



November 5, 2014

KCAP Financial, Inc. Announces Third Quarter 2014 Financial Results

NEW YORK, Nov. 5, 2014 (GLOBE NEWSWIRE) -- KCAP Financial, Inc. (Nasdaq:KCAP) announces its third quarter 2014 financial results.

Financial Highlights

- Net investment income for the third quarter ended September 30, 2014 was approximately \$8.4 million, or \$0.25 per basic share, compared with approximately \$7.6 million, or \$0.23 per basic share in the quarter ended September 30, 2013.
- As previously announced, KCAP Financial, Inc. declared a third quarter shareholder distribution of \$0.25 per share.
- At September 30, 2014, the fair value of KCAP's investments totaled approximately \$442 million.
- Net asset value per share of \$7.67 as of September 30, 2014, compared with \$7.51 at December 31, 2013.

Dayl Pearson, President and Chief Executive Officer of KCAP Financial, Inc., noted, "KCAP continued to grow net investment income in the 3rd quarter as both our direct lending and asset management businesses sustained their growth, contributing to an improved balance between our businesses."

Operating Results

For the three months ended September 30, 2014, we reported total investment income of approximately \$13.7 million as compared to approximately \$12.6 million in the same period last year, an increase of 8%. Investment income from debt securities increased 45% to approximately \$5.4 million from approximately \$3.7 million in the third quarter 2013. Dividends from investments in CLO fund securities in the third quarter of 2014 decreased to \$4.8 million from \$5.4 million in 2013, a decrease of 11%, and distributions from our Asset Manager Affiliates in the third quarter of 2014 decreased to approximately \$3.1 million from approximately \$3.3 million in 2013.

For the three months ended September 30, 2014, total expenses were higher by approximately \$243,000 as compared to the same period in 2013, primarily attributable to increases in compensation expense and professional fees.

Net investment income for the third quarter of 2014 and 2013 was approximately \$8.4 million and \$7.6 million, or \$0.25 per basic share and \$0.23 per basic share, respectively. Net realized and unrealized depreciation on investments for the three months ended September 30, 2014 was approximately \$123,000, as compared to approximately \$7.3 million for the same period in 2013.

Portfolio and Investment Activity

The fair value of our portfolio was approximately \$442 million as of September 30, 2014. The composition of our investment portfolio at September 30, 2014 and December 31, 2013 at cost and fair value was as follows:

Security Type	September 30, 2014 (unaudited)			December 31, 2013		
	Cost	Fair Value	% ¹	Cost	Fair Value	% ¹
Money Market Accounts ²	\$ 341,694	\$ 341,694	--	\$ 7,112,949	\$ 7,112,949	3
Senior Secured Loan	170,002,011	168,920,608	65	175,021,272	168,188,453	67
Junior Secured Loan	38,253,207	38,662,312	15	50,831,407	48,443,384	19
Senior Unsecured Loan	27,034,116	27,034,116	10	23,000,000	23,000,000	9
First Lien Bond	2,957,441	2,553,900	1	2,948,332	2,546,400	2
Senior Subordinated Bond	4,283,742	4,366,788	2	1,037,707	1,051,540	--
Senior Unsecured Bond	11,075,392	11,346,613	4	10,855,804	11,381,100	5
Senior Secured Bond	1,516,376	1,571,250	1	1,519,072	1,619,550	1
CLO Fund Securities	119,453,082	87,382,253	35	101,696,950	79,452,220	32
Equity Securities	17,454,438	11,140,167	4	18,755,684	11,006,398	4

Preferred	10,155,240	10,358,345	4	10,000,000	10,600,000	4
Asset Manager Affiliates	<u>83,924,720</u>	<u>78,737,000</u>	<u>30</u>	<u>83,378,741</u>	<u>76,148,000</u>	<u>30</u>
Total	<u>\$ 486,451,459</u>	<u>\$ 442,415,046</u>	<u>171%</u>	<u>\$ 486,157,918</u>	<u>\$ 440,549,994</u>	<u>176%</u>

¹ Calculated as a percentage of Net Asset Value.

² Includes restricted cash held under employee benefit plans.

Liquidity and Capital Resources

At September 30, 2014, we had unrestricted cash and money market balances of approximately \$4.3 million, total assets of approximately \$462.7 million and stockholders' equity of approximately \$259 million. Our net asset value per common share was \$7.67. As of September 30, 2014, we had \$195.7 million (par value) of borrowings outstanding (\$192.9 million net of discount) with a weighted average interest rate of approximately 5.1%.

In October 2014, the Company issued 3.0 million shares of its common stock in a public offering, raising net proceeds of approximately \$23.9 million. Also in October, the Company purchased approximately \$10.4 million of its own Convertible Notes at a price of \$114.875.

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 investment income generated by our investment portfolio. We announced a regular quarterly distribution of \$0.25 per share for the quarter ended September 30, 2014. The record date for this distribution was October 14, 2014 and the distribution was paid on October 29, 2014. 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 2013 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 Wednesday, November 5, 2014 at 4:00 pm Eastern Time to discuss our third quarter 2014 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 7:00 p.m. on November 5, 2014 until 11:59 p.m. on November 12, 2014. The dial in number for the replay is (855) 859-2056 and the conference ID is 28865387.

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.

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.

	As of September 30, 2014	As of December 31, 2013
	(unaudited)	
ASSETS		
Investments at fair value:		
Money market accounts (cost: 2014 - \$341,694; 2013 - \$7,112,949)	\$ 341,694	\$ 7,112,949
Debt securities (cost: 2014 - \$265,277,525; 2013 - \$275,213,594)	264,813,932	266,830,427
CLO Fund securities managed by affiliates (cost: 2014 - \$110,317,772; 2013 - \$88,979,585)	83,487,288	75,100,306
CLO Fund securities managed by non-affiliates (cost: 2014 - \$9,135,310; 2013 - \$12,717,365)	3,894,965	4,351,914
Equity securities (cost: 2014 - \$17,454,438; 2013 - \$18,755,684)	11,140,167	11,006,398
Asset Manager Affiliates (cost: 2014 - \$83,924,720; 2013 - \$83,378,741)	<u>78,737,000</u>	<u>76,148,000</u>
Total Investments at Fair Value (cost: 2014 - \$486,451,459; 2013 - \$486,157,918)	442,415,046	440,549,994
Cash	3,935,484	3,433,675
Restricted cash	5,443,575	4,078,939
Interest receivable	2,108,845	2,032,559
Due from affiliates	3,149,940	3,125,259
Other assets	<u>5,632,707</u>	<u>5,951,962</u>
Total Assets	<u>\$ 462,685,597</u>	<u>\$ 459,172,388</u>
LIABILITIES		
Convertible Notes	\$ 49,008,000	\$ 49,008,000
7.375% Notes Due 2019	41,400,000	41,400,000
Notes issued by KCAP Senior Funding I, LLC (net of discount: 2014 -- \$2,736,789; 2013 -- \$3,065,627)	102,513,211	102,184,373
Payable for open trades	8,262,000	3,980,000
Accounts payable and accrued expenses	2,475,312	3,897,291
Shareholder distribution payable	<u>—</u>	<u>8,333,031</u>
Total Liabilities	<u>203,658,523</u>	<u>208,802,695</u>
STOCKHOLDERS' EQUITY		
Common stock, par value \$0.01 per share, 100,000,000 common shares authorized; 33,753,672 and 33,332,123 common shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively	337,537	333,472
Capital in excess of par value	372,255,639	370,929,615
Accumulated undistributed (excess distribution) net investment income	1,550,569	(6,102,017)
Accumulated net realized losses	(70,559,495)	(68,662,689)
Net unrealized depreciation on investments	<u>(44,557,176)</u>	<u>(46,128,688)</u>

Total Stockholders' Equity	<u>259,027,074</u>	<u>250,369,693</u>
Total Liabilities and Stockholders' Equity	<u>\$ 462,685,597</u>	<u>\$ 459,172,388</u>
NET ASSET VALUE PER COMMON SHARE	<u>\$ 7.67</u>	<u>\$ 7.51</u>

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

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Investment Income:				
Interest from investments in debt securities	\$ 5,391,997	\$ 3,716,675	\$ 15,812,747	\$ 9,191,940
Interest from cash and time deposits	831	12,183	2,341	19,920
Distributions from investments in CLO Fund securities managed by affiliates	4,474,881	5,109,417	13,562,745	15,147,600
Distributions from investments in CLO Fund securities managed by non-affiliates	296,908	281,571	1,037,212	1,029,236
Distributions from Asset Manager Affiliates	3,100,000	3,325,000	9,100,000	9,625,000
Capital structuring service fees	412,772	200,185	764,971	259,512
Total investment income	<u>13,677,389</u>	<u>12,645,031</u>	<u>40,280,016</u>	<u>35,273,208</u>
Expenses:				
Interest and amortization of debt issuance costs	2,891,724	2,902,486	8,775,697	7,412,795
Compensation	1,431,825	1,205,864	3,921,913	3,225,986
Professional fees	566,320	391,735	1,783,443	1,686,707
Insurance	112,109	140,647	359,576	395,995
Administrative and other	315,769	433,594	1,183,367	1,453,150
Total expenses	<u>5,317,747</u>	<u>5,074,326</u>	<u>16,023,996</u>	<u>14,174,633</u>
Net Investment Income	8,359,642	7,570,705	24,256,020	21,098,575
Realized And Unrealized Gains (Losses) On Investments:				
Net realized losses from investment transactions	(2,141,591)	(10,387,242)	(1,896,806)	(12,032,708)
Net unrealized appreciation (depreciation) on:				
Debt securities	7,420,256	10,547,127	7,919,575	12,958,119
Equity securities	1,215,992	85,773	1,435,014	1,084,715
CLO Fund securities managed by affiliates	(13,086,650)	(2,529,499)	(12,951,204)	(10,876,896)
CLO Fund securities managed by non-affiliates	3,033,824	(239,837)	3,125,106	(1,428,072)
Asset Manager Affiliates investments	3,435,000	(4,806,105)	2,043,021	5,179,293
Total net unrealized appreciation	<u>2,018,422</u>	<u>3,057,459</u>	<u>1,571,512</u>	<u>6,917,159</u>
Net realized and unrealized depreciation on investments	<u>(123,169)</u>	<u>(7,329,783)</u>	<u>(325,294)</u>	<u>(5,115,549)</u>
Realized losses on extinguishments of debt	<u>—</u>	<u>(333,701)</u>	<u>—</u>	<u>(333,701)</u>
Net Increase (Decrease) In Stockholders' Equity Resulting From Operations	<u>\$ 8,236,473</u>	<u>\$ (92,779)</u>	<u>\$ 23,930,726</u>	<u>\$ 15,649,325</u>
Net Increase In Stockholders' Equity Resulting from Operations per Common Share:				

Basic:	\$ 0.24	\$ —	\$ 0.71	\$ 0.49
Diluted:	\$ 0.23	\$ —	\$ 0.68	\$ 0.49
Net Investment Income Per Common Share:				
Basic:	\$ 0.25	\$ 0.23	\$ 0.72	\$ 0.66
Diluted:	\$ 0.23	\$ 0.22	\$ 0.69	\$ 0.65
Weighted Average Shares of Common Stock Outstanding—Basic	33,746,159	33,312,328	33,497,934	31,887,711
Weighted Average Shares of Common Stock Outstanding—Diluted	40,125,660	33,326,934	39,877,326	31,903,230

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