



May 4, 2017

## KCAP Financial, Inc. Announces First Quarter 2017 Financial Results

NEW YORK, May 04, 2017 (GLOBE NEWSWIRE) -- KCAP Financial, Inc. (Nasdaq:KCAP) (the "Company") announces its first quarter 2017 financial results.

### Financial Highlights

- ┆ Net investment income for the first quarter ended March 31, 2017 was approximately \$3.2 million, or \$0.09 per basic share, compared with approximately \$4.8 million, or \$0.13 per basic share in the quarter ended March 31, 2016.
- ┆ Cash distributed by the Asset Manager Affiliates in excess of taxable earnings was approximately \$0.02 per basic share for the quarter.
- ┆ The Company declared a first quarter shareholder distribution of \$0.12 per share.
- ┆ At March 31, 2017, the fair value of KCAP's investments totaled approximately \$355 million.
- ┆ Net asset value per share of \$5.14 as of March 31, 2017, compared with \$5.24 at December 31, 2016.

Dayl Pearson, President and Chief Executive Officer of KCAP Financial, Inc., noted, "The first quarter was challenging due to a reduction of attractive investment opportunities resulting in approximately \$25 million of cash available for investment. We expect to invest this cash prudently over the coming months."

### Operating Results

For the three months ended March 31, 2017, we reported total investment income of approximately \$7.8 million as compared to approximately \$9.5 million in the same period last year, a decrease of 18%. Investment income from debt securities decreased 20% to approximately \$4.6 million from approximately \$5.7 million in the first quarter of 2016. Investment income on CLO fund securities in the first quarter of 2017 decreased to \$3.1 million from \$3.2 million in 2016. We received a distribution from our Asset Manager Affiliates (Trimaran Advisors and Katonah Debt Advisors) of \$650,000 in the first quarter of 2017. Such distribution was a return of capital. The Asset Manager Affiliates distributed \$1.1 million in the first quarter of 2016, \$550,000 of which was a return of capital.

For the three months ended March 31, 2017, total expenses were lower by approximately \$190,000 as compared to the same period in 2016, primarily attributable to a decrease in interest expense due to the repurchase and repayment of the Convertible Notes in the first quarter of 2016.

Net investment income for the first quarter of 2017 and 2016 was approximately \$3.2 million and \$4.8 million, or \$0.09 and \$0.13 per basic share, respectively. Net realized and unrealized losses on investments for the three months ended March 31, 2017 was approximately \$2.8 million, compared to approximately \$11.6 million for the same period in 2016.

### Portfolio and Investment Activity

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

Security Type	March 31, 2017 (unaudited)			December 31, 2016		
	Cost/Amortized		% <sup>1</sup>	Cost/Amortized		% <sup>1</sup>
	Cost	Fair Value		Cost	Fair Value	
Money Market Accounts <sup>3</sup>	\$ 22,674,790	\$ 22,674,790	6	\$ 28,699,269	\$ 28,699,269	8
Senior Secured Loan	202,900,985	196,533,708	56	207,701,078	200,322,152	55
Junior Secured Loan	40,171,813	38,545,305	11	37,251,776	35,444,440	10
First Lien Bond	3,054,338	1,089,338	-	3,060,919	1,089,338	-
Senior Secured Bond	1,505,454	1,489,350	-	1,506,461	1,487,400	-

CLO Fund Securities	76,994,975	52,999,028	15	76,851,317	54,174,350	15
Equity Securities	10,389,008	4,902,794	2	10,389,007	5,056,355	1
Asset Manager Affiliates <sup>2</sup>	54,691,230	36,942,000	10	55,341,230	40,198,000	11
Total	<u>\$ 412,382,593</u>	<u>\$ 355,176,313</u>	<u>100 %</u>	<u>\$ 420,801,057</u>	<u>\$ 366,471,304</u>	<u>100 %</u>

<sup>1</sup> Represents percentage 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 March 31, 2017, we had unrestricted cash and money market balances of approximately \$27.9 million, total assets of approximately \$370 million and stockholders' equity of approximately \$191 million. Our net asset value per common share was \$5.14. As of March 31, 2017, we had approximately \$181 million (par value) of borrowings outstanding (\$176 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 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. 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 March 31, 2017. The record date for this distribution was April 7, 2017 and the distribution was paid on April 28, 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, May 4, 2017 at 3:00 pm Eastern Time to discuss our first 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](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 6:00 p.m. on May 4, 2017 until 11:59 p.m. on May 12, 2017. The dial in number for the replay is (855) 859-2056 and the conference ID is 12998248.

## 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, 2017 (unaudited)	As of December 31, 2016
<b>ASSETS</b>		
Investments at fair value:		
Money market accounts (cost: 2017 - \$22,674,790; 2016 - \$28,699,269)	\$ 22,674,790	\$ 28,699,269
Debt securities (cost: 2017 - \$247,632,590; 2016 - \$249,520,234)	237,657,701	238,343,330
CLO Fund Securities managed by affiliates (cost: 2017 - \$71,906,949; 2016 - \$71,734,809)	50,827,938	51,908,784
CLO Fund Securities managed by non-affiliates (cost: 2017 - \$5,088,026; 2016 - \$5,116,508)	2,171,090	2,265,566
Equity securities (cost: 2017 - \$10,389,008; 2016 - \$10,389,007)	4,902,794	5,056,355
Asset Manager Affiliates (cost: 2017 - \$54,691,230; 2016 - \$55,341,230)	36,942,000	40,198,000
Total Investments at Fair Value (cost: 2017 - \$412,382,593; 2016 - \$420,801,057)	<u>355,176,313</u>	<u>366,471,304</u>
Cash	5,178,290	1,307,257
Restricted cash	7,986,487	8,528,298
Interest receivable	1,143,363	1,033,917
Receivable for open trades	—	2,950,658
Due from affiliates	378,731	612,854
Other assets	404,245	467,695
	<u>404,245</u>	<u>467,695</u>
Total Assets	<u>\$ 370,267,429</u>	<u>\$ 381,371,983</u>
<b>LIABILITIES</b>		
Notes issued by KCAP Senior Funding I, LLC (net of discount and offering costs of: 2017 - \$2,128,524 and \$2,289,547, respectively; 2016 - \$2,286,425 and \$2,459,156, respectively)	\$ 142,931,928	\$ 142,604,419
7.375% Notes Due 2019 (net of offering costs of: 2017 - \$505,488; 2016 - \$550,774)	33,025,437	32,980,151
Payable for open trades	1,000,000	7,884,943
Accounts payable and accrued expenses	932,301	2,047,405
Accrued interest payable	947,873	930,086
Due to affiliates	-	54
	<u>-</u>	<u>54</u>
Total Liabilities	<u>178,837,539</u>	<u>186,447,058</u>
<b>COMMITMENTS AND CONTINGENCIES (Note 8)</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, par value \$0.01 per share, 100,000,000 common shares authorized; 37,313,651 issued, and 37,209,649 outstanding at March 31, 2017, and 37,282,296 issued, and 37,178,294 outstanding at December 31, 2016	372,096	371,783
Capital in excess of par value	353,955,039	353,404,155
Excess distribution of net investment income	(15,843,963)	(14,630,319)
Accumulated net realized losses	(88,447,958)	(88,491,896)
Net unrealized depreciation on investments	(58,605,324)	(55,728,798)
	<u>(58,605,324)</u>	<u>(55,728,798)</u>
Total Stockholders' Equity	<u>191,429,890</u>	<u>194,924,925</u>

Total Liabilities and Stockholders' Equity	<u>\$ 370,267,429</u>	<u>\$ 381,371,983</u>
NET ASSET VALUE PER COMMON SHARE	<u>\$ 5.14</u>	<u>\$ 5.24</u>

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Investment Income:</b>		
Interest from investments in debt securities	\$ 4,555,178	\$ 5,705,577
Interest from cash and time deposits	15,906	7,372
Investment income on CLO Fund Securities managed by affiliates	2,974,558	3,051,816
Investment income on CLO Fund Securities managed by non-affiliates	118,111	152,317
Dividends from Asset Manager Affiliates	—	550,000
Capital structuring service fees	110,644	43,239
	<u>7,774,397</u>	<u>9,510,321</u>
<b>Expenses:</b>		
Interest and amortization of debt issuance costs	2,180,972	2,573,440
Compensation	1,225,735	966,588
Professional fees	549,281	651,939
Insurance	95,036	106,223
Administrative and other	505,234	447,361
	<u>4,556,258</u>	<u>4,745,551</u>
<b>Net Investment Income</b>	<b>3,218,139</b>	<b>4,764,770</b>
<b>Realized And Unrealized Gains (Losses) On Investments:</b>		
Net realized (losses) gains from investment transactions	43,938	(7,811,888)
Net change in unrealized (depreciation) appreciation on:		
Debt securities	1,202,017	(1,731,990)
Equity securities	(153,562)	1,379,413
CLO Fund Securities managed by affiliates	(1,252,986)	3,270,541
CLO Fund Securities managed by non-affiliates	(65,994)	(180,545)
Asset Manager Affiliates investments	(2,606,000)	(6,533,000)
	<u>(2,876,525)</u>	<u>(3,795,581)</u>
Net realized and unrealized (depreciation) appreciation on investments	<u>(2,832,587)</u>	<u>(11,607,469)</u>
<b>Net (Decrease) Increase In Stockholders' Equity Resulting From Operations</b>	<b><u>\$ 385,552</u></b>	<b><u>\$ (6,842,699)</u></b>
Net (Decrease) Increase In Stockholders' Equity Resulting from Operations per Common Share:		
Basic:	\$ 0.01	\$ (0.18)
Diluted:	\$ 0.01	\$ (0.18)
Net Investment Income Per Common Share:		
Basic:	\$ 0.09	\$ 0.13
Diluted:	\$ 0.09	\$ 0.13
Weighted Average Shares of Common Stock Outstanding—Basic	37,202,996	37,109,735
Weighted Average Shares of Common Stock Outstanding—Diluted	37,202,996	37,109,735

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