



March 9, 2016

## KCAP Financial, Inc. Announces Full Year 2015 Financial Results

NEW YORK, March 09, 2016 (GLOBE NEWSWIRE) -- KCAP Financial, Inc. (Nasdaq:KCAP) (the "Company") announces its full year 2015 financial results.

### Financial Highlights

- | Net investment income for the year ended December 31, 2015 was approximately \$24.2 million, or \$0.65 per basic share, compared with \$20.1 million, \$0.59 per basic share in 2014.
- | Taxable distributable income for the year was \$0.63 per basic share.
- | Cash distributed by the Asset Manager Affiliates in excess of taxable earnings was \$0.10 per basic share for the year.
- | Resources available for distribution, a non-GAAP measure, was \$0.73 per basic share for the year.
- | KCAP Financial, Inc. declared a fourth quarter shareholder distribution of \$0.15 per share.
- | At December 31, 2015, the fair value of KCAP's investments totaled approximately \$409.6 million.
- | Net asset value per share of \$5.82 as of December 31, 2015, compared with \$6.94 at December 31, 2014.

Dayl Pearson, President and Chief Executive Officer of KCAP Financial, Inc., noted, "The fourth quarter of 2015 and beginning of 2016 have been volatile periods in the credit markets, which have had an impact on the Company's NAV. Nevertheless, KCAP was well-positioned to withstand the downturn. Our focus will continue to be on preserving and enhancing shareholder value through careful capital planning and resource management while we selectively pursue opportunities that arise."

### Operating Results

For the year ended December 31, 2015, we reported total investment income of approximately \$45.5 million as compared to approximately \$41.2 million in the prior year, an increase of 10%. Investment income from debt securities increased 13% to approximately \$24.1 million from approximately \$21.4 million. Investment income on CLO Fund Securities in 2015 increased 17% to \$15.7 million from \$13.4 million in 2014, and dividends from our Asset Manager Affiliates decreased slightly from \$5.5 million to \$5.3 million.

For the year ended December 31, 2015, total expenses were essentially flat as compared to 2014. Lower compensation-related expenses in 2015 were offset by increases in professional fees and overhead expenses.

Net investment income for the years ended 2015 and 2014 was approximately \$24.2 million and \$20.1 million, or \$0.65 and \$0.59 per share, respectively. Net realized and unrealized depreciation on investments for the year ended 2015 was approximately \$42.4 million, as compared to net realized and unrealized depreciation on investments of \$4.3 million for the same period in 2014.

### Portfolio and Investment Activity

The fair value of our portfolio was approximately \$409.6 million as of December 31, 2015. The composition of our investment portfolio at December 31, 2015 and December 31, 2014 at cost and fair value was as follows:

Security Type	December 31, 2015			December 31, 2014		
	Cost	Fair Value	% <sup>1</sup>	Cost	Fair Value	% <sup>1</sup>
Money Market Accounts <sup>3</sup>	\$ 2,129,381	\$ 2,129,381	1	\$ 1,602,741	\$ 1,602,741	- %
Senior Secured Loan	203,819,074	194,123,223	46	220,965,922	218,329,859	46
Junior Secured Loan	40,221,557	37,591,900	9	38,664,199	38,569,006	8

Senior Unsecured Loan	23,000,000	23,000,000	6	33,066,984	33,066,984	7
First Lien Bond	3,000,000	2,216,700	1	2,962,507	2,580,000	1
Senior Subordinated Bond	4,466,793	4,615,569	1	4,295,544	4,240,301	1
Senior Unsecured Bond	11,879,187	10,551,724	3	11,208,178	11,386,218	2
Senior Secured Bond	1,510,560	1,503,755	-	1,515,584	1,552,500	-
CLO Fund Securities	83,214,947	55,872,382	14	90,889,190	77,514,902	16
Equity Securities	10,467,787	9,548,488	2	8,828,812	8,119,681	2
Preferred Securities	10,411,673	11,036,373	3	10,206,016	10,418,302	2
Asset Manager Affiliates <sup>2</sup>	56,591,230	57,381,000	14	60,292,677	72,326,000	15
Total	<u>\$ 450,712,189</u>	<u>\$ 409,570,495</u>	<u>100 %</u>	<u>\$ 484,498,354</u>	<u>\$ 479,706,494</u>	<u>100 %</u>

<sup>1</sup> Represents percentage of of total portfolio at fair value.

<sup>2</sup> Represents the equity investment in the Asset Manager Affiliates.

<sup>3</sup> Includes restricted cash held under employee benefit plans.

## Liquidity and Capital Resources

At December 31, 2015, we had unrestricted cash and money market balances of approximately \$2.1 million, total assets of approximately \$425.2 million and stockholders' equity of approximately \$216.1 million. Our net asset value per common share was \$5.82. As of December 31, 2015, we had \$208.0 million of borrowings outstanding (\$205.1 million net of discount) with a weighted average interest rate of approximately 4.08%.

As of December 31, 2015, there was approximately \$19.3 million par value of Convertible Notes outstanding with a maturity date of March 15, 2016. In early March 2016, the Company had sufficient liquid resources available to satisfy its obligations under the Convertible Notes due March 15, 2016.

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 December 31, 2015. The record date for this distribution was January 6, 2016 and the distribution was paid on January 28, 2016. Tax characteristics of all distributions paid by us in 2015 have been 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. 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 table<sup>1</sup> depicts the composition of shareholder distributions on a per share basis for the year ended December 31, 2015 and 2014:

	Year Ended December 31,	
	2015 <sup>1</sup>	2014 <sup>1</sup>
Net investment income	\$ 0.65	\$ 0.59
Tax Accounting Difference on CLO Equity Investments	(0.03)	0.18

Other tax accounting differences	-	0.02
Taxable distributable income	0.63	0.78
Cash distributed to the Company by Asset Manager Affiliates in excess of their taxable earnings	0.10	0.19
Available for distribution <sup>2</sup>	0.73	0.97
Distributed	\$ 0.63	\$ 1.00
Difference	\$ 0.10	\$ (0.03)

<sup>1</sup> Table may not foot due to rounding.

<sup>2</sup> 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 \$0.10 and \$0.19 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 year-ended December 31, 2015 and 2014, 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, March 10, 2016 at 9:00 a.m. Eastern Time to discuss our full year 2015 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](http://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 March 10, 2016 until 12:00 p.m. Eastern Time on March 17, 2016. The dial in number for the replay is 855-859-2056 and the conference ID is 65843232.

## 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.

The KCAP Financial, Inc. logo is available at <http://www.globenewswire.com/newsroom/prs/?pkgid=3121>

## 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 December 31, 2015	As of December 31, 2014
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**ASSETS**

## Investments at fair value:

Money market accounts (cost: 2015 - \$2,129,381; 2014 - \$1,602,741)	\$ 2,129,381	\$ 1,602,741
Debt securities (amortized cost: 2015 - \$298,308,845; 2014 - \$322,884,934)	284,639,244	320,143,170
CLO Fund Securities managed by affiliates (amortized cost: 2015 - \$77,764,568; 2014 - \$85,355,897)	53,557,570	74,139,696
CLO Fund Securities managed by non-affiliates (amortized cost: 2015 - \$5,450,379; 2014 - \$5,533,293)	2,314,812	3,375,206
Equity securities (cost: 2015 - \$10,467,786; 2014 - \$8,828,812)	9,548,488	8,119,681
Asset Manager Affiliates (cost: 2015 - \$56,591,230; 2014 - \$60,292,677)	57,381,000	72,326,000
Total Investments at Fair Value (cost: 2015 - \$450,712,189; 2014 - \$484,498,354)	<u>409,570,495</u>	<u>479,706,494</u>
Cash	—	1,220,798
Restricted cash	7,138,272	19,325,550
Interest receivable	1,812,624	1,748,821
Due from affiliates	2,117,095	3,027,409
Other assets	<u>4,603,855</u>	<u>5,417,725</u>
Total Assets	<u>\$ 425,242,341</u>	<u>\$ 510,446,797</u>

**LIABILITIES**

Convertible Notes	\$ 19,299,000	\$ 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 - \$2,907,595; 2014 - \$3,512,407)	144,442,405	143,837,593
Payable for open trades	—	18,293,725
Accounts payable and accrued expenses	2,218,065	2,274,150
Accrued interest payable	1,228,068	1,566,255
Due to affiliates	554,333	31,000
Dividend payable	—	9,080,373
Total Liabilities	<u>209,141,871</u>	<u>255,130,096</u>

**COMMITMENTS AND CONTINGENCIES****STOCKHOLDERS' EQUITY**

Common stock, par value \$0.01 per share, 100,000,000 common shares authorized; 37,136,353 issued, and 37,100,005 outstanding at December 31, 2015, and 36,775,127 common shares issued and outstanding at December 31, 2014

Common stock	371,000	367,751
Capital in excess of par value	361,962,511	362,411,830
Excess distribution of net investment income	(21,638,184)	(25,579,865)
Accumulated net realized losses	(82,054,107)	(75,512,134)
Net unrealized depreciation on investments	<u>(42,540,750)</u>	<u>(6,370,881)</u>
Total Stockholders' Equity	<u>216,100,470</u>	<u>255,316,701</u>
Total Liabilities and Stockholders' Equity	<u>425,242,341</u>	<u>510,446,797</u>
NET ASSET VALUE PER COMMON SHARE	<u>\$ 5.82</u>	<u>\$ 6.94</u>

**KCAP FINANCIAL, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS**

**For the Years Ended December 31,**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Investment Income:</b>			
Interest from investments in debt securities	\$ 24,101,257	\$ 21,386,432	\$ 13,967,235
Interest from cash and time deposits	10,239	3,452	20,656
Investment income on CLO Fund Securities managed by affiliates	14,691,428	12,367,581	17,346,770

Investment income on CLO Fund Securities managed by non-affiliates	1,008,634	1,045,225	1,809,534
Dividends from Asset Manager Affiliates	5,348,554	5,467,914	5,735,045
Capital structuring service fees	366,859	934,871	305,376
	<u>45,526,971</u>	<u>41,205,475</u>	<u>39,184,616</u>
<b>Expenses:</b>			
Interest and amortization of debt issuance costs	11,727,880	11,538,179	10,116,271
Compensation	3,843,799	4,951,745	4,630,481
Professional fees	3,520,461	2,614,479	2,191,305
Insurance	433,561	471,276	552,568
Administrative and other	1,818,480	1,509,228	1,819,876
	<u>21,344,181</u>	<u>21,084,907</u>	<u>19,310,501</u>
<b>Net Investment Income</b>	<b>24,182,790</b>	<b>20,120,568</b>	<b>19,874,115</b>
<b>Realized And Unrealized Gains (Losses) On Investments:</b>			
Net realized losses from investment transactions	(6,202,289)	(10,384,415)	(12,090,503)
Net change in unrealized (depreciation)/appreciation on:			
Debt securities	(10,748,262)	5,641,403	14,956,103
Equity securities	(210,167)	7,040,155	2,605,586
CLO Fund Securities managed by affiliates	(12,990,404)	(11,584,257)	(11,195,901)
CLO Fund Securities managed by non-affiliates	(977,483)	2,884,109	(2,093,360)
Asset Manager Affiliates investments	(11,243,554)	2,064,107	5,703,743
	<u>(36,169,870)</u>	<u>6,045,517</u>	<u>9,976,171</u>
Total net (depreciation)/appreciation from investment transactions	<u>(42,372,159)</u>	<u>(4,338,898)</u>	<u>(2,114,332)</u>
Net realized and unrealized loss on investments			
Realized losses on extinguishments of debt	(445,189)	(748,076)	(536,811)
	<u>(445,189)</u>	<u>(748,076)</u>	<u>(536,811)</u>
<b>Net (Decrease)/Increase In Stockholders' Equity Resulting From Operations</b>	<b><u><u>\$(18,634,558)</u></u></b>	<b><u><u>\$ 15,033,594</u></u></b>	<b><u><u>\$ 17,222,972</u></u></b>
Net (Decrease)/Increase in Stockholders' Equity Resulting from Operations per Common Share:			
Basic:	\$ (0.50)	\$ 0.44	\$ 0.53
Diluted:	\$ (0.50)	\$ 0.43	\$ 0.53
Net Investment Income Per Common Share:			
Basic:	\$ 0.65	\$ 0.59	\$ 0.62
Diluted:	\$ 0.65	\$ 0.58	\$ 0.62
Weighted Average Shares of Common Stock Outstanding—Basic	36,964,444	34,248,346	32,280,160
Weighted Average Shares of Common Stock Outstanding—Diluted	36,964,444	34,259,977	32,295,005

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Source: KCAP Financial, Inc.

