



May 4, 2016

KCAP Financial, Inc. Announces First Quarter 2016 Financial Results

NEW YORK, May 04, 2016 (GLOBE NEWSWIRE) -- KCAP Financial, Inc. (Nasdaq:KCAP) (the "Company") announces its first quarter 2016 financial results.

Financial Highlights

- | Net investment income for the first quarter ended March 31, 2016 was approximately \$4.8 million, or \$0.13 per basic share, compared with approximately \$6.5 million, or \$0.18 per basic share in the quarter ended March 31, 2015.
- | Taxable distributable income for the quarter was \$0.16 per basic share.
- | Cash distributed by the Asset Manager Affiliates in excess of taxable earnings was approximately \$0.01 per basic share for the quarter.
- | Resources available for distribution, a non-GAAP measure, was \$0.17 per basic share for the quarter.
- | KCAP Financial, Inc. declared a first quarter shareholder distribution of \$0.15 per share.
- | At March 31, 2016, the fair value of KCAP's investments totaled approximately \$378 million.
- | Net asset value per share of \$5.50 as of March 31, 2016, compared with \$5.82 at December 31, 2015.

Dayl Pearson, President and Chief Executive Officer of KCAP Financial, Inc., noted, "Challenging market conditions persisted in the first quarter. We continued to manage our balance sheet and resources during the quarter, with the repayment of the remainder of our convertible debt at maturity, and with prudent risk management, asset selection and expense control. We will continue this approach and actively pursue opportunities to enhance shareholder value in the future."

Operating Results

For the three months ended March 31, 2016, we reported total investment income of approximately \$9.5 million as compared to approximately \$12.3 million in the same period last year, a decrease of 23%. Investment income from debt securities decreased 8% to approximately \$5.7 million from approximately \$6.2 million in the first quarter of 2015. Investment income on CLO fund securities in the first quarter of 2016 decreased to \$3.2 million from \$4.6 million in 2015, and dividends from our Asset Manager Affiliates in the first quarter of 2016 decreased 61% to \$550,000 from \$1.4 million in the first quarter of 2015.

For the three months ended March 31, 2016, total expenses were lower by approximately \$1.1 million as compared to the same period in 2015, primarily attributable to decreases in professional fees and compensation expense, 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 first quarter of 2016 and 2015 was approximately \$4.8 million and \$6.5 million, or \$0.13 and \$0.18 per basic share, respectively. Net realized and unrealized depreciation on investments for the three months ended March 31, 2016 was approximately \$11.6 million, as compared to approximately \$1.2 million appreciation for the same period in 2015.

Portfolio and Investment Activity

The fair value of our portfolio was approximately \$378 million as of March 31, 2016. The composition of our investment portfolio at March 31, 2016 and December 31, 2015 at cost and fair value was as follows:

Security Type	March 31, 2016 (unaudited)			December 31, 2015		
	Cost	Fair Value	% ¹	Cost	Fair Value	% ¹

Money Market Accounts ³	\$ 1,665,993	\$ 1,665,993	-	\$ 2,129,381	\$ 2,129,381	1
Senior Secured Loan	205,077,628	193,931,052	52	203,819,074	194,123,223	46
Junior Secured Loan	39,250,916	36,586,051	11	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	1,825,800	-	3,000,000	2,216,700	1
Senior Subordinated Bond	4,513,571	4,662,751	1	4,466,793	4,615,569	1
Senior Unsecured Bond	12,053,460	11,557,863	3	11,879,187	10,551,724	3
Senior Secured Bond	1,509,541	1,440,000	-	1,510,560	1,503,755	-
CLO Fund Securities	73,610,853	49,358,283	13	83,214,947	55,872,382	14
Equity Securities	10,467,787	10,927,901	3	10,467,787	9,548,488	2
Preferred	-	-	-	10,411,673	11,036,373	3
Asset Manager Affiliates ²	56,091,230	50,348,000	13	56,591,230	57,381,000	14
Total	<u>\$ 423,240,979</u>	<u>\$ 378,303,694</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 March 31, 2016, we had unrestricted cash and money market balances of approximately \$2.3 million, total assets of approximately \$388 million and stockholders' equity of approximately \$204 million. Our net asset value per common share was \$5.50. As of March 31, 2016, we had approximately \$188.8 million (par value) of borrowings outstanding (\$182 million net of discount and capitalized costs) with a weighted average interest rate of approximately 3.8%.

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 March 31, 2016. The record date for this distribution was April 7, 2016 and the distribution was paid on April 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 months ended March 31, 2016 and 2015:

	Quarter-ended March 31,	
	2016 ¹	2015 ¹
Net investment income	\$ 0.13	\$ 0.18

Tax Accounting Difference on CLO Equity Investments	0.02	0.01
Other tax Accounting differences	0.01	-
Taxable distributable income	<u>0.16</u>	<u>0.19</u>
Cash distributed to the Company by Asset Manager Affiliates in excess of their taxable earnings	0.01	0.03
Available for distribution ²	<u>0.17</u>	<u>0.23</u>
Distributed	\$ 0.15	\$ 0.21
Difference	<u>\$ (0.02)</u>	<u>\$ (0.02)</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 \$0.01 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 months ended March 31, 2016 and 2015, 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, May 5, 2016 at 9:00 am Eastern Time to discuss our first 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 May 5, 2016 until 11:59 p.m. on May 12, 2016. The dial in number for the replay is (855) 859-2056 and the conference ID is 4157207.

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 March 31, 2016 (unaudited)	As of December 31, 2015
ASSETS		

Investments at fair value:		
Money market accounts (cost: 2016 - \$1,665,993; 2015 - \$2,129,381)	\$ 1,665,993	\$ 2,129,381
Debt securities (cost: 2016 - \$281,405,117; 2015 - \$298,308,845)	266,003,517	284,639,244
CLO Fund Securities managed by affiliates (cost: 2016 - \$68,235,255; 2015 - \$77,764,568)	47,298,797	53,557,570
CLO Fund Securities managed by non-affiliates (cost: 2016 - \$5,375,598; 2015 - \$5,450,379)	2,059,486	2,314,812
Equity securities (cost: 2016 - \$10,467,786; 2015 - \$10,467,786)	10,927,901	9,548,488
Asset Manager Affiliates (cost: 2016 - \$56,091,230; 2015 - \$56,591,230)	50,348,000	57,381,000
Total Investments at Fair Value (cost: 2016 - \$423,240,979; 2015 - \$450,712,189)	<u>378,303,694</u>	<u>409,570,495</u>
Cash	626,236	-
Restricted cash	4,273,754	7,138,272
Interest receivable	1,732,514	1,812,624
Due from affiliates	2,835,649	2,117,095
Other assets	<u>505,466</u>	<u>566,211</u>
 Total Assets	 <u>\$ 388,277,313</u>	 <u>\$ 421,204,697</u>
 LIABILITIES		
7.375% Notes Due 2019 (net of offering costs of: 2016 - \$837,746; 2015 - \$890,344)	\$ 40,562,255	\$ 40,509,656
Notes issued by KCAP Senior Funding I, LLC (net of discount and offering costs of: 2016 - \$2,753,854 and \$2,961,017, respectively; 2015 - \$2,907,595 and \$3,126,009, respectively)	141,635,129	141,316,396
Convertible Notes (net of offering costs of: 2015 - \$21,292)	—	19,277,709
Accounts payable and accrued expenses	850,628	2,218,065
Accrued interest payable	841,484	1,228,068
Due to affiliates	<u>89</u>	<u>554,333</u>
 Total Liabilities	 <u>183,889,585</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; 37,166,781 issued, and 37,130,433 outstanding at March 31, 2016, and 37,136,353 issued, and 37,100,005 outstanding at December 31, 2015	371,304	371,000
Capital in excess of par value	362,588,974	361,962,511
Excess distribution of net investment income	(22,370,226)	(21,638,184)
Accumulated net realized losses	(89,865,993)	(82,054,107)
Net unrealized depreciation on investments	<u>(46,336,331)</u>	<u>(42,540,750)</u>
 Total Stockholders' Equity	 <u>204,387,728</u>	 <u>216,100,470</u>
 Total Liabilities and Stockholders' Equity	 <u>\$ 388,277,313</u>	 <u>\$ 421,204,697</u>
 NET ASSET VALUE PER COMMON SHARE	 <u>\$ 5.50</u>	 <u>\$ 5.82</u>

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

	Three Months Ended	
	March 31,	
	<u>2016</u>	<u>2015</u>
Investment Income:		
Interest from investments in debt securities	\$ 5,705,577	\$ 6,197,828
Interest from cash and time deposits	7,372	701
Investment income on CLO Fund Securities managed by affiliates	3,051,816	4,340,143
Investment income on CLO Fund Securities managed by non-affiliates	<u>152,317</u>	<u>227,679</u>

Dividends from Asset Manager Affiliates	550,000	1,413,975
Capital structuring service fees	43,239	161,803
	<u>9,510,321</u>	<u>12,342,129</u>
Expenses:		
Interest and amortization of debt issuance costs	2,573,440	2,967,154
Compensation	966,588	1,072,822
Professional fees	651,939	1,171,441
Insurance	106,223	112,439
Administrative and other	447,361	511,325
	<u>4,745,551</u>	<u>5,835,181</u>
Net Investment Income	4,764,770	6,506,948
Realized And Unrealized Gains (Losses) On Investments:		
Net realized (losses) gains from investment transactions	(7,811,888)	72,356
Net change in unrealized (depreciation) appreciation on:		
Debt securities	(1,731,990)	1,250,211
Equity securities	1,379,413	(56,123)
CLO Fund Securities managed by affiliates	3,270,541	(658,871)
CLO Fund Securities managed by non-affiliates	(180,545)	73,744
Asset Manager Affiliates investments	(6,533,000)	484,025
	<u>(3,795,581)</u>	<u>1,092,986</u>
Total net change in unrealized (depreciation) appreciation		
	<u>(11,607,469)</u>	<u>1,165,342</u>
Net realized and unrealized (depreciation) appreciation on investments		
	<u>(11,607,469)</u>	<u>1,165,342</u>
Net (Decrease) Increase In Stockholders' Equity Resulting From Operations	\$ (6,842,699)	\$ 7,672,290
Net (Decrease) Increase In Stockholders' Equity Resulting from Operations per Common Share:		
Basic:	\$ (0.18)	\$ 0.21
Diluted:	\$ (0.18)	\$ 0.20
Net Investment Income Per Common Share:		
Basic:	\$ 0.13	\$ 0.18
Diluted:	\$ 0.13	\$ 0.18
Weighted Average Shares of Common Stock Outstanding—Basic	37,109,735	36,834,266
Weighted Average Shares of Common Stock Outstanding—Diluted	37,109,735	36,843,382

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