



August 2, 2017

KCAP Financial, Inc. Announces Second Quarter 2017 Financial Results

NEW YORK, Aug. 02, 2017 (GLOBE NEWSWIRE) -- KCAP Financial, Inc. (Nasdaq:KCAP) (the "Company" or "KCAP") announces its second quarter 2017 financial results.

Financial Highlights

- Net investment income for the second quarter ended June 30, 2017 was approximately \$2.6 million, or \$0.07 per basic share, compared with approximately \$5.1 million, or \$0.14 per basic share in the quarter ended June 30, 2016.
- Cash distributed by the Asset Manager Affiliates was approximately \$0.02 per basic share for the quarter.
- KCAP declared a second quarter shareholder distribution of \$0.12 per share.
- At June 30, 2017, the fair value of KCAP's investments totaled approximately \$355 million.
- Net asset value per share was \$5.10 as of June 30, 2017, compared with \$5.24 at December 31, 2016 and \$5.14 at March 31, 2017.

Dayl Pearson, President and Chief Executive Officer of KCAP, said, "Following the close of the second quarter, we announced a joint venture and related transactions which resulted in, among other things, the redemption of approximately \$148 million of our debt. As a result, these transactions give us the financial flexibility to expand our direct lending activities with attractive investment opportunities that generate strong free cash flow to fund distributions to shareholders. We are excited about the joint venture, which similar to other BDC's will invest in a portfolio of senior middle market loans, managed by one of the Company's wholly owned investment advisers. We look forward to increasing direct lending and identifying other opportunities and investments to advance our goal of shareholder value creation."

Operating Results

For the three months ended June 30, 2017, we reported total investment income of approximately \$7.7 million as compared to approximately \$9.6 million in the same period last year. Investment income from debt securities decreased to approximately \$4.8 million from approximately \$5.2 million in the second quarter of 2016. Investment income on securities issued by collateralized loan obligation funds in the second quarter of 2017 decreased to \$2.8 million from \$3.4 million in the second quarter of 2016. We received a return of capital distribution from our Asset Manager Affiliates (Trimaran Advisors and Katonah Debt Advisors) of \$650,000 in the second quarter of 2017, as compared to a dividend distribution of \$850,000 in the second quarter of 2016.

For the three months ended June 30, 2017, total expenses increased by approximately \$580,000 as compared to the same period in 2016, primarily attributable to an increase in professional fees.

Net investment income for the second quarter of 2017 and 2016 was approximately \$2.6 million and \$5.1 million, or \$0.07 and \$0.14 per basic share, respectively. Net realized and unrealized gains on investments for the three months ended June 30, 2017 was approximately \$20,000, compared to net realized and unrealized losses of approximately \$2.0 million for the same period in 2016.

Portfolio and Investment Activity

The fair value of our portfolio was approximately \$355 million as of June 30, 2017. The composition of our investment portfolio at June 30, 2017 and December 31, 2016 at cost and fair value was as follows:

Security Type	June 30, 2017 (unaudited)			December 31, 2016		
	Cost/Amortized Cost	Fair Value	% ¹	Cost/Amortized Cost	Fair Value	% ¹
Money Market Accounts ²	\$ 17,307,477	\$ 17,307,477	5	\$ 28,699,269	\$ 28,699,269	8
Senior Secured Loan	207,622,375	202,272,386	57	207,701,078	200,322,152	55

Junior Secured Loan	40,191,888	38,773,666	11	37,251,776	35,444,440	10
First Lien Bond	3,054,337	1,058,394	-	3,060,919	1,089,338	-
Senior Secured Bond	1,504,434	1,505,250	-	1,506,461	1,487,400	-
CLO Fund Securities	76,829,575	51,752,901	15	76,851,317	54,174,350	15
Equity Securities	10,389,007	4,636,545	1	10,389,007	5,056,355	1
Asset Manager Affiliates ³	54,041,230	37,457,000	11	55,341,230	40,198,000	11
Total	<u>\$ 410,940,323</u>	<u>\$ 354,763,619</u>	<u>100%</u>	<u>\$ 420,801,057</u>	<u>\$ 366,471,304</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 June 30, 2017, we had unrestricted cash and money market balances of approximately \$19.7 million, total assets of approximately \$363.9 million and stockholders' equity of approximately \$189.6 million. Our net asset value per common share was \$5.10. As of June 30, 2017, we had approximately \$174 million (par value) of borrowings outstanding (\$170 million net of discount and capitalized costs) with a weighted average interest rate of approximately 4.0%.

Subject to prevailing market conditions, we intend to grow our portfolio of assets by raising additional capital, including through the prudent use of leverage. 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. However, a portion of distributions paid to shareholders may be a return of capital. We announced a regular quarterly distribution of \$0.12 per share for the quarter ended June 30, 2017. The record date for this distribution was July 7, 2017 and the distribution was paid on July 27, 2017. 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 2016 annual financial report. Please contact your broker or other financial intermediary for more information regarding the dividend reinvestment plan.

Conference Call and Webcast

We will hold a conference call on Thursday, August 3, 2017 at 9:00 am Eastern Time to discuss our second quarter 2017 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 12:00 p.m. Eastern Time for approximately 90 days.

A replay of this conference call will be available from 12:00 p.m. on August 3, 2017 until 11:59 p.m. on August 11, 2017. The dial in number for the replay is (855) 859-2056 and the conference ID is 62182298.

About KCAP Financial, Inc.

KCAP Financial, Inc. is a publicly traded, internally managed business development company. KCAP'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. KCAP'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 June 30, 2017 (unaudited)	As of December 31, 2016
ASSETS		
Investments at fair value:		
Money market accounts (cost: 2017 - \$17,307,477; 2016 - \$28,699,269)	\$ 17,307,477	\$ 28,699,269
Debt securities (cost: 2017 - \$252,373,033; 2016 - \$249,520,234)	243,609,699	238,343,330
CLO Fund securities managed by affiliates (cost: 2017 - \$71,771,166; 2016 - \$71,734,809)	49,839,327	51,908,784
CLO Fund securities managed by non-affiliates (cost: 2017 - \$5,058,410; 2016 - \$5,116,508)	1,913,571	2,265,566
Equity securities (cost: 2017 - \$10,389,007; 2016 - \$10,389,007)	4,636,545	5,056,355
Asset Manager Affiliates (cost: 2017 - \$54,041,230; 2016 - \$55,341,230)	37,457,000	40,198,000
Total Investments at Fair Value (cost: 2017 - \$410,940,323; 2016 - \$420,801,057)	354,763,619	366,471,304
Cash	2,395,844	1,307,257
Restricted cash	4,626,678	8,528,298
Interest receivable	1,251,137	1,033,917
Receivable for open trades	—	2,950,658
Due from affiliates	521,250	612,854
Other assets	336,764	467,695
Total Assets	<u>\$ 363,895,292</u>	<u>\$ 381,371,983</u>
LIABILITIES		
Notes issued by KCAP Senior Funding I, LLC (net of discount and offering costs of: 2017 - \$1,969,566 and \$2,118,764, respectively; 2016 - \$2,286,425 and \$2,459,156, respectively)	\$ 143,261,669	\$ 142,604,419
7.375% Notes Due 2019 (net of offering costs of: 2017 - \$351,541; 2016 - \$550,774)	26,648,459	32,980,151
Payable for open trades	1,960,000	7,884,943
Accounts payable and accrued expenses	1,413,813	2,047,405
Accrued interest payable	998,388	930,086
Due to affiliates	-	54
Total Liabilities	<u>174,282,329</u>	<u>186,447,058</u>

COMMITMENTS AND CONTINGENCIES (Note 8)

STOCKHOLDERS' EQUITY

Common stock, par value \$0.01 per share, 100,000,000 common shares authorized; 37,335,051 issued, and 37,167,622 outstanding at June 30, 2017, and 37,282,296 issued, and 37,178,294 outstanding at

December 31, 2016	371,672	371,783
Capital in excess of par value	354,052,507	353,404,155
Excess distribution of net investment income	(17,670,890)	(14,630,319)
Accumulated net realized losses	(89,564,576)	(88,491,896)
Net unrealized depreciation on investments	<u>(57,575,750)</u>	<u>(55,728,798)</u>
Total Stockholders' Equity	<u>189,612,963</u>	<u>194,924,925</u>
Total Liabilities and Stockholders' Equity	<u>\$ 363,895,292</u>	<u>\$ 381,371,983</u>
NET ASSET VALUE PER COMMON SHARE	<u>\$ 5.10</u>	<u>\$ 5.24</u>

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

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Investment Income:				
Interest from investments in debt securities	\$ 4,769,853	\$ 5,214,331	\$ 9,325,031	\$ 10,919,908
Interest from cash and time deposits	14,300	6,981	30,206	14,353
Investment income on CLO Fund Securities managed by affiliates	2,710,680	3,235,756	5,685,238	6,287,572
Investment income on CLO Fund Securities managed by non-affiliates	111,419	155,859	229,530	308,176
Dividends from Asset Manager Affiliates	—	850,000	—	1,400,000
Capital structuring service fees	53,480	116,473	164,124	159,711
Total investment income	<u>7,659,732</u>	<u>9,579,400</u>	<u>15,434,129</u>	<u>19,089,720</u>
Expenses:				
Interest and amortization of debt issuance costs	2,237,317	2,264,590	4,418,289	4,838,030
Compensation	1,175,294	1,046,886	2,401,030	2,013,473
Professional fees	1,193,407	562,176	1,742,688	1,214,115
Insurance	80,644	106,830	175,680	213,053
Administrative and other	364,301	490,898	869,534	938,260
Total expenses	<u>5,050,963</u>	<u>4,471,380</u>	<u>9,607,221</u>	<u>9,216,931</u>
Net Investment Income	2,608,769	5,108,020	5,826,908	9,872,789
Realized And Unrealized Gains (Losses) On Investments:				
Net realized losses from investment transactions	(1,009,342)	(2,882,152)	(965,405)	(10,694,039)
Net change in unrealized appreciation (depreciation) on:				
Debt securities	1,211,554	3,814,803	2,413,571	2,082,813
Equity securities	(266,249)	(1,696,700)	(419,811)	(317,286)
CLO Fund securities managed by affiliates	(852,828)	3,613,455	(2,105,814)	6,883,996
CLO Fund securities managed by non-affiliates	(227,903)	181,248	(293,897)	703
Asset Manager Affiliates investments	1,165,000	(5,060,000)	(1,441,000)	(11,593,000)
Total net change in unrealized appreciation (depreciation)	<u>1,029,574</u>	<u>852,806</u>	<u>(1,846,951)</u>	<u>(2,942,774)</u>
Net realized and unrealized appreciation (depreciation) on investments	<u>20,232</u>	<u>(2,029,346)</u>	<u>(2,812,356)</u>	<u>(13,636,813)</u>
Realized losses on extinguishments of debt	<u>(107,276)</u>	<u>(71,190)</u>	<u>(107,276)</u>	<u>(71,190)</u>
Net Increase (Decrease) In Stockholders' Equity Resulting From Operations	<u>\$ 2,521,725</u>	<u>\$ 3,007,484</u>	<u>\$ 2,907,276</u>	<u>\$ (3,835,214)</u>

Net Increase (Decrease) In Stockholders' Equity Resulting from Operations
per Common Share:

Basic:	\$	0.07	\$	0.08	\$	0.08	\$	(0.10)
Diluted:	\$	0.07	\$	0.08	\$	0.08	\$	(0.10)
Net Investment Income Per Common Share:								
Basic:	\$	0.07	\$	0.14	\$	0.16	\$	0.27
Diluted:	\$	0.07	\$	0.14	\$	0.16	\$	0.27

Weighted Average Shares of Common Stock Outstanding—Basic	37,206,487	37,163,534	37,204,751	37,136,634
Weighted Average Shares of Common Stock Outstanding—Diluted	37,206,487	37,163,534	37,204,751	37,136,634

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Source: KCAP Financial, Inc.

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