LLC ^{9, 10} <i>Beverage, Food and Tobacco</i>	Senior Secured Loan — Term A-2 Loan (First Lien) 6.0% Cash, 1.0% Libor Floor, Due 12/21	2,098,176	2,080,808	2,056,633
Nielsen & Bainbrige, LLC ⁹ <i>Consumer goods: Durable</i>	Senior Secured Loan — Term Loan (First Lien) 6.0% Cash, 1.0% Libor Floor, Due 8/20	992,502	984,316	961,635
Nielsen & Bainbrige, LLC ⁹ <i>Consumer goods: Durable</i>	Junior Secured Loan — Term Loan (Second Lien) 10.3% Cash, 1.0% Libor Floor, Due 8/21	2,091,954	2,064,716	1,924,598
Nielsen & Bainbrige, LLC ^{9, 10} <i>Consumer goods: Durable</i>	Senior Secured Loan — Term Loan (First Lien) 6.0% Cash, 1.0% Libor Floor, Due 8/20	3,795,448	3,763,274	3,677,409
NM Z Parent Inc. (aka Zep, Inc.) ^{9, 10} <i>Chemicals, Plastics and Rubber</i>	Senior Secured Loan — Initial Term Loan 5.8% Cash, 1.0% Libor Floor, Due 6/22	3,491,250	3,503,317	3,463,669
Novetta, LLC ⁹ <i>Services: Business</i>	Senior Secured Loan — Initial Term Loan 6.0% Cash, 1.0% Libor Floor, Due 10/20	2,722,500	2,699,157	2,722,500
Novitex Acquisition, LLC (fka ARSloane Acquisition, LLC) ^{9, 10} <i>Services: Business</i>	Senior Secured Loan — Tranche B-2 Term Loan (First Lien) 7.5% Cash, 1.3% Libor Floor, Due 7/20	978,853	971,079	902,698

Portfolio Company / Principal Business	Investment Interest Rate¹ / Maturity	Principal	Amortized Cost	Fair Value²
Onex Carestream Finance LP ⁹ <i>Healthcare & Pharmaceuticals</i>	Junior Secured Loan — Term Loan (Second Lien) 9.5% Cash, 1.0% Libor Floor, Due 12/19	\$ 1,932,311	\$ 1,932,311	\$ 1,901,201
Onex Carestream Finance LP ^{9, 10} <i>Healthcare & Pharmaceuticals</i>	Senior Secured Loan — Term Loan (First Lien 2013) 5.0% Cash, 1.0% Libor Floor, Due 6/19	1,882,721	1,888,026	1,809,765
Otter Products, LLC (OtterBox Holdings, Inc.) ^{9, 10} <i>Consumer goods: Durable</i>	Senior Secured Loan — Term B Loan 5.8% Cash, 1.0% Libor Floor, Due 6/20	2,754,168	2,735,107	2,663,280
Ozburn-Hessey Holding Company LLC ^{9, 10} <i>Transportation: Cargo</i>	Senior Secured Loan — Term Loan 6.8% Cash, 1.3% Libor Floor, Due 5/19	3,485,681	3,479,849	3,477,316
PGX Holdings, Inc. ^{9, 10} <i>Services: Consumer</i>	Senior Secured Loan — Initial Term Loan (First Lien) 5.8% Cash, 1.0% Libor Floor, Due 9/20	3,828,571	3,796,579	3,724,051
Playpower, Inc. ^{9, 10} <i>Construction & Building</i>	Senior Secured Loan — Initial Term Loan (First Lien) 5.8% Cash, 1.0% Libor Floor, Due 6/21	1,995,000	1,980,681	1,982,831
PSC Industrial Holdings Corp. ^{9, 10} <i>Environmental Industries</i>	Senior Secured Loan — Term Loan (First Lien) 5.8% Cash, 1.0% Libor Floor, Due 12/20	1,985,000	1,967,757	1,928,825
Quad-C JH Holdings Inc. (aka Joerns Healthcare) ^{9, 10} <i>Healthcare & Pharmaceuticals</i>	Senior Secured Loan — Term Loan A 6.2% Cash, 1.0% Libor Floor, Due 5/20	3,950,013	3,927,029	3,859,558
Ravn Air Group, Inc. ^{9, 10} <i>Transportation: Consumer</i>	Senior Secured Loan — Initial Term Loan 5.5% Cash, 1.0% Libor Floor, Due 7/21	2,500,000	2,487,820	2,487,500
Reynolds Group Holdings Inc. ^{9, 10} <i>Containers, Packaging and Glass</i>	Senior Secured Loan — Incremental U.S. Term Loan 4.5% Cash, 1.0% Libor Floor, Due 12/18	2,916,649	2,916,649	2,921,622
Roscoe Medical, Inc. ⁹ <i>Healthcare & Pharmaceuticals</i>	Junior Secured Loan — Term Loan (Second Lien) 11.3% Cash, Due 9/19	6,700,000	6,651,467	6,391,130

Portfolio Company / Principal Business	Investment Interest Rate¹ / Maturity	Principal	Amortized Cost	Fair Value²
Rovi Solutions Corporation / Rovi Guides, Inc. ¹⁰ <i>High Tech Industries</i>	Senior Secured Loan — Term B Loan 3.8% Cash, 0.8% Libor Floor, Due 7/21	\$ 2,969,925	\$ 2,936,592	\$ 2,829,447
Sandy Creek Energy Associates, L.P. ^{9, 10} <i>Utilities: Electric</i>	Senior Secured Loan — Term Loan 5.0% Cash, 1.0% Libor Floor, Due 11/20	2,729,107	2,719,110	2,415,260
SGF Produce Holding Corp.(Frozsun, Inc.) ⁹ <i>Beverage, Food and Tobacco</i>	Senior Secured Loan — Term Loan 6.5% Cash, 1.0% Libor Floor, Due 3/19	2,174,827	2,162,053	2,174,827
SGF Produce Holding Corp.(Frozsun, Inc.) ^{9, 10} <i>Beverage, Food and Tobacco</i>	Senior Secured Loan — Term Loan 6.5% Cash, 1.0% Libor Floor, Due 3/19	4,907,181	4,910,983	4,907,181
Stafford Logistics, Inc.(dba Custom Ecology, Inc.) ^{9, 10} <i>Environmental Industries</i>	Senior Secured Loan — Term Loan 7.5% Cash, 1.3% Libor Floor, Due 6/19	2,861,935	2,844,078	2,833,316
Sun Products Corporation, The (fka Huish Detergents Inc.) ^{9, 10} <i>Consumer goods: Non-durable</i>	Senior Secured Loan — Tranche B Term Loan 5.5% Cash, 1.3% Libor Floor, Due 3/20	3,882,654	3,862,633	3,672,350
Tank Partners Holdings, LLC ⁹ <i>Energy: Oil & Gas</i>	Senior Secured Loan — Loan 6.6% Cash, 3.5% PIK, 3.0% Libor Floor, Due 8/19	10,665,282	10,520,547	8,939,640
TPF II Power, LLC (TPF II Covert Midco, LLC) ^{9, 10} <i>Utilities: Electric</i>	Senior Secured Loan — Term Loan 5.5% Cash, 1.0% Libor Floor, Due 10/21	2,958,405	2,982,024	2,931,483
Trimaran Advisors, L.L.C. ⁹ <i>Related Party Loan</i>	Senior Unsecured Loan — Revolving Credit Facility 9.0% Cash, Due 11/17	23,000,000	23,000,000	23,000,000
TRSO I, Inc. ⁹ <i>Energy: Oil & Gas</i>	Junior Secured Loan — Term Loan (Second Lien) 11.0% Cash, 1.0% Libor Floor, Due 12/17	1,000,000	991,092	961,500
TWCC Holding Corp. ⁹ <i>Media: Broadcasting & Subscription</i>	Junior Secured Loan — Term Loan (Second Lien) 7.0% Cash, 1.0% Libor Floor, Due 6/20	1,000,000	1,003,459	956,300

Portfolio Company / Principal Business	Investment Interest Rate¹ / Maturity	Principal	Amortized Cost	Fair Value²
TWCC Holding Corp. ^{9, 10} <i>Media: Broadcasting & Subscription</i>	Senior Secured Loan — Term B-1 Loan 5.8% Cash, 0.8% Libor Floor, Due 2/20	\$ 824,541	\$ 826,440	\$ 814,317
U.S. Shipping Corp (fka U.S. Shipping Partners LP) ^{9, 10} <i>Transportation: Cargo</i>	Senior Secured Loan — Tranche B-2 Term Loan 5.3% Cash, 1.0% Libor Floor, Due 6/21	1,496,250	1,495,078	1,496,699
USJ-IMECO Holding Company, LLC ^{9, 10} <i>Transportation: Cargo</i>	Senior Secured Loan — Term Loan 7.0% Cash, 1.0% Libor Floor, Due 4/20	3,940,000	3,924,953	3,940,000
Vantiv, LLC (fka Fifth Third Processing Solutions, LLC) ¹⁰ <i>Banking, Finance, Insurance & Real Estate</i>	Senior Secured Loan — Term B Loan 3.8% Cash, 0.8% Libor Floor, Due 6/21	1,693,520	1,697,226	1,698,456
Verdesian Life Sciences, LLC ⁹ <i>Environmental Industries</i>	Senior Secured Loan — Initial Term Loan 6.0% Cash, 1.0% Libor Floor, Due 7/20	937,550	926,367	909,329
Verdesian Life Sciences, LLC ^{9, 10} <i>Environmental Industries</i>	Senior Secured Loan — Initial Term Loan 6.0% Cash, 1.0% Libor Floor, Due 7/20	3,097,474	3,061,567	3,004,240
Vestcom International, Inc. (fka Vector Investment Holdings, Inc.) ^{9, 10} <i>Retail</i>	Senior Secured Loan — Term Loan 5.3% Cash, 1.0% Libor Floor, Due 9/21	2,997,400	2,987,671	2,929,359
Weiman Products, LLC ⁹ <i>Consumer goods: Non-durable</i>	Senior Secured Loan — Term Loan 6.3% Cash, 1.0% Libor Floor, Due 11/18	2,949,755	2,930,768	2,949,755
Portfolio Company / Principal Business	Investment Interest Rate¹ / Maturity	Principal	Amortized Cost	Value²
Weiman Products, LLC ^{9, 10} <i>Consumer goods: Non-durable</i>	Senior Secured Loan — Term Loan 6.3% Cash, 1.0% Libor Floor, Due 11/18	\$ 3,933,007	3,908,280	3,933,007
WireCo WorldGroup Inc. ⁹ <i>Capital Equipment</i>	Senior Unsecured Bond — 9.000% - 05/2017 9.0% Cash, Due 5/17	5,000,000	5,006,206	4,337,500
WireCo WorldGroup Inc. ^{9, 10} <i>Capital Equipment</i>	Senior Unsecured Bond — 9.000% - 05/2017 9.0% Cash, Due 5/17	3,000,000	3,003,723	2,602,500
Total Investment in Debt Securities (126% of net asset value at fair value)		\$ 308,374,718	\$ 306,613,274	\$ 296,284,441

Equity Securities Portfolio

Portfolio Company / Principal Business	Investment	Percentage Ownership/Shares	Amortized Cost	Fair Value ²
Aerostructures Holdings L.P. ^{5, 9} <i>Aerospace and Defense</i>	Partnership Interests	1.2%	\$ 1,000,000	\$ 1,000
Aerostructures Holdings L.P. ^{5, 9} <i>Aerospace and Defense</i>	Series A Preferred Interests	1.2%	250,960	772,631
Caribe Media Inc. (fka Caribe Information Investments Incorporated) ^{5, 9} <i>Media: Advertising, Printing & Publishing</i>	Common	1.3%	359,765	609,478
DBI Holding LLC ^{5, 9} <i>Services: Business</i>	Class A Warrants	3.2%	258,940	1,504,844
eInstruction Acquisition, LLC ^{5, 9} <i>Services: Business</i>	Membership Units	1.1%	1,079,617	1,000
FP WRCA Coinvestment Fund VII, Ltd. ^{3, 5,} <i>Capital Equipment</i>	Class A Shares	1,500	1,500,000	1,497,999
Perseus Holding Corp. ^{5, 9} <i>Hotel, Gaming & Leisure</i>	Common	0.2%	400,000	1,000
Roscoe Investors, LLC ^{5, 9} <i>Healthcare & Pharmaceuticals</i>	Class A Units	1.6%	1,000,000	940,700
Tank Partners Holdings, LLC ^{5, 9, 12} <i>Energy: Oil & Gas</i>	Unit	5.8%	980,000	300,976
Tank Partners Holdings, LLC ^{5, 9} <i>Energy: Oil & Gas</i>	Warrants	1.3%	185,205	89,462
TRSO II, Inc. ^{5, 9, 12} <i>Energy: Oil & Gas</i>	Common Stock	5.4%	1,500,000	1,217,563
Total Investment in Equity Securities (3% of net asset value at fair value)			\$ 8,514,487	\$ 6,936,653

CLO Fund Securities

CLO Subordinated Investments

Portfolio Company	Investment ¹⁴	Percentage Ownership	Amortized Cost	Fair Value ²
Grant Grove CLO, Ltd. ³	Subordinated Securities, effective interest 12.0%, 1/21 maturity	22.2%	\$ 2,488,323	\$ 362,691
Katonah III, Ltd. ^{3,14}	Preferred Shares, effective interest N/M, 5/15 maturity	23.1%	1,366,357	385,000
Katonah IX CLO Ltd ^{3, 6, 14}	Preferred Shares, effective interest 2.2%, 1/19 maturity	6.9%	1,172,498	100,000
Katonah X CLO Ltd ^{3, 6, 14}	Subordinated Securities, effective interest 17.7%, 4/20 maturity	33.3%	9,074,951	2,600,000
Katonah 2007-I CLO Ltd. ^{3, 6}	Preferred Shares, effective interest 27.5%, 4/22 maturity	100.0%	23,975,870	23,233,837
Trimaran CLO VII, Ltd. ^{3, 6}	Income Notes, effective interest 46.0%, 6/21 maturity	10.5%	1,349,606	2,024,945
Catamaran CLO 2012-1 Ltd. ^{3, 6}	Subordinated Notes, effective interest 4.0%, 12/23 maturity	24.9%	7,154,268	4,295,666
Catamaran CLO 2013- 1 Ltd. ^{3, 6}	Subordinated Notes, effective interest 12.9%, 1/25 maturity	23.5%	6,559,985	6,561,900
Catamaran CLO 2014-1 Ltd. ^{3, 6}	Subordinated Notes, effective interest 7.6%, 4/26 maturity	24.9%	9,264,284	7,251,390
Dryden 30 Senior Loan Fund ³	Subordinated Notes, effective interest 28.7%, 11/25 maturity	7.5%	1,643,183	2,290,600
Catamaran CLO 2014-2 Ltd. ^{3, 6}	Subordinated Notes, effective interest 5.9%, 10/26 maturity	24.9%	8,374,214	6,932,673
Catamaran CLO 2015-1 Ltd. ^{3, 6}	Subordinated Notes, effective interest 9.9%, 4/27 maturity	24.0%	12,439,015	9,442,080
Total Investment in CLO Subordinated Securities			\$ 84,862,554	\$ 65,480,782

CLO Rated-Note Investment

<u>Portfolio Company</u>	<u>Investment</u>	<u>Percentage Ownership</u>	<u>Amortized Cost</u>	<u>Fair Value²</u>
Catamaran CLO 2014-1 Ltd. ^{3, 6}	Float - 04/2026 - E - 14889FAC7 Par Value of \$1,525,000 Due 4/26	15.1%	1,425,893	1,240,000
Total Investment in CLO Rated-Note			\$ 1,425,893	\$ 1,240,000

Total Investment in CLO Fund Securities (28% of net asset value at fair value)	\$ 86,288,447	\$ 66,720,782
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Asset Manager Affiliates

<u>Portfolio Company / Principal Business</u>	<u>Investment</u>	<u>Percentage Ownership</u>	<u>Cost</u>	<u>Fair Value²</u>
Asset Manager Affiliates ^{9, 11}	Asset Management Company	100.0%	\$ 57,189,159	\$ 64,121,000

Total Investment in Asset Manager Affiliates (27% of net asset value at fair value)	\$ 57,189,159	\$ 64,121,000
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Time Deposits and Money Market Account

<u>Time Deposit and Money Market Accounts</u>	<u>Investment</u>	<u>Yield</u>	<u>Par /Amortized Cost</u>	<u>Fair Value²</u>
JP Morgan Business Money Market Account ^{8, 9}	Money Market Account	0.10%	\$ 249,216	\$ 249,216
US Bank Money Market Account ⁹	Money Market Account	0.02%	3,096,507	3,096,507

Total Investment in Time Deposit and Money Market Accounts (1% of net asset value at fair value)	\$ 3,345,723	\$ 3,345,723
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Total Investments⁴ (186% of net asset value at fair value)	\$ 461,951,090	\$ 437,408,599
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See accompanying notes to consolidated financial statements.

- 1 A majority of the variable rate loans in the Company's investment portfolio bear interest at a rate that may be determined by reference to either LIBOR
or an alternate Base Rate (commonly based on the Federal Funds Rate or the Prime Rate), which typically resets semi-annually, quarterly, or monthly at
the borrower's option. The Borrower may also elect to have multiple interest reset periods for each loan. For each such loan, the Company has provided
the weighted average annual stated interest rate in effect at September 30, 2015. As noted in the table above, 78% (based on par) of debt securities
contain LIBOR floors which range between .75% and 3.00%.
- 2 Reflects the fair market value of all investments as of September 30, 2015, as determined by the Company's Board of Directors.
- 3 Non-U.S. company or principal place of business outside the U.S.
- 4 The aggregate cost of investments for federal income tax purposes is approximately \$480 million. The aggregate gross unrealized appreciation is
approximately \$9.7 million, the aggregate gross unrealized depreciation is approximately \$52.7 million, and the net unrealized depreciation is
approximately \$43.0 million.
- 5 Non-income producing.
- 6 An affiliate CLO Fund managed by an Asset Manager Affiliate (as such term is defined in the notes to the consolidated financial statements).
- 7 Loan or debt security is on non-accrual status and therefore is considered non-income producing.
- 8 Money market account holding restricted cash and security deposits for employee benefit plans.
- 9 Qualified asset for purposes of section 55(a) of the Investment Company Act of 1940.
- 10 As of September 30, 2015, this investment is owned by KCAP Senior Funding I, LLC and was pledged to secure KCAP Senior Funding I, LLC's
obligation.
- 11 Other than the Asset Manager Affiliate, which we are deemed to "control", we do not "control" and are not an "affiliate" of any of our portfolio
companies, each as defined in the Investment Company Act of 1940 (the "1940 Act"). In general, under the 1940 Act, we would be presumed to
"control" a portfolio company if we owned 25% or more of its voting securities and would be an "affiliate" of a portfolio company if we owned 5% or
more of its voting securities.
- 12 Non-voting.
- 13 CLO Subordinated Investments are entitled to periodic distributions which are generally equal to the remaining cash flow of the payments made by the
underlying fund's investments less contractual payments to debt holders and fund expenses. The estimated annualized effective yield indicated is based
upon a current projection of the amount and timing of these distributions. Such projections are updated on a quarterly basis and the estimated effective
yield is adjusted prospectively.
- 14 Notice of redemption has been received for this transaction.

KCAP FINANCIAL, INC.
SCHEDULE OF INVESTMENTS
As of December 31, 2014

Debt Securities Portfolio

Portfolio Company / Principal Business	Investment Interest Rate¹ / Maturity	Principal	Amortized Cost	Fair Value²
4L Technologies Inc. (fka Clover Holdings, Inc.) ^{9, 11} <i>Consumer goods: Non-durable</i>	Senior Secured Loan — Term Loan 5.5% Cash, 1.0% Libor Floor, Due 5/20	\$ 2,793,000	\$ 2,768,057	\$ 2,723,175
Advanced Lighting Technologies, Inc. ^{9, 11} <i>Consumer goods: Durable</i>	First Lien Bond — 10.5% Cash, Due 6/19	3,000,000	2,962,507	2,580,000
Advantage Sales & Marketing Inc. ⁹ <i>Services: Business</i>	Junior Secured Loan — Term Loan (Second Lien) 7.5% Cash, 1.0% Libor Floor, Due 7/22	1,000,000	1,002,384	992,000
Alaska Communications Systems Holdings, Inc. ^{9, 11} <i>Telecommunications</i>	Senior Secured Loan — Term Loan 6.3% Cash, 1.5% Libor Floor, Due 10/16	5,200,227	5,193,935	5,200,227
Alere Inc. (fka IM US Holdings, LLC) ¹¹ <i>Healthcare & Pharmaceuticals</i>	Senior Secured Loan — B Term Loan 4.3% Cash, 1.0% Libor Floor, Due 6/17	2,992,277	2,988,629	2,972,947
AmSurg Corp. ¹¹ <i>Healthcare & Pharmaceuticals</i>	Senior Secured Loan — Initial Term Loan 3.8% Cash, 0.8% Libor Floor, Due 7/21	2,992,481	2,992,481	2,975,020
Anaren, Inc. ^{9, 11} <i>Aerospace and Defense</i>	Senior Secured Loan — Term Loan (First Lien) 5.5% Cash, 1.0% Libor Floor, Due 2/21	1,980,000	1,962,587	1,955,250
Asurion, LLC (fka Asurion Corporation) ^{9, 11} <i>Banking, Finance, Insurance & Real Estate</i>	Senior Secured Loan — Incremental Tranche B-1 Term Loan 5.0% Cash, 1.3% Libor Floor, Due 5/19	1,917,430	1,932,331	1,896,549
AZ Chem US Inc. ^{9, 11} <i>Chemicals, Plastics and Rubber</i>	Senior Secured Loan — Initial Term Loan (First Lien) 4.5% Cash, 1.0% Libor Floor, Due 6/21	467,123	464,966	457,977
Bankruptcy Management Solutions, Inc. ⁹ <i>Services: Business</i>	Senior Secured Loan — Term B Loan 7.0% Cash, 1.0% Libor Floor, Due 6/18	700,227	700,227	624,463

Portfolio Company / Principal Business	Investment Interest Rate¹ / Maturity	Principal	Amortized Cost	Fair Value²
BarBri, Inc. (Gemini Holdings, Inc.) ^{9, 11} <i>Services: Consumer</i>	Senior Secured Loan — Term Loan 4.5% Cash, 1.0% Libor Floor, Due 7/19	\$ 2,872,500	\$ 2,861,557	\$ 2,835,158
BBB Industries US Holdings, Inc. ^{9, 11} <i>Automotive</i>	Senior Secured Loan — Initial Term Loan (First Lien) 6.0% Cash, 1.0% Libor Floor, Due 11/21	3,000,000	2,941,316	2,985,000
Bellisio Foods, Inc. ^{9, 11} <i>Beverage, Food and Tobacco</i>	Senior Secured Loan — U.S. Term B Loans 5.3% Cash, 1.0% Libor Floor, Due 8/19	2,239,551	2,230,586	2,235,071
Blue Coat Systems, Inc. ^{9, 11} <i>High Tech Industries</i>	Senior Secured Loan — New Term Loan 4.0% Cash, 1.0% Libor Floor, Due 5/19	467,636	468,971	456,530
Carolina Beverage Group LLC ⁹ <i>Beverage, Food and Tobacco</i>	Senior Secured Bond — 10.6% Cash, Due 8/18	1,500,000	1,515,584	1,552,500
CCS Intermediate Holdings, LLC ^{9, 11} <i>Healthcare & Pharmaceuticals</i>	Senior Secured Loan — Initial Term Loan (First Lien) 5.0% Cash, 1.0% Libor Floor, Due 7/21	2,992,500	2,978,364	2,940,131
Cengage Learning Acquisitions, Inc. (fka TL Acquisitions, Inc.) ^{9, 11} <i>Media: Advertising, Printing & Publishing</i>	Senior Secured Loan — Term Loan 7.0% Cash, 1.0% Libor Floor, Due 3/20	2,987,475	2,980,768	2,963,829
Charter Communications Operating, LLC (aka CCO Safari LLC) ¹¹ <i>Media: Broadcasting & Subscription</i>	Senior Secured Loan — Term G Loan 4.3% Cash, 0.8% Libor Floor, Due 9/21	3,000,000	3,022,408	3,022,980
Checkout Holding Corp. ^{9, 11} <i>Media: Advertising, Printing & Publishing</i>	Senior Secured Loan — Term B Loan (First Lien) 4.5% Cash, 1.0% Libor Floor, Due 4/21	995,000	990,534	951,474
Consolidated Communications, Inc. ¹¹ <i>Telecommunications</i>	Senior Secured Loan — Initial Term Loan 4.3% Cash, 1.0% Libor Floor, Due 12/20	2,992,443	3,003,588	2,976,538
CRGT Inc. ^{9, 11} <i>High Tech Industries</i>	Senior Secured Loan — Term Loan 7.5% Cash, 1.0% Libor Floor, Due 12/20	3,000,000	2,940,000	2,955,000
Crowley Holdings Preferred, LLC ⁹ <i>Transportation: Cargo</i>	Preferred Stock — 10.0% Cash, 2.0% PIK, Due 12/49	10,206,016	10,206,016	10,418,302

Portfolio Company / Principal Business	Investment Interest Rate¹ / Maturity	Principal	Amortized Cost	Fair Value²
Crowne Group, LLC ^{9, 11} <i>Automotive</i>	Senior Secured Loan — Term Loan (First Lien) 6.0% Cash, 1.0% Libor Floor, Due 9/20	\$ 3,990,000	\$ 3,932,506	\$ 3,838,779
CSM Bakery Solutions Limited (fka CSM Bakery Supplies Limited) ⁹ <i>Beverage, Food and Tobacco</i>	Junior Secured Loan — Term Loan (Second Lien) 8.8% Cash, 1.0% Libor Floor, Due 7/21	3,000,000	3,016,357	2,910,000
CSM Bakery Solutions Limited (fka CSM Bakery Supplies Limited) ^{9, 11} <i>Beverage, Food and Tobacco</i>	Senior Secured Loan — Term Loan (First Lien) 5.0% Cash, 1.0% Libor Floor, Due 7/20	2,623,371	2,622,454	2,570,903
CT Technologies Intermediate Holdings, Inc. (Smart Holdings Corp.) ^{9, 11} <i>Healthcare & Pharmaceuticals</i>	Senior Secured Loan — Initial Term Loan 6.0% Cash, 1.0% Libor Floor, Due 12/21	3,000,000	2,970,271	2,988,750
DBI Holding LLC ⁹ <i>Services: Business</i>	Senior Unsecured Bond — 13.0% PIK, Due 9/19	3,457,795	3,221,771	3,386,218
DBI Holding LLC ⁹ <i>Services: Business</i>	Senior Subordinated Bond — 12.0% Cash, 1.0% PIK, Due 9/19	4,314,949	4,295,544	4,240,301
DJO Finance LLC (ReAble Therapeutics Fin LLC) ^{9, 11} <i>Healthcare & Pharmaceuticals</i>	Senior Secured Loan — New Tranche B Term Loan 4.3% Cash, 1.0% Libor Floor, Due 9/17	2,063,574	2,063,574	2,022,303
Drew Marine Group Inc. ⁹ <i>Transportation: Cargo</i>	Junior Secured Loan — Term Loan (Second Lien) 8.0% Cash, 1.0% Libor Floor, Due 5/21	2,500,000	2,494,654	2,523,250
ELO Touch Solutions, Inc. ^{9, 11} <i>High Tech Industries</i>	Senior Secured Loan — Term Loan (First Lien) 8.0% Cash, 1.5% Libor Floor, Due 6/18	1,726,036	1,677,698	1,642,496
EWT Holdings III Corp. (fka WTG Holdings III Corp.) ⁹ <i>Environmental Industries</i>	Junior Secured Loan — Term Loan (Second Lien) 8.5% Cash, 1.0% Libor Floor, Due 1/22	4,000,000	3,982,390	4,033,200
Fender Musical Instruments Corporation ^{9, 11} <i>Consumer goods: Durable</i>	Senior Secured Loan — Initial Loan 5.8% Cash, 1.3% Libor Floor, Due 4/19	2,002,536	2,012,321	1,982,110
FHC Health Systems, Inc. ^{9, 11} <i>Healthcare & Pharmaceuticals</i>	Senior Secured Loan — Initial Term Loan 5.0% Cash, 1.0% Libor Floor, Due 12/21	3,407,143	3,373,191	3,381,589

Portfolio Company / Principal Business	Investment Interest Rate¹ / Maturity	Principal	Amortized Cost	Fair Value²
First American Payment Systems, L.P. ⁹ <i>Banking, Finance, Insurance & Real Estate</i>	Junior Secured Loan — Term Loan (Second Lien) 10.8% Cash, 1.3% Libor Floor, Due 4/19	\$ 2,796,448	\$ 2,759,556	\$ 2,782,466
First Data Corporation ^{9, 11} <i>Banking, Finance, Insurance & Real Estate</i>	Senior Secured Loan — 2018 New Dollar Term Loan 3.7% Cash, Due 3/18	1,000,000	968,906	982,190
Getty Images, Inc. ^{9, 11} <i>Media: Advertising, Printing & Publishing</i>	Senior Secured Loan — Initial Term Loan 4.8% Cash, 1.3% Libor Floor, Due 10/19	2,185,164	2,187,551	2,012,165
Global Tel*Link Corporation ⁹ <i>Telecommunications</i>	Junior Secured Loan — Term Loan (Second Lien) 9.0% Cash, 1.3% Libor Floor, Due 11/20	4,000,000	3,935,659	3,889,200
Grande Communications Networks LLC ^{9, 11} <i>Telecommunications</i>	Senior Secured Loan — Initial Term Loan 4.5% Cash, 1.0% Libor Floor, Due 5/20	3,940,040	3,944,690	3,938,464
Grifols Worldwide Operations Limited ¹¹ <i>Healthcare & Pharmaceuticals</i>	Senior Secured Loan — U.S. Tranche B Term Loan 3.2% Cash, Due 2/21	2,992,462	2,970,236	2,956,298
Grupo HIMA San Pablo, Inc. ⁹ <i>Healthcare & Pharmaceuticals</i>	Senior Secured Loan — Term B Loan (First Lien) 8.5% Cash, 1.5% Libor Floor, Due 1/18	2,947,500	2,911,129	2,947,500
Grupo HIMA San Pablo, Inc. ⁹ <i>Healthcare & Pharmaceuticals</i>	Junior Secured Loan — Term Loan (Second Lien) 13.8% Cash, Due 7/18	7,000,000	6,894,754	7,105,000
Gymboree Corporation., The ^{9, 11} <i>Retail</i>	Senior Secured Loan — Term Loan 5.0% Cash, 1.5% Libor Floor, Due 2/18	1,421,105	1,390,786	935,563
Hargray Communications Group, Inc. (HCP Acquisition LLC) ^{9, 11} <i>Media: Broadcasting & Subscription</i>	Senior Secured Loan — Initial Term Loan 5.3% Cash, 1.0% Libor Floor, Due 6/19	2,930,662	2,908,645	2,928,611
Harland Clarke Holdings Corp. (fka Clarke American Corp.) ^{9, 11} <i>Media: Advertising, Printing & Publishing</i>	Senior Secured Loan — Tranche B-3 Term Loan 7.0% Cash, 1.5% Libor Floor, Due 5/18	3,368,750	3,343,813	3,385,594
Harland Clarke Holdings Corp. (fka Clarke American Corp.) ^{9, 11} <i>Media: Advertising, Printing & Publishing</i>	Senior Secured Loan — Tranche B-4 Term Loan 6.0% Cash, 1.0% Libor Floor, Due 8/19	1,462,500	1,456,384	1,458,661

Portfolio Company / Principal Business	Investment Interest Rate¹ / Maturity	Principal	Amortized Cost	Fair Value²
Hoffmaster Group, Inc. ⁹ <i>Forest Products & Paper</i>	Junior Secured Loan — Initial Term Loan (Second Lien) 10.0% Cash, 1.0% Libor Floor, Due 5/21	\$ 2,000,000	\$ 1,972,727	\$ 1,999,000
Hoffmaster Group, Inc. ^{9, 11} <i>Forest Products & Paper</i>	Senior Secured Loan — Initial Term Loan (First Lien) 5.3% Cash, 1.0% Libor Floor, Due 5/20	3,980,000	3,944,324	3,943,523
Hunter Defense Technologies, Inc. ^{9, 11} <i>Aerospace and Defense</i>	Senior Secured Loan — Term Loan (First Lien) 6.5% Cash, 1.0% Libor Floor, Due 8/19	2,962,500	2,934,961	2,988,866
Integra Telecom Holdings, Inc. ^{9, 11} <i>Telecommunications</i>	Senior Secured Loan — Term B Loan 5.3% Cash, 1.3% Libor Floor, Due 2/19	2,992,386	2,981,164	2,919,461
International Architectural Products, Inc. ^{7, 9} <i>Metals & Mining</i>	Senior Secured Loan — Term Loan Due 5/15	247,636	228,563	1,000
Kellermeyer Bergensons Services, LLC ⁹ <i>Services: Business</i>	Senior Secured Loan — Initial Term Loan (First Lien) 6.0% Cash, 1.0% Libor Floor, Due 10/21	2,000,000	1,980,432	1,990,000
Key Safety Systems, Inc. ^{9, 11} <i>Automotive</i>	Senior Secured Loan — Initial Term Loan 4.8% Cash, 1.0% Libor Floor, Due 8/21	1,496,250	1,489,134	1,488,769
Kinetic Concepts, Inc. ^{9, 11} <i>Healthcare & Pharmaceuticals</i>	Senior Secured Loan — Dollar Term E-1 Loan 4.0% Cash, 1.0% Libor Floor, Due 5/18	2,992,443	2,984,962	2,956,279
Landslide Holdings, Inc. (Crimson Acquisition Corp.) ^{9, 11} <i>High Tech Industries</i>	Senior Secured Loan — New Term Loan (First Lien) 5.0% Cash, 1.0% Libor Floor, Due 2/20	3,456,381	3,464,859	3,451,197
MB Aerospace ACP Holdings III Corp. ^{9, 11} <i>Aerospace and Defense</i>	Senior Secured Loan — Dollar Term Loan 5.0% Cash, 1.0% Libor Floor, Due 5/19	3,940,000	3,910,979	3,939,212
Media General, Inc. ¹¹ <i>Media: Broadcasting & Subscription</i>	Senior Secured Loan — Term B Loan 4.3% Cash, 1.0% Libor Floor, Due 7/20	3,000,000	3,003,750	2,972,805
Medical Specialties Distributors, LLC ^{9, 11} <i>Healthcare & Pharmaceuticals</i>	Senior Secured Loan — Term Loan 6.5% Cash, 1.0% Libor Floor, Due 12/19	3,960,000	3,927,435	3,804,372

Portfolio Company / Principal Business	Investment Interest Rate¹ / Maturity	Principal	Amortized Cost	Fair Value²
Millennium Health, LLC (fka Millennium Laboratories, LLC) ^{9, 11} <i>Healthcare & Pharmaceuticals</i>	Senior Secured Loan — Tranche B Term Loan 5.3% Cash, 1.0% Libor Floor, Due 4/21	\$ 2,992,481	\$ 2,992,481	\$ 2,985,000
Nielsen & Bainbrige, LLC ⁹ <i>Consumer goods: Durable</i>	Senior Secured Loan — Term Loan (First Lien) 6.0% Cash, 1.0% Libor Floor, Due 8/20	1,000,000	990,487	963,200
Nielsen & Bainbrige, LLC ⁹ <i>Consumer goods: Durable</i>	Junior Secured Loan — Term Loan (Second Lien) 10.3% Cash, 1.0% Libor Floor, Due 8/21	2,000,000	1,971,249	1,920,000
Nielsen & Bainbrige, LLC ^{9, 11} <i>Consumer goods: Durable</i>	Senior Secured Loan — Term Loan (First Lien) 6.0% Cash, 1.0% Libor Floor, Due 8/20	3,000,000	2,971,460	2,889,600
Novetta, LLC ⁹ <i>Services: Business</i>	Senior Secured Loan — Initial Term Loan 6.0% Cash, 1.0% Libor Floor, Due 10/20	2,743,125	2,716,093	2,743,125
Novitex Acquisition, LLC (fka ARSloane Acquisition, LLC) ^{9, 11} <i>Services: Business</i>	Senior Secured Loan — Tranche B-2 Term Loan (First Lien) 7.5% Cash, 1.3% Libor Floor, Due 7/20	990,019	980,923	950,418
Onex Carestream Finance LP ⁹ <i>Healthcare & Pharmaceuticals</i>	Junior Secured Loan — Term Loan (Second Lien) 9.5% Cash, 1.0% Libor Floor, Due 12/19	2,000,000	2,000,000	1,992,920
Onex Carestream Finance LP ^{9, 11} <i>Healthcare & Pharmaceuticals</i>	Senior Secured Loan — Term Loan (First Lien 2013) 5.0% Cash, 1.0% Libor Floor, Due 6/19	1,973,333	1,980,022	1,969,219
Orbitz Worldwide, Inc. ¹¹ <i>Hotel, Gaming & Leisure</i>	Senior Secured Loan — Tranche C Term Loan 4.5% Cash, 1.0% Libor Floor, Due 4/21	2,992,481	2,992,481	2,961,315
Otter Products, LLC (OtterBox Holdings, Inc.) ^{9, 11} <i>Consumer goods: Durable</i>	Senior Secured Loan — Term B Loan 5.8% Cash, 1.0% Libor Floor, Due 6/20	2,992,481	2,968,458	2,966,297
Ozburn-Hessey Holding Company LLC ^{9, 11} <i>Transportation: Cargo</i>	Senior Secured Loan — Term Loan 6.8% Cash, 1.3% Libor Floor, Due 5/19	3,512,426	3,503,687	3,544,389

Portfolio Company / Principal Business	Investment Interest Rate¹ / Maturity	Principal	Amortized Cost	Fair Value²
PGX Holdings, Inc. ^{9, 11} <i>Services: Consumer</i>	Senior Secured Loan — Initial Term Loan (First Lien) 6.3% Cash, 1.0% Libor Floor, Due 9/20	\$ 3,975,000	3,936,815	3,917,363
Post Holdings, Inc. ¹¹ <i>Beverage, Food and Tobacco</i>	Senior Secured Loan — Series A Incremental Term Loan 3.8% Cash, 0.8% Libor Floor, Due 6/21	2,992,481	2,985,129	2,983,130
PQ Corporation ^{9, 11} <i>Chemicals, Plastics and Rubber</i>	Senior Secured Loan — 2014 Term Loan 4.0% Cash, 1.0% Libor Floor, Due 8/17	2,992,366	2,992,366	2,943,740
PSC Industrial Holdings Corp. ^{9, 11} <i>Environmental Industries</i>	Senior Secured Loan — Term Loan (First Lien) 7.0% Cash, 1.0% Libor Floor, Due 12/20	2,000,000	1,980,119	1,980,000
Puerto Rico Cable Acquisition Company Inc. (D/B/A Choice TV) ⁹ <i>Media: Broadcasting & Subscription</i>	Senior Secured Loan — Initial Term Loan 5.5% Cash, 1.0% Libor Floor, Due 7/18	909,069	910,287	909,069
Puerto Rico Cable Acquisition Company Inc. (D/B/A Choice TV) ^{9, 11} <i>Media: Broadcasting & Subscription</i>	Senior Secured Loan — Initial Term Loan 5.5% Cash, 1.0% Libor Floor, Due 7/18	2,727,206	2,717,359	2,727,206
QoL Meds, LLC ^{9, 11} <i>Healthcare & Pharmaceuticals</i>	Senior Secured Loan — Term Loan 5.5% Cash, 1.0% Libor Floor, Due 7/20	498,750	496,449	480,296
Quad-C JH Holdings Inc. (aka Joerns Healthcare) ^{9, 11} <i>Healthcare & Pharmaceuticals</i>	Senior Secured Loan — Term Loan A 6.0% Cash, 1.0% Libor Floor, Due 5/20	3,980,000	3,953,083	3,786,174
Restorix Health, Inc. ⁹ <i>Healthcare & Pharmaceuticals</i>	Senior Unsecured Loan — Delayed Draw 10.0% Cash, 1.5% PIK, Due 6/18	2,003,587	2,003,587	2,003,587
Restorix Health, Inc. ⁹ <i>Healthcare & Pharmaceuticals</i>	Senior Unsecured Loan — Subordinated Term Loan 10.0% Cash, 1.5% PIK, Due 6/18	8,063,397	8,063,397	8,063,397
Reynolds Group Holdings Inc. ^{9, 11} <i>Containers, Packaging and Glass</i>	Senior Secured Loan — Incremental U.S. Term Loan 4.0% Cash, 1.0% Libor Floor, Due 12/18	2,992,443	2,992,443	2,946,734

Portfolio Company / Principal Business	Investment Interest Rate¹ / Maturity	Principal	Amortized Cost	Fair Value²
Roscoe Medical, Inc. ⁹ <i>Healthcare & Pharmaceuticals</i>	Junior Secured Loan — Term Loan (Second Lien) 11.3% Cash, Due 9/19	\$ 6,700,000	6,642,367	6,499,000
Rovi Solutions Corporation / Rovi Guides, Inc. ¹¹ <i>High Tech Industries</i>	Senior Secured Loan — Term B Loan 3.8% Cash, 0.8% Libor Floor, Due 7/21	2,992,481	2,954,531	2,936,387
Safenet, Inc. ^{9, 11} <i>High Tech Industries</i>	Senior Secured Loan — Initial Term Loan (First Lien) 6.8% Cash, 1.0% Libor Floor, Due 3/20	2,977,500	2,951,435	2,977,500
Sandy Creek Energy Associates, L.P. ^{9, 11} <i>Utilities: Electric</i>	Senior Secured Loan — Term Loan 5.0% Cash, 1.0% Libor Floor, Due 11/20	2,844,544	2,832,599	2,794,053
SGF Produce Holding Corp.(Frozsun, Inc.) ⁹ <i>Beverage, Food and Tobacco</i>	Senior Secured Loan — Term Loan 5.5% Cash, 1.0% Libor Floor, Due 3/19	2,191,289	2,175,642	2,191,289
SGF Produce Holding Corp.(Frozsun, Inc.) ^{9, 11} <i>Beverage, Food and Tobacco</i>	Senior Secured Loan — Term Loan 5.5% Cash, 1.0% Libor Floor, Due 3/19	3,440,528	3,429,224	3,440,528
Stafford Logistics, Inc.(dba Custom Ecology, Inc.) ^{9, 11} <i>Environmental Industries</i>	Senior Secured Loan — Term Loan 6.8% Cash, 1.3% Libor Floor, Due 6/19	2,861,935	2,840,504	2,858,501
Sun Products Corporation, The (fka Huish Detergents Inc.) ^{9, 11} <i>Consumer goods: Non-durable</i>	Senior Secured Loan — Tranche B Term Loan 5.5% Cash, 1.3% Libor Floor, Due 3/20	3,910,711	3,887,178	3,656,515

Portfolio Company / Principal Business	Investment Interest Rate¹ / Maturity	Principal	Amortized Cost	Fair Value²
Tank Partners Holdings, LLC ⁹ <i>Energy: Oil & Gas</i>	Senior Secured Loan — Loan 9.8% Cash, 3.5% PIK, 3.0% Libor Floor, Due 8/19	\$ 10,385,331	10,212,907	9,866,065
TPF II Power, LLC (TPF II Covert Midco, LLC) ^{9, 11} <i>Utilities: Electric</i>	Senior Secured Loan — Term Loan 5.5% Cash, 1.0% Libor Floor, Due 10/21	3,000,000	3,026,933	3,009,375
Trimaran Advisors, L.L.C. ^{9, 12} <i>Portfolio Company Loan</i>	Senior Unsecured Loan — Revolving Credit Facility 9.0% Cash, Due 11/17	23,000,000	23,000,000	23,000,000
TRSO I, Inc. ⁹ <i>Energy: Oil & Gas</i>	Junior Secured Loan — Term Loan (Second Lien) 11.0% Cash, 1.0% Libor Floor, Due 12/17	1,000,000	988,097	961,300
TWCC Holding Corp. ⁹ <i>Media: Broadcasting & Subscription</i>	Junior Secured Loan — Term Loan (Second Lien) 7.0% Cash, 1.0% Libor Floor, Due 6/20	1,000,000	1,004,005	961,670
TWCC Holding Corp. ^{9, 11} <i>Media: Broadcasting & Subscription</i>	Senior Secured Loan — Term Loan 3.5% Cash, 0.8% Libor Floor, Due 2/17	906,653	910,624	887,060
Univar Inc. ^{9, 11} <i>Chemicals, Plastics and Rubber</i>	Senior Secured Loan — Term B Loan 5.0% Cash, 1.5% Libor Floor, Due 6/17	2,894,577	2,890,893	2,808,536
USJ-IMECO Holding Company, LLC ^{9, 11} <i>Transportation: Cargo</i>	Senior Secured Loan — Term Loan 7.0% Cash, 1.0% Libor Floor, Due 4/20	3,970,000	3,952,343	3,970,000

Portfolio Company / Principal Business	Investment Interest Rate¹ / Maturity	Principal	Amortized Cost	Fair Value²
Vantiv, LLC (fka Fifth Third Processing Solutions, LLC) ¹¹ <i>Banking, Finance, Insurance & Real Estate</i>	Senior Secured Loan — Term B Loan 3.8% Cash, 0.8% Libor Floor, Due 6/21	\$ 1,994,987	1,999,927	1,978,160
Verdesian Life Sciences, LLC ⁹ <i>Environmental Industries</i>	Senior Secured Loan — Initial Term Loan 6.0% Cash, 1.0% Libor Floor, Due 7/20	975,012	961,553	938,547
Verdesian Life Sciences, LLC ^{9, 11} <i>Environmental Industries</i>	Senior Secured Loan — Initial Term Loan 6.0% Cash, 1.0% Libor Floor, Due 7/20	3,221,243	3,178,026	3,100,769
Vestcom International, Inc. (fka Vector Investment Holdings, Inc.) ^{9, 11} <i>Retail</i>	Senior Secured Loan — Term Loan 5.3% Cash, 1.0% Libor Floor, Due 9/21	2,866,953	2,843,300	2,838,284
Weiman Products, LLC ⁹ <i>Consumer goods: Non-durable</i>	Senior Secured Loan — Term Loan 6.3% Cash, 1.0% Libor Floor, Due 11/18	2,972,255	2,948,574	2,972,255
Weiman Products, LLC ^{9, 11} <i>Consumer goods: Non-durable</i>	Senior Secured Loan — Term Loan 6.3% Cash, 1.0% Libor Floor, Due 11/18	3,963,007	3,932,167	3,963,007
WideOpenWest Finance, LLC ⁹ <i>Telecommunications</i>	Senior Secured Loan — Term B Loan 4.8% Cash, 1.0% Libor Floor, Due 4/19	2,954,887	2,971,397	2,941,974
WireCo WorldGroup Inc. ⁹ <i>Capital Equipment</i>	Senior Unsecured Bond — 9.0% Cash, Due 5/17	5,000,000	4,991,504	5,000,000
WireCo WorldGroup Inc. ^{9, 11} <i>Capital Equipment</i>	Senior Unsecured Bond — 9.0% Cash, Due 5/17	3,000,000	2,994,903	3,000,000
Total Investment in Debt Securities (125% of net asset value at fair value)		\$ 324,808,055	\$ 322,884,934	\$ 320,143,170

Equity Securities Portfolio

Portfolio Company / Principal Business	Investment	Percentage Ownership/Shares	Amortized Cost	Fair Value²
Aerostructures Holdings L.P. ^{5,9} <i>Aerospace and Defense</i>	Partnership Interests	1.2%	\$ 1,000,000	\$ 1,000
Aerostructures Holdings L.P. ^{5,9} <i>Aerospace and Defense</i>	Series A Preferred Interests	1.2%	250,961	648,764
Bankruptcy Management Solutions, Inc. ^{5,9} <i>Services: Business</i>	Class A Warrants	1.7%	-	-
Bankruptcy Management Solutions, Inc. ^{5,9} <i>Services: Business</i>	Class B Warrants	1.7%	-	-
Bankruptcy Management Solutions, Inc. ^{5,9} <i>Services: Business</i>	Class C Warrants	1.7%	-	-
Bankruptcy Management Solutions, Inc. ^{5,9} <i>Services: Business</i>	Common Stock 2013	0.8%	314,325	391,932
Caribe Media Inc. (fka Caribe Information Investments Incorporated) ^{5,9} <i>Media: Advertising, Printing & Publishing</i>	Common	1.3%	359,765	624,304
DBI Holding LLC ^{5,9} <i>Services: Business</i>	Class A Warrants	3.2%	258,940	746,964
eInstruction Acquisition, LLC ^{5,9} <i>Services: Business</i>	Membership Units	1.1%	1,079,617	1,000
FP WRCA Coinvestment Fund VII, Ltd. ^{3, 5,} <i>Capital Equipment</i>	Class A Shares	1,500	1,500,000	2,351,329
Perseus Holding Corp. ^{5,9} <i>Hotel, Gaming & Leisure</i>	Common	0.2%	400,000	1,000

Portfolio Company / Principal Business	Investment	Percentage Ownership/Shares	Amortized Cost	Fair Value²
Roscoe Investors, LLC ^{5,9} <i>Healthcare & Pharmaceuticals</i>	Class A Units	1.6%	\$ 1,000,000	\$ 891,000
Tank Partners Holdings, LLC ^{5,9} <i>Energy: Oil & Gas</i>	Unit	5.8%	980,000	573,750
Tank Partners Holdings, LLC ^{5,9} <i>Energy: Oil & Gas</i>	Warrants	1.3%	185,204	99,752
TRSO II, Inc. ^{5,9} <i>Energy: Oil & Gas</i>	Common Stock	5.4%	1,500,000	1,788,886
Total Investment in Equity Securities (3% of net asset value at fair value)			<u>\$ 8,828,812</u>	<u>\$ 8,119,681</u>

CLO Fund Securities

CLO Subordinated Securities, Preferred Shares and Income Notes Investments

Portfolio Company	Investment	Percentage Ownership	Amortized Cost	Fair Value ²
Grant Grove CLO, Ltd. ³	Subordinated Securities	22.2%	\$ 2,254,638	\$ 469,131
Katonah III, Ltd. ^{3, 10}	Preferred Shares	23.1%	1,015,334	400,000
Katonah VII CLO Ltd. ^{3, 6}	Subordinated Securities	16.4%	3,563,252	1,000
Katonah VIII CLO Ltd. ^{3, 6}	Subordinated Securities	10.3%	2,755,267	100,000
Katonah IX CLO Ltd. ^{3, 6}	Preferred Shares	6.9%	1,262,496	594,989
Katonah X CLO Ltd. ^{3, 6}	Subordinated Securities	33.3%	8,910,471	4,863,001
Katonah 2007-I CLO Ltd. ^{3, 6}	Preferred Shares	100.0%	23,471,779	25,191,782
Trimaran CLO IV, Ltd. ^{3, 6}	Preferred Shares	19.0%	11,094	900,000
Trimaran CLO V, Ltd. ^{3, 6}	Subordinated Notes	20.8%	1,292,698	1,657,020
Trimaran CLO VI, Ltd. ^{3, 6}	Income Notes	16.2%	1,531,142	1,950,000
Trimaran CLO VII, Ltd. ^{3, 6}	Income Notes	10.5%	1,399,074	2,084,394
Catamaran CLO 2012-1 Ltd. ^{3, 6}	Subordinated Notes	24.9%	7,994,677	5,793,924
Catamaran CLO 2013- 1 Ltd. ^{3, 6}	Subordinated Notes	23.5%	7,492,702	7,874,910
Catamaran CLO 2014-1 Ltd. ^{3, 6}	Subordinated Notes	24.9%	10,473,628	8,867,176
Dryden 30 Senior Loan Fund ³	Subordinated Notes	7.5%	2,263,321	2,506,075
Catamaran CLO 2014-2 Ltd. ^{3, 6}	Subordinated Notes	24.9%	9,862,799	8,761,500
Total Investment in CLO Subordinated Securities, Preferred Shares and Income Notes			\$ 85,554,372	\$ 72,014,902

CLO Rated-Note Investments

<u>Portfolio Company</u>	<u>Investment</u>	<u>Percentage Ownership</u>	<u>Amortized Cost</u>	<u>Fair Value²</u>
Catamaran CLO 2012-1 Ltd. ^{3, 6}	Class F Notes Par Value of \$4,500,000 Due 12/23	42.9%	\$ 3,917,442	\$ 4,160,000
Catamaran CLO 2014-1 Ltd. ^{3, 6}	Class E Notes Par Value of \$1,525,000 Due 4/26	15.1%	1,417,376	1,340,000
Total Investment in CLO Rated-Note			<u>\$ 5,334,818</u>	<u>\$ 5,500,000</u>
Total Investment in CLO Fund Securities (30% of net asset value at fair value)			<u>\$ 90,889,190</u>	<u>\$ 77,514,902</u>

Asset Manager Affiliates

<u>Portfolio Company / Principal Business</u>	<u>Investment</u>	<u>Percentage Ownership</u>	<u>Cost</u>	<u>Fair Value²</u>
Asset Manager Affiliates ⁹	Asset Management Company	100.0%	\$ 60,292,677	\$ 72,326,000
Total Investment in Asset Manager Affiliates (28% of net asset value at fair value)			<u>\$ 60,292,677</u>	<u>\$ 72,326,000</u>

Time Deposits and Money Market Account

<u>Time Deposit and Money Market Accounts</u>	<u>Investment</u>	<u>Yield</u>	<u>Par / Amortized Cost</u>	<u>Fair Value²</u>
JP Morgan Business Money Market Account ^{8, 9}	Money Market Account	0.10%	\$ 249,105	\$ 249,105
US Bank Money Market Account ⁹	Money Market Account	0.02%	1,353,636	1,353,636
Total Investment in Time Deposit and Money Market Accounts (1% of net asset value at fair value)			<u>\$ 1,602,741</u>	<u>\$ 1,602,741</u>
Total Investments⁴ (188% of net asset value at fair value)			<u>\$ 484,498,354</u>	<u>\$ 479,706,494</u>

See accompanying notes to financial statements.

- 1 A majority of the variable rate loans in the Company's investment portfolio bear interest at a rate that may be determined by reference to either LIBOR
or an alternate Base Rate (commonly based on the Federal Funds Rate or the Prime Rate), which typically resets semi-annually, quarterly, or monthly at
the borrower's option. The Borrower may also elect to have multiple interest reset periods for each loan. For each such loan, the Company has provided
the weighted average annual stated interest rate in effect at December 31, 2014. As noted in the table above, 75% (based on par) of debt securities
contain LIBOR floors which range between 0.75% and 3.00%.
- 2 Reflects the fair market value of all investments as of December 31, 2014, as determined by the Company's Board of Directors.
- 3 Non-U.S. company or principal place of business outside the U.S.
- 4 The aggregate cost of investments for federal income tax purposes is approximately \$502 million. The aggregate gross unrealized appreciation is
approximately \$15.7 million, the aggregate gross unrealized depreciation is approximately \$37.7 million, and the net unrealized depreciation is
approximately \$22 million.
- 5 Non-income producing.
- 6 An affiliate CLO Fund managed by an Asset Manager Affiliate (as such term is defined in the notes to the consolidated financial statements).
- 7 Loan or debt security is on non-accrual status and therefore is considered non-income producing.
- 8 Money market account holding restricted cash and security deposits for employee benefit plans.
- 9 Qualified asset for purposes of section 55(a) of the Investment Company Act of 1940.
- 10 As of December 31, 2014, this CLO Fund Security was not providing a taxable distribution.
- 11 As of December 31, 2014, investment was owned by KCAP Senior Funding I, LLC and has been pledged to secure KCAP Senior Funding I, LLC's
obligations.

KCAP FINANCIAL, INC.
CONSOLIDATED FINANCIAL HIGHLIGHTS
(unaudited)

	Nine Months Ended September 30,	
	2015	2014
Per Share Data:		
Net asset value, at beginning of period	\$ 6.94	\$ 7.51
Net investment income ¹	0.51	0.44
Net realized (losses) from investments ¹	(0.17)	(0.06)
Net change in unrealized (depreciation) appreciation on investments ¹	(0.53)	0.33
Net (decrease) increase in net assets resulting from operations	(0.19)	0.71
Net decrease in net assets resulting from distributions:		
Distribution of ordinary income	(0.41)	(0.50)
Return of capital	-	-
Net decrease in net assets resulting from distributions	(0.41)	(0.50)
Net (decrease) in net assets relating to stock-based transactions:		
Stock based compensation	(0.01)	(0.05)
Net decrease in net assets relating to stock-based transactions	(0.01)	(0.05)
Net asset value, end of period	\$ 6.33	\$ 7.67
Total net asset value return ²	(2.8)%	8.8%
Ratio/Supplemental Data:		
Per share market value at beginning of period	\$ 6.82	\$ 8.07
Per share market value at end of period	\$ 4.51	\$ 8.31
Total market return ³	(27.8)%	9.2%
Shares outstanding at end of period	37,052,575	33,753,672
Net assets at end of period	\$ 234,599,882	\$ 259,027,074
Portfolio turnover rate ⁴	24.0%	37.4%
Average par debt outstanding	\$ 227,250,480	\$ 195,658,000
Asset coverage ratio	205%	231%
Ratio of net investment income to average net assets ⁵	9.9%	7.6%
Ratio of total expenses to average net assets ⁵	8.6%	8.4%
Ratio of interest expense to average net assets ⁵	4.7%	4.6%
Ratio of non-interest expenses to average net assets ⁵	3.9%	3.8%

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

² Total net asset value return (not annualized) equals the change in the net asset value per share over the beginning of period net asset value per share plus distributions (including any return of capital), divided by the beginning net asset value per share.

³ Total market return equals the change in the ending market price over the beginning of period price per share plus distributions (including any return of capital), divided by the beginning price.

⁴ Not annualized. Portfolio turnover rate equals the year-to-date sales and paydowns over the average of the invested assets at fair value.

⁵ Annualized

See accompanying notes to consolidated financial statements.

KCAP FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. ORGANIZATION

KCAP Financial, Inc. (“KCAP” or the “Company”) is an internally managed, non-diversified closed-end investment company that is regulated as a business development company (“BDC”) under the Investment Company Act of 1940 (the “1940 Act”). The Company was formed as a Delaware limited liability company on August 8, 2006 and, prior to the issuance of shares of the Company’s common stock in its initial public offering (“IPO”), converted to a corporation incorporated in Delaware on December 11, 2006. Prior to its IPO, the Company did not have material operations. The Company’s IPO of 14,462,000 shares of common stock raised net proceeds of approximately \$200 million. Prior to the IPO, the Company issued 3,484,333 shares to affiliates of Kohlberg & Co., L.L.C., a leading middle market private equity firm, in exchange for the contribution to the Company of their ownership interests in Katonah Debt Advisors, L.L.C., and related affiliates controlled by the Company (collectively, “Katonah Debt Advisors”) and in securities issued by collateralized loan obligation funds (“CLO Funds”) managed by Katonah Debt Advisors and two other asset managers.

On April 28, 2008, the Company completed a rights offering that resulted in the issuance of 3.1 million shares of our common stock, and net proceeds of \$27 million.

On February 29, 2012, the Company purchased Trimaran Advisors, L.L.C. (“Trimaran Advisors”), a CLO manager similar to Katonah Debt Advisors with assets under management of approximately \$1.5 billion, for total consideration of \$13.0 million in cash and 3,600,000 shares of the Company’s common stock. Contemporaneously with the acquisition of Trimaran Advisors, the Company acquired from Trimaran Advisors equity interests in certain CLO Funds managed by Trimaran Advisors for an aggregate purchase price of \$12.0 million in cash.

On February 14, 2013, the Company completed a public offering of 5,232,500 shares of common stock, which included the underwriters’ full exercise of their option to purchase up to 682,500 shares of common stock, at a price of \$9.75 per share, raising approximately \$51.0 million in gross proceeds. In conjunction with this offering, the Company also sold 200,000 shares of common stock to a member of its Board of Directors, at a price of \$9.31 per share, raising approximately \$1.9 million in gross proceeds.

On October 6, 2014, the Company completed a follow-on public offering of 3.0 million shares of its common stock at a price of \$8.02 per share. The offering raised net proceeds of approximately \$23.8 million, after deducting underwriting discounts and offering expenses.

As of September 30, 2015, Katonah Debt Advisors and Trimaran Advisors, as well as affiliated management companies Katonah 2007-1 Management, L.L.C., Katonah X Management, L.L.C. and Trimaran Advisors Management, L.L.C. (collectively the “Asset Manager Affiliates”), had approximately \$2.7 billion of par value assets under management. The Asset Manager Affiliates are each managed independently from KCAP by a separate management team (however, certain of the Company’s executive officers also act in similar capacities for one or both of the Asset Manager Affiliates). The Asset Manager Affiliates provide investment management services to CLO Funds, making day-to-day investment decisions concerning the assets of the CLO Funds. The Asset Manager Affiliates do not have an investment interest in the CLO Funds they manage; however, KCAP holds investments in a portion of the securities issued by the CLO Funds managed by the Asset Manager Affiliates.

The Company has three principal areas of investment:

First, the Company originates, structures, and invests in senior secured term loans and mezzanine debt primarily in privately-held middle market companies (the “Debt Securities Portfolio”). In addition, from time to time the Company may invest in the equity securities of privately held middle market companies.

Second, the Company has invested in the Asset Manager Affiliates, which manage CLO Funds.

Third, the Company invests in debt and subordinated securities issued by CLOs (“CLO Fund Securities”). These CLO Fund Securities are primarily managed by our Asset Manager Affiliates, but from time-to-time the Company makes investments in CLO Fund Securities managed by other asset managers. The CLO Funds typically invest in broadly syndicated loans, high-yield bonds and other credit instruments.

The Company may also invest in other investments such as loans to larger, publicly-traded companies, high-yield bonds and distressed debt securities. The Company may also receive warrants or options to purchase common stock in connection with its debt investments.

The Company has elected to be treated as a regulated investment company (“RIC”) under Subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”). To qualify as a RIC, the Company must, among other things, meet certain source-of-income, and asset diversification and annual distribution requirements. As a RIC, the Company generally will not have to pay corporate-level U.S. federal income taxes on any income that it distributes in a timely manner to its stockholders.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information. Accordingly, they do not include all of the information and footnotes required for annual consolidated financial statements. The unaudited interim consolidated financial statements and notes thereto should be read in conjunction with the financial statements and notes thereto in the Company’s Form 10-K for the year ended December 31, 2014, as filed with the U.S. Securities and Exchange Commission (the “Commission” or the “SEC”).

The consolidated financial statements reflect all adjustments, both normal and recurring which, in the opinion of management, are necessary for the fair presentation of the Company’s results of operations and financial condition for the periods presented. Furthermore, the preparation of the consolidated financial statements requires the Company to make significant estimates and assumptions including with respect to the fair value of investments that do not have a readily available market value. Actual results could differ from those estimates, and the differences could be material. The results of operations for the interim periods presented are not necessarily indicative of the operating results to be expected for the full year. Certain prior period amounts have been reclassified to conform to the current year presentation.

The Company consolidates the financial statements of its wholly-owned special purpose financing subsidiaries KCAP Funding, Kolhberg Capital Funding LLC I, KCAP Senior Funding I, LLC and KCAP Senior Funding I Holdings, LLC in its consolidated financial statements as they are operated solely for investment activities of the Company. The creditors of KCAP Senior Funding I, LLC have received security interests in the assets owned by KCAP Senior Funding I, LLC and such assets are not intended to be available to the creditors of KCAP Financial, Inc., or any other affiliate.

In accordance with Article 6 of Regulation S-X under the Securities Act of 1933, as amended (the “Securities Act”), and the Securities Exchange Act of 1934, as amended (the “Exchange Act”), the Company does not consolidate portfolio company investments, including those in which it has a controlling interest (e.g., the Asset Manager Affiliates), unless the portfolio company is another investment company.

The Asset Manager Affiliates are subject to Accounting Standards Codification Topic 810, “Consolidation” and although the Company cannot consolidate the financial statements of portfolio company investments, this guidance impacts the required disclosures relating to the Asset Manager Affiliates, as it requires the Asset Manager Affiliates to consolidate the financial statements of managed CLO Funds. As a result of the consolidation of the financial statements of the CLOs into the financial statements of the Asset Manager Affiliates, the Asset Manager Affiliates qualify as a “significant subsidiary” and, as a result, the Company is required to include additional financial information regarding the Asset Manager Affiliates in its filings with the SEC. This additional financial information regarding the Asset Manager Affiliates does not directly impact the financial position or results of operations of the Company.

In addition, in accordance with Rule 3-09 of Regulation S-X promulgated by the SEC, additional financial information with respect to one of the CLO Funds in which the Company has an investment, Katonah 2007-I CLO Ltd. (“Katonah 2007-I CLO”), is required to be included in the Company’s SEC filings. The additional financial information regarding the Asset Manager Affiliates and Katonah 2007-I CLO (pursuant to Rule 3-09) is set forth in Note 5 to these consolidated financial statements.

Stockholder distributions on the Statement of Changes in Net Assets reflect the estimated allocation, between net investment income and return of capital, of distributions made during the reporting period, excluding the distribution declared in a quarter with a record date occurring after the quarter-end. The determination of the tax character of distributions is made on an annual (full calendar-year) basis at the end of the year based upon our taxable income for the full year and the distributions paid during the full year. Therefore, an estimate of tax attributes made on a quarterly basis may not be representative of the actual tax attributes of distributions for a full year.

It is the Company’s primary investment objective to generate current income and capital appreciation by lending directly to privately-held middle market companies. During the nine months ended September 30, 2015, the Company provided \$69 million to portfolio companies to support their growth objectives. None of this support was contractually obligated. See also Note 8 – Commitments and Contingencies. As of September 30, 2015, the Company holds loans it has made to 80 investee companies with aggregate principal amounts of \$277 million. The details of such loans have been disclosed on the consolidated schedule of investments as well as in Note 4 – Investments. In addition to providing loans to investee companies, from time to time the Company assists investee companies in securing financing from other sources by introducing such investee companies to sponsors or by leading a syndicate of lenders to provide the investee companies with financing. During the nine-month-period ended September 30, 2015, the Company did not make any such introductions or lead any syndicates.

In August 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014- 15, “Presentation of Financial Statements — Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern” (“ASU 2014-15”). The standard requires management to evaluate, at each interim and annual reporting period, whether there are conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date the financial statements are issued, and provide related disclosures. ASU 2014- 15 is effective for annual periods ending after December 15, 2016, and for annual and interim periods thereafter, and early adoption is permitted. We do not expect to adopt ASU 2014-15 early, and we do not believe the standard will have a material impact on our financial statements, when adopted.

In February 2015, the FASB issued Accounting Standards Update 2015-2, which updated consolidation standards under ASC Topic 810, “Consolidation”. Under this update, a new consolidation analysis is required for variable interest entities (“VIEs”) and will limit the circumstances in which investment managers and similar entities are required to consolidate the entities that they manage. The FASB decided to eliminate some of the criteria under which their fees are considered a variable interest and limit the circumstances in which variable interests in a VIE held by related parties of a reporting enterprise require the reporting enterprise to consolidate the VIE. The guidance is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2015. We do not expect the adoption of ASU 2015-2 to have a material impact to the Company’s financial statements.

In April 2015, the FASB issued Accounting Standards Update 2015-03, Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. Under this guidance, debt issuance costs related to a recognized debt liability are to be presented as a direct deduction from the debt liability rather than as an asset on the balance sheet, consistent with debt discounts. For public business entities, the final guidance will be effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted. The Company intends to adopt the new guidance beginning the first quarter of 2016.

Investments

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

Valuation of Portfolio Investments. The Company’s Board of Directors is ultimately and solely responsible for making a good faith determination of the fair value of portfolio investments on a quarterly basis. Debt and equity securities for which market quotations are readily available are generally valued at such market quotations. Debt and equity securities that are not publicly traded or whose market price is not readily available are valued by the Board of Directors based on detailed analyses prepared by management, the Valuation Committee of the Board of Directors, and, in certain circumstances, third parties with valuation expertise. Valuations are conducted by management on 100% of the investment portfolio at the end of each quarter. The Company follows the provisions of ASC 820: Fair Value Measurements and Disclosures (“ASC 820: Fair Value”). This standard defines fair value, establishes a framework for measuring fair value, and expands disclosures about assets and liabilities measured at fair value. ASC 820: Fair Value defines “fair value” as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Subsequent to the adoption of ASC 820: Fair Value, the FASB has issued various staff positions clarifying the initial standard as noted below.

The FASB issued guidance that clarified and required disclosures about fair value measurements. These include requirements to disclose the amounts and reasons for significant transfers between Level I and Level II, as well as significant transfers in and out of Level III of the fair value hierarchy (see Note 4 – “Investments – Fair Value Measurements” for further information relating to Level I, Level II and Level III). The guidance also required that purchases, sales, issuances and settlements be presented gross in the Level III reconciliation.

ASC 820: Fair Value requires the disclosure in interim and annual periods of the inputs and valuation techniques used to measure fair value and a discussion of changes in valuation techniques and related inputs, if any, during the period.

The Company utilizes an independent valuation firm to provide an annual third-party review of the Company’s CLO fair value model relative to its functionality, model inputs and calculations as a reasonable method to determine CLO fair values, in the absence of Level I or Level II trading activity or observable market inputs. The independent valuation firm’s 2014 annual review concluded that the Company’s CLO model appropriately factors in all the necessary inputs required to build a CLO equity cash flow model for fair value purposes and that the inputs were being employed correctly.

The Company utilizes an independent valuation firm to provide third party valuation consulting services. Each quarter the independent valuation firm will perform third party valuations of the Company’s investments in material illiquid securities such that they are reviewed at least once during a trailing 12-month period. These third party valuation estimates are considered as one of the relevant data points in the Company’s determination of fair value. The Company intends to continue to engage an independent valuation firm in the future to provide certain valuation services, including the review of certain portfolio assets, as part of the quarterly and annual year-end valuation process.

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

The majority of the Company’s investment portfolio is composed of debt and equity securities with unique contract terms and conditions and/or complexity that requires a valuation of each individual investment that considers multiple levels of market and asset specific inputs, which may include historical and forecasted financial and operational performance of the individual investment, projected cash flows, market multiples, comparable market transactions, the priority of the security compared with those of other securities for such issuers, credit risk, interest rates, and independent valuations and reviews.

Debt Securities. To the extent that the Company’s investments are exchange traded and are priced or have sufficient price indications from normal course trading at or around the valuation date (financial reporting date), such pricing will determine fair value. Valuations from third party pricing services may be used as an indication of fair value, depending on the volume and reliability of the valuation, sufficient and reasonable correlation of bid and ask quotes, and, most importantly, the level of actual trading activity. However, if the Company has been unable to identify directly comparable market indices or other market guidance that correlate directly to the types of investments the Company owns, the Company will determine fair value using alternative methodologies such as available market data, as adjusted, to reflect the types of assets the Company owns, their structure, qualitative and credit attributes and other asset-specific characteristics.

The Company derives fair value for its illiquid investments that do not have indicative fair values based upon active trades primarily by using a present value technique that discounts the estimated contractual cash flows for the subject assets with discount rates imputed by broad market indices, bond spreads and yields for comparable issuers relative to the subject assets (the "Income Approach"). The Company also considers, among other things, recent loan amendments or other activity specific to the subject asset. Discount rates applied to estimated contractual cash flows for an underlying asset vary by specific investment, industry, priority and nature of the debt security (such as the seniority or security interest of the debt security) and are assessed relative to two indices, a leveraged loan index and a high-yield bond index, at the valuation date. The Company has identified these two indices as benchmarks for broad market information related to its loan and debt securities. Because the Company has not identified any market index that directly correlates to the loan and debt securities held by the Company and therefore uses these benchmark indices, these market indices may require significant adjustment to better correlate such market data for the calculation of fair value of the investment under the Income Approach. Such adjustments require judgment and may be material to the calculation of fair value. Further adjustments to the discount rate may be applied to reflect other market conditions or the perceived credit risk of the borrower. When broad market indices are used as part of the valuation methodology, their use is subject to adjustment for many factors, including priority, collateral used as security, structure, performance and other quantitative and qualitative attributes of the asset being valued. The resulting present value determination is then weighted along with any quotes from observable transactions and broker/pricing quotes. If such quotes are indicative of actual transactions with reasonable trading volume at or near the valuation date that are not liquidation or distressed sales, relatively more reliance will be put on such quotes to determine fair value. If such quotes are not indicative of market transactions or are insufficient as to volume, reliability, consistency or other relevant factors, such quotes will be compared with other fair value indications and given relatively less weight based on their relevancy. Other significant assumptions, such as coupon and maturity, are asset-specific and are noted for each investment in the Schedules of Investments.

Equity Securities. The Company's equity securities in portfolio companies for which there is no liquid public market are carried at fair value based on the Enterprise Value of the portfolio company, which is determined using various factors, including EBITDA (earnings before interest, taxes, depreciation and amortization) and discounted cash flows from operations, less capital expenditures and other pertinent factors, such as recent offers to purchase a portfolio company's securities or other liquidation events. The determined fair values are generally discounted to account for restrictions on resale and minority ownership positions. In the event market quotations are readily available for the Company's equity securities in public companies, those investments may be valued using the Market Approach. In cases where the Company receives warrants to purchase equity securities, a market standard Black-Scholes model is utilized.

The significant inputs used to determine the fair value of equity securities include prices, EBITDA and cash flows after capital expenditures for similar peer comparables and the investment entity itself. Equity securities are classified as Level III, when there is limited activity or less transparency around inputs to the valuation given the lack of information related to such equity investments held in nonpublic companies. Significant assumptions observed for comparable companies are applied to relevant financial data for the specific investment. Such assumptions, such as model discount rates or price/earnings multiples, vary by the specific investment, equity position and industry and incorporate adjustments for risk premiums, liquidity and company specific attributes. Such adjustments require judgment and may be material to the calculation of fair value.

Asset Manager Affiliates. The Company's investments in its wholly-owned asset management companies, the Asset Manager Affiliates, are carried at fair value, which is primarily determined utilizing the Discounted Cash Flow approach, which incorporates different levels of discount rates depending on the hierarchy of fees earned (including the likelihood of realization of senior, subordinate and incentive fees) and prospective modeled performance. Such valuation takes into consideration an analysis of comparable asset management companies and a percentage of assets under management. The Asset Manager Affiliates are classified as a Level III investment. Any change in value from period to period is recognized as net change in unrealized appreciation or depreciation.

CLO Fund Securities. The Company typically makes a minority investment in the most junior class of securities of CLO Funds raised and managed by the Asset Manager Affiliates and may selectively invest in securities issued by funds managed by other asset management companies. The investments held by CLO Funds generally relate to non-investment grade credit instruments issued by corporations.

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

Due to the individual attributes of each CLO Fund security, they are classified as a Level III investment unless specific trading activity can be identified at or near the valuation date. When available, observable market information will be identified, evaluated and weighted accordingly in the application of such data to the present value models and fair value determination. Significant assumptions to the present value calculations include default rates, recovery rates, prepayment rates, investment/reinvestment rates and spreads and the discount rate by which to value the resulting underlying cash flows. Such assumptions can vary significantly, depending on market data sources which often vary in depth and level of analysis, understanding of the CLO market, detailed or broad characterization of the CLO market and the application of such data to an appropriate framework for analysis. The application of data points are based on the specific attributes of each individual CLO Fund security's underlying assets, historic, current and prospective performance, vintage, and other quantitative and qualitative factors that would be evaluated by market participants. The Company evaluates the source of market data for reliability as an indicative market input, consistency amongst other inputs and results and also the context in which such data is presented.

For rated note tranches of CLO Fund securities (those above the junior class) without transactions to support a fair value for the specific CLO Fund and tranche, fair value is based on discounting estimated bond payments at current market yields, which may reflect the adjusted yield on the leveraged loan index for similarly rated tranches, as well as prices for similar tranches for other CLO Funds and also other factors such as indicative prices provided by underwriters or brokers who arrange CLO Funds, and the default and recovery rates of underlying assets in the CLO Fund, as may be applicable. Such model assumptions may vary and incorporate adjustments for risk premiums and CLO Fund specific attributes.

Cash. The Company defines cash as demand deposits. The Company places its cash with financial institutions and, at times, cash held in checking accounts may exceed the Federal Deposit Insurance Corporation insured limit.

Restricted Cash. Restricted cash and cash equivalents (e.g., money market funds) consists of cash held for reinvestment, quarterly interest and principal distribution (if any) to holders of notes issued by KCAP Senior Funding I, LLC.

Time Deposits and Money Market Accounts. Time deposits primarily represent investments of cash held in demand deposit accounts. Money market accounts primarily represent short term interest-bearing deposit accounts. Also includes restricted cash held under employee benefit plans.

Interest Income. Interest income, including the amortization of premium and accretion of discount, is recorded on the accrual basis to the extent that such amounts are expected to be collected. The Company generally places a loan or security on non-accrual status and ceases recognizing cash interest income on such loan or security when a loan or security becomes 90 days or more past due or if the Company otherwise does not expect the debtor to be able to service its debt obligations. Non-accrual loans remain in such status until the borrower has demonstrated the ability and intent to pay contractual amounts due or such loans become current. As of September 30, 2015, one issuer representing less than 1% of the Company's total investments at fair value was on a non-accrual status.

Distributions from Asset Manager Affiliates. The Company records distributions from our Asset Manager Affiliates on the declaration date, which represents the ex-dividend date. Distributions in excess of tax-basis earnings and profits of the distributing affiliate company are recognized as tax-basis return of capital. For interim periods, the Company estimates the tax attributes of any distributions as being either tax-basis earnings and profits (i.e., dividend income) or return of capital (i.e., adjustment to the Company's cost basis in the Asset Manager Affiliates). The final determination of the tax attributes of distributions from our Asset Manager Affiliates is made on an annual (full calendar year) basis at the end of the year based upon taxable income and distributions for the full-year. Therefore, any estimate of tax attributes of distributions made on a quarterly basis may not be representative of the actual tax attributes of distributions for a full year.

Investment Income on CLO Fund Securities. The Company generates investment income from its investments in the most junior class of securities of CLO Funds (typically preferred shares or subordinated securities) managed by the Asset Manager Affiliates and selective investments in securities issued by funds managed by other asset management companies. The Company's CLO Fund junior class securities are subordinated to senior note holders who typically receive a stated interest rate of return based on a floating rate index, such as the London Interbank Offered Rate ("LIBOR") on their investment. The CLO Funds are leveraged funds and any excess cash flow or "excess spread" (interest earned by the underlying securities in the fund less payments made to senior note holders and less fund expenses and management fees) is paid to the holders of the CLO Fund's subordinated securities or preferred shares.

GAAP-basis investment income on CLO equity investments is recorded using the effective interest method in accordance with the provisions of ASC 325-40, based on the anticipated yield and the estimated cash flows over the projected life of the investment. Yields are revised when there are changes in actual or estimated projected future cash flows due to changes in prepayments and/or re-investments, credit losses or asset pricing. Changes in estimated yield are recognized as an adjustment to the estimated yield prospectively over the remaining life of the investment from the date the estimated yield was changed. Accordingly, investment income recognized on CLO equity securities in the GAAP statement of operations differs from both the tax-basis investment income and from the cash distributions actually received by the Company during the period.

For non-junior class CLO Fund securities, such as the Company's investment in the Class E Notes of the Catamaran 2014-1 CLO, interest is earned at a fixed spread relative to the LIBOR index.

Capital Structuring Service Fees. The Company may earn ancillary structuring and other fees related to the origination, investment, disposition or liquidation of debt and investment securities. Generally, the Company will capitalize loan origination fees, then amortize these fees into interest income over the term of the loan using the effective interest rate method, recognize prepayment and liquidation fees upon receipt and equity structuring fees as earned, which generally occurs when an investment transaction closes.

Debt Issuance Costs. Debt issuance costs represent fees and other direct costs incurred in connection with the Company's borrowings. These amounts are capitalized and amortized using the effective interest method over the contractual term of the borrowing.

Extinguishment of debt. The Company must derecognize a liability if and only if it has been extinguished through delivery of cash, delivery of other financial assets, delivery of goods or services, or reacquisition by the Company of its outstanding debt securities whether the securities are cancelled or held. If the debt contains a cash conversion option, the Company must allocate the consideration transferred and transaction costs incurred to the extinguishment of the liability component and the reacquisition of the equity component and recognize a gain or loss in the statement of operations.

Expenses. The Company is internally managed and expenses costs, as incurred, with regard to the running of its operations. Primary operating expenses include employee salaries and benefits, the costs of identifying, evaluating, negotiating, closing, monitoring and servicing the Company's investments and related overhead charges and expenses, including rental expense, and any interest expense incurred in connection with borrowings. The Company and the Asset Manager Affiliates share office space and certain other operating expenses. The Company has entered into an Overhead Allocation Agreement with the Asset Manager Affiliates which provides for the sharing of such expenses based on an allocation of office lease costs and the ratable usage of other shared resources.

Shareholder Distributions. Distributions to common stockholders are recorded on the ex-dividend date. The amount of distributions, if any, is determined by the Board of Directors each quarter.

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

3. EARNINGS PER SHARE

In accordance with the provisions of ASC 260, "Earnings per Share" ("ASC 260"), basic earnings per share is computed by dividing earnings available to common shareholders by the weighted average number of shares outstanding during the period. Other potentially dilutive common shares, and the related impact to earnings, are considered when calculating earnings per share on a diluted basis.

The following information sets forth the computation of basic and diluted net (decrease) increase in stockholders' equity per share for the three and nine months ended September 30, 2015 and 2014 (unaudited):

	(unaudited)		(unaudited)	
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net (decrease) increase in net assets resulting from operations	\$ (16,050,865)	\$ 8,236,473	\$ (7,145,869)	\$ 23,930,726
Net decrease (increase) in net assets allocated to unvested share awards	303,869	(151,517)	125,136	(288,671)
Interest on Convertible Notes	—	1,072,050	—	3,216,150
Amortization of Capitalized Costs on Convertible Notes	—	106,460	—	313,327
Net (decrease) increase in net assets available to common stockholders	\$ (15,746,996)	\$ 9,263,466	\$ (7,020,733)	\$ 27,171,532
Weighted average number of common shares outstanding for basic shares computation	37,046,906	33,746,159	36,923,212	33,497,934
Effect of dilutive securities – stock options	—	12,058	—	11,949
Effect of dilutive Convertible Notes	—	6,367,443	—	6,367,443
Weighted average number of common and common stock equivalent shares outstanding for diluted shares computation	37,046,906	40,125,660	36,923,212	39,877,326
Net (decrease) increase in net assets per basic common shares:				
Net (decrease) increase in net assets from operations	\$ (0.43)	\$ 0.24	\$ (0.19)	\$ 0.71
Net (decrease) increase in net assets per diluted shares:				
Net (decrease) increase in net assets from operations	\$ (0.43)	\$ 0.23	\$ (0.19)	\$ 0.68

Share-based awards that contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are participating securities and included in the computation of both basic and diluted earnings per share. Grants of restricted stock awards to the Company's employees and directors are considered participating securities when there are earnings in the period and the earnings per share calculations include outstanding unvested restricted stock awards in the basic weighted average shares outstanding calculation.

There were 50,000 options to purchase shares of common stock outstanding for the three months ended September 30, 2015 and 2014. For the nine months ended September 30, 2015, the company purchased 36,348 shares of common stock in connection with the vesting of employee's restricted stock, such shares are treated as treasury shares and reduce the weighted average shares outstanding in the computation of earnings per share.

The Company's Convertible Notes are included in the computation of the diluted net increase or decrease in net assets resulting from operations per share by application of the "if-converted method." Under the if-converted method, interest charges applicable to the convertible notes for the period are added to reported net increase or decrease in net assets resulting from operations and the full amount of shares (pro-rata if not outstanding for the full period) that would be issued are added to weighted average basic shares. Convertible notes are considered anti-dilutive only when its interest per share upon conversion exceeds the basic net increase or decrease in net assets resulting from operations per share. For the three months and nine months ended September 30, 2015, the effects of the convertible notes are anti-dilutive.

The if-converted method of computing the dilutive effects on convertible notes assumes a conversion even if the contracted conversion price exceeds the market value of the shares. As of September 30, 2015, the current conversion rate of the Convertible Notes is approximately 134.51 shares of our common stock per \$1,000 principal amount of the Convertible Notes, equivalent to a conversion price of approximately \$7.43 per share of the Company's common stock. Upon conversion, the Company may issue the full amount of common stock and retire the full amount of debt outstanding or, at its option, settle the conversion in cash.

4. INVESTMENTS

The following table shows the Company's portfolio by security type at September 30, 2015 and December 31, 2014:

Security Type	September 30, 2015 (unaudited)			December 31, 2014		
	Cost	Fair Value	% ¹	Cost	Fair Value	% ¹
Money Market Accounts ³	\$ 3,345,723	\$ 3,345,723	1	\$ 1,602,741	\$ 1,602,741	1
Senior Secured Loan	211,441,566	204,189,144	86	220,965,922	218,329,860	86
Junior Secured Loan	41,204,786	39,795,980	17	38,664,199	38,569,006	15
Senior Unsecured Loan	23,000,000	23,000,000	10	33,066,984	33,066,984	13
First Lien Bond	2,976,651	2,317,500	1	2,962,507	2,580,000	1
Senior Subordinated Bond	4,420,467	4,221,543	2	4,295,544	4,240,301	2
Senior Unsecured Bond	11,698,340	10,597,995	5	11,208,178	11,386,218	4
Senior Secured Bond	1,511,590	1,481,250	1	1,515,584	1,552,500	1
CLO Fund Securities	86,288,448	66,720,782	28	90,889,190	77,514,901	30
Equity Securities	8,514,487	6,936,653	3	8,828,812	8,119,681	3
Preferred Securities	10,359,873	10,681,029	5	10,206,016	10,418,302	4
Asset Manager Affiliates ²	57,189,159	64,121,000	27	60,292,677	72,326,000	28
Total	\$ 461,951,090	\$ 437,408,599	186%	\$ 484,498,354	\$ 479,706,494	188%

¹ Represents percentage of Net Asset Value.

² Represents the equity investment in the Asset Manager Affiliates.

³ Includes restricted cash held under employee benefit plans.

The industry concentrations based on the fair value of the Company's investment portfolio as of September 30, 2015 and December 31, 2014, were as follows:

Industry Classification	September 30, 2015 (unaudited)			December 31, 2014		
	Cost	Fair Value	% ¹	Cost	Fair Value	% ¹
Aerospace and Defense	\$ 9,648,347	\$ 9,069,264	4.0%	\$ 10,059,487	\$ 9,533,092	4%
Asset Management Company ²	57,189,159	64,121,000	26.0	60,292,677	72,326,000	28
Related Party Loan	23,000,000	23,000,000	10.0	23,000,000	23,000,000	9
Automotive	9,932,977	9,876,215	4.0	8,362,956	8,312,548	3
Banking, Finance, Insurance & Real Estate	6,302,517	6,165,678	3.0	7,660,721	7,639,366	3
Beverage, Food and Tobacco	24,439,168	24,119,358	10.0	17,974,974	17,883,421	7
Capital Equipment	9,509,929	8,437,999	4.0	9,486,407	10,351,329	4
Chemicals, Plastics and Rubber	3,503,317	3,463,669	1.0	6,348,226	6,210,253	2
CLO Fund Securities	86,288,447	66,720,782	28.0	90,889,190	77,514,901	31
Construction & Building	1,980,681	1,982,831	1.0	-	-	-
Consumer goods: Durable	14,163,260	13,174,865	6.0	13,876,482	13,301,207	5
Consumer goods: Non-durable	20,393,549	20,156,836	9.0	13,535,975	13,314,952	5
Containers, Packaging and Glass	2,916,649	2,921,622	1.0	2,992,443	2,946,734	1
Energy: Oil & Gas	14,176,843	11,509,141	5.0	13,866,208	13,289,753	5
Environmental Industries	12,784,029	12,474,510	5.0	12,942,593	12,911,017	5
Forest Products & Paper	5,895,474	5,944,907	3.0	5,917,051	5,942,523	2
Healthcare & Pharmaceuticals	50,028,563	46,982,976	20.0	66,186,412	65,720,782	27
High Tech Industries	11,802,469	11,652,643	5.0	14,457,495	14,419,110	6
Hotel, Gaming & Leisure	400,000	1,000	-	3,392,481	2,962,315	1
Media: Advertising, Printing & Publishing	11,203,758	10,574,807	5.0	11,318,815	11,396,027	4
Media: Broadcasting & Subscription	7,459,621	7,399,614	3.0	14,477,078	14,409,401	6
Metals & Mining	228,563	1,000	-	228,563	1,000	-
Retail	4,390,431	3,870,664	2.0	4,234,086	3,773,847	1
Services: Business	20,706,513	20,513,356	9.0	16,550,255	16,066,421	6
Services: Consumer	6,519,760	6,438,715	3.0	6,798,372	6,752,521	3
Telecommunications	13,797,355	13,614,636	6.0	22,030,434	21,865,864	9
Time Deposit and Money Market Accounts ³	3,345,723	3,345,724	1.0	1,602,741	1,602,741	1
Transportation: Cargo	21,755,034	22,040,544	9.0	20,156,700	20,455,941	8
Transportation: Consumer	2,487,820	2,487,500	1.0	-	-	-
Utilities: Electric	5,701,134	5,346,743	2.0	5,859,532	5,803,428	2
Total	\$ 461,951,090	\$ 437,408,599	186%	\$ 484,498,354	\$ 479,706,494	188%

¹ Calculated as a percentage of Net Asset Value.

² Represents the equity investment in the Asset Manager Affiliates.

³ Includes restricted cash held under employee benefit plans.

The Company may invest up to 30% of the investment portfolio in “non-qualifying” opportunistic investments in debt and equity securities of CLO Funds, distressed debt or debt and equity securities of public companies. The Company expects that these public companies generally will have debt that is non-investment grade. Within this 30% of the portfolio, the Company also may invest in debt of middle market companies located outside of the United States.

At September 30, 2015 and December 31, 2014, the total amount of non-qualifying assets was approximately 17% and 21%, respectively. The majority of non-qualifying assets were foreign investments which were approximately 15% and 16% of the Company’s total assets, respectively (including the Company’s investments in CLO Funds, which are typically domiciled outside the U.S. and represented approximately 15% and 16% of its total assets on such dates, respectively).

The following tables detail the ten largest portfolio investments (at fair value) as of September 30, 2015 and December 31, 2014:

Investment	September 30, 2015 (unaudited)		
	Cost/Amortized Cost	Fair Value	% of FMV
Asset Manager Affiliates	\$ 57,189,159	\$ 64,121,000	15%
Katonah 2007-I CLO Ltd.	23,975,870	23,233,837	5
Trimaran Credit Facility	23,000,000	23,000,000	5
Crowley Holdings Preferred, LLC	10,359,873	10,681,029	2
Catamaran CLO 2015-1 Ltd.	12,439,015	9,442,080	2
Tank Partners Holdings, LLC	10,520,547	8,939,640	2
Catamaran CLO 2014-1 Ltd.	9,264,284	7,251,390	2
Catamaran CLO 2014-2 Ltd.	8,374,214	6,932,673	2
Grupo HIMA San Pablo, Inc.	6,916,737	6,650,000	2
Catamaran CLO 2013- 1 Ltd.	6,559,985	6,561,900	1
Total	<u>\$ 168,599,684</u>	<u>\$ 166,813,549</u>	<u>38%</u>

Investment	December 31, 2014		
	Cost/Amortized Cost	Fair Value	% of FMV
Asset Manager Affiliates	\$ 60,292,677	\$ 72,326,000	15%
Katonah 2007-I CLO Ltd.	23,471,779	25,191,782	5
Trimaran Credit Facility	23,000,000	23,000,000	5
Crowley Holdings Preferred, LLC	10,206,016	10,418,302	2
Tank Partners Holdings, LLC	10,212,907	9,866,065	2
Catamaran CLO 2014-1 Ltd.	10,473,628	8,867,176	2
Catamaran CLO 2014-2 Ltd.	9,862,799	8,761,500	2
Restorix Health, Inc.	8,063,397	8,063,397	2
Catamaran CLO 2013- 1 Ltd.	7,492,702	7,874,910	2
Grupo HIMA San Pablo, Inc.	6,894,754	7,105,000	1
Total	<u>\$ 169,970,659</u>	<u>\$ 181,474,132</u>	<u>38%</u>

Excluding the Asset Manager Affiliates and CLO Fund securities, the Company’s ten largest portfolio companies represented approximately 18% and 17% of the total fair value of the Company’s investments at September 30, 2015 and December 31, 2014, respectively.

Investments in CLO Fund Securities

The Company typically makes a minority investment in the most junior class of securities (typically preferred shares or subordinated securities) of CLO Funds managed by the Asset Manager Affiliates and may selectively invest in securities issued by CLO funds managed by other asset management companies. These securities also are entitled to recurring distributions which generally equal the net remaining cash flow of the payments made by the underlying CLO Fund's securities less contractual payments to senior bond holders, management fees and CLO Fund expenses. CLO Funds invest primarily in broadly syndicated non-investment grade loans, high-yield bonds and other credit instruments of corporate issuers. The underlying assets in each of the CLO Funds in which the Company has an investment are generally diversified secured or unsecured corporate debt. The CLO Funds are leveraged funds and any excess cash flow or "excess spread" (interest earned by the underlying securities in the fund less payments made to senior bond holders, fund expenses and management fees) is paid to the holders of the CLO Fund's subordinated securities or preferred shares.

Fair Value Measurements

The Company follows the provisions of ASC 820: Fair Value, which among other matters, requires enhanced disclosures about investments that are measured and reported at fair value. This standard defines fair value and establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring investments at fair value and expands disclosures about assets and liabilities measured at fair value. ASC 820: Fair Value defines "fair value" as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This fair value definition focuses on an exit price in the principal, or most advantageous market, and prioritizes, within a measurement of fair value, the use of market-based inputs (which may be weighted or adjusted for relevance, reliability and specific attributes relative to the subject investment) over entity-specific inputs. Market price observability is affected by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. Subsequent to the adoption of ASC 820: Fair Value, the FASB has issued various staff positions clarifying the initial standard (see Note 2 – "Significant Accounting Policies —Investments").

ASC 820: Fair Value establishes the following three-level hierarchy, based upon the transparency of inputs to the fair value measurement of an asset or liability as of the measurement date:

Level I – Unadjusted quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level I include listed equities and listed securities. As required by ASC 820: Fair Value, the Company does not adjust the quoted price for these investments, even in situations where the Company holds a large position and a sale could reasonably affect the quoted price.

Level II – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date. Such inputs may be quoted prices for similar assets or liabilities, quoted markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full character of the financial instrument, or inputs that are derived principally from, or corroborated by, observable market information. Investments which are generally included in this category include illiquid debt securities and less liquid, privately held or restricted equity securities for which some level of recent trading activity has been observed.

Level III – Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. The inputs may be based on the Company's own assumptions about how market participants would price the asset or liability or may use Level II inputs, as adjusted, to reflect specific investment attributes relative to a broader market assumption. These inputs into the determination of fair value may require significant management judgment or estimation. Even if observable market data for comparable performance or valuation measures (earnings multiples, discount rates, other financial/valuation ratios, etc.) are available, such investments are grouped as Level III if any significant data point that is not also market observable (private company earnings, cash flows, etc.) is used in the valuation methodology.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and the Company considers factors specific to the investment. A majority of the Company's investments are classified as Level III. The Company evaluates the source of inputs, including any markets in which its investments are trading, in determining fair value. Inputs that are highly correlated to the specific investment being valued and those derived from reliable or knowledgeable sources will tend to have a higher weighting in determining fair value. Ongoing reviews by the Company's investment analysts, Chief Investment Officer, Valuation Committee and independent valuation firms (if engaged) may include factors such as an assessment of each underlying investment, its current and prospective operating and financial performance, consideration of financing and sale transactions with third parties, expected cash flows and market-based information, including comparable transactions, performance factors, and other investment or industry specific market data, among other factors.

The following table summarizes the fair value of investments by the above ASC 820: Fair Value fair value hierarchy levels as of September 30, 2015 (unaudited) and December 31, 2014, respectively:

	As of September 30, 2015 (unaudited)			
	Level I	Level II	Level III	Total
Money market accounts	\$ —	\$ 3,345,723	\$ —	\$ 3,345,723
Debt securities	—	86,392,713	209,891,728	296,284,441
CLO Fund securities	—	—	66,720,782	66,720,782
Equity securities	—	—	6,936,653	6,936,653
Asset Manager Affiliates	—	—	64,121,000	64,121,000
Total	\$ —	\$ 89,738,436	\$ 347,670,163	\$ 437,408,599

	As of December 31, 2014			
	Level I	Level II	Level III	Total
Money market accounts	\$ —	\$ 1,602,741	\$ —	\$ 1,602,741
Debt securities	—	149,124,827	171,018,343	320,143,170
CLO Fund securities	—	—	77,514,902	77,514,902
Equity securities	—	—	8,119,681	8,119,681
Asset Manager Affiliates	—	—	72,326,000	72,326,000
Total	\$ —	\$ 150,727,568	\$ 328,978,926	\$ 479,706,494

As a BDC, the Company is required to invest primarily in the debt and equity of non-public companies for which there is little, if any, market-observable information. As a result a significant portion of the Company's investments at any given time will likely be deemed Level III investments.

Investment values derived by a third party pricing service are generally deemed to be Level III values. For those that have observable trades, the Company considers them to be Level II.

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

Values derived for the Asset Manager Affiliates using comparable public/private companies utilize market-observable data and specific, non-public and non-observable financial measures (such as assets under management, historical and prospective earnings) for the Asset Manager Affiliates. The Company recognizes that comparable asset managers may not be fully comparable to the Asset Manager Affiliates and typically identifies a range of performance measures and/or adjustments within the comparable population with which to determine value. Since any such ranges and adjustments are entity specific they are not considered market-observable data and thus require a Level III grouping. Illiquid investments that have values derived through the use of discounted cash flow models and residual enterprise value models are grouped as Level III assets.

The Company's policy for determining transfers between levels is based solely on the previously defined three-level hierarchy for fair value measurement. Transfers between the levels of the fair value hierarchy are separately noted in the tables below and the reason for such transfer described in each table's respective footnotes. Investments measured at fair value for which the Company has used unobservable inputs to determine fair value are as follows:

Nine Months Ended September 30, 2015 (unaudited)

	Debt Securities	CLO Fund Securities	Equity Securities	Asset Manager Affiliate	Total
Balance, December 31, 2014	\$ 171,018,343	\$ 77,514,902	\$ 8,119,681	\$ 72,326,000	\$ 328,978,926
Transfers out of Level III	(9,960,953) ¹	—	—	—	(9,960,953)
Transfers into Level III	42,920,972 ²	—	—	—	42,920,972
Net accretion (amortization)	221,620	(6,433,551)	—	—	(6,211,931)
Purchases	53,510,881	11,952,000	—	—	65,462,881
Sales / Paydowns	(49,362,448)	(3,872,700)	(317,340)	(3,103,517)	(56,656,005)
Total realized gain (loss) included in earnings	24,364	(6,246,883)	3,015	—	(6,219,504)
Total unrealized gain (loss) included in earnings	1,518,949	(6,192,986)	(868,703)	(5,101,483)	(10,644,223)
Balance, September 30, 2015	<u>\$ 209,891,728</u>	<u>\$ 66,720,782</u>	<u>\$ 6,936,653</u>	<u>\$ 64,121,000</u>	<u>\$ 347,670,163</u>

Changes in unrealized gains (losses) included in earnings related to investments still held at reporting date	<u>\$ 1,518,949</u>	<u>\$ (12,985,600)</u>	<u>\$ (868,704)</u>	<u>\$ (5,101,484)</u>	<u>\$ (17,436,839)</u>
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¹Transfers out of Level III represent a transfer of \$9,960,953 relating to debt securities for which pricing inputs, other than their quoted prices in active markets were observable as of September 30, 2015

²Transfers into Level III represent a transfer of \$42,920,972 relating to debt securities for which pricing inputs, other than their quoted prices in active markets were unobservable as of September 30, 2015

Year Ended December 31, 2014

	Debt Securities	CLO Fund Securities	Equity Securities	Asset Manager Affiliate	Total
Balance, December 31, 2013	\$ 198,097,374	\$ 79,452,220	\$ 11,006,399	\$ 76,148,000	\$ 364,703,993
Transfers out of Level III	(38,990,152) ¹	—	—	—	(38,990,152)
Transfers into Level III	1,982,110 ²	—	—	—	1,982,110
Net accretion (amortization)	198,600	(11,102,015)	—	—	(10,903,415)
Purchases	132,079,152	22,421,847	2,216,847	545,979	157,263,825
Sales/Paydowns	(121,242,093)	(10,132,500)	(5,007,311)	(6,432,086)	(142,813,990)
Total realized gain (loss) included in earnings	(9,069,550)	5,575,498	(7,136,407)	—	(10,630,459)
Total unrealized gain (loss) included in earnings	7,962,902	(8,700,148)	7,040,153	2,064,107	8,367,014
Balance, December 31, 2014	<u>\$ 171,018,343</u>	<u>\$ 77,514,902</u>	<u>\$ 8,119,681</u>	<u>\$ 72,326,000</u>	<u>\$ 328,978,926</u>

Changes in unrealized gains (losses) included in earnings related to investments still held at reporting date	<u>\$ (1,448,794)</u>	<u>\$ (4,908,278)</u>	<u>\$ 424,306</u>	<u>\$ 2,064,107</u>	<u>\$ (3,868,659)</u>
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¹Transfers out of Level III represent a transfer of \$2,783,195 relating to debt securities for which pricing inputs, other than their quoted prices in active markets were observable as of December 31, 2013

²Transfers into Level III represent a transfer of \$34,070,557 relating to debt securities for which pricing inputs, other than their quoted prices in active markets were unobservable as of December 31, 2013.

As of September 30, 2015, the Company's Level II portfolio investments were valued by a third party pricing services for which the prices are not adjusted and for which inputs are observable or can be corroborated by observable market data for substantially the full character of the financial instrument, or by inputs that are derived principally from, or corroborated by, observable market information. The fair value of the Company's Level II portfolio investments was \$89,738,436 as of September 30, 2015.

As of September 30, 2015, the Company's Level III portfolio investments had the following valuation techniques and significant inputs:

Type	Fair Value	Primary Valuation Methodology	Unobservable Inputs	Range of Inputs (Weighted Average)
Debt Securities	\$ 25,317,500	Enterprise Value	Average EBITDA Multiple/Qualitative Inputs	7.2x
	\$ 184,573,228	Income Approach	Implied Discount Rate	2.3% - 21.2% (9.2%)
	\$ 1,000	Options Value	Qualitative Inputs ¹	
Equity Securities	\$ 6,933,653	Enterprise Value	Average EBITDA Multiple/WAAC	4.3x/6.5% - 13.1x/15.1% (7.2x/12.2%)
	\$ 3,000	Options Value	Qualitative Inputs	
CLO Fund Securities	\$ 57,278,702	Discounted Cash Flow	Discount Rate	12% (12%)
			Probability of Default	2.0% - 2.5% (2.1%)
			Loss Severity	25.0% - 25.9% (25.7%)
			Recovery Rate	74.1% - 75.0% (74.3%)
			Prepayment Rate	7.6% - 33.5% (26.2%)
	\$ 9,442,080	Market Approach	Third Party Quote	79 (79)
Asset Manager Affiliate	\$ 64,121,000	Discounted Cash Flow	Discount Rate	2.11% - 12.0% (7.0%)
Total Level III Investments	\$ 347,670,163			

¹ The qualitative inputs used in the fair value measurements of the Debt Securities include estimates of the distressed liquidation value of the pledged collateral.

The significant unobservable inputs used in the fair value measurement of the Company's debt securities may include, among other things, broad market indices, the comparable yields of similar investments in similar industries, effective discount rates, average EBITDA multiples, and weighted average cost of capital. Significant increases or decreases in such comparable yields would result in a significantly lower or higher fair value measurement.

The significant unobservable inputs used in the fair value measurement of the Company's equity securities include the EBITDA multiple of similar investments in similar industries and the weighted average cost of capital. Significant increases or decreases in such inputs would result in a significantly lower or higher fair value measurement.

Significant unobservable input used in the fair value measurement of the Company's CLO Fund securities include default rates, recovery rates, prepayment rates, spreads, and the discount rate by which to value the resulting underlying cash flows. Such assumptions can vary significantly, depending on market data sources which often vary in depth and level of analysis, understanding of the CLO market, detailed or broad characterization of the CLO market and the application of such data to an appropriate framework for analysis. The application of data points are based on the specific attributes of each individual CLO Fund security's underlying assets, historic, current and prospective performance, vintage, and other quantitative and qualitative factors that would be evaluated by market participants. The Company evaluates the source of market data for reliability as an indicative market input, consistency amongst other inputs and results and also the context in which such data is presented. Significant increases or decreases in probability of default and loss severity inputs in isolation would result in a significantly lower or higher fair value measurement. In general, a change in the assumption of the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity in an event of default. Significant increases or decreases in the discount rate in isolation would result in a significantly lower or higher fair value measurement.

The significant unobservable inputs used in the fair value measurement of the Asset Manager Affiliates is the discount rate used to present value prospective cash flows. Prospective revenues are generally based on a fixed percentage of the par value of CLO Fund assets under management and are recurring in nature for the term of the CLO Fund so long as the Asset Manager Affiliates manage the fund. As a result, the fees earned by the Asset Manager Affiliates are generally not subject to market value fluctuations in the underlying collateral. The discounted cash flow model incorporates different levels of discount rates depending on the hierarchy of fees earned (including the likelihood of realization of senior, subordinate and incentive fees) and prospective modeled performance. Significant increases or decreases in such discount rate would result in a significantly lower or higher fair value measurement.

5. ASSET MANAGER AFFILIATES

Wholly-Owned Asset Managers

The Asset Manager Affiliates are wholly-owned portfolio companies. The Asset Manager Affiliates manage CLO Funds primarily for third party investors that invest in broadly syndicated loans, high yield bonds and other credit instruments issued by corporations. At September 30, 2015 and December 31, 2014, the Asset Manager Affiliates had approximately \$2.7 billion and \$3.0 billion, respectively, of par value of assets under management, and the Company's 100% equity interest in the Asset Manager Affiliates had a fair value of approximately \$64 million and \$72 million, respectively.

As a manager of the CLO Funds, the Asset Manager Affiliates receive contractual and recurring management fees from the CLO Funds for their management and advisory services. The annual fees which the Asset Manager Affiliates receive are generally based on a fixed percentage of assets under management (at par value and not subject to changes in market value), and the Asset Manager Affiliates generate net income equal to the amount by which their fee income exceeds their operating expenses, including compensation of their employees and income taxes. The management fees the Asset Manager Affiliates receive have three components - a senior management fee, a subordinated management fee and an incentive fee. Currently, all CLO Funds managed by the Asset Manager Affiliates are paying both their senior and subordinated management fees on a current basis. Additionally, two managed funds made incentive fee distributions during the quarter ended September 30, 2015.

For the three months ended September 30, 2015 and 2014, the Asset Manager Affiliates declared cash distributions of \$2.3 million and \$3.1 million to the Company, respectively. For the nine months ended September 30, 2015 and 2014, the Asset Manager Affiliates declared cash distributions of \$7.3 million and \$9.1 million to the Company, respectively. Any distributions from the Asset Manager Affiliates out of the estimated tax-basis earnings and profits are recorded as "Dividends from Asset Manager Affiliates" on the Company's statement of operations. The Company recognized \$1.5 million and \$1.4 million, respectively, of Dividends from Asset Manager Affiliates in the Statement of Operations for the three months ended September 30, 2015 and 2014. The difference between cash distributions received and the tax-basis earnings and profits of the distributing affiliate, are recorded as an adjustment to the cost basis in the Asset Manager Affiliate (i.e., tax-basis return of capital). Distributions receivable, if any, are reflected in the Due from Affiliates account on the consolidated balance sheets.

The tax attributes of distributions received from the Asset Manager Affiliates are determined on an annual basis. The Company makes an estimate of the tax-basis earnings and profits of the Asset Manager Affiliates on a quarterly basis, and any quarterly distributions received in excess of the estimated earnings and profits are recorded as return of capital (reduction in the cost basis of the investment in Asset Manager Affiliate).

The Asset Manager Affiliates' fair value is determined quarterly. The valuation is primarily determined utilizing a discounted cash flow model. (See Note 2 - "Significant Accounting Policies" and Note 4 - "Investments" for further information relating to the Company's valuation methodology.)

Effective January 1, 2010, the Asset Manager Affiliates adopted guidance encompassed in Accounting Standards Codification Topic 810, "Consolidation." The adoption of this new guidance had an impact on the disclosures relating to the Asset Manager Affiliates in the Company's SEC filings which had previously not been required, as its provisions require the Asset Manager Affiliates to consolidate certain of their managed CLO Funds that were not previously consolidated. As a result of the consolidation of the CLO Funds into the Asset Manager Affiliates, the financial results of the Asset Manager Affiliates indicate that they qualify as a "significant subsidiary" of the Company requiring the following additional disclosures. In addition, Katonah 2007-I CLO qualifies as "significant subsidiaries" of the Company and the Company is also required to make the additional disclosures about it below. These disclosures regarding the Asset Manager Affiliates and Katonah 2007-I CLO do not directly impact the financial position, results of operations, or cash flows of the Company.

Asset Manager Affiliates

Summarized Balance Sheet Information (unaudited)

	As of September 30, 2015	As of December 31, 2014
Investments of CLO Funds, at fair value	\$2,832,831,349	\$2,846,659,635
Restricted cash of CLO Funds	163,393,198	182,224,205
Total assets	3,094,809,922	3,092,592,939
CLO Fund liabilities at fair value	2,930,979,743	2,990,211,629
Total liabilities	3,026,008,125	3,060,837,388
Total Asset Manager Affiliates equity	32,851,021	34,780,345
Appropriated retained earnings (deficit) of consolidated VIEs	35,950,776	(3,024,793)

Asset Manager Affiliates

Summarized Statements of Operations Information (unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
Interest income - investments of CLO Funds	\$ 33,864,746	\$ 31,042,540	\$ 97,413,581	\$ 89,607,622
Total income	34,295,807	32,777,736	101,084,824	94,460,828
Interest expense of CLO Fund liabilities	33,480,470	25,477,833	112,252,220	74,533,029
Total expenses	37,563,731	37,468,325	137,696,316	103,677,330
Net realized and unrealized gains (losses)	(17,200,639)	(40,493,821)	83,216,644	(50,167,488)
Net (loss) income attributable to noncontrolling interests in consolidated Variable Interest Entities	(24,666,746)	(47,301,969)	38,468,715	(65,558,757)
Net income attributable to Asset Manager Affiliates	2,858,876	1,274,518	5,370,678	3,949,287

Katonah 2007-I CLO Ltd.
Summarized Balance Sheet Information (unaudited)

	As of September 30, 2015	As of December 31, 2014
Total investments at fair value	\$ 258,104,187	\$ 273,373,948
Cash	9,325,472	14,939,994
Total assets	268,022,761	288,945,330
CLO Debt at fair value	269,401,971	290,699,426
Total liabilities	269,379,642	292,730,723
Total Net Assets	(1,356,881)	(3,785,393)

Katonah 2007-I CLO Ltd.
Summarized Statements of Operations Information (unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
Interest income from investments	\$ 2,567,295	\$ 2,925,473	\$ 7,644,426	\$ 8,944,967
Total income	2,645,492	2,554,342	8,029,801	8,938,951
Interest expense	2,299,222	2,667,429	6,904,401	8,188,894
Total expenses	2,530,278	2,949,332	7,722,579	9,144,902
Net realized and unrealized losses	529,390	(2,698,937)	2,121,290	(9,215,396)
Increase (decrease) in net assets resulting from operations	644,604	(3,093,927)	2,428,512	(9,421,347)

As separately regarded entities for tax purposes, the Asset Manager Affiliates are taxed at normal corporate rates. In order to maintain the Company's RIC status, any tax-basis dividends paid by the Asset Manager Affiliates to the Company would generally need to be distributed to the Company's shareholders. Generally, such tax-basis dividends of the Asset Manager Affiliates' income which was distributed to the Company's shareholders will be considered as qualified dividends for tax purposes. The Asset Manager Affiliates' taxable net income will differ from U.S. GAAP net income because of deferred tax temporary differences and permanent tax adjustments. Deferred tax temporary differences may include differences for the recognition and timing of amortization and depreciation, compensation related expenses, and net loss carryforward, among other things. Permanent differences may include adjustments, limitations or disallowances for meals and entertainment expenses, penalties, tax goodwill amortization and net operating loss carryforward.

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

Additional goodwill amortization for tax purposes was created upon the purchase of 100% of the equity interests in Trimaran Advisors by one of KCAP's affiliates, in exchange for shares of the Company's stock valued at \$25.5 million and cash of \$13.0 million. The transaction was considered an asset purchase under Section 351(a) of the Code and resulted in tax goodwill of approximately \$22.8 million which is being amortized for tax purposes on a straight-line basis over 15 years, which accounts for an annual difference between GAAP income and taxable income of approximately \$1.5 million per year over such period.

Related Party Transactions

On February 26, 2013, the Company entered into a senior credit agreement (the "Trimaran Credit Facility") with Trimaran Advisors, pursuant to which Trimaran Advisors may borrow from time to time up to \$20 million from the Company in order to provide capital necessary to support one or more of Trimaran Advisors' warehouse lines of credit and/or working capital in connection with Trimaran Advisors' warehouse activities. The Trimaran Credit Facility expires on November 20, 2017 and bears interest at an annual rate of 9.0%. Outstanding borrowings on the Trimaran Credit Facility are callable by the Company at any time. On April 15, 2013, the Trimaran Credit Facility was amended and upsized from \$20 million to \$23 million. At both September 30, 2015 and December 31, 2014, the par value of the outstanding loan was \$23 million. For the three months ended September 30, 2015, and 2014, the Company recognized interest income of approximately \$395,000 and \$491,000, respectively, related to the Trimaran Credit Facility. For the nine months ended September 30, 2015 and 2014, the Company recognized interest income of approximately \$1.2 million and \$1.7 million, respectively, related Trimaran Credit Facility.

6. BORROWINGS

The Company's debt obligations consist of the following:

	As of September 30, 2015 (unaudited)	As of December 31, 2014
Convertible Notes, due March 15, 2016	\$ 33,647,000	\$ 38,647,000
7.375% Notes Due 2019	\$ 41,400,000	\$ 41,400,000
Notes Issued by KCAP Senior Funding I, LLC (net of discount: 2015 - \$3,060,315; 2014 - \$3,512,407)	\$ 144,289,685	\$ 143,837,593

The weighted average stated interest rate and weighted average maturity on all our debt outstanding as of September 30, 2015 were 4.37% and 6.71 years, respectively, and as of December 31, 2014 were 4.43% and 7.23 years, respectively.

Convertible Notes

On March 16, 2011, the Company issued \$55 million in aggregate principal amount of unsecured 8.75% convertible notes due March 2016 ("Convertible Notes"). On March 23, 2011, pursuant to an over-allotment option, the Company issued an additional \$5 million of such Convertible Notes for a total of \$60 million in aggregate principal amount. The net proceeds from the sale of the Convertible Notes, after the payment of underwriting expenses, were approximately \$57.7 million. Interest on the Convertible Notes is paid semi-annually in arrears on March 15 and September 15, at a rate of 8.75%, commencing September 15, 2011. The Convertible Notes mature on March 15, 2016 unless converted earlier. The Convertible Notes are senior unsecured obligations of the Company.

The Convertible Notes are convertible into shares of Company's common stock. As of September 30, 2015, the conversion rate was 134.51 shares of common stock per \$1,000 principal amount of Convertible Notes, which is equivalent to a conversion price of approximately \$7.43 per share of common stock. Upon conversion, the Company would issue the full amount of common stock or settle the conversion in cash, at its option, and retire the full amount of debt outstanding.

Upon conversion, unless a holder converts after a record date for an interest payment but prior to the corresponding interest payment date, the holder will receive a separate cash payment with respect to the Convertible Notes surrendered for conversion representing accrued and unpaid interest to, but not including the conversion date. Any such payment will be made on the settlement date applicable to the relevant conversion on the Convertible Notes.

No holder of Convertible Notes will be entitled to receive shares of the Company's common stock upon conversion to the extent (but only to the extent) that such receipt would cause such converting holder to become, directly or indirectly, a beneficial owner (within the meaning of Section 13(d) of the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder) of more than 5.0% of the shares of the Company's common stock outstanding at such time. The 5.0% limitation will no longer apply following the effective date of any fundamental change (as defined in the indenture governing the Convertible Notes).

Subject to certain exceptions, holders may require us to repurchase, for cash, all or part of their Convertible Notes upon a fundamental change at a price equal to 100% of the principal amount of the Convertible Notes being repurchased plus any accrued and unpaid interest up to, but excluding, the fundamental change repurchase date. In addition, in the case of certain fundamental changes and without duplication of the foregoing amount, the Company will also pay holders an amount in cash (or, in certain circumstances, shares of the Company's common stock) equal to the present value of the remaining interest payments on such notes through, and including, the maturity date.

In connection with the issuance of the Convertible Notes, the Company incurred approximately \$2.4 million of debt offering costs, which are being amortized over the term of the Convertible Notes on an effective yield method, of which approximately \$132,000 remains to be amortized, and is included in other assets in the consolidated balance sheets. On April 4, 2013, approximately \$9 million of the Company's 8.75% Convertible Notes were converted at a price basis per share of \$8.159 into 1,102,093 shares of KCAP common stock. On September 4, 2013, the Company purchased \$2.0 million face value of its own Convertible Notes at \$114.50 plus accrued interest. KCAP subsequently surrendered these notes to the Trustee for cancellation effective September 13, 2013. On October 9, 2014, the Company purchased approximately \$10.4 million face value of its own Convertible Notes at \$114.875 plus accrued interest. On September 23, 2015, the Company purchased \$5.0 million face value of its own Convertible Notes at \$102.375 plus accrued interest. KCAP subsequently surrendered these notes to the Trustee for cancellation. Due to the cash conversion option embedded in the Convertible Notes, the Company applied the guidance in ASC 470-20-40, *Debt with Conversion and Other Options* and realized a loss on the extinguishment of this debt. For the nine months ended September 30, 2015, there was approximately a \$143,000 loss on the extinguishment of debt. The indenture governing the Convertible Notes contains certain restrictive covenants, including compliance with certain provisions of the 1940 Act and conditions governing the undertaking of new debt.

For the three months ended September 30, 2015 and 2014, interest expense related to the Convertible Notes was approximately \$842,000 and \$1.1 million, respectively. For the nine months ended September 30, 2015 and 2014, interest expense related to the Convertible Notes was approximately \$2.5 million and \$3.2 million, respectively.

The Convertible Notes have been analyzed for any features that would require its accounting to be bifurcated. There are no features that require accounting to be bifurcated, and as a result, they are recorded as a liability at their contractual amounts. At September 30, 2015, the Company was in compliance with all of its debt covenants.

Fair Value of Convertible Notes. The Company carries the Convertible Notes at cost. The Convertible Notes were issued in a private placement and there is no active trading of these notes. The estimated fair value of the Company's outstanding Convertible Notes was approximately \$34.4 million at September 30, 2015. The fair value was determined based on an indicative closing price as of September 30, 2015. The Convertible Notes are categorized as Level III following ASC 820: Fair Value.

7.375% Notes Due 2019

On October 10, 2012, the Company issued \$41.4 million in aggregate principal amount of unsecured 7.375% Notes due 2019. The net proceeds for these Notes, after the payment of underwriting expenses, were approximately \$39.9 million. Interest on the 7.375% Notes Due 2019 is paid quarterly in arrears on March 30, June 30, September 30 and December 30, at a rate of 7.375%, commencing December 30, 2012. The 7.375% Notes Due 2019 mature on September 30, 2019 and are unsecured obligations of the Company. The 7.375% Notes Due 2019 are subject to redemption in whole or in part at any time or from time to time, at the option of the Company, on or after September 30, 2015, at a redemption price per security equal to 100% of the outstanding principal amount thereof plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to the date fixed for redemption. In addition, due to the asset coverage test applicable to the Company as a BDC and a covenant that the Company agreed to in connection with the issuance of the 7.375% Notes Due 2019, the Company is limited in its ability to make distributions in certain circumstances. The indenture governing the 7.375% Notes Due 2019 contains certain restrictive covenants, including compliance with certain provisions of the 1940 Act relating to borrowing and dividends. At September 30, 2015, the Company was in compliance with all of its debt covenants.

For the three months ended September 30, 2015 and 2014, interest expense related to the 7.375% Notes Due 2019 was approximately \$763,000 for both periods. For the nine months ended September 30, 2015 and 2014, interest expense related to the 7.375% Notes Due 2019 was approximately \$2.3 million for both periods.

In connection with the issuance of the 7.375% Notes Due 2019, the Company incurred approximately \$1.5 million of debt offering costs which are being amortized over the term of the facility on an effective yield method, of which approximately \$942,000 remains to be amortized, and is recorded on the consolidated balance sheets in other assets.

Fair Value of 7.375% Notes Due 2019. The 7.375% Notes Due 2019 were issued in a public offering on October 10, 2012 and are carried at cost. The fair value of the Company's outstanding 7.375% Notes Due 2019 was approximately \$41.4 million at September 30, 2015. The fair value was determined based on the closing price on September 30, 2015 for the 7.375% Notes Due 2019. The 7.375% Notes Due 2019 are categorized as Level I under the ASC 820 Fair Value.

KCAP Senior Funding I, LLC (Debt Securitization)

On June 18, 2013, the Company completed the sale of notes in a \$140,000,000 debt securitization financing transaction. The notes offered in this transaction (the "KCAP Senior Funding I Notes") were issued by KCAP Senior Funding I, LLC, a newly formed special purpose vehicle (the "Issuer"), in which KCAP Senior Funding I Holdings, LLC, a wholly-owned subsidiary of the Company (the "Depositor"), owns all of the KCAP Senior Funding I Subordinated Notes (as defined below), and are backed by a diversified portfolio of bank loans. The indenture governing the KCAP Senior Funding I Notes contains an event of default that is triggered in the event that certain coverage tests are not met.

The secured notes (the “KCAP Senior Funding I Secured Notes”) were issued as Class A senior secured floating rate notes which have an initial face amount of \$77,250,000, are rated AAA (sf)/Aaa (sf) by Standard & Poor’s Ratings Services and Moody’s Investors Service, Inc., respectively, and bear interest at the three-month LIBOR plus 1.50%, Class B senior secured floating rate notes which have an initial face amount of \$9,000,000, are rated AA (sf)/Aa2 (sf) by Standard & Poor’s Ratings Services and Moody’s Investors Service, Inc., respectively, and bear interest at three-month LIBOR plus the 3.25%, Class C secured deferrable floating rate notes which have an initial face amount of \$10,000,000, are rated A (sf)/A2 (sf) by Standard & Poor’s Ratings Services and Moody’s Investors Service, Inc., respectively, and bear interest at three-month LIBOR plus 4.25%, and Class D secured deferrable floating rate notes which have an initial face amount of \$9,000,000, are rated BBB (sf)/Baa2 (sf) by Standard & Poor’s Ratings Services and Moody’s Investors Service, Inc., respectively, and bear interest at three-month LIBOR plus 5.25%. The Depositor retained all of the subordinated notes of the Issuer (the “KCAP Senior Funding I Subordinated Notes”), which have an initial face amount of \$34,750,000. The KCAP Senior Funding I Subordinated Notes do not bear interest and are not rated. Both the KCAP Senior Funding I Secured Notes and the KCAP Senior Funding I Subordinated Notes have a stated maturity on the payment date occurring in July, 2024, and are subject to a two year non-call period. The Issuer has a four year reinvestment period. The stated interest rate re-sets on a quarterly basis based upon the then-current level of the benchmark three-month LIBOR.

On December 8, 2014, the Company completed the sale of additional notes (“Additional Issuance Securities”) in a \$56,000,000 increase to the collateralized loan obligation transaction that originally closed on June 18, 2013 (the “Original Closing Date”). The issuance of additional notes was proportional across all existing classes of notes issued on the Original Closing Date.

Each class of secured Additional Issuance Securities (all such classes, collectively, the “Additional Issuance Offered Securities”) was issued as a pari passu sub-class of an existing class of notes issued on the Original Closing Date. Accordingly, the ratings given by Standard & Poor’s Ratings Services and Moody’s Investors Service, Inc. to each existing class of notes issued on the Original Closing Date will apply to each class of Additional Issuance Offered Securities that constitutes a related pari passu sub-class of such existing class of notes issued on the Original Closing Date.

The Additional Issuance Offered Securities were issued as Class A-2 senior secured floating rate notes which have an initial face amount of \$30,900,000, have a rating of AAA (sf)/Aaa (sf) by Standard & Poor’s Ratings Services and Moody’s Investors Service, Inc., respectively, and bear interest at the three-month LIBOR plus 1.50%, Class B-2 senior secured floating rate notes which have an initial face amount of \$3,600,000, a rating of AA (sf)/Aa2 (sf) by Standard & Poor’s Ratings Services and Moody’s Investors Service, Inc., respectively, and bear interest at three-month LIBOR plus 3.25%, Class C-2 secured deferrable floating rate notes which have an initial face amount of \$4,000,000, a rating of A (sf)/A2 (sf) by Standard & Poor’s Ratings Services and Moody’s Investors Service, Inc., respectively, and bear interest at three-month LIBOR plus 4.25%, and Class D-2 secured deferrable floating rate notes which have an initial face amount of \$3,600,000, a rating of BBB (sf)/Baa2 (sf) by Standard & Poor’s Ratings Services and Moody’s Investors Service, Inc., respectively, and bear interest at three-month LIBOR plus 5.25%. The Depositor retained all of the subordinated Additional Issuance Securities of the Issuer (the “Additional Issuance Subordinated Notes”), which have an initial face amount of \$13,900,000. The Additional Issuance Subordinated Notes do not bear interest and are not rated. The Additional Issuance Securities have a stated maturity date of July 20, 2024 and are subject to a non-call period until the payment date on the Additional Issuance Securities occurring in July 2015. The Issuer has a reinvestment period to and including the payment date on the Additional Issuance Securities occurring in July 2017, or such earlier date as is provided in the indenture relating to the Additional Issuance Securities. In connection with the Additional Issuance Offered Securities, the Company incurred issuance costs and OID costs of approximately \$679,000 and \$896,000, respectively, which is included in other assets on the accompanying balance sheet.

As part of this transaction, the Company entered into a master loan sale agreement with the Depositor and the Issuer under which the Company sold or contributed certain bank loans to the Depositor, and the Depositor sold such loans to the Issuer in exchange for a combination of cash and the issuance of the KCAP Senior Funding I Subordinated Notes to the Depositor.

In connection with the issuance and sale of the KCAP Senior Funding I Notes, the Company has made customary representations, warranties and covenants in the purchase agreement by and between the Company, the Depositor, the Issuer and Guggenheim Securities, LLC, which served as the initial purchaser of the KCAP Senior Funding I Secured Notes. The KCAP Senior Funding I Secured Notes are the secured obligations of the Issuer, and an indenture governing the KCAP Senior Funding I Notes includes customary covenants and events of default. The KCAP Senior Funding I Notes were sold in a private placement transaction and have not been, and will not be, registered under the Securities Act of 1933, as amended, or any state “blue sky” laws and may not be offered or sold in the United States absent registration with the Securities and Exchange Commission or an applicable exemption from registration.

The Company serves as collateral manager to the Issuer under a collateral management agreement, which contains customary representations, warranties and covenants. Under the collateral management agreement, the Company will perform certain investment management functions, including supervising and directing the investment and reinvestment of the Issuer's assets, as well as perform certain administrative and advisory functions.

In addition, because each of the Issuer and the Depositor are consolidated subsidiaries, the Company did not recognize any gain or loss on the transfer of any of our portfolio assets to such vehicles in connection with the issuance and sale of the KCAP Senior Funding I Notes.

As of September 30, 2015, there were 71 investments in portfolio companies with a total fair value of approximately \$186 million plus cash of \$8.3 million, collateralizing the secured notes of the Issuer. At September 30, 2015, there were unamortized issuance costs of approximately \$3.3 million included in other assets, and unamortized original issue discount, ("OID") costs of approximately \$3.1 million included in Notes issued by KCAP Senior Funding I, LLC liabilities in the accompanying consolidated balance sheet. The pool of loans in the securitization must meet certain requirements, including asset mix and concentration, collateral coverage, term, agency rating, minimum coupon, minimum spread and sector diversity requirements.

For the three months ended September 30, 2015, interest expense, including the amortization of deferred debt issuance costs and the discount on the face amount of the notes, was approximately \$1.3 million consisting of stated interest expense of approximately \$947,000, accreted discount of approximately \$152,000, and deferred debt issuance costs of approximately \$165,000. For the nine months ended September 30, 2015, interest expense, including the amortization of deferred debt issuance costs and the discount on the face amount of the notes, was approximately \$3.7 million consisting of stated interest expense of approximately \$2.8 million, accreted discount of approximately \$452,000, and deferred debt issuance costs of approximately \$485,000. As of September 30, 2015, the stated interest charged under the securitization was based on three month LIBOR at the last reset date, which was 0.29%. The classes, stated interest rates, spread over LIBOR, and stated interest expense are as follows:

	<u>Stated Interest Rate (1)</u>	<u>LIBOR Spread (basis points)</u>	<u>Interest Expense</u>
KCAP Senior Funding LLC Class A Notes	1.79%	150	\$ 483,160
KCAP Senior Funding LLC Class B Notes	3.54%	325	111,416
KCAP Senior Funding LLC Class C Notes	4.54%	425	158,795
KCAP Senior Funding LLC Class D Notes	5.54%	525	174,416
Total			\$ 927,787

(1) Stated Interest Rate (and thus periodic interest expense), will vary based upon prevailing 3 month LIBOR as of the reset date.

The amounts, ratings and interest rates (expressed as a spread to LIBOR) of the Class A, B, C, and D are as follows:

<u>Description</u>	<u>Class A Notes</u>	<u>Class B Notes</u>	<u>Class C Notes</u>	<u>Class D Notes</u>
Type	Senior Secured Floating Rate	Senior Secured Floating Rate	Secured Deferrable Floating Rate	Secured Deferrable Floating Rate
Amount Outstanding	\$ 108,150,000	\$ 12,600,000	\$ 14,000,000	\$ 12,600,000
Moody's Rating (sf)	"Aaa"	"Aa2"	"A2"	"Baa2"
Standard & Poor's Rating (sf)	"AAA"	"AA"	"A"	"BBB"
Interest Rate ¹	LIBOR + 1.50 %	LIBOR + 3.25 %	LIBOR + 4.25 %	LIBOR + 5.25 %
Stated Maturity	July, 2024 B, C, D	July, 2024 C, D	July, 2024 D and	July, 2024
Junior Classes	and Subordinated	and Subordinated	Subordinated	Subordinated

¹Three month LIBOR, which was 0.29% as of the last reset date

The Company's outstanding principal amounts, carrying values and fair values of the Class A, B, C and D Notes are as follows:

	As of September 30, 2015 (unaudited)		
	Principal Amount	Carrying Value	Fair Value
KCAP Senior Funding I, LLC Class A Notes	\$ 108,150,000	\$ 105,903,831	\$ 106,527,750
KCAP Senior Funding I, LLC Class B Notes	12,600,000	12,338,310	12,363,750
KCAP Senior Funding I, LLC Class C Notes	14,000,000	13,709,234	13,545,000
KCAP Senior Funding I, LLC Class D Notes	12,600,000	12,338,310	11,938,500
Total	\$ 147,350,000	\$ 144,289,685	\$ 144,375,000

Fair Value of KCAP Senior Funding I. The Company carries the KCAP Senior Funding I Notes at cost, net of unamortized discount of \$3,060,315. The fair value of the KCAP Senior Funding I Notes was approximately \$144.4 million at September 30, 2015. The fair values were determined based on third party indicative values. The KCAP Senior Funding I L.L.C. Notes are categorized as Level III under ASC 820: Fair Value.

7. DISTRIBUTABLE TAXABLE INCOME

Effective December 11, 2006, the Company elected to be treated as a RIC under the Code and adopted a December 31 tax-calendar year end. As a RIC, the Company is not subject to federal income tax on the portion of its taxable income and gains distributed currently to its stockholders as a dividend. The Company's quarterly distributions, if any, are determined by the Board of Directors. The Company anticipates distributing at least 90% of its taxable income and gains, within the Subchapter M rules, and thus the Company anticipates that it will not incur any federal or state income tax at the RIC level. As a RIC, the Company is also subject to a federal excise tax based on distributive requirements of its taxable income on a calendar year basis (e.g., calendar year 2015). Depending on the level of taxable income earned in a tax year, the Company may choose to carry forward taxable income in excess of current year distributions into the next tax year and pay a 4% excise tax on such income, to the extent required. The Company anticipates timely distribution of its taxable income within the tax rules, and the Company anticipates that it will not incur a US federal excise tax for the calendar year 2015.

The following reconciles net increase in net assets resulting from operations to taxable income for the nine months ended September 30, 2015:

	<u>Nine Months Ended</u>
Net increase in net assets resulting from operations	\$ (7,145,869)
Net change in unrealized depreciation from investments	19,750,242
Net realized (gains) losses	6,275,906
Book/tax differences on CLO equity investments	1,462,401
Other book/tax differences	<u>764,244</u>
Taxable income before deductions for distributions	\$ <u>21,106,924</u>
Taxable income before deductions for distributions per weighted average basic shares for the period	\$ 0.57

Tax-basis taxable income differs from net increase (decrease) in net assets resulting from operations primarily due to: (1) unrealized appreciation (depreciation) on investments, as investment gains and losses are not included in tax-basis taxable income until they are realized; (2) excess of capital losses over capital gains; (3) book-to-tax differences on CLO equity investments; and (4) other non-deductible expenses including stock compensation expense that is not currently deductible for tax purposes.

Dividends from Asset Manager Affiliates are recorded based upon a quarterly estimate of tax-basis earnings and profits of each Asset Manager Affiliate. Distributions in excess of the estimated tax-basis quarterly earnings and profits of each distributing Asset Manager Affiliate are recognized as tax-basis return of capital. The actual tax-basis earnings and profits and resulting dividend and/or return of capital for the year will be determined at the end of the tax year for each distributing Asset Manager Affiliate. For the nine months ended September 30, 2015 and 2014, the Asset Manager Affiliates declared cash distributions of \$7.3 million and \$9.1 million to the Company, respectively. The Company recognized \$4.2 million and \$4.2 million, respectively, of dividends from Asset Manager Affiliates in the Statement of Operations for the nine months ended September 30, 2015 and 2014. The difference of \$3.1 million and \$4.9 million, respectively, between cash distributions received and the tax-basis earnings and profits of the distributing affiliate, are recorded as an adjustment to the cost basis in the Asset Manager Affiliate (i.e. tax-basis return of capital), for the nine months ended September 30, 2015 and 2014, respectively.

Distributions to shareholders that exceed tax distributable income (tax net investment income and realized gains, if any) are reported as distributions of paid-in capital (i.e. return of capital). The tax character of distributions is made on an annual (full calendar-year) basis. The determination of the tax attributes of our distributions is made at the end of the year based upon our taxable income for the full year and the distributions paid during the full year. Therefore, a determination of tax attributes made on a quarterly basis may not be representative of the actual tax attributes of distributions for a full year.

	<u>Nine months ended</u>	<u>Year ended</u>
	<u>September 30,</u>	<u>December 31,</u>
	<u>2015</u>	<u>2014</u>
<i>Distributions paid from:</i>		
Ordinary income	\$ 15,313,691	\$ 26,807,154
Return of Capital	-	7,972,633
Total	\$ <u>15,313,691</u>¹	\$ <u>34,779,787</u>

(1) Comprised of the first quarter distribution paid in April and the second quarter distribution paid in July.

At September 30, 2015, the Company had a net capital loss carryforward of \$82.9 million to offset net capital gains, to the extent provided by federal tax law. Of the net capital loss carryforward, \$32.0 million will begin to expire in the tax year ending December 31, 2015. Of the net capital loss carryforward, \$50.9 million is not subject to expiration under the RIC Modernization Act of 2010.

On September 22, 2015, the Company's Board of Directors declared a distribution to shareholders of \$0.21 per share for a total of \$7.6 million. The record date was October 14, 2015 and the distribution was paid on October 27, 2015.

The Company adopted Financial Accounting Standards Board ASC Topic 740 Accounting for Uncertainty in Income Taxes ("ASC 740") as of January 1, 2007. ASC 740 provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the consolidated financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. The Company recognizes the tax benefits of uncertain tax positions only where the position is "more likely than not" to be sustained assuming examination by tax authorities. Management has analyzed the Company's tax positions, and has concluded that no liability for unrecognized tax benefits should be recorded related to uncertain tax positions taken on returns filed for open tax years (the last three fiscal years) or expected to be taken in the Company's current year tax return. The Company identifies its major tax jurisdictions as U.S. Federal and New York State, and the Company is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will change materially in the next 12 months. Management's determinations regarding ASC 740 may be subject to review and adjustment at a later date based upon factors including, but not limited to, an ongoing analysis of tax laws, regulations and interpretations thereof.

8. COMMITMENTS AND CONTINGENCIES

From time-to-time the Company is a party to financial instruments with off-balance sheet risk in the normal course of business in order to meet the needs of the Company's investment in portfolio companies. Such instruments include commitments to extend credit and may involve, in varying degrees, elements of credit risk in excess of amounts recognized on the Company's balance sheet. Prior to extending such credit, the Company attempts to limit its credit risk by conducting extensive due diligence, obtaining collateral where necessary and negotiating appropriate financial covenants. As of September 30, 2015 and December 31, 2014, the Trimaran Credit Facility was fully drawn and there was no remaining unfunded commitment thereunder. As of September 30, 2015, the Company had a commitment to make an investment of \$360,000 in a revolving senior secured loan. As of December 31, 2014, the Company had no outstanding commitments to make such investments.

9. STOCKHOLDERS' EQUITY

During the nine months ended September 30, 2015 and 2014, the Company issued 127,672 and 69,762 shares, respectively, of common stock under its dividend reinvestment plan. As of September 30, 2015 and December 31, 2014, there were 701,359 and 619,785 shares of unvested restricted shares, respectively. There were 196,166 grants, 10,042 forfeitures, and 104,550 vested shares during the nine months ended September 30, 2015. The total number of shares of the Company's common stock issued and outstanding as of September 30, 2015 and December 31, 2014 was 37,052,575 and 36,775,127, respectively. During the nine months ended September 30, 2015, the Company repurchased 36,348 shares at an aggregate cost of approximately \$220,000 in connection with the vesting of restricted stock awards.

10. EQUITY INCENTIVE PLAN

The Company has an equity incentive plan, established in 2006 and as amended in 2008, 2014 and most recently in June 2015, (the "Equity Incentive Plan"). The Company reserved 2,000,000 shares of common stock for issuance under the Equity Incentive Plan. The purpose of the Equity Incentive Plan is to provide officers and employees of the Company with additional incentives and align the interests of its employees with those of its shareholders. Options granted under the Equity Incentive Plan are exercisable at a price equal to the fair market value (market closing price) of the shares on the day the option is granted. Restricted stock granted under the Equity Incentive Plan is granted at a price equal to the fair market value (market closing price) of the shares on the day such restricted stock is granted. Vesting of restricted stock awarded under the 2008 amendment of the Equity Incentive Plan will occur in two equal installments of 50%, on each of the third and fourth anniversaries of the grant date; vesting of restricted stock subsequent to the 2014 amendment of the Equity Incentive Plan will vest in four equal installments of 25%, on each of the first four anniversaries of the grant date.

Stock Options

On June 20, 2014, the Company's Board of Directors approved the amended and restated Non-Employee Director Plan (the "Non-Employee Director Plan"), which was approved by shareholders on June 10, 2011. Accordingly, the annual grant of options to non-employee directors has been discontinued and replaced with an annual grant of shares of restricted stock as partial annual compensation for the services of the non-employee directors.

Information with respect to options granted, exercised and forfeited under the Equity Incentive Plan for the period January 1, 2014 through September 30, 2015 is as follows:

	Shares	Weighted Average Exercise Price per Share	Weighted Average Contractual Remaining Term (years)	Aggregate Intrinsic Value ¹
Options outstanding at January 1, 2014	50,000	\$ 7.72		
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Options outstanding at December 31, 2014	50,000	\$ 7.72	4.4	\$ 77,600
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Outstanding at September 30, 2015	<u>50,000</u>	\$ 7.72	3.6	\$ -
Total vested at September 30, 2015	50,000	\$ 7.72	3.6	

¹ Represents the difference between the market value of shares of the Company and the exercise price of the options.

The Company uses a Binary Option Pricing Model (American, call option) to establish the expected value of all stock option grants. For the nine months ended September 30, 2015 and 2014, the Company did not recognize any non-cash compensation expense related to stock options. At September 30, 2015, the Company had no remaining compensation costs related to unvested stock based awards.

Restricted Stock

Awards of restricted stock granted under the Non-Employee Director Plan vest as follows: 50% of the shares vest on the grant date and the remaining 50% of the shares vest on the earlier of:

- (i) the first anniversary of such grant, or
- (ii) the date immediately preceding the next annual meeting of shareholders.

On May 5, 2014, 5,000 shares of restricted stock were awarded to the Company's Board of Directors.

On June 20, 2014, the Company's Board of Directors approved the grant of 355,289 shares of restricted stock to the employees of the Company as partial compensation for their services. 25% of such awards will vest on each of the first four anniversaries of the grant date.

On May 21, 2015, 6,000 shares of restricted stock were awarded to the Company's Board of Directors.

On June 16, 2015, the Company received exemptive relief to repurchase shares of its common stock from its employees in connection with certain equity compensation plan arrangements. During the nine months ended September 30, 2015, the Company repurchased 36,348 shares of common stock at an aggregate cost of approximately \$220,000 in connection with the vesting of employee's restricted stock, which is reflected as Treasury Stock at cost on the Consolidated Balance Sheet. These shares are not available to be reissued under the Company's Equity Incentive Plan.

On June 23, 2015, the Company's Board of Directors approved the grant of 190,166 shares, with a fair value of approximately \$1.2 million, of restricted stock to the employees of the Company as partial compensation for their services. 25% of such awards will vest on each of the first four anniversaries of the grant date.

On June 23, 2015, the Company's Board of Directors also voted to amend the Equity Incentive Plan to specify that shares repurchased by the Company to satisfy employee tax withholding requirements would not be returned to the plan reserve and could not be reissued under the Company's Equity Incentive Plan.

During the nine months ended September 30, 2015, 104,550 shares of restricted stock vested and 10,042 shares of restricted stock were forfeited. As of September 30, 2015, after giving effect to these restricted stock awards, there were 701,359 shares of restricted stock outstanding. Information with respect to restricted stock granted, exercised and forfeited under the Plan for the period January 1, 2014 through September 30, 2015 is as follows:

	Non-vested Restricted Shares
Non-vested shares outstanding at January 1, 2014	272,998
Granted	360,289
Vested	(5,000)
Forfeited	(8,502)
Non-vested shares outstanding at December 31, 2014	619,785
Granted	196,166
Vested	(104,550)
Forfeited	(10,042)
Outstanding at September 30, 2015	<u>701,359</u>

For the nine months ended September 30, 2015, non-cash compensation expense related to restricted stock was approximately \$1.2 million; of this amount approximately \$504,000 was expensed at the Company, and approximately \$648,000 was a reimbursable expense allocated to the Asset Manager Affiliates. For the nine months ended September 30, 2014, non-cash compensation expense related to restricted stock was approximately \$768,000; of this amount approximately \$376,000 was expensed at the Company and approximately \$392,000 was a reimbursable expense allocated to the Asset Manager Affiliates.

Distributions are paid on all outstanding shares of restricted stock, whether or not vested. In general, shares of unvested restricted stock are forfeited upon the recipient's termination of employment. As of September 30, 2015, the company had approximately \$4.0 million of total unrecognized compensation cost related to non-vested share-based awards. That cost is expected to be recognized over a weighted average period of 2.7 years.

11. OTHER EMPLOYEE COMPENSATION

The Company adopted a 401(k) plan ("401K Plan") effective January 1, 2007. The 401K Plan is open to all full time employees. The 401K Plan permits an employee to defer a portion of their total annual compensation up to the Internal Revenue Service annual maximum based on age and eligibility. The Company makes contributions to the 401K Plan of up to 2% of the Internal Revenue Service's annual maximum eligible compensation, which fully vests at the time of contribution. Approximately \$25,000 and \$38,000 was expensed during the nine months ended September 30, 2015 and 2014, respectively, related to the 401K Plan.

The Company has also adopted a deferred compensation plan (“Profit-Sharing Plan”) effective January 1, 2007. Employees are eligible for the Profit-Sharing Plan provided that they are employed and working with the Company to participate in at least 100 days during the year and remain employed as of the last day of the year. Employees do not make contributions to the Profit-Sharing Plan. On behalf of the employee, the Company may contribute to the Profit-Sharing Plan 1) up to 8.0% of all compensation up to the Internal Revenue Service annual maximum and 2) up to 5.7% excess contributions on any incremental amounts above the social security wage base limitation and up to the Internal Revenue Service annual maximum. Employees vest 100% in the Profit-Sharing Plan after five years of service. Approximately \$98,000 and \$184,000 was expensed during the nine months ended September 30, 2015 and 2014, respectively, related to the Profit-Sharing Plan.

12. SUBSEQUENT EVENTS

On October 13, 2015 and October 14, 2015, the Company purchased approximately \$285,000 and \$3.5 million face value of its own Convertible Notes at \$102.00 and \$102.25, respectively, plus accrued interest. KCAP subsequently surrendered these notes to the Trustee for cancellation. The Company will recognize approximately \$99,000 in realized losses in connection with this extinguishment of debt in the fourth quarter.

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of September 30, 2015 for items that should potentially be recognized or disclosed in these financial statements. Other than described above, management has determined that there are no material subsequent events that would require adjustment to, or disclosure in, these consolidated financial statements.

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

In this Quarterly Report on Form 10-Q, "KCAP Financial," "Company," "we," "us," and "our" refer to KCAP Financial, Inc., and its wholly-owned subsidiaries.

The information contained in this section should be read in conjunction with our consolidated financial statements and notes thereto appearing elsewhere in this Quarterly Report and in conjunction with the financial statements and notes thereto in the Company's Form 10-K for the year ended December 31, 2014, as filed with the U.S. Securities and Exchange Commission (the "Commission" or the "SEC"). In addition, some of the statements in this report constitute forward-looking statements. The matters discussed in this Quarterly Report, as well as in future oral and written statements by management of KCAP Financial, 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," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these terms or other similar words. Important assumptions include our ability to originate new investments, achieve certain margins and levels of profitability, the availability of additional sources of capital, 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 Quarterly Report should not be regarded as a representation by us that our plans or objectives will be achieved. The forward-looking statements contained in this Quarterly Report include statements as to:

- our future operating results;
- our business prospects and the prospects of our existing and prospective portfolio companies;
- the return or impact of current and future investments;
- our contractual arrangements and other 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 financial condition and ability of our existing and prospective portfolio companies to achieve their objectives;
- our expected financings and investments;
- our regulatory structure and tax treatment;
- our ability to operate as a business development company and a registered investment company, including the impact of changes in laws or regulations governing our operations, or the operations of our portfolio companies;
- the adequacy of our cash resources and working capital;
- the timing of cash flows, if any, from the operations of our portfolio companies;
- the impact of a protracted decline in the liquidity of credit markets on our business;
- the impact of fluctuations in interest rates on our business;
- the valuation of our investments in portfolio companies, particularly those having no liquid trading market;
- our ability to recover unrealized losses;
- market conditions and our ability to access additional capital; and
- the timing, form and amount of any distributions.

There are a number of important risks and uncertainties that could cause our actual results to differ materially from those indicated by such forward-looking statements. For a discussion of factors that could cause our actual results to differ from forward-looking statements contained in this Quarterly Report, please see the discussion in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014. You should not place undue reliance on these forward-looking statements. The forward-looking statements made in this Quarterly Report relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statement to reflect events or circumstances occurring after the date this Quarterly Report is filed with the SEC.

GENERAL

We are an internally managed, non-diversified closed-end investment company that is regulated as a Business Development Company, or BDC under the Investment Company Act of 1940 (the “1940 Act”). We have three principal areas of investments:

First, the Company originates, structures, and invests in senior secured term loans and mezzanine debt primarily in privately-held middle market companies (the “Debt Securities Portfolio”). In addition, from time to time the Company may invest in the equity securities of privately held middle market companies.

Second, the Company has invested in asset management companies (Katonah Debt Advisors and Trimaran Advisors, collectively the “Asset Manager Affiliates”) that manage CLO Funds.

Third, the Company invests in debt and subordinated securities issued by CLOs (“CLO Fund Securities”). These CLO Fund Securities are primarily managed by our Asset Manager Affiliates, but from time-to-time the Company makes investments in CLO Fund Securities managed by other asset managers. The CLO Funds typically invest in broadly syndicated loans, high-yield bonds and other credit instruments.

The Company may also invest in other investments such as loans to larger, publicly-traded companies, high-yield bonds and distressed debt securities. The Company may also receive warrants or options to purchase common stock in connection with its debt investments.

In our Debt Securities Portfolio, our investment objective is to generate current income and, to a lesser extent, capital appreciation from the investments made by our middle market business in senior secured term loans, mezzanine debt and selected equity investments in privately-held middle market companies. We define the middle market as comprising of companies with earnings before interest, taxes, depreciation and amortization (“EBITDA”) of \$10 million to \$50 million and/or total debt of \$25 million to \$150 million. We primarily invest in first and second lien term loans which, because of their priority in a company’s capital structure, we expect will have lower default rates and higher rates of recovery of principal if there is a default and which we expect will create a stable stream of interest income. The investments in our Debt Securities Portfolio are all or predominantly below investment grade, and have speculative characteristics with respect to the issuer’s capacity to pay interest and repay principal. While our primary investment focus is on making loans to, and selected equity investments in, privately-held middle market companies, we may also invest in other investments such as loans to smaller companies or larger, publicly-traded companies, high-yield bonds and distressed debt securities. We may also receive warrants or options to purchase common stock in connection with our debt investments.

From our Asset Manager Affiliates investment, we expect to receive recurring cash distributions and to generate capital appreciation through the addition of new CLO Funds managed by our Asset Manager Affiliates. The Asset Manager Affiliates manage CLO Funds that invest in broadly syndicated loans, high-yield bonds and other credit instruments. Collectively, the Asset Manager Affiliates have approximately \$2.7 billion of par value assets under management as of September 30, 2015. The Asset Manager Affiliates are registered under the Investment Advisers Act of 1940, and are managed independently from the Company by a separate portfolio management team.

In addition, our investments in CLO Fund Securities, which are primarily made up of a minority investment in the subordinated securities or preferred stock of CLO Funds raised and managed by our Asset Manager Affiliates, are anticipated to provide the Company with recurring cash distributions and complement the growth of our Asset Manager Affiliates.

We intend to grow our entire portfolio of investments by raising additional capital, including through the prudent use of leverage available to us. As a BDC, we are limited in the amount of leverage we can incur under the 1940 Act. We are only allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing.

We have elected to be treated for U.S. federal income tax purposes as a RIC and intend to operate in a manner to maintain our RIC status. As a RIC, we intend to distribute to our stockholders substantially all of our net ordinary taxable income and the excess of realized net short-term capital gains over realized net long-term capital losses, if any, for each year. To qualify as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements. Pursuant to this election, we generally will not have to pay corporate-level U.S. federal income taxes on any income that we timely distribute to our stockholders.

PORTFOLIO AND INVESTMENT ACTIVITY

Our primary investments are: (1) lending to and investing in middle-market businesses through investments in senior secured loans, junior secured loans, subordinated/mezzanine debt investments, and other equity investments, which may include warrants, (2) our investments in our Asset Manager Affiliates, which manage portfolios of broadly syndicated loans, high-yield bonds and other credit instruments, and (3) CLO Fund Securities.

Total portfolio investment activity (excluding activity in time deposit and money market investments) for the nine months ended September 30, 2015 (unaudited) and for the year ended December 31, 2014 was as follows:

	Debt Securities	CLO Fund Securities	Equity Securities	Asset Manager Affiliates	Total Portfolio
Fair Value at December 31, 2013	\$ 266,830,427	\$ 79,452,220	\$ 11,006,398	\$ 76,148,000	\$ 433,437,045
2014 Activity:					
Purchases / originations / draws	224,513,503	22,421,847	2,216,847	545,979	249,698,176
Pay-downs / pay-offs / sales	(168,429,374)	(10,132,500)	(5,007,311)	(6,432,086)	(190,001,271)
Net accretion (amortization)	410,718	(11,102,015)	—	—	(10,691,297)
Net realized (losses) gains	(8,823,507)	5,575,498	(7,136,408)	—	(10,384,417)
Net increase (decrease) in fair value	5,641,403	(8,700,148)	7,040,155	2,064,107	6,045,517
Fair Value at December 31, 2014	320,143,170	77,514,902	8,119,681	72,326,000	478,103,753
Year to Date 2015 Activity:					
Purchases / originations / draws	87,878,844	11,952,000	—	—	99,830,844
Pay-downs / pay-offs / sales	(104,570,594)	(3,872,700)	(317,340)	(3,103,517)	(111,864,151)
Net accretion (amortization)	309,574	(6,433,551)	—	—	(6,123,977)
Net realized gains (losses)	110,517	(6,246,883)	3,015	—	(6,133,351)
Net (decrease) in fair value	(7,587,070)	(6,192,986)	(868,703)	(5,101,483)	(19,750,242)
Fair Value at September 30, 2015	\$ 296,284,441	\$ 66,720,782	\$ 6,936,653	\$ 64,121,000	\$ 434,062,876

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

The following table shows the Company's portfolio by security type at September 30, 2015 and December 31, 2014:

Security Type	September 30, 2015 (unaudited)			December 31, 2014		
	Cost	Fair Value	% ¹	Cost	Fair Value	% ¹
Money Market Accounts ³	\$ 3,345,723	\$ 3,345,723	1	\$ 1,602,741	\$ 1,602,741	1
Senior Secured Loan	211,441,566	204,189,144	86	220,965,922	218,329,860	86
Junior Secured Loan	41,204,786	39,795,980	17	38,664,199	38,569,006	15
Senior Unsecured Loan	23,000,000	23,000,000	10	33,066,984	33,066,984	13
First Lien Bond	2,976,651	2,317,500	1	2,962,507	2,580,000	1
Senior Subordinated Bond	4,420,467	4,221,543	2	4,295,544	4,240,301	2
Senior Unsecured Bond	11,698,340	10,597,995	5	11,208,178	11,386,218	4
Senior Secured Bond	1,511,590	1,481,250	1	1,515,584	1,552,500	1
CLO Fund Securities	86,288,448	66,720,782	28	90,889,190	77,514,901	30
Equity Securities	8,514,487	6,936,653	3	8,828,812	8,119,681	3
Preferred Securities	10,359,873	10,681,029	5	10,206,016	10,418,302	4
Asset Manager Affiliates ²	57,189,159	64,121,000	27	60,292,677	72,326,000	28
Total	\$ 461,951,090	\$ 437,408,599	186%	\$ 484,498,354	\$ 479,706,494	188%

¹ Represents percentage of Net Asset Value.

² Represents the equity investment in the Asset Manager Affiliates.

³ Includes restricted cash held under employee benefit plans.

Debt Securities Portfolio

At September 30, 2015 and December 31, 2014, our investments in income producing loans and debt securities, excluding CLO Fund securities, had a weighted average interest rate of approximately 7.4% and 7.3%, respectively.

The investment portfolio (excluding the Company's investment in Asset Manager Affiliates and CLO Funds) at September 30, 2015 was spread across 27 different industries and 92 different entities with an average balance per entity of approximately \$3.2 million. As of September 30, 2015, all but one of our portfolio companies were current on their debt service obligations.

We may invest up to 30% of our investment portfolio in "Non-qualifying" opportunistic investments such as high-yield bonds, debt and equity securities of CLO Funds, foreign investments, and distressed debt or equity securities of public companies. At September 30, 2015 and December 31, 2014, the total amount of non-qualifying assets was approximately 17% and 21%, respectively. The majority of non-qualifying assets were foreign investments which was approximately 15% and 16% of the Company's total assets, respectively (including the Company's investments in CLO Funds, which are typically domiciled outside the U.S. and represented approximately 15% and 16% of its total assets on such dates, respectively). The investments in our Debt Securities Portfolio are all or predominantly below investment grade, and therefore have speculative characteristics with respect to the issuer's capacity to pay interest and repay principal.

The following tables detail the ten largest portfolio companies (at fair value) as of September 30, 2015 and December 31, 2014:

Investment	September 30, 2015 (unaudited)		
	Cost	Fair Value	% of FMV
Asset Manager Affiliates	\$ 57,189,159	\$ 64,121,000	15%
Katonah 2007-I CLO Ltd.	23,975,870	23,233,837	5
Trimaran Credit Facility	23,000,000	23,000,000	5
Crowley Holdings Preferred, LLC	10,359,873	10,681,029	2
Catamaran CLO 2015-1 Ltd.	12,439,015	9,442,080	2
Tank Partners Holdings, LLC	10,520,547	8,939,640	2
Catamaran CLO 2014-1 Ltd.	9,264,284	7,251,390	2
Catamaran CLO 2014-2 Ltd.	8,374,214	6,932,673	2
Grupo HIMA San Pablo, Inc.	6,916,737	6,650,000	2
Catamaran CLO 2013- 1 Ltd.	6,559,985	6,561,900	1
Total	<u>\$ 168,599,684</u>	<u>\$ 166,813,549</u>	<u>38%</u>

Investment	December 31, 2014		
	Cost	Fair Value	% of FMV
Asset Manager Affiliates	\$ 60,292,677	\$ 72,326,000	15%
Katonah 2007-I CLO Ltd.	23,471,779	25,191,782	5
Trimaran Credit Facility	23,000,000	23,000,000	5
Crowley Holdings Preferred, LLC	10,206,016	10,418,302	2
Tank Partners Holdings, LLC	10,212,907	9,866,065	2
Catamaran CLO 2014-1 Ltd.	10,473,628	8,867,176	2
Catamaran CLO 2014-2 Ltd.	9,862,799	8,761,500	2
Restorix Health, Inc.	8,063,397	8,063,397	2
Catamaran CLO 2013- 1 Ltd.	7,492,702	7,874,910	2
Grupo HIMA San Pablo, Inc.	6,894,754	7,105,000	1
Total	\$ 169,970,659	\$ 181,474,132	38%

Excluding the Asset Manager Affiliates and CLO Fund securities, the Company's ten largest portfolio companies represented approximately 18% and 17% of the total fair value of the Company's investments at September 30, 2015 and December 31, 2014, respectively.

The industry concentrations based on the fair value of the Company's investment portfolio as of September 30, 2015 and December 31, 2014, were as follows:

Industry Classification	September 30, 2015 (unaudited)			December 31, 2014		
	Cost	Fair Value	% ¹	Cost	Fair Value	% ¹
Aerospace and Defense	\$ 9,648,347	\$ 9,069,264	4.0%	\$ 10,059,487	\$ 9,533,092	4%
Asset Management Company ²	57,189,159	64,121,000	26.0	60,292,677	72,326,000	28
Related Party Loan	23,000,000	23,000,000	10.0	23,000,000	23,000,000	9
Automotive	9,932,977	9,876,215	4.0	8,362,956	8,312,548	3
Banking, Finance, Insurance & Real Estate	6,302,517	6,165,678	3.0	7,660,721	7,639,366	3
Beverage, Food and Tobacco	24,439,168	24,119,358	10.0	17,974,974	17,883,421	7
Capital Equipment	9,509,929	8,437,999	4.0	9,486,407	10,351,329	4
Chemicals, Plastics and Rubber	3,503,317	3,463,669	1.0	6,348,226	6,210,253	2
CLO Fund Securities	86,288,447	66,720,782	28.0	90,889,190	77,514,901	31
Construction & Building	1,980,681	1,982,831	1.0	-	-	-
Consumer goods: Durable	14,163,260	13,174,865	6.0	13,876,482	13,301,207	5
Consumer goods: Non-durable	20,393,549	20,156,836	9.0	13,535,975	13,314,952	5
Containers, Packaging and Glass	2,916,649	2,921,622	1.0	2,992,443	2,946,734	1
Energy: Oil & Gas	14,176,843	11,509,141	5.0	13,866,208	13,289,753	5
Environmental Industries	12,784,029	12,474,510	5.0	12,942,593	12,911,017	5
Forest Products & Paper	5,895,474	5,944,907	3.0	5,917,051	5,942,523	2
Healthcare & Pharmaceuticals	50,028,563	46,982,976	20.0	66,186,412	65,720,782	27
High Tech Industries	11,802,469	11,652,643	5.0	14,457,495	14,419,110	6
Hotel, Gaming & Leisure	400,000	1,000	-	3,392,481	2,962,315	1
Media: Advertising, Printing & Publishing	11,203,758	10,574,807	5.0	11,318,815	11,396,027	4
Media: Broadcasting & Subscription	7,459,621	7,399,614	3.0	14,477,078	14,409,401	6
Metals & Mining	228,563	1,000	-	228,563	1,000	-
Retail	4,390,431	3,870,664	2.0	4,234,086	3,773,847	1
Services: Business	20,706,513	20,513,356	9.0	16,550,255	16,066,421	6
Services: Consumer	6,519,760	6,438,715	3.0	6,798,372	6,752,521	3
Telecommunications	13,797,355	13,614,636	6.0	22,030,434	21,865,864	9
Time Deposit and Money Market Accounts ³	3,345,723	3,345,724	1.0	1,602,741	1,602,741	1
Transportation: Cargo	21,755,034	22,040,544	9.0	20,156,700	20,455,941	8
Transportation: Consumer	2,487,820	2,487,500	1.0	-	-	-
Utilities: Electric	5,701,134	5,346,743	2.0	5,859,532	5,803,428	2
Total	\$ 461,951,090	\$ 437,408,599	186%	\$ 484,498,354	\$ 479,706,494	188%

¹ Calculated as a percentage of Net Asset Value.

² Represents the equity investment in the Asset Manager Affiliates.

³ Includes restricted cash held under employee benefit plans.

CLO Fund Securities

We typically make a minority investment in the subordinated securities or preferred stock of CLO Funds raised and managed by our Asset Manager Affiliates and may selectively invest in securities issued by CLO Funds managed by other asset management companies. As of September 30, 2015, we had approximately \$67 million invested in CLO Fund Securities, issued primarily by funds managed by our Asset Manager Affiliates.

The CLO Funds invest primarily in broadly syndicated non-investment grade loans, high-yield bonds and other credit instruments of corporate issuers. The underlying assets in each of the CLO Fund Securities in which we have an investment are generally diversified secured or unsecured corporate debt.

Our CLO Fund Securities as of September 30, 2015 and December 31, 2014 are as follows:

CLO Fund Securities	Investment	% ¹	September 30, 2015		December 31, 2014	
			Cost	Fair Value	Cost	Fair Value
Grant Grove CLO, Ltd.	Subordinated Securities	22.2%	\$ 2,488,323	\$ 362,691	\$ 2,254,638	\$ 469,132
Katonah III, Ltd. ³	Preferred Shares	23.1	1,366,357	385,000	1,015,334	400,000
Katonah VII CLO Ltd. ²	Subordinated Securities	-	—	—	3,563,252	1,000
Katonah VIII CLO Ltd. ²	Subordinated Securities	-	—	—	2,755,267	100,000
Katonah IX CLO Ltd. ²	Preferred Shares	6.9	1,172,498	100,000	1,262,496	594,988
Katonah X CLO Ltd. ²	Subordinated Securities	33.3	9,074,951	2,600,000	8,910,471	4,863,001
Katonah 2007-I CLO Ltd. ²	Preferred Shares	100.0	23,975,870	23,233,837	23,471,779	25,191,782
Trimaran CLO IV, Ltd. ²	Preferred Shares	19.0	—	—	11,094	900,000
Trimaran CLO V, Ltd. ²	Subordinated Notes	-	—	—	1,292,698	1,657,020
Trimaran CLO VI, Ltd. ²	Income Notes	16.2	—	—	1,531,142	1,950,000
Trimaran CLO VII, Ltd. ²	Income Notes	10.5	1,349,606	2,024,945	1,399,074	2,084,394
Catamaran CLO 2012-1 Ltd. ²	Subordinated Notes	24.9	7,154,268	4,295,666	7,994,677	5,793,924
Catamaran CLO 2012-1 Ltd. ²	Class F Notes	-	—	—	3,917,442	4,160,000
Catamaran CLO 2013-1 Ltd. ²	Subordinated Notes	23.5	6,559,985	6,561,900	7,492,702	7,874,910
Dryden 30 Senior Loan Fund	Subordinated Notes	7.5	1,643,183	2,290,600	10,473,628	8,867,176
Catamaran CLO 2014-1 Ltd. ²	Subordinated Notes	24.9	9,264,284	7,251,390	1,417,376	1,340,000
Catamaran CLO 2014-1 Ltd. ²	Class E Notes	15.1	1,425,893	1,240,000	2,263,321	2,506,075
Catamaran CLO 2014-2 Ltd. ²	Subordinated Notes	24.9	8,374,214	6,932,673	9,862,799	8,761,500
Catamaran CLO 2015-1 Ltd. ²	Subordinated Notes	24.0	12,439,015	9,442,080	—	—
Total			<u>\$ 86,288,447</u>	<u>\$ 66,720,782</u>	<u>\$ 90,889,190</u>	<u>\$ 77,514,902</u>

¹ Represents percentage of class held.

² A CLO Fund managed by an Asset Manager Affiliate.

³ As of September 30, 2015, this CLO Fund security was not providing a dividend distribution.

Asset Manager Affiliates

The Asset Manager Affiliates are our wholly-owned asset management companies that manage CLO Funds that invest in broadly syndicated loans, high yield bonds and other credit instruments. The CLO Funds managed by our Asset Manager Affiliates consist primarily of credit instruments issued by corporations. As of September 30, 2015, our Asset Manager Affiliates had approximately \$2.7 billion of par value of assets under management on which they earn management fees, and were valued at approximately \$64 million.

All CLO Funds managed by the Asset Manager Affiliates are currently paying all senior and subordinate management fees. In addition, during the third quarter of 2015, our Asset Manager Affiliates received incentive fees from two funds.

RESULTS OF OPERATIONS

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

Set forth below is a discussion of our results of operations for the three and nine months ended September 30, 2015 and 2014.

Revenue

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

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

Investment Income on Investments in CLO Fund Securities. We generate investment income from our investments in the securities (typically preferred shares or subordinated securities) of CLO Funds managed by our Asset Manager Affiliates and selective investments in securities issued by CLO Funds managed by other asset management companies. CLO Funds managed by our Asset Manager Affiliates and those managed by non-affiliates invest primarily in broadly syndicated non-investment grade loans, high-yield bonds and other credit instruments of corporate issuers. The Company distinguishes CLO Funds managed by its Asset Manager Affiliates as "CLO Fund Securities Managed by Affiliates", in its financial consolidated statements. The underlying assets in each of the CLO Funds in which we have an investment are generally diversified secured or unsecured corporate debt. Our CLO Fund Securities that are subordinated securities or preferred shares ("junior securities") are subordinated to senior note holders who typically receive a return on their investment at a fixed spread relative to the LIBOR index. The CLO Funds are leveraged funds and any excess cash flow or "excess spread" (interest earned by the underlying securities in the fund less payments made to senior bond holders and less fund expenses and management fees) is paid to the holders of the CLO Fund's subordinated securities or preferred shares. The level of excess spread from CLO Fund Securities can be impacted by the timing and level of the resetting of the benchmark interest rate for the underlying assets (which reset at various times throughout the quarter) in the CLO Fund and the related CLO Fund note liabilities (which reset at each quarterly distribution date); in periods of short-term and volatile changes in the benchmark interest rate, the levels of excess spread and resulting cash distributions to us can vary significantly.

Interest income on investments in CLO equity investments is recorded using the effective interest method in accordance with the provisions of ASC 325-40, Beneficial Interests in Securitized Financial Assets (“ASC 325-40”), based on the anticipated yield and the estimated cash flows over the projected life of the investment. Yields are revised when there are changes in actual or estimated projected future cash flows due to changes in prepayments and/or re-investments, credit losses or asset pricing. Changes in estimated yield are recognized as an adjustment to the estimated yield prospectively over the remaining life of the investment from the date the estimated yield was changed. Accordingly, investment income recognized on CLO equity securities in the GAAP statement of operations differs from both the tax-basis investment income and from the cash distributions actually received by the Company during the period. As a RIC, the Company anticipates a timely distribution of its tax-basis taxable income.

For non-junior class CLO Fund securities, such as our investment in the Class E notes of Catamaran 2014-1, interest is earned at a fixed spread relative to the LIBOR index.

Distributions from Asset Manager Affiliates. We receive cash distributions from our investment in our Asset Manager Affiliates, which are wholly-owned and manage CLO Funds that invest primarily in broadly syndicated non-investment grade loans, high yield bonds and other credit instruments issued by corporations. As managers of CLO Funds, our Asset Manager Affiliates receive contractual and recurring management fees from the CLO Funds for their management and advisory services. In addition, our Asset Manager Affiliates may also earn income related to net interest on assets accumulated for future CLO issuances on which they have taken a first loss position in connection with loan warehouse arrangements for their CLO Funds. The annual management fees that our Asset Manager Affiliates receive are generally based on a fixed percentage of the par value of assets under management and are recurring in nature for the term of the CLO Fund so long as the Asset Manager Affiliates manage the fund. As a result, the annual management fees earned by our Asset Manager Affiliates generally are not subject to market value fluctuations in the underlying collateral. Our Asset Manager Affiliates may receive incentive fees provided such CLO Funds have achieved a minimum investment return to holders of their subordinated securities or preferred shares as per the terms of each CLO Fund management agreement. During the three and nine months ended September 30, 2015, the Asset Manager Affiliates received incentive fees from two and three funds, respectively.

The Asset Manager Affiliates are expected to pay future distributions to the Company based upon their after-tax free cash flow, which generally will be dependent upon the maintenance and growth in their assets under management and incentive fees. As a result of tax-basis goodwill amortization and certain other tax-related adjustments, portions of distributions received may be deemed return of capital. As amortizing funds which are paying incentive fees are redeemed, we expect incentive fees available for distribution to diminish. During the three and nine months ended September 30, 2015, two and three CLO Funds have achieved the minimum investment return threshold and are paying the Asset Manager Affiliates incentive fees, respectively. The fair value of our investment in our Asset Manager Affiliates was approximately \$64 million at September 30, 2015, with an unrealized loss during the nine months ended September 30, 2015 of approximately \$5.1 million. For the three months ended September 30, 2015 and 2014, we recognized dividend income of approximately \$1.5 million and \$1.4 million from the Asset Manager Affiliates, respectively, while cash distributions received were \$2.3 million and \$3.1 million for those periods, respectively. For the nine months ended September 30, 2015 and 2014, we recognized dividend income of approximately \$4.2 million from the Asset Manager Affiliates, for both periods, while cash distributions received were \$7.3 million and \$9.1 million for those periods, respectively. The difference between cash distributions received and the tax-basis earnings and profits is recorded as an adjustment to the cost basis of the Asset Manager Affiliates investments. For interim periods, the Company estimates the tax attributes of any distributions as being either tax-basis earnings and profits (i.e. dividend income) or return of capital (i.e. adjustment to the Company’s cost basis in the Asset Manager Affiliates). The final determination of the tax attributes of distributions from our Asset Manager Affiliates is made on an annual (full calendar year) basis at the end of the year based upon taxable income and distributions for the full-year. Therefore, any estimate of tax attributes of distributions made on a quarterly basis may not be representative of the actual tax attributes of distributions for a full year. CLO Funds typically have automatic orderly wind-down features following an initial period of reinvestment. Thus, with all else being equal, as managed CLO Fund portfolios age, projected future assets under management (and associated management fees) will naturally decline, resulting in a reduction in fair value of our Asset Manager Affiliates. On the other hand, mandates to manage new CLO Fund portfolios will generally result in an increase in the fair value of our investment in our Asset Manager Affiliates. The aggregate of par value of assets under management by our Asset Manager Affiliates was \$2.7 billion and \$3.0 billion as of September 30, 2015 and December 31, 2014, respectively.

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

Investment Income

Investment income for the three months ended September 30, 2015 and 2014 was approximately \$11.8 million and \$10.8 million, respectively. Of these amounts, approximately \$6.3 million and \$5.4 million was attributable to interest income on our Debt Securities Portfolio. Increases in interest income from 2014 to 2015 were due to higher average invested assets stemming primarily from capital raising activities.

Investment income for the nine months ended September 30, 2015 and 2014 was approximately \$35.3 million and \$30.6 million, respectively. Of these amounts, approximately \$18.4 million and \$15.8 million was attributable to interest income on our Debt Securities Portfolio. Increases in interest income from 2014 to 2015 were due to higher average invested assets stemming primarily from capital raising activities.

The weighted average yield on debt securities Portfolio was 7.4% and 7.3% as of September 30, 2015 and December 31, 2014, respectively.

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

For the three months ended September 30, 2015 and 2014, approximately \$3.9 million and \$3.6 million, respectively, of investment income was attributable to investments in CLO Fund securities. For the nine months ended September 30, 2015 and 2014, approximately \$12.4 million and \$9.8 million, respectively, of investment income was attributable to investments in CLO Fund securities. On a tax-basis, the Company recognized \$4.3 million of taxable cash distributions from our CLO Fund Securities during the nine months ended September 30, 2015. Distributions from CLO Fund Securities are dependent on the performance of the underlying assets in each CLO Fund; interest payments, principal amortization and prepayments of the underlying loans in each CLO Fund are primary factors which determine the level of distributions on our CLO Fund Securities. The level of excess spread from CLO Fund Securities can be impacted by the timing and level of the resetting of the benchmark interest rate for the underlying assets (which reset at various times throughout the quarter) in the CLO Fund and the related CLO Fund bond liabilities (which reset at each quarterly distribution date); in periods of short-term and volatile changes in the benchmark interest rate, the levels of excess spread and distributions to us can vary significantly.

Expenses

Because we are internally managed, we directly incur the cost of management and operations. As a result, we pay no investment management fees or other fees to an external advisor. Our expenses consist primarily of interest expense on outstanding borrowings, compensation expense and general and administrative expenses, including professional fees. Interest and compensation expense are typically our largest expenses each period.

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

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

Professional Fees and General and Administrative Expenses. The balance of our expenses includes professional fees (primarily legal, accounting, valuation and other professional services), occupancy costs and general administrative and other costs.

Total expenses for the three months ended September 30, 2015 and 2014 were approximately \$5.2 million and \$5.3 million, respectively. Interest expense and amortization on debt issuance costs for the periods, were approximately \$3.0 million and \$2.9 million, respectively, on average debt outstanding of \$227 million and \$198 million, respectively.

For the three months ended September 30, 2015 and 2014, approximately \$892,000 and \$1.4 million, respectively, of expenses were attributable to employee compensation, including salaries, bonuses, employee benefits, payroll taxes and stock-based compensation expense. For the three months ended September 30, 2015 and 2014, respectively, professional fees and insurance expenses totaled approximately \$869,000 and \$678,000. Administrative costs, which include occupancy expense, technology and other office expenses, totaled approximately \$469,000 and \$316,000 for the three months ended September 30, 2015 and 2014, respectively.

Total expenses for the nine months ended September 30, 2015 and 2014 were approximately \$16.4 million and \$16.0 million, respectively. Interest expense and amortization on debt issuance costs for the periods, were approximately \$9.0 million and \$8.8 million, respectively, on average debt outstanding of \$227 million and \$196 million, respectively.

For the nine months ended September 30, 2015 and 2014, approximately \$3.0 million and \$3.9 million, respectively, of expenses were attributable to employee compensation, including salaries, bonuses, employee benefits, payroll taxes and stock-based compensation expense. For the nine months ended September 30, 2015 and 2014, respectively, professional fees and insurance expenses totaled approximately \$3.0 million and \$2.1 million. Administrative costs, which include occupancy expense, technology and other office expenses, totaled approximately \$1.5 million and \$1.2 million for the nine months ended September 30, 2015 and 2014, respectively.

Net Investment Income and Net Realized Gains (Losses)

Net investment income and net realized gains (losses) represents the stockholder's equity before net unrealized appreciation or depreciation on investments. For the three months ended September 30, 2015, net investment income and net realized losses were approximately \$309,000, or \$0.01 per share. For the three months ended September 30, 2014, net investment income and net realized losses were approximately \$3.4 million or \$0.10 per share. For the nine months ended September 30, 2015, net investment income and net realized losses were approximately \$12.7 million, or \$0.51 per share. For the nine months ended September 30, 2014, net investment income and net realized losses were approximately \$12.7 million or \$0.66 per share. Net investment income represents the income earned on our investments less operating and interest expense before net realized gains or losses and unrealized appreciation or depreciation on investments. For the three months ended September 30, 2015, net investment income was approximately \$6.5 million, or \$0.18 per share. For the nine months ended September 30, 2015, net investment income was approximately \$18.9 million, or \$0.51 per share.

Net Unrealized (Depreciation) Appreciation on Investments

During the three months ended September 30, 2015, our total investments had net unrealized depreciation of approximately \$16.2 million. During the three months ended September 30, 2014, our total investments had net unrealized appreciation of approximately \$4.9 million. For the three months ended September 30, 2015, our Asset Manager Affiliates had net unrealized depreciation of approximately \$8.9 million. For the three months ended September 30, 2014, our Asset Manager Affiliates had net unrealized appreciation of approximately \$5.1 million. For the three months ended September 30, 2015, our portfolio of debt securities and equity securities had net unrealized depreciation of approximately \$6.9 million, compared with net unrealized appreciation of \$8.6 million during the third quarter of 2014. For the three months ended September 30, 2015, our CLO Fund securities had net unrealized depreciation of approximately \$415,000 compared with net unrealized depreciation of \$8.9 million during the third quarter of 2014.

During the nine months ended September 30, 2015, our total investments had net unrealized depreciation of approximately \$19.8 million. During the nine months ended September 30, 2014, our total investments had net unrealized appreciation of approximately \$11.2 million. For the nine months ended September 30, 2015, our Asset Manager Affiliates had net unrealized depreciation of approximately \$5.1 million. For the nine months ended September 30, 2014, our Asset Manager Affiliates had net unrealized appreciation of approximately \$7.0 million. For the nine months ended September 30, 2015, our portfolio of debt securities and equity securities had net unrealized depreciation of approximately \$8.5 million, compared with net unrealized appreciation of \$9.4 million during the nine months ended September 30, 2014. For the nine months ended September 30, 2015, our CLO Fund securities had net unrealized depreciation of approximately \$6.2 million compared with net unrealized depreciation of \$5.1 million during the nine months ended September 30, 2014.

Net Change in Stockholder's Equity Resulting From Operations

The net decrease in stockholders' equity resulting from operations for the three months ended September 30, 2015 was \$16.1 million, or \$0.43 per share. Net increase in stockholders' equity resulting from operations for the three months ended September 30, 2014 was \$8.2 million, or \$0.24 per share.

The net decrease in stockholders' equity resulting from operations for the nine months ended September 30, 2015 was \$7.1 million, or \$0.19 per share. Net increase in stockholders' equity resulting from operations for the nine months ended September 30, 2014 was \$23.9 million, or \$0.71 per share.

FINANCIAL CONDITION, LIQUIDITY, AND CAPITAL RESOURCES

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

As of September 30, 2015 and December 31, 2014 the fair value of investments and cash were as follows:

Security Type	Investments at Fair Value	
	September 30, 2015	December 31, 2014
Cash	\$ 1,566,274	\$ 1,220,798
Money Market Accounts	3,345,723	1,602,741
Senior Secured Loan	204,189,144	218,329,860
Junior Secured Loan	39,795,980	38,569,006
Senior Unsecured Loan	23,000,000	33,066,984
First Lien Bond	2,317,500	2,580,000
Senior Subordinated Bond	4,221,543	4,240,301
Senior Secured Bond	1,481,250	1,552,500
Senior Unsecured Bond	10,597,995	11,386,218
CLO Fund Securities	66,720,782	77,514,902
Equity Securities	6,936,653	8,119,681
Preferred	10,681,029	10,418,302
Asset Manager Affiliates	64,121,000	72,326,000
Total	\$ 438,974,873	\$ 480,927,293

We use borrowed funds, known as "leverage," to make investments and to attempt to increase returns to our shareholders by reducing our overall cost of capital. As a BDC, we are limited in the amount of leverage we can incur under the 1940 Act. We are only allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing. As of September 30, 2015, we had approximately \$222.4 million of par value of outstanding borrowings and our asset coverage ratio of total assets to total borrowings was 205%, compliant with the minimum asset coverage level of 200% generally required for a BDC by the 1940 Act. We may also borrow amounts of up to 5% of the value of our total assets for temporary purposes.

On March 16, 2011, the Company issued \$55 million in aggregate principal amount of unsecured 8.75% convertible notes due March 2016 (“Convertible Notes”). On March 23, 2011, pursuant to an over-allotment option, the Company issued an additional \$5 million of such Convertible Notes for a total of \$60 million in aggregate principal amount. The net proceeds from the sale of the Convertible Notes, following underwriting expenses, were approximately \$57.7 million. Interest on the Convertible Notes is paid semi-annually in arrears on March 15 and September 15, at a rate of 8.75%, commencing September 15, 2011. The Convertible Notes mature on March 15, 2016 unless converted earlier. The Convertible Notes are senior unsecured obligations of the Company.

The Convertible Notes are convertible into shares of the Company’s common stock. As of September 30, 2015, the conversion rate was 134.51 shares of common stock per \$1,000 principal amount of Convertible Notes, which is equivalent to a conversion price of approximately \$7.43 per share of common stock. The conversion rate is subject to adjustment upon certain events. Upon conversion, the Company would issue the full amount of common stock or settle the conversion in cash, at its option, and retire the full amount of debt outstanding.

On April 4, 2013, approximately \$9 million of the Company’s 8.75% Convertible Notes were converted at a price per share of \$8.159 into 1,102,093 shares of KCAP common stock. On September 4, 2013, the Company purchased \$2 million face value of its own Convertible Notes at a price of \$114.50, plus accrued interest. KCAP subsequently surrendered these notes to the note trustee for cancellation effective September 13, 2013. On October 9, 2014, the Company purchased approximately \$10.4 million face value of its own Convertible Notes at \$114.875 plus accrued interest. On September 23, 2015, the Company purchased \$5.0 million face value of its own Convertible Notes at \$102.375 plus accrued interest. KCAP subsequently surrendered these notes to the trustee for cancellation. Due to the cash conversion option embedded in the Convertible Notes, the Company applied the guidance in ASC 470-40-20, Debt with Conversion and Other Options, and realized a loss on the extinguishment of this debt. For the nine months ended September 30, 2015, there were no realized losses on extinguishment of debt. The indenture governing the Convertible Notes contains certain restrictive covenants, including compliance with certain provisions of the 1940 Act and conditions governing the undertaking of new debt.

On October 10, 2012, the Company issued \$41.4 million in aggregate principal amount of unsecured 7.375% Notes Due 2019. The net proceeds for the 7.375% Notes Due 2019, following underwriting expenses, were approximately \$39.9 million. Interest on the 7.375% Notes Due 2019 is paid quarterly in arrears on March 30, June 30, September 30 and December 30, at a rate of 7.375%, commencing December 30, 2012. The 7.375% Notes Due 2019 mature on September 30, 2019, and are senior unsecured obligations of the Company. In addition, due to the coverage test applicable to the Company as a BDC and a covenant that the Company agreed to in connection with the issuance of the 7.375% Notes Due 2019, the Company is limited in its ability to make distributions if its asset coverage, as defined in the 1940 Act, is below 200% at the time of the declaration of the distribution. At September 30, 2015, the Company was in compliance with all of its debt covenants. The indenture governing the 7.375% Notes Due 2019 contains certain restrictive covenants, including compliance with certain provisions of the 1940 Act relating to borrowing and dividends.

On June 18, 2013, KCAP Senior Funding I, LLC, a specialty finance subsidiary of the Company, was capitalized through the issuance of \$140 million of notes (the “KCAP Senior Funding I Notes”). The KCAP Senior Funding I Notes are backed by a diversified portfolio of bank loans. The Company invested in the most junior class of the notes, issued in the approximate amount of \$35 million, representing the Company’s primary exposure to the performance of the assets acquired from the proceeds of the issuance of the KCAP Senior Funding I Notes. On December 8, 2014, the Company completed the sale of additional KCAP Senior Funding I Notes for \$56 million. The issuance of additional notes was pro-rata across all existing classes of notes originally issued. KCAP purchased an additional \$13.9 million in the most junior class of notes. These junior notes eliminate in consolidation and the remaining notes with a par value of \$105 million, net of \$3.1 million of unamortized discount, are reflected on our consolidated balance sheet. The indenture governing the KCAP Senior Funding I Notes contains an event of default that is triggered in the event that certain coverage tests are not met.

On October 6, 2014, the Company priced a follow-on public offering of 3.0 million shares of its common stock at a price of \$8.02 per share. The offering raised net proceeds were approximately \$23.8 million, after deducting underwriting discounts and offering expenses.

Subject to prevailing market conditions, we intend to grow our portfolio of assets by raising additional capital, including through the prudent use of leverage available to us. As a result, we may seek to enter into new agreements with other lenders or into other financing arrangements as market conditions permit. From time to time, we may seek to retire, repurchase, or exchange debt securities in open market purchases or by other means dependent on market conditions, liquidity, contractual obligations, and other matters. In addition, we evaluate strategic opportunities available to us and/or the Asset Manager Affiliates, including mergers, divestures, spin-offs, joint ventures and other similar transactions from time to time.

If our common stock trades below our net asset value per share, we will generally not be able to issue additional common stock at the market price unless our shareholders approve such a sale and our Board of Directors makes certain determinations.

Stockholder Distributions

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

- 98% of our ordinary net taxable income for the calendar year;
- 98.2% of our capital gains, if any, in excess of capital losses for the one-year period ending on October 31 of the calendar year; and
- any net ordinary income and net capital gains for the preceding year that were not distributed during such year.

The amount of our declared distributions, as evaluated by management and approved by our Board of Directors, is based primarily on our evaluation of distributable taxable income and after-tax free cash flow from our Asset Manager Affiliates.

We will be prohibited by the 1940 Act and the indenture governing our 7.375% Notes from making distributions if our asset coverage, as defined in the 1940 Act, falls below 200%. In any such event, we would be prohibited from making distributions required in order to maintain our status as a RIC.

The following table sets forth the quarterly distributions declared by us since 2013.

	<u>Distribution</u>	<u>Declaration Date</u>	<u>Record Date</u>	<u>Pay Date</u>
2015:				
Third quarter	0.21	9/22/2015	10/14/2015	10/27/2015
Second quarter	0.21	6/23/2015	7/6/2015	7/27/2015
First quarter	\$ 0.21	3/24/2015	4/6/2015	4/27/2015
Total declared in 2015	<u>\$ 0.63</u>			
2014:				
Fourth quarter	0.25	12/17/2014	12/29/2014	1/29/2015
Third quarter	0.25	9/19/2014	10/14/2014	10/29/2014
Second quarter	0.25	6/20/2014	7/3/2014	7/25/2014
First quarter	\$ 0.25	3/21/2014	4/4/2014	4/25/2014
Total declared in 2014	<u>\$ 1.00</u>			
2013:				
Fourth quarter	0.25	12/13/2013	12/27/2013	1/27/2014
Third quarter	0.25	9/13/2013	10/8/2013	10/29/2013
Second quarter	0.28	6/17/2013	7/5/2013	7/26/2013
First quarter	\$ 0.28	3/15/2013	4/5/2013	4/26/2013
Total declared in 2013	<u>\$ 1.06</u>			

OFF-BALANCE SHEET ARRANGEMENTS

We are a party to financial instruments with off-balance sheet risk in the normal course of business in order to meet the needs of the Company's investment objectives. Such instruments include commitments to extend credit and may involve, in varying degrees, elements of credit risk in excess of amounts recognized on our balance sheet. Prior to extending such credit, we attempt to limit our credit risk by conducting extensive due diligence, obtaining collateral where necessary and negotiating appropriate financial covenants. As of September 30, 2015, the Company had a commitment to make an investment of \$360,000 in a revolving senior secured loan. As of December 31, 2014, the Company had no outstanding commitments to make such investments.

CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual cash obligations and other commercial commitments as of September 30, 2015:

Contractual Obligations	Payments Due by Period				
	Total	Less than one year	1 - 3 years	3 - 5 years	More than 5 years
Long-term debt obligations ¹	\$ 222,397,000	\$ 33,647,000	\$ —	\$ 41,400,000	\$ 147,350,000

(1) Represents approximately \$33.6 million of Convertible Notes due March 16, 2016, \$41.4 million of 7.375% Notes Due 2019 and \$147.4 of Notes issued by KCAP Senior Funding I, L.L.C.

CRITICAL ACCOUNTING POLICIES

The consolidated financial statements are based on the selection and application of critical accounting policies, which require management to make significant estimates and assumptions. Critical accounting policies are those that are both important to the presentation of our financial condition and results of operations and require management's most difficult, complex, or subjective judgments. Our critical accounting policies are those applicable to the basis of presentation, valuation of investments, and certain revenue recognition matters as discussed below. See Note 2 to our consolidated financial statements, contained elsewhere herein: Significant Accounting Policies — Investments.

Valuation of Portfolio Investments

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

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

Pursuant to the AICPA Guide, we reflect our investments on our balance sheet at their estimated fair value with unrealized gains and losses resulting from changes in fair value reflected as a component of unrealized gains or losses on our statements of operations. Fair value is the amount that would be received to sell the investments in an orderly transaction between market participants at the measurement date (i.e., the exit price).

See Note 4 to the consolidated financial statements for the additional information about the level of market observability associated with investments carried at fair value.

The Company follows the provisions of ASC 820: Fair Value, which among other matters, requires enhanced disclosures about investments that are measured and reported at fair value. This standard defines fair value and establishes a hierarchical disclosure framework which prioritizes and ranks the level of market price observability used in measuring investments at fair value and expands disclosures about assets and liabilities measured at fair value. ASC 820: Fair Value defines “fair value” as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This fair value definition focuses on an exit price in the principal, or most advantageous market, and prioritizes, within a measurement of fair value, the use of market-based inputs (which may be weighted or adjusted for relevance, reliability and specific attributes relative to the subject investment) over entity-specific inputs. Market price observability is affected by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. Subsequent to the adoption of ASC 820: Fair Value, the FASB has issued various staff positions clarifying the initial standard (see Note 2 to the consolidated financial statements: “Significant Accounting Policies — Investments”).

ASC 820: Fair Value establishes the following three-level hierarchy, based upon the transparency of inputs to the fair value measurement of an asset or liability as of the measurement date:

- Level I – Unadjusted quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level I include listed equities and listed securities. As required by ASC 820: Fair Value, the Company does not adjust the quoted price for these investments, even in situations where the Company holds a large position and a sale could reasonably affect the quoted price.
- Level II – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date. Such inputs may be quoted prices for similar assets or liabilities, quoted markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full character of the financial instrument, or inputs that are derived principally from, or corroborated by, observable market information. Investments which are generally included in this category include illiquid debt securities and less liquid, privately held or restricted equity securities, for which some level of recent trading activity has been observed.
- Level III – Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. The inputs may be based on the Company’s own assumptions about how market participants would price the asset or liability or may use Level II inputs, as adjusted, to reflect specific investment attributes relative to a broader market assumption. These inputs into the determination of fair value may require significant management judgment or estimation. Even if observable market data for comparable performance or valuation measures (earnings multiples, discount rates, other financial/valuation ratios, etc.) are available, such investments are grouped as Level III if any significant data point that is not also market observable (private company earnings, cash flows, etc.) is used in the valuation methodology.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and the Company considers factors specific to the investment. A majority all of the Company’s investments are classified as Level III. The Company evaluates the source of inputs, including any markets in which its investments are trading, in determining fair value. Inputs that are backed by actual transactions, those that are highly correlated to the specific investment being valued and those derived from reliable or knowledgeable sources will tend to have a higher weighting in determining fair value. Ongoing reviews by the Company’s investment analysts, Chief Investment Officer, Valuation Committee and independent valuation firms (if engaged) may include factors such as an assessment of each underlying investment, its current and prospective operating and financial performance, consideration of financing and sale transactions with third parties, expected cash flows and market-based information, including comparable transactions, performance factors, and other investment or industry specific market data, among other factors.

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

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

The Company's investments in its wholly-owned Asset Manager Affiliates are carried at fair value, which is primarily determined utilizing a discounted cash flow model which incorporates different levels of discount rates depending on the hierarchy of fees earned (including the likelihood of realization of senior, subordinate and incentive fees) and prospective modeled performance ("Discounted Cash Flow"). Such valuation takes into consideration an analysis of comparable asset management companies and a percentage of assets under management. The Asset Manager Affiliates are classified as a Level III investment (as described above). Any change in value from period to period is recognized as net change in unrealized appreciation or depreciation.

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

For bond rated note tranches of CLO Fund Securities (those above the junior class) without transactions to support a fair value for the specific CLO Fund and tranche, fair value is based on discounting estimated bond payments at current market yields, which may reflect the adjusted yield on the leveraged loan index for similarly rated tranches, as well as prices for similar tranches for other CLO Funds and also other factors such as indicative prices provided by underwriters or brokers who arrange CLO Funds, and the default and recovery rates of underlying assets in the CLO Fund, as may be applicable. Such model assumptions may vary and incorporate adjustments for risk premiums and CLO Fund specific attributes.

We derive fair value for our illiquid loan investments that do not have indicative fair values based upon active trades primarily by using the Income Approach, and also consider recent loan amendments or other activity specific to the subject asset as described above. Other significant assumptions, such as coupon and maturity, are asset-specific and are noted for each investment in the Schedules of Investments.

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

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

Interest Income

Interest income, including amortization of premium and accretion of discount, is recorded on the accrual basis to the extent that such amounts are expected to be collected. We generally place a loan on non-accrual status and cease recognizing interest income on such loan or security when a loan or security becomes 90 days or more past due or if we otherwise do not expect the debtor to be able to service its debt obligations. Non-accrual loans remain in such status until the borrower has demonstrated the ability and intent to pay contractual amounts due or such loans become current. As of September 30, 2015 and December 31, 2014, there was one issuer (representing less than 1% of our total investments at fair value) on non-accrual status.

Investment Income on CLO Fund Securities

We receive distributions from our investments in the most junior class of securities of CLO Funds (typically preferred shares or subordinated securities) managed by the Asset Manager Affiliates and selective investments in securities issued by funds managed by other asset management companies. Our CLO Fund junior class securities are subordinated to senior note holders who typically receive a return on their investment at a fixed spread relative to the LIBOR index. The CLO Funds are leveraged funds and any excess cash flow or “excess spread” (interest earned by the underlying securities in the fund less payments made to senior note holders and less fund expenses and management fees) is paid to the holders of the CLO Fund’s subordinated securities or preferred shares. The level of excess spread from CLO Fund securities can be impacted from the timing and level of the resetting of the benchmark interest rate for the underlying assets (which reset at various times throughout the quarter) in the CLO Fund and the related CLO Fund note liabilities (which reset at each quarterly distribution date); in periods of short-term and volatile changes in the benchmark interest rate, the levels of excess spread and distributions to us can vary significantly. In addition, the failure of CLO Funds in which we invest to comply with certain financial covenants may lead to the temporary suspension or deferral of cash distributions to us.

GAAP-basis investment income on CLO equity investments is recorded using the effective interest method in accordance with the provisions of ASC 325-40, based on the anticipated yield and the estimated cash flows over the projected life of the investment. Yields are revised when there are changes in actual or estimated projected future cash flows due to changes in prepayments and/or re-investments, credit losses or asset pricing. Changes in estimated yield are recognized as an adjustment to the estimated yield prospectively over the remaining life of the investment from the date the estimated yield was changed. Accordingly, investment income recognized on CLO equity securities in the GAAP statement of operations differs from both the tax-basis investment income and from the cash distributions actually received by the Company during the period.

For non-junior class CLO Fund Securities, such as our investment in the class E notes of Catamaran 2014-1, interest is earned at a fixed spread relative to the LIBOR index.

Distributions from Asset Manager Affiliates

We record distributions from our Asset Manager Affiliates on the declaration date, which represents the ex-dividend date. Distributions in excess of tax-basis earnings and profits are recorded as tax-basis return of capital. For interim periods, the Company estimates the tax attributes of any distributions as being either tax-basis earnings and profits (i.e. dividend income) or return of capital (i.e. adjustment to the Company’s cost basis in the Asset Manager Affiliates). The final determination of the tax attributes of distributions from our Asset Manager Affiliates is made on an annual (full calendar year) basis at the end of the year based upon taxable income and distributions for the full-year. Therefore, any estimate of tax attributes of distributions made on a quarterly basis may not be representative of the actual tax attributes of distributions for a full year.

Payment-in-Kind Interest

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

Fee Income

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

Management Compensation

We may, from time to time, issue stock options or restricted stock, under the Equity Incentive Plan, to officers and employees for services rendered to us. We follow Accounting Standards Codification 718, Compensation — Stock Compensation, a method by which the fair value of options or restricted stock is determined and expensed.

United States Federal Income Taxes

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

Distributions to Shareholders

The amount of our declared distributions, as evaluated by management and approved by our Board of Directors, is based primarily on our evaluation of distributable taxable income and after-tax free cash flow from our Asset Manager Affiliates.

The following table sets forth the quarterly distributions declared by us since the most recent completed calendar year.

	Distribution	Declaration Date	Record Date	Pay Date
2015:				
Third quarter	0.21	9/22/2015	10/14/2015	10/27/2015
Second quarter	0.21	6/23/2015	7/6/2015	7/27/2015
First quarter	<u>\$ 0.21</u>	3/24/2015	4/6/2015	4/27/2015
Total declared in 2015	<u>\$ 0.63</u>			
2014:				
Fourth quarter	0.25	12/17/2014	12/29/2014	1/29/2015
Third quarter	0.25	9/19/2014	10/14/2014	10/29/2014
Second quarter	0.25	6/20/2014	7/3/2014	7/25/2014
First quarter	<u>\$ 0.25</u>	3/21/2014	4/4/2014	4/25/2014
Total declared in 2014	<u>\$ 1.00</u>			
2013:				
Fourth quarter	0.25	12/13/2013	12/27/2013	1/27/2014
Third quarter	0.25	9/13/2013	10/8/2013	10/29/2013
Second quarter	0.28	6/17/2013	7/5/2013	7/26/2013
First quarter	<u>\$ 0.28</u>	3/15/2013	4/5/2013	4/26/2013
Total declared in 2013	<u>\$ 1.06</u>			

The following table depicts the composition of shareholder distributions on a per share basis:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015¹	2014¹	2015¹	2014¹
Net investment income	\$ 0.18	\$ 0.16	\$ 0.51	\$ 0.44
Tax Accounting Difference on CLO Equity Investments	0.01	0.03	0.04	0.14
Other tax accounting differences	0.02	-	0.02	0.01
Taxable distributable income	0.21	0.20	0.57	0.59
Cash distributed to the Company by Asset Manager Affiliates in excess of their taxable earnings	0.02	0.05	0.08	0.15
Available for distribution ²	0.23	0.25	0.66	0.74
Distributed	\$ 0.21	\$ 0.25	\$ 0.63	\$ 0.75
Difference	\$ 0.02	\$ -	\$ 0.03	\$ (0.01)

¹ Table may not foot due to rounding.

² The "Available for distribution" financial measure is a non-GAAP financial measure that is calculated by including the cash distributed to the Company by the Asset Manager Affiliates in excess of their taxable earnings to the Company's taxable distributable income, which is the most directly comparable GAAP financial measure. In order to reconcile the "Available for distribution" financial measure to taxable distributable income per share in accordance with GAAP, the \$0.02 and \$0.08 per share of cash distributed to the Company by the Asset Manager Affiliates in excess of their taxable earnings is subtracted from the "Available for distribution" financial measure for the three and nine months ended September 30, 2015, respectively. The Company's management believes that the presentation of the non-GAAP "Available for distribution" financial measure provides useful information to investors.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Interest Rate Risk

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

Our investment income is affected by fluctuations in various interest rates, including LIBOR and prime rates. As of September 30, 2015, approximately 97.7% of our debt securities portfolio were either fixed rate or floating rate with a spread to an interest rate index such as LIBOR or the prime rate. Most of these floating rate loans contain LIBOR floors ranging between 0.75% and 3.00%. We generally expect that future portfolio investments will predominately be floating rate investments. As of September 30, 2015, we had \$222.4 million par value of borrowings outstanding at a weighted average rate of 4.37%.

Because we borrow money to make investments, our net investment income is dependent upon the difference between our borrowing rate and the rate we earn on the invested proceeds borrowed. In periods of rising or lowering interest rates, the cost of the portion of our debt associated with our Convertible Notes or 7.375% Notes Due 2019 would remain the same at 8.75% and 7.375%, respectively, given that this debt is at a fixed rate. The Notes issued by KCAP Senior Funding are floating rate based upon a LIBOR index plus a spread, which serves as a floor should LIBOR decrease to zero. Accordingly, our interest costs associated with this debt will fluctuate with changes in LIBOR.

Generally we would expect that an increase in the base rate index for our floating rate investment assets would increase our gross investment income and that a decrease in the base rate index for such assets would decrease our gross investment income (in either case, such increase/decrease may be limited by interest rate floors/minimums for certain investment assets).

We have analyzed the potential impact of changes in interest rates on interest income net of interest expense. Assuming that our balance sheet at September 30, 2015 was to remain constant and no actions were taken to alter the existing interest rate sensitivity, the table below illustrates the impact on net investment income on our Debt Securities Portfolio for various hypothetical increases in interest rates:

	Impact on net investment income:		
	1%	2%	3%
Increase (decrease) in interest rate	\$ (746,695)	\$ 74,705	\$ 912,268
Decrease in interest rate	\$ 407,701	\$ 407,701	\$ 407,701

As shown above, net investment income assuming a 1% increase in interest rates would decrease by approximately \$747,000 on an annualized basis, reflecting the impact to investments in our portfolio that are either fixed rate or which have embedded floors that would be unaffected by a 1% change in the underlying interest rate while our interest expense would be increasing. However, if the increase in rates was more significant, such as 2% or 3%, the net effect on net investment income would be an increase of approximately \$75,000 and \$912,000, respectively. Since LIBOR underlying certain investments, as well as certain of our borrowings, is currently very low, it is unlikely that the underlying rate will decrease by 1% or 2% or even 3%. If the underlying rate decreased to 0%, it would result in approximately a \$408,000 increase in net investment income.

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

We did not hold any derivative financial instruments for hedging purposes as of September 30, 2015.

Portfolio Valuation

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

The Company has engaged an independent valuation firm to provide third party valuation consulting services to the Company's Board of Directors. Each quarter, the independent valuation firm will perform third party valuations on the Company's material investments in illiquid securities such that they are reviewed at least once during a trailing 12 month period. These third party valuation estimates were considered as one of the relevant data inputs in the Company's determination of fair value. The Company intends to continue to engage an independent valuation firm in the future to provide certain valuation services, including the review of certain portfolio assets, as part of the quarterly and annual year-end valuation process.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

During the quarter ended September 30, 2015, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. Other Information

Item 1. Legal Proceedings

The Company is not currently a party to any material legal proceedings.

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2014.

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

While we did not engage in any sales of unregistered securities during the three months ended September 30, 2015, we issued a total of 20,059 shares of common stock under our dividend reinvestment plan ("DRIP"). This issuance was not subject to the registration requirements of the Securities Act of 1933. For the three months ended September 30, 2015, the aggregate value of the shares of our common stock issued under our DRIP was approximately \$103,099.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Reference is made to the Exhibit List filed as a part of this report beginning on page E-1. Each of such exhibits is incorporated by reference herein.

Exhibit Index

Exhibit Number	Description of Document
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.**
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.**
32.1	Certification of Chief Executive Officer Pursuant to 18 U. S. C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. **
32.2	Certification of Chief Financial Officer Pursuant to 18 U. S. C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
**	Submitted herewith

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

I, Dayl W. Pearson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 of KCAP Financial, Inc. (the “registrant”);

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

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

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

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

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

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

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

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

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

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

Date: November 4, 2015

By: _____ / S / DAYL W. PEARSON
Dayl W. Pearson
President and Chief Executive Officer
(Principal Executive Officer)

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

I, Edward U. Gilpin, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 of KCAP Financial, Inc. (the “registrant”);

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

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

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

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

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

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

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

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

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

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

Date: November 4, 2015

By: _____ / S / EDWARD U. GILPIN
Edward U. Gilpin
Chief Financial Officer
(Principal Financial Officer)

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

In connection with the accompanying Quarterly Report of KCAP Financial, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2015 (the "Report"), I, Edward U. Gilpin, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: November 4, 2015

By: _____ / S / EDWARD U. GILPIN
Edward U. Gilpin
Chief Financial Officer
(Principal Financial Officer)
