



August 6, 2014

KCAP Financial, Inc. Announces Second Quarter 2014 Financial Results

NEW YORK, Aug. 6, 2014 (GLOBE NEWSWIRE) -- KCAP Financial, Inc. (Nasdaq:KCAP) announces its second quarter 2014 financial results.

Financial Highlights

- Net investment income for the second quarter ended June 30, 2014 was approximately \$8.0 million, or \$0.24 per basic share, compared with approximately \$6.6 million, or \$0.20 per basic share in the quarter ended June 30, 2013.
- KCAP Financial, Inc. declared a second quarter shareholder distribution of \$0.25 per share.
- At June 30, 2014, the fair value of KCAP's investments totaled approximately \$437 million.
- Net asset value per share of \$7.67 as of June 30, 2014, compared with \$7.51 at December 31, 2013.

Dayl Pearson, President and Chief Executive Officer of KCAP Financial, Inc., noted, "We are pleased with the continued development of both our direct lending and asset management businesses in the second quarter. While new deal activity moderated compared to the first quarter, we have a healthy pipeline and have continued to sustain positive momentum. In addition, our asset management business continued to add new assets under management with the closing of Catamaran CLO 2014-1 in the second quarter."

Operating Results

For the three months ended June 30, 2014, we reported total investment income of approximately \$13.2 million, compared to approximately \$11.2 million in the same period last year, an increase of 18%. Investment income from debt securities increased 73% to approximately \$5.2 million from approximately \$3.0 million in second quarter 2013. Distributions from investments in CLO fund securities in the second quarter of 2014 were consistent with the second quarter of 2013 at \$4.9 million in each period, and distributions from our Asset Manager Affiliates in the second quarter of 2014 decreased to approximately \$3 million from approximately \$3.3 million in 2013.

For the three months ended June 30, 2014, total expenses were higher by approximately \$525,000 as compared to the same period in 2013, primarily attributable to the increase in interest expense related to the higher average outstanding principal balance on our borrowings.

Net investment income for the second quarter of 2014 and 2013 was approximately \$8.0 million and \$6.6 million, or \$0.24 per basic share and \$0.20 per basic share, respectively. Net realized and unrealized appreciation on investments for the three months ended June 30, 2014 was approximately \$4.2 million, as compared to approximately \$1.9 million for the same period in 2013.

Portfolio and Investment Activity

The fair value of our portfolio was approximately \$437 million as of June 30, 2014. The composition of our investment portfolio at June 30, 2014 and December 31, 2013 at cost and fair value was as follows:

| Security Type | June 30, 2014 (unaudited) | | | December 31, 2013 | | |
|------------------------------------|---------------------------|--------------|----------------|-------------------|--------------|----------------|
| | Cost | Fair Value | % ¹ | Cost | Fair Value | % ¹ |
| Money Market Accounts ² | \$ 5,610,941 | \$ 5,610,941 | 2 | \$ 7,112,949 | \$ 7,112,949 | 3 |
| Senior Secured Loan | 159,600,198 | 153,304,076 | 60 | 175,021,272 | 168,188,453 | 67 |
| Junior Secured Loan | 47,500,076 | 45,264,099 | 18 | 50,831,407 | 48,443,384 | 19 |
| Senior Unsecured Loan | 27,013,567 | 27,013,567 | 10 | 23,000,000 | 23,000,000 | 9 |
| First Lien Bond | 2,952,225 | 2,398,500 | 1 | 2,948,332 | 2,546,400 | 2 |
| Senior Subordinated Bond | 4,272,110 | 4,293,098 | 2 | 1,037,707 | 1,051,540 | -- |
| Senior Unsecured Bond | 10,946,659 | 11,433,738 | 4 | 10,855,804 | 11,381,100 | 5 |
| Senior Secured Bond | 1,517,375 | 1,605,000 | 1 | 1,519,072 | 1,619,550 | 1 |

| | | | | | | |
|--------------------------|-----------------------|-----------------------|-------------|-----------------------|-----------------------|-------------|
| CLO Fund Securities | 113,748,903 | 91,730,898 | 35 | 101,696,950 | 79,452,220 | 32 |
| Equity Securities | 16,289,233 | 8,758,971 | 3 | 18,755,684 | 11,006,398 | 4 |
| Preferred | 10,104,717 | 10,711,000 | 4 | 10,000,000 | 10,600,000 | 4 |
| Asset Manager Affiliates | <u>83,924,720</u> | <u>75,302,000</u> | <u>29</u> | <u>83,378,741</u> | <u>76,148,000</u> | <u>30</u> |
| Total | <u>\$ 483,480,724</u> | <u>\$ 437,425,888</u> | <u>169%</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 June 30, 2014, we had unrestricted cash and money market balances of approximately \$7.9 million, total assets of approximately \$458.6 million and stockholders' equity of approximately \$258.5 million. Our net asset value per common share was \$7.67. As of June 30, 2014, we had \$195.7 million (par value) of borrowings outstanding (\$192.8 million net of discount) with a weighted average interest rate of approximately 5.1%.

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 June 30, 2014. The record date for this distribution was July 3, 2014 and the distribution was paid on July 25, 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, August 6, 2014 at 4:00 pm Eastern Daylight Time to discuss our second 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 Daylight Time for approximately 90 days.

A replay of this conference call will be available from 7:00 p.m. on August 6, 2014 until 11:59 p.m. on August 13, 2014. The dial in number for the replay is (855) 859-2056 and the conference ID is 83302124.

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 June 30, 2014</u> | <u>As of December 31, 2013</u> |
|---|--------------------------------|--|
| | <u>(unaudited)</u> | |
| ASSETS | | |
| Investments at fair value: | | |
| Money market accounts (cost: 2014 - \$5,610,941; 2013 - \$7,112,949) | \$ 5,610,941 | \$ 7,112,949 |
| Debt securities (cost: 2014 -- \$263,906,927; 2013 -- \$275,213,594) | 256,023,078 | 266,830,427 |
| CLO Fund securities managed by affiliates (cost: 2014 -- \$101,293,076; 2013 -- \$88,979,585) | 87,549,239 | 75,100,306 |
| CLO Fund securities managed by non-affiliates (cost: 2014 -- \$12,455,827; 2013 -- \$12,717,365) | 4,181,659 | 4,351,914 |
| Equity securities (cost: 2014 -- \$16,289,233; 2013 -- \$18,755,684) | 8,758,971 | 11,006,398 |
| Asset Manager Affiliates (cost: 2014 -- \$83,924,720; 2013 -- \$83,378,741) | <u>75,302,000</u> | <u>76,148,000</u> |
| Total Investments at Fair Value (cost: 2014 -- \$483,480,724; 2013 -- \$486,157,918) | 437,425,888 | 440,549,994 |
| Cash | 2,310,589 | 3,433,675 |
| Restricted cash | 4,777,960 | 4,078,939 |
| Interest receivable | 2,040,077 | 2,032,559 |
| Receivable for open trades | 2,943,835 | — |
| Due from affiliates | 3,218,927 | 3,125,259 |
| Other assets | <u>5,853,972</u> | <u>5,951,962</u> |
| Total Assets | <u>\$ 458,571,248</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 -- \$2,847,139; 2013 -- \$3,065,627) | 102,402,861 | 102,184,373 |
| Payable for open trades | 3,940,000 | 3,980,000 |
| Accounts payable and accrued expenses | 3,306,332 | 3,897,291 |
| Shareholder distribution payable | <u>—</u> | <u>8,333,031</u> |
| Total Liabilities | <u>200,057,193</u> | <u>208,802,695</u> |
| STOCKHOLDERS' EQUITY | | |
| Common stock, par value \$0.01 per share, 100,000,000 common shares authorized; 33,725,223 and 33,332,123 common shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively | 337,252 | 333,472 |
| Capital in excess of par value | 371,640,022 | 370,929,615 |
| Accumulated undistributed (excess distribution) net investment income | 1,530,282 | (6,102,017) |
| Accumulated net realized losses | (68,417,904) | (68,662,689) |
| Net unrealized depreciation on investments | <u>(46,575,597)</u> | <u>(46,128,688)</u> |

| | | |
|--|-----------------------|-----------------------|
| Total Stockholders' Equity | <u>258,514,055</u> | <u>250,369,693</u> |
| Total Liabilities and Stockholders' Equity | <u>\$ 458,571,248</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)

| | Three Months Ended | | Six Months Ended | |
|--|-----------------------------|----------------------------|-----------------------------|-----------------------------|
| | June 30, | | June 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| Investment Income: | | | | |
| Interest from investments in debt securities | \$ 5,173,514 | \$ 2,997,246 | \$ 10,420,750 | \$ 5,475,265 |
| Interest from cash and time deposits | 724 | 3,026 | 1,510 | 7,738 |
| Distributions from investments in CLO Fund securities managed by affiliates | 4,451,626 | 4,557,531 | 9,087,864 | 10,038,183 |
| Distributions from investments in CLO Fund securities managed by non-affiliates | 464,734 | 323,790 | 740,304 | 747,664 |
| Distributions from Asset Manager Affiliates | 3,000,000 | 3,300,000 | 6,000,000 | 6,300,000 |
| Capital structuring service fees | <u>125,116</u> | <u>52,753</u> | <u>352,199</u> | <u>59,326</u> |
| Total investment income | <u>13,215,714</u> | <u>11,234,346</u> | <u>26,602,627</u> | <u>22,628,176</u> |
| Expenses: | | | | |
| Interest and amortization of debt issuance costs | 2,893,806 | 2,250,063 | 5,883,972 | 4,510,309 |
| Compensation | 1,227,651 | 1,110,409 | 2,490,088 | 2,020,122 |
| Professional fees | 545,913 | 652,644 | 1,217,123 | 1,294,971 |
| Insurance | 111,507 | 126,632 | 247,467 | 255,348 |
| Administrative and other | <u>399,315</u> | <u>513,085</u> | <u>867,597</u> | <u>1,019,556</u> |
| Total expenses | <u>5,178,192</u> | <u>4,652,833</u> | <u>10,706,247</u> | <u>9,100,306</u> |
| Net Investment Income | 8,037,522 | 6,581,513 | 15,896,380 | 13,527,870 |
| Realized And Unrealized Gains (Losses) On Investments: | | | | |
| Net realized (losses) gains from investment transactions | (64,797) | (1,562,529) | 244,785 | (1,645,466) |
| Net change in unrealized (depreciation) appreciation on: | | | | |
| Debt securities | 1,102,632 | 124,466 | 499,319 | 2,410,992 |
| Equity securities | 546,686 | 1,064,379 | 219,023 | 998,942 |
| CLO Fund securities managed by affiliates | 1,015,474 | (3,768,238) | 135,445 | (8,347,397) |
| CLO Fund securities managed by non-affiliates | 388,145 | (820,826) | 91,283 | (1,188,235) |
| Asset Manager Affiliates investments | <u>1,227,000</u> | <u>6,910,060</u> | <u>(1,391,979)</u> | <u>9,985,399</u> |
| Total net change in unrealized appreciation (depreciation) | <u>4,279,937</u> | <u>3,509,841</u> | <u>(446,909)</u> | <u>3,859,701</u> |
| Net realized and unrealized appreciation (depreciation) on investments | <u>4,215,140</u> | <u>1,947,312</u> | <u>(202,124)</u> | <u>2,214,235</u> |
| Net Increase In Stockholders' Equity Resulting From Operations | <u>\$ 12,252,662</u> | <u>\$ 8,528,825</u> | <u>\$ 15,694,256</u> | <u>\$ 15,742,105</u> |
| Net Increase In Stockholders' Equity Resulting from Operations per Common Share: | | | | |
| Basic: | \$ 0.37 | \$ 0.26 | \$ 0.47 | \$ 0.51 |
| Diluted: | \$ 0.34 | \$ 0.25 | \$ 0.45 | \$ 0.48 |
| Net Investment Income Per Common Share: | | | | |
| Basic: | \$ 0.24 | \$ 0.20 | \$ 0.48 | \$ 0.43 |
| Diluted: | \$ 0.24 | \$ 0.20 | \$ 0.46 | \$ 0.42 |

| | | | | |
|---|------------|------------|------------|------------|
| Weighted Average Shares of Common Stock Outstanding—Basic | 33,405,189 | 33,040,155 | 33,371,764 | 31,163,596 |
| Weighted Average Shares of Common Stock Outstanding—Diluted | 39,723,264 | 39,395,124 | 39,689,884 | 38,022,742 |

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CONTACT: Jamie Lillis

jlillis@soleburyir.com

(203) 428-3223

KCAP Financial, Inc.

Denise Rodriguez, Investor Relations

(212) 455-8300

info@kcapfinancial.com



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