



August 3, 2016

KCAP Financial, Inc. Announces Second Quarter 2016 Financial Results

NEW YORK, Aug. 03, 2016 (GLOBE NEWSWIRE) -- KCAP Financial, Inc. (Nasdaq:KCAP) (the "Company") announces its second quarter 2016 financial results.

Financial Highlights

- | Net investment income for the second quarter ended June 30, 2016 was approximately \$5.1 million, or \$0.14 per basic share, compared with approximately \$5.8 million, or \$0.16 per basic share in the quarter ended June 30, 2015.
- | Taxable distributable income for the quarter was \$0.12 per basic share.
- | KCAP Financial, Inc. declared a second quarter shareholder distribution of \$0.15 per share.
- | At June 30, 2016, the fair value of KCAP's investments totaled approximately \$373 million.
- | Net asset value per share of \$5.45 as of June 30, 2016, compared with \$5.82 at December 31, 2015.

Dayl Pearson, President and Chief Executive Officer of KCAP Financial, Inc., noted, "Credit markets have continued to improve since the first quarter, and we remain cautiously optimistic about the economy, and our credit quality remains solid."

Operating Results

For the three months ended June 30, 2016, we reported total investment income of approximately \$9.6 million as compared to approximately \$11.2 million in the same period last year, a decrease of 14%, which is primarily due to the deleveraging of our balance sheet. Investment income from debt securities decreased 11% to approximately \$5.2 million from approximately \$5.9 million in the second quarter of 2015. Investment income on CLO fund securities in the second quarter of 2016 decreased to \$3.4 million from \$4.0 million in 2015, and dividends from our Asset Manager Affiliates in the second quarter of 2016 decreased to \$850,000 from \$1.2 million in the second quarter of 2015.

For the three months ended June 30, 2016, total expenses were lower by approximately \$868,000 as compared to the same period in 2015, primarily attributable to decreases in professional fees, as well as a decrease in interest expense due to the repurchase and repayments of the Convertible Notes throughout 2015 and the first quarter of 2016.

Net investment income for the second quarter of 2016 and 2015 was approximately \$5.1 million and \$5.8 million, or \$0.14 and \$0.16 per basic share, respectively. Net realized and unrealized depreciation on investments for the three months ended June 30, 2016 was approximately \$2.0 million, as compared to approximately \$4.6 million of unrealized depreciation for the same period in 2015.

Portfolio and Investment Activity

The fair value of our portfolio was approximately \$373 million as of June 30, 2016. The composition of our investment portfolio at June 30, 2016 and December 31, 2015 at cost and fair value was as follows:

Security Type	June 30, 2016 (unaudited)			December 31, 2015		
	Cost/Amortized		% ¹	Cost/Amortized		% ¹
	Cost	Fair Value		Cost	Fair Value	
Money Market Accounts ³	\$ 7,191,009	\$ 7,191,009	2	\$ 2,129,381	\$ 2,129,381	1
Senior Secured Loan	202,023,215	194,066,823	52	203,819,074	194,123,223	46
Junior Secured Loan	37,201,963	34,755,026	9	40,221,557	37,591,900	9
Senior Unsecured Loan	16,000,000	16,000,000	4	23,000,000	23,000,000	6
First Lien Bond	3,000,000	1,564,800	1	3,000,000	2,216,700	1
Senior Subordinated Bond	4,560,314	4,709,896	1	4,466,793	4,615,569	1
Senior Unsecured Bond	12,232,623	12,379,296	3	11,879,187	10,551,724	3

Senior Secured Bond	1,508,522	1,464,000	-	1,510,560	1,503,755	-
CLO Fund Securities	66,637,934	46,180,067	13	83,214,947	55,872,382	14
Equity Securities	10,467,787	9,231,202	3	10,467,787	9,548,488	2
Preferred Securities	-	-	-	10,411,673	11,036,373	3
Asset Manager Affiliates ²	56,091,230	45,288,000	12	56,591,230	57,381,000	14
Total	<u>\$ 416,914,597</u>	<u>\$ 372,830,119</u>	<u>100%</u>	<u>\$ 450,712,189</u>	<u>\$ 409,570,495</u>	<u>100%</u>

¹ Represents percentage of total portfolio at fair value.

² Represents the equity investment in the Asset Manager Affiliates.

³ Includes restricted cash held under employee benefit plans.

Liquidity and Capital Resources

At June 30, 2016, we had unrestricted cash and money market balances of approximately \$10.0 million, total assets of approximately \$387.9 million, and stockholders' equity of approximately \$202.2 million. Our net asset value per common share was \$5.45. As of June 30, 2016, we had approximately \$186.4 million (par value) of borrowings outstanding (\$180.2 million net of discount and capitalized costs) with a weighted average interest rate of approximately 3.81%.

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. Such financing arrangements may include a new secured and/or unsecured credit facility or the issuance of unsecured debt or preferred stock.

Distributions

Generally, we seek to fund distributions to shareholders from current distributable earnings, primarily from net interest and dividend income generated by our investment portfolio and any distributions from our Asset Manager Affiliates (Trimaran Advisors and Katonah Debt Advisors). However, a portion of distributions paid to shareholders may be a return of capital. We announced a regular quarterly distribution of \$0.15 per share for the quarter ended June 30, 2016. The record date for this distribution was July 7, 2016 and the distribution was paid on July 28, 2016. An estimate of the tax attributes of distributions made on a quarterly basis may not be representative of the actual tax attributes of distributions for a full year. Tax characteristics of all distributions will be reported to stockholders on Form 1099-DIV after the end of the calendar year.

We have adopted a dividend reinvestment plan that provides for reinvestment of distributions in shares of our common stock, unless a stockholder elects to receive cash. As a result, if we declare a cash distribution, shareholders who have not "opted out" of our dividend reinvestment plan will have their cash distributions automatically reinvested in additional shares of our common stock, rather than receiving cash. For more information regarding our distributions, please refer to our 2015 annual financial report. Please contact your broker or other financial intermediary for more information regarding the dividend reinvestment plan.

Supplemental Information: Analysis of Shareholder Distributions

On a supplemental basis, we are providing information relating to our shareholder distributions. The Company believes that taxable distributable income as reported in our financial statement footnotes is an important measure for investors. The Company may not distribute all of its taxable distributable income, or may over-distribute during any period.

The following table¹ depicts the composition of shareholder distributions on a per share basis for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016 ¹	2015 ¹	2016 ¹	2015 ¹
Net investment income	\$ 0.14	\$ 0.16	\$ 0.27	\$ 0.33
Tax Accounting Difference on CLO Equity Investments	0.01	0.01	0.03	0.02
Other tax accounting differences	(0.03)	-	(0.02)	-
Taxable distributable income	0.12	0.17	0.28	0.36
Cash distributed to the Company by Asset Manager Affiliates in excess of their taxable earnings	-	0.03	0.01	0.06
Available for distribution ²	0.12	0.20	0.29	0.43
Distributed	0.15	0.21	0.30	0.42

Difference	\$ (0.03)	\$ (0.01)	\$ (0.01)	\$ 0.01
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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 \$0.00 and \$0.01 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 six months ended June, 30, 2016, respectively. The Company's management believes that the presentation of the non-GAAP "Available for distribution" financial measure provides useful information to investors.

Conference Call and Webcast

We will hold a conference call on Thursday, August 4, 2016 at 9:00 a.m. Eastern Time to discuss our second quarter 2016 financial results. Shareholders, prospective shareholders and analysts are welcome to listen to the call or attend the webcast.

The conference call dial-in number is (866) 757-5630. No password is required. A live audio webcast of the conference call can be accessed via the Internet, on a listen-only basis on our Company's website www.kcapfinancial.com in the Investor Relations section under Events. The online archive of the webcast will be available after 7:00 p.m. Eastern Time for approximately 90 days.

A replay of this conference call will be available from 12:00 p.m. on August 4, 2016 until 11:59 p.m. on August 11, 2016. The dial in number for the replay is (855) 859-2056 and the conference ID is 56387763.

About KCAP Financial, Inc.

KCAP Financial, Inc. is a publicly traded, internally managed business development company. The Company's middle market investment business originates, structures, finances and manages a portfolio of term loans, mezzanine investments and selected equity securities in middle market companies. The Company's wholly owned portfolio companies, Trimaran Advisors, L.L.C. and Katonah Debt Advisors, L.L.C., manage collateralized debt obligation funds that invest in broadly syndicated corporate term loans, high-yield bonds and other credit instruments.

Forward Looking Statements

This press release contains forward-looking statements. The matters discussed in this press release that are forward-looking statements are based on current management expectations that involve substantial risks and uncertainties which could cause actual results to differ materially from the results expressed in, or implied by, these forward-looking statements. Forward-looking statements relate to future events or our future financial performance. We generally identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "could," "intends," "target," "projects," "contemplates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these terms or other similar words. Further information about factors that could affect our financial and other results is included in our filings with the Securities and Exchange Commission. We do not undertake to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required to be reported under the rules and regulations of the Securities and Exchange Commission.

KCAP FINANCIAL, INC. CONSOLIDATED BALANCE SHEETS

	As of June 30, 2016 (unaudited)	As of December 31, 2015
ASSETS		
Investments at fair value:		
Money market accounts (cost: 2016 - \$7,191,009; 2015 - \$2,129,381)	\$ 7,191,009	\$ 2,129,381
Debt securities (cost: 2016 - \$276,526,638; 2015 - \$298,308,845)	264,939,841	284,639,244
CLO Fund securities managed by affiliates (cost: 2016 - \$61,341,828; 2015 - \$77,764,568)	44,018,825	53,557,570
CLO Fund securities managed by non-affiliates (cost: 2016 - \$5,296,106; 2015 - \$5,450,379)	2,161,242	2,314,812
Equity securities (cost: 2016 - \$10,467,786; 2015 - \$10,467,786)	9,231,202	9,548,488
Asset Manager Affiliates (cost: 2016 - \$56,091,230; 2015 - \$56,591,230)	45,288,000	57,381,000

Total Investments at Fair Value (cost: 2016 - \$416,914,597; 2015 - \$450,712,189)	372,830,119	409,570,495
Cash	2,837,207	—
Restricted cash	6,420,566	7,138,272
Interest receivable	1,506,148	1,812,624
Receivable for open trades	2,390,625	—
Due from affiliates	1,469,812	2,117,095
Other assets	466,373	566,211
Total Assets	\$ 387,920,850	\$ 421,204,697
LIABILITIES		
7.375% Notes Due 2019 (net of offering costs of: 2016 - \$738,853; 2015 - \$890,344)	\$ 38,261,497	\$ 40,509,656
Notes issued by KCAP Senior Funding I, LLC (net of discount and offering costs of: 2016 - \$2,599,083 and \$2,794,883, respectively; 2015 - \$2,907,595 and \$3,126,009, respectively)	141,956,034	141,316,396
Convertible Notes (net of offering costs of: 2015 - \$21,292)	—	19,277,709
Payable for open trades	3,008,395	—
Accounts payable and accrued expenses	1,564,043	2,218,065
Accrued interest payable	906,056	1,228,068
Due to affiliates	90	554,333
Total Liabilities	185,696,115	205,104,227
COMMITMENTS AND CONTINGENCIES (Note 8)		
STOCKHOLDERS' EQUITY		
Common stock, par value \$0.01 per share, 100,000,000 common shares authorized; 37,240,591 issued, and 37,136,898 outstanding at June 30, 2016, and 37,136,353 issued, and 37,100,005 outstanding at December 31, 2015	371,369	371,000
Capital in excess of par value	362,924,515	361,962,511
Excess distribution of net investment income	(22,768,289)	(21,638,184)
Accumulated net realized losses	(92,819,337)	(82,054,107)
Net unrealized depreciation on investments	(45,483,523)	(42,540,750)
Total Stockholders' Equity	202,224,735	216,100,470
Total Liabilities and Stockholders' Equity	\$ 387,920,850	\$ 421,204,697
NET ASSET VALUE PER COMMON SHARE	\$ 5.45	\$ 5.82

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Investment Income:				
Interest from investments in debt securities	\$ 5,214,331	\$ 5,879,930	\$ 10,919,908	\$ 12,077,758
Interest from cash and time deposits	6,981	3,657	14,353	4,358
Investment income on CLO Fund Securities managed by affiliates	3,235,756	3,599,699	6,287,572	7,939,842
Investment income on CLO Fund Securities managed by non-affiliates	155,859	396,398	308,176	624,077
Dividends from Asset Manager Affiliates	850,000	1,235,439	1,400,000	2,649,414
Capital structuring service fees	116,473	56,263	159,711	218,066
Total investment income	9,579,400	11,171,386	19,089,720	23,513,515
Expenses:				

Interest and amortization of debt issuance costs	2,264,590	2,990,782	4,838,030	5,957,969
Compensation	1,046,886	1,057,452	2,013,473	2,130,273
Professional fees	562,176	705,132	1,214,115	1,876,574
Insurance	106,830	107,094	213,053	219,533
Administrative and other	490,898	478,674	938,260	989,966
Total expenses	4,471,380	5,339,134	9,216,931	11,174,315
Net Investment Income	5,108,020	5,832,252	9,872,789	12,339,200
Realized And Unrealized Gains (Losses) On Investments:				
Net realized (losses) gains from investment transactions	(2,882,152)	26,050	(10,694,039)	98,406
Net change in unrealized appreciation (depreciation) appreciation on:				
Debt securities	3,814,803	(2,502,825)	2,082,813	(1,252,614)
Equity securities	(1,696,700)	(207,148)	(317,286)	(263,271)
CLO Fund securities managed by affiliates	3,613,455	(4,970,933)	6,883,996	(5,629,804)
CLO Fund securities managed by non-affiliates	181,248	(222,252)	703	(148,508)
Asset Manager Affiliates investments	(5,060,000)	3,277,561	(11,593,000)	3,761,586
Total net change in unrealized appreciation (depreciation)	852,806	(4,625,597)	(2,942,774)	(3,532,611)
Net realized and unrealized depreciation on investments	(2,029,346)	(4,599,547)	(13,636,813)	(3,434,205)
Realized losses on extinguishments of debt	(71,190)	—	(71,190)	—
Net Increase (Decrease) In Stockholders' Equity Resulting From Operations	\$ 3,007,484	\$ 1,232,705	\$ (3,835,214)	\$ 8,904,995
Net Increase (Decrease) In Stockholders' Equity Resulting from Operations per Common Share:				
Basic:	\$ 0.08	\$ 0.03	\$ (0.10)	\$ 0.24
Diluted:	\$ 0.08	\$ 0.03	\$ (0.10)	\$ 0.24
Net Investment Income Per Common Share:				
Basic:	\$ 0.14	\$ 0.16	\$ 0.27	\$ 0.33
Diluted:	\$ 0.14	\$ 0.16	\$ 0.27	\$ 0.33
Weighted Average Shares of Common Stock Outstanding—Basic	37,163,534	36,886,129	37,136,634	36,860,341
Weighted Average Shares of Common Stock Outstanding—Diluted	37,163,534	36,891,931	37,136,634	36,867,887

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