



November 2, 2016

KCAP Financial, Inc. Announces Third Quarter 2016 Financial Results

NEW YORK, Nov. 02, 2016 (GLOBE NEWSWIRE) -- KCAP Financial, Inc. (Nasdaq:KCAP) (the "Company") announces its third quarter 2016 financial results.

Financial Highlights

- | Net investment income for the third quarter ended September 30, 2016 was approximately \$4.5 million, or \$0.12 per basic share, compared with approximately \$6.5 million, or \$0.18 per basic share in the quarter ended September 30, 2015.
- | Taxable distributable income for the quarter was \$0.12 per basic share.
- | KCAP Financial, Inc. declared a third quarter shareholder distribution of \$0.15 per share.
- | At September 30, 2016, the fair value of KCAP's investments totaled approximately \$372 million.
- | Net asset value per share of \$5.38 as of September 30, 2016, compared with \$5.82 at December 31, 2015.

Dayl Pearson, President and Chief Executive Officer of KCAP Financial, Inc., noted, "Continued positive momentum in the markets has resulted in increased portfolio repayments, including the realization of an attractive gain on a warrant. This positions KCAP to prudently deploy the proceeds in a competitive market."

Operating Results

For the three months ended September 30, 2016, we reported total investment income of approximately \$9.0 million compared to approximately \$11.8 million in the same period last year, a decrease of 23%, which is primarily due to the deleveraging of our balance sheet. Investment income from debt securities decreased 18% to approximately \$5.2 million from approximately \$6.3 million in the third quarter of 2015. Investment income on CLO fund securities in the third quarter of 2016 decreased to \$3.5 million from \$3.9 million in 2015. Cash distributions from the Asset Manager Affiliates were \$750,000 and \$2.3 million for the three month periods ended September 30, 2016 and 2015, respectively. None of the third quarter 2016 distribution from the Asset Manager Affiliates is estimated to be a taxable dividend, whereas the estimate of the taxable portion of the distributions in the third quarter of 2015 was approximately \$1.5 million and reflected as Dividends from Asset Manager Affiliates in the Statement of Operations.

For the three months ended September 30, 2016, total expenses were lower by approximately \$743,000 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 debt throughout 2016.

Net investment income for the third quarter of 2016 and 2015 was approximately \$4.5 million and \$6.5 million, or \$0.12 and \$0.18 per basic share, respectively. Net realized and unrealized depreciation on investments for the three months ended September 30, 2016 was approximately \$1.7 million, as compared to approximately \$22.4 million of unrealized depreciation for the same period in 2015.

Portfolio and Investment Activity

The fair value of our portfolio was approximately \$372 million as of September 30, 2016. The composition of our investment portfolio at September 30, 2016 and December 31, 2015 at cost and fair value was as follows:

Security Type	September 30, 2016 (unaudited)				December 31, 2015			
	Cost/Amortized Cost	Fair Value	% ¹		Cost/Amortized Cost	Fair Value	% ¹	
Money Market Accounts ²	\$ 15,379,713	\$ 15,379,713	4		\$ 2,129,381	\$ 2,129,381	1	
Senior Secured Loan	207,336,758	200,021,049	54		203,819,074	194,123,223	46	
Junior Secured Loan	40,175,253	38,432,562	11		40,221,557	37,591,900	9	
Senior Unsecured Loan	23,000,000	23,000,000	6		23,000,000	23,000,000	6	

First Lien Bond	3,000,000	1,035,000	-	3,000,000	2,216,700	1
Senior Subordinated Bond	-	-	-	4,466,793	4,615,569	1
Senior Unsecured Bond	-	-	-	11,879,187	10,551,724	3
Senior Secured Bond	1,507,492	1,400,625	-	1,510,560	1,503,755	-
CLO Fund Securities	66,714,991	45,126,919	12	83,214,947	55,872,382	14
Equity Securities	10,208,846	4,392,696	1	10,467,787	9,548,488	2
Preferred Securities	-	-	-	10,411,673	11,036,373	3
Asset Manager Affiliates ³	55,341,230	43,425,000	12	56,591,230	57,381,000	14
Total	<u>\$ 422,664,283</u>	<u>\$ 372,213,564</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 Includes restricted cash held under employee benefit plans.

³ Represents the equity investment in the Asset Manager Affiliates.

Liquidity and Capital Resources

At September 30, 2016, we had unrestricted cash and money market balances of approximately \$17.2 million, total assets of approximately \$388.1 million, and stockholders' equity of approximately \$199.9 million. Our net asset value per common share was \$5.38. As of September 30, 2016, we had approximately \$181.4 million (par value) of borrowings outstanding (\$175.7 million net of discount and capitalized costs) with a weighted average interest rate of approximately 3.76%.

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 September 30, 2016. The record date for this distribution was October 14, 2016 and the distribution was paid on October 27, 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 nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016 ¹	2015 ¹	2016 ¹	2015 ¹
Net investment income	\$ 0.12	\$ 0.18	\$ 0.39	\$ 0.51
Tax Accounting Difference on CLO Equity Investments	—	0.01	0.03	0.04
Other tax accounting differences	—	0.02	(0.02)	0.02
Taxable distributable income	<u>0.12</u>	<u>0.21</u>	<u>0.40</u>	<u>0.57</u>

Cash distributed to the Company by Asset Manager Affiliates in excess of their taxable earnings	0.02	0.02	0.03	0.08
Available for distribution ²	0.14	0.23	0.43	0.66
Distributed	0.15	0.21	0.45	0.63
Difference	<u>\$ (0.01)</u>	<u>\$ 0.02</u>	<u>\$ (0.02)</u>	<u>\$ 0.03</u>

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 \$0.03 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, 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, November 3, 2016 at 9:00 am Eastern Time to discuss our third 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 November 3, 2016 until 11:59 p.m. on November 10, 2016. The dial in number for the replay is (855) 859-2056 and the conference ID is 7308112.

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

	<u>As of September 30, 2016</u>	<u>As of December 31, 2015</u>
	(unaudited)	
ASSETS		
Investments at fair value:		
Money market accounts (cost: 2016 - \$15,379,713; 2015 - \$2,129,381)	\$ 15,379,713	\$ 2,129,381

Debt securities (cost: 2016 - \$275,019,503; 2015 - \$298,308,845)	263,889,236	284,639,244
CLO Fund securities managed by affiliates (cost: 2016 - \$61,430,042; 2015 - \$77,764,568)	43,114,027	53,557,570
CLO Fund securities managed by non-affiliates (cost: 2016 - \$5,284,949; 2015 - \$5,450,379)	2,012,892	2,314,812
Equity securities (cost: 2016 - \$10,208,846; 2015 - \$10,467,786)	4,392,696	9,548,488
Asset Manager Affiliates (cost: 2016 - \$55,341,230; 2015 - \$56,591,230)	43,425,000	57,381,000
Total Investments at Fair Value (cost: 2016 - \$422,664,283; 2015 - \$450,712,189)	372,213,564	409,570,495
Cash	1,804,666	-
Restricted cash	10,909,618	7,138,272
Interest receivable	1,158,010	1,812,624
Due from affiliates	1,743,537	2,117,095
Other assets	279,604	566,211
Total Assets	<u>\$ 388,108,999</u>	<u>\$ 421,204,697</u>
LIABILITIES		
7.375% Notes Due 2019 (net of offering costs of: 2016 - \$599,542; 2015 - \$890,344)	\$ 33,400,808	\$ 40,509,656
Notes issued by KCAP Senior Funding I, LLC (net of discount and offering costs of: 2016 - \$2,443,275 and \$2,627,599, respectively; 2015 - \$2,907,595 and \$3,126,009, respectively)	142,279,126	141,316,396
Convertible Notes (net of offering costs of: 2015 - \$21,292)	—	19,277,709
Payable for open trades	9,652,500	—
Accounts payable and accrued expenses	1,998,478	2,218,065
Accrued interest payable	874,624	1,228,068
Due to affiliates	90	554,333
Total Liabilities	<u>188,205,626</u>	<u>205,104,227</u>
COMMITMENTS AND CONTINGENCIES (Note 8)		
STOCKHOLDERS' EQUITY		
Common stock, par value \$0.01 per share, 100,000,000 common shares authorized; 37,264,772 issued, and 37,160,770 outstanding at September 30, 2016, and 37,136,353 issued, and 37,100,005 outstanding at December 31, 2015	371,608	371,000
Capital in excess of par value	363,417,727	361,962,511
Excess distribution of net investment income	(23,776,687)	(21,638,184)
Accumulated net realized losses	(88,259,512)	(82,054,107)
Net unrealized depreciation on investments	(51,849,763)	(42,540,750)
Total Stockholders' Equity	<u>199,903,373</u>	<u>216,100,470</u>
Total Liabilities and Stockholders' Equity	<u>\$ 388,108,999</u>	<u>\$ 421,204,697</u>
NET ASSET VALUE PER COMMON SHARE	<u>\$ 5.38</u>	<u>\$ 5.82</u>

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Investment Income:				
Interest from investments in debt securities	\$ 5,186,745	\$ 6,302,777	\$ 16,106,654	\$ 18,380,536
Interest from cash and time deposits	7,168	2,726	21,521	7,084
Investment income on CLO Fund Securities managed by affiliates	3,307,950	3,684,802	9,595,522	11,624,644
Investment income on CLO Fund Securities managed by				

non-affiliates	195,182	196,965	503,358	821,042
Dividends from Asset Manager Affiliates	—	1,547,069	1,400,000	4,196,483
Capital structuring service fees	321,744	45,009	481,456	263,074
	<u>9,018,789</u>	<u>11,779,348</u>	<u>28,108,511</u>	<u>35,292,863</u>
Expenses:				
Interest and amortization of debt issuance costs	2,122,325	3,007,283	6,960,355	8,965,252
Compensation	1,199,412	892,119	3,212,886	3,022,393
Professional fees	699,607	762,357	1,913,722	2,638,931
Insurance	102,254	107,028	315,307	326,561
Administrative and other	372,164	469,481	1,310,424	1,459,447
	<u>4,495,762</u>	<u>5,238,268</u>	<u>13,712,694</u>	<u>16,412,584</u>
Net Investment Income	4,523,027	6,541,080	14,395,817	18,880,279
Realized And Unrealized Gains (Losses) On Investments:				
Net realized gains (losses) from investment transactions	4,647,841	(6,231,759)	(6,046,199)	(6,133,352)
Net change in unrealized appreciation (depreciation) appreciation on:				
Debt securities	456,530	(6,334,456)	2,539,345	(7,587,070)
Equity securities	(4,579,566)	(605,432)	(4,896,852)	(868,703)
CLO Fund securities managed by affiliates	(993,011)	(261,695)	5,890,984	(5,891,498)
CLO Fund securities managed by non-affiliates	(137,193)	(152,980)	(136,490)	(301,488)
Asset Manager Affiliates investments	(1,113,000)	(8,863,069)	(12,706,000)	(5,101,483)
	<u>(6,366,240)</u>	<u>(16,217,632)</u>	<u>(9,309,013)</u>	<u>(19,750,242)</u>
Total net change in unrealized depreciation				
Net realized and unrealized depreciation on investments	<u>(1,718,399)</u>	<u>(22,449,391)</u>	<u>(15,355,212)</u>	<u>(25,883,594)</u>
Realized losses on extinguishments of debt	<u>(88,015)</u>	<u>(142,554)</u>	<u>(159,206)</u>	<u>(142,554)</u>
Net Increase (Decrease) In Stockholders' Equity Resulting From Operations	<u>\$ 2,716,613</u>	<u>\$ (16,050,865)</u>	<u>\$ (1,118,601)</u>	<u>\$ (7,145,869)</u>
Net Increase (Decrease) In Stockholders' Equity Resulting from Operations per Common Share:				
Basic:	\$ 0.07	\$ (0.43)	\$ (0.03)	\$ (0.19)
Diluted:	\$ 0.07	\$ (0.43)	\$ (0.03)	\$ (0.19)
Net Investment Income Per Common Share:				
Basic:	\$ 0.12	\$ 0.18	\$ 0.39	\$ 0.51
Diluted:	\$ 0.12	\$ 0.18	\$ 0.39	\$ 0.51
Weighted Average Shares of Common Stock Outstanding—Basic	37,152,622	37,046,906	37,142,002	36,923,212
Weighted Average Shares of Common Stock Outstanding—Diluted	37,152,622	37,046,906	37,142,002	36,923,212

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