

RAND CAPITAL CORP
Form 10-K
March 08, 2018
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2017

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from to

Commission File Number: 814-00235

Rand Capital Corporation

(Exact name of registrant as specified in its charter)

New York
(State or Other Jurisdiction of

16-0961359
(IRS Employer Identification No.)

Incorporation or organization)

2200 Rand Building, Buffalo, NY
(Address of Principal executive offices)

14203
(Zip Code)

Registrant's telephone number, including area code: (716) 853-0802

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock, \$0.10 par value	NASDAQ Capital Market
Securities registered pursuant to Section 12(g) of the Act: None	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 under the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such

reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company) Emerging growth company

If an emerging growth company, indicated by check mark if the registrant has elected not to use extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the registrant's outstanding common stock held by non-affiliates of the registrant as of June 30, 2017 was approximately \$15,306,838 based upon the closing price as reported on the NASDAQ Capital Market on such date.

As of March 1, 2018, there were 6,321,988 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Corporation's definitive proxy statement for the 2018 Annual Meeting of Shareholders are incorporated by reference into Part III of this report.

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RAND CAPITAL CORPORATION

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PART I

Item 1. Business

Overview of Our Business

Rand Capital Corporation (Rand , we , us and our) was incorporated under the laws of New York in February 1969. Throughout our history, our principal business has been to make venture capital investments in early or expansion stage companies, often in upstate New York and regions in close proximity. In accordance with our strategic growth plan, we look for companies with strong leadership that are bringing to market new or unique products, technologies or services and have a high potential for growth. We invest in a mixture of debt and equity instruments. The debt securities typically have an equity component in the form of warrants or options to acquire stock or the right to convert the debt securities into stock. We established our first small business investment company (SBIC) in 2002, Rand Capital SBIC, Inc.(Rand SBIC), whereby we utilized funds borrowed from the Small Business Administration (SBA) combined with our capital to invest in our portfolio companies. During 2017, we established a second SBIC subsidiary, Rand Capital SBIC II, L.P. (Rand SBIC II) and began making investments from this SBIC subsidiary. We continue to work with the SBA in determining an optimal structure within its regulatory parameters which, once completed, may result in new SBA leverage commitments in 2018.

Our Investment Objectives and Strategy

Our principal investment objective is to achieve long-term capital appreciation on our equity investments while maintaining a current cash flow from our debenture and pass-through equity instruments to fund expenses. Therefore, we invest in a variety of financial instruments to provide a current return on a portion of the investment portfolio. The equity features contained in our investment portfolio are structured to realize capital appreciation over the long-term and typically do not generate current income in the form of dividends or interest.

Our investment strategy is to partner with other investors to invest in small companies that either have a new product, service or technology they are trying to commercialize or are working to accelerate their rate of growth. We define small companies as businesses that may not yet be generating revenue up to companies with \$20 million in revenue.

We have historically made an initial investment of \$500,000 to \$1,000,000 directly in a company through equity or in debt or loan instruments and frequently provide follow-on investments during our investment tenure. The debt instruments we acquire generally have a maturity of not more than five years and usually are convertible or have detachable equity warrants. Interest is either paid currently or deferred. We fund new investments and operating expenses through existing cash balances, proceeds from investment exits, and interest and principal payments from our portfolio companies.

Our Investment Process

Our primary business is making debt and equity investments in small companies that meet some or all of the following criteria:

- 1) a qualified and experienced management team;
- 2) a new or unique product or service; and
- 3) high potential for growth in revenue and cash flow.

Our management team identifies investment opportunities through a network of investment referral relationships. Investment proposals may come to us from other sources, including unsolicited proposals from companies and referrals from accountants, bankers, lawyers and other members of the financial community. We believe that our reputation in the investment community and our experience provide a competitive advantage in originating quality investments.

In a typical private financing, our management team will review, analyze, and confirm, through due diligence, the business plan and operations of the potential portfolio company. Additionally, we familiarize

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ourselves with the portfolio company's industry and competition and may conduct reference checks with its customers and suppliers.

Following our initial investment, we may make follow-on investments in the portfolio company, if needed. Follow-on investments may be made to take advantage of warrants or other preferential rights granted to us to increase or maintain our position in a promising portfolio company, or provide additional funds to allow a portfolio company to fully implement its business plans, develop a new line of business or recover from unexpected business problems. Follow-on investments in a portfolio company are evaluated individually and may be subject to SBA restrictions.

Disposition of Investments

We may exit investments through the maturation of a debt security or when a liquidity event takes place, such as the sale, recapitalization, or initial public offering of a portfolio company. The method and timing of the disposition of our portfolio investments can be critical to the realization of maximum total return. We generally expect to dispose of our equity securities through private sales of securities to other investors or through the sale or merger of the portfolio company. We anticipate our debt investments will be repaid with interest and expect to realize further appreciation from the warrants or other equity type instruments received in connection with the investment.

Current Portfolio Companies

For a description of our current portfolio company investments, see Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations - Composition of the Investment Portfolio.

Competition

We compete for quality investments with other venture capital firms, individual investors, business development companies, and investment funds (including private equity funds and mezzanine funds), as well as traditional financial services companies such as commercial banks. We believe we are able to compete with these entities primarily on the basis of our referral network, our investing reputation and experience, our responsive, quick and efficient investment analysis and decision-making process, the investment terms we offer, and our willingness to make smaller investments.

For information concerning the competitive risks we face, see Item 1A. Risk Factors.

Employees

As of December 31, 2017, we had four employees, unchanged from 2016.

Organization and History

We completed our initial public offering in 1971 as an internally managed, closed-end, diversified, management investment company. We have elected to be treated as a business development company (BDC) under the Investment Company Act of 1940, as amended (the 1940 Act). As a BDC we are required to comply with certain regulatory requirements as provided for in the 1940 Act and the rules and regulations promulgated thereunder. For instance, we generally have to invest at least 70% of our total assets in qualifying assets and provide managerial assistance to the portfolio companies in which we invest. See Item 1. Business - Regulations, Business Development Company Regulations.

We historically made the majority of our investments through Rand SBIC, an SBIC that has been licensed by the SBA since 2002. Rand SBIC's predecessor was organized as a Delaware limited partnership and was converted into a New York corporation in 2008, at which time our operations as a licensed SBIC were continued. Although Rand SBIC had operated as if it were a BDC, it was registered as an investment company under the 1940 Act. In 2012, the Securities and Exchange Commission (SEC) granted an Order of Exemption for Rand with respect to the operations of Rand SBIC and Rand SBIC then filed an election to be regulated as a BDC under the 1940 Act. Rand SBIC's board of directors is comprised of the directors of Rand, a majority of whom are not interested persons of Rand or Rand SBIC.

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We operate as an internally managed investment company whereby our officers and employees conduct our business under the general supervision of our Board of Directors. We have not elected to qualify to be taxed as a regulated investment company as defined under Subchapter M of the Internal Revenue Code.

In this Annual Report on Form 10-K, (Annual Report), unless the context otherwise requires, we , the Corporation , us , and our refer to Rand Corporation, Rand SBIC and Rand SBIC II.

Our corporate office is located in Buffalo, NY and our website address is www.randcapital.com. We make available on our website, free of charge, our annual and periodic reports, proxy statements and other information as soon as reasonably practicable after such material is filed with the SEC. Our shares are traded on the NASDAQ Capital Market under the ticker symbol RAND.

Regulations

The following discussion is a general summary of the material prohibitions and descriptions governing BDCs and SBA-licensed SBICs. It does not purport to be a complete description of all of the laws and regulations affecting BDCs and SBICs.

Business Development Company Regulations

We have elected to be regulated as a BDC under the 1940 Act. Although the 1940 Act exempts a BDC from registration under that Act, it contains significant limitations on the operations of BDCs. Among other things, the 1940 Act contains prohibitions and restrictions relating to transactions between a BDC and its affiliates, principal underwriters and affiliates of its affiliates or underwriters. The 1940 Act also prohibits a BDC from changing the nature of its business so as to cease to be, or to withdraw its election as, a BDC unless so authorized by a vote of the holders of a majority of its outstanding voting securities. BDCs are not required to maintain fundamental investment policies relating to diversification and concentration of investments within a single industry. More specifically, in order to qualify as a BDC, a company must:

- (1) be a domestic company;
- (2) have registered a class of its equity securities or have filed a registration statement with the SEC pursuant to Section 12 of the Securities Exchange Act of 1934 (the Exchange Act);
- (3) operate for the purpose of investing in the securities of certain types of companies, namely immature or emerging companies and businesses suffering or just recovering from financial distress. Generally, a BDC must be primarily engaged in the business of furnishing capital and providing managerial expertise to companies that do not have ready access to capital through conventional financial channels. Such companies are termed eligible portfolio companies;
- (4) extend significant managerial assistance to such portfolio companies; and
- (5) have a majority of disinterested directors (as defined in the 1940 Act).

Qualifying Assets

Under the 1940 Act, a BDC may not acquire any asset other than assets of the type listed in Section 55(a) of the 1940 Act, which are referred to as qualifying assets, unless, at the time the acquisition is made, qualifying assets represent at least 70% of the company s total assets. The 1940 Act prohibits BDCs from investing in certain types of companies, such as brokerage firms, insurance companies, investment banking firms and investment companies.

An eligible portfolio company is, generally, a private domestic operating company, or a public domestic operating company whose securities are not listed on a national securities exchange. In addition, any small business investment company that is licensed by the SBA and is a wholly owned subsidiary of a BDC is an eligible portfolio company.

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Qualifying assets include:

- (1) securities of companies that were eligible portfolio companies at the time the BDC acquired their securities;
- (2) securities of bankrupt or insolvent companies that were eligible at the time of the BDC's initial acquisition of their securities but are no longer eligible, provided that the BDC has maintained a substantial portion of its initial investment in those companies;
- (3) securities received in exchange for or distributed on or with respect to any of the foregoing; and
- (4) cash items, government securities and high-quality short-term debt.

The 1940 Act also places restrictions on the nature of the transactions in which, and the persons from whom, securities can be purchased in order for the securities to be considered qualifying assets.

A BDC is permitted to invest in the securities of public companies and other investments that are not qualifying assets, but those kinds of investments may not exceed 30% of the BDC's total asset value at the time of the investment. At December 31, 2017, we were in compliance with this rule.

Managerial Assistance to Portfolio Companies

In order to count portfolio securities as qualifying assets for the purpose of the 70% test discussed above, a BDC must either control the issuer of the securities or must offer to make available significant managerial assistance; except that, where the BDC purchases the securities in conjunction with one or more other persons acting together, one of the other persons in the group may make available such managerial assistance. Making available significant managerial assistance means, among other things, any arrangement whereby the BDC, through its directors, officers or employees, offers to provide and, if accepted, does so provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company through monitoring of portfolio company operations, selective participation in board and management meetings, consulting with and advising a portfolio company's officers or other organizational or financial guidance.

Small Business Investment Company Regulations

SBA Lending Restrictions

SBICs are designed to stimulate the flow of private debt and/or equity capital to small businesses. The types and dollar amounts of the loans and other investments we may make are limited by the 1940 Act, the Small Business Act (the "SBA Act") and SBA regulations. Rand SBIC uses funds borrowed from the SBA that can be combined with our own capital to provide loans to, and make equity investments in, businesses that meet the following criteria:

- (a) have a tangible net worth not in excess of \$19.5 million and average net income after U.S. federal income taxes for the preceding two completed fiscal years not in excess of \$6.5 million, or
- (b) meet size standards set by the SBA that are measured by either annual receipts or number of employees, depending on the industry in which the businesses are primarily engaged.

In addition, at the end of each fiscal year, an SBIC must have at least 20% (in total dollars) invested in smaller enterprises. The SBA defines smaller enterprises as businesses that:

- (a) do not have a net worth in excess of \$6 million and have average net income after U.S. federal income taxes for the preceding two years no greater than \$2 million, or
- (b) meet size standards set by the SBA that are measured by either annual receipts or number of employees, depending on the industry in which the concerns are primarily engaged.

We have complied with these requirements since the inception of Rand SBIC.

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The SBA also forbids an SBIC from providing funds to small businesses with specific characteristics, such as businesses with the majority of their employees located outside the United States, or from investing in passive or non-operating businesses, real estate, project financing, farmland, or financial lenders. Without prior SBA approval, an SBIC may not invest an amount equal to more than approximately 30% of the SBIC's regulatory capital in any one company and its affiliates.

The SBA places limitations on the financing terms of investments by SBICs in portfolio companies such as limiting the prepayment options, the financing fees that can be charged to a portfolio company, the allowable interest rate on loan and debt securities that an SBIC can charge a portfolio company, and the maximum term of such financing. An SBIC may exercise control over a small business for a period of up to seven years from the date on which the SBIC initially acquires its control position.

The SBA restricts the ability of an SBIC to lend money to any of its officers, directors and employees or to invest in associates. The SBA also prohibits, without prior SBA approval, a change of control of an SBIC or transfers that would result in any person, or a group of persons acting together, owning 10% or more of a class of capital stock of a licensed SBIC. A change of control is any event which would result in the transfer of the power, direct or indirect, to direct the management and policies of an SBIC, whether through ownership, contractual arrangements or otherwise.

Rand SBIC may invest directly in the equity of portfolio companies, but may not become a general partner of a non-incorporated entity or otherwise become jointly or severally liable for the general obligations of a non-incorporated entity. Rand SBIC may acquire options or warrants in portfolio companies, and the options or warrants may have redemption provisions, subject to certain restrictions. Pursuant to SBA regulations, the maximum cash which may be invested in any one portfolio company by Rand SBIC is currently \$3.0 million.

In addition the SBA regulations require an examination of a licensed SBIC by an SBA examiner to determine the SBIC's compliance with the relevant SBA regulations. Our annual report, submitted to the SBA, must be audited by an independent public accounting firm.

SBA Leverage

The SBA raises capital to enable it to provide funds to SBICs by guaranteeing certificates or bonds that are pooled and sold to purchasers of the government guaranteed securities. The amount of funds that the SBA may lend to SBICs is determined by annual Congressional appropriations.

SBA debentures are issued with ten year maturities. Interest only is payable semi-annually until maturity. All of our outstanding SBA debentures may be prepaid without penalty. To reserve the approved SBA debenture leverage, we paid an upfront 1% commitment fee to the SBA as a partial prepayment of the SBA's nonrefundable 3% leverage fee. These fees are expensed over the life of the corresponding SBA debenture instruments. The SBA, as a creditor, will have a superior claim to Rand SBIC's assets over our shareholders in the event we liquidate Rand SBIC or the SBA exercises its remedies under the SBA-guaranteed debentures issued by Rand SBIC upon an event of default.

At December 31, 2017, we had \$8,000,000 in outstanding SBA debenture instruments.

Item 1A. Risk Factors

Risks related to our business and structure

Our financial results will depend on our skill to manage and deploy capital effectively

Our ability to achieve long-term capital appreciation on our equity investments while maintaining a current cash flow from our debenture and pass-through equity instruments depends on our capability to effectively identify, invest and manage our capital.

Accomplishing this investment objective effectively will be based on our management team's handling of the investment process, starting with its ability to find investments that offer favorable terms and meet our investment objective. They will also have to monitor the portfolio company's performance and may be called

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upon to provide managerial assistance. These demands on their time may distract them or may slow the rate of investment.

Even if we are able to grow and build on our investment, any failure to manage our growth effectively could have a material adverse effect on our business, financial condition, results of operations and prospects. If we cannot successfully operate our business or implement our investment objective, it could negatively impact our stock price.

We are subject to risks created by our regulated environment

We are regulated by the SBA and the SEC. Changes in the laws or regulations that govern SBICs and BDCs could significantly affect our business. Regulations and laws may be changed periodically, and the interpretations of the relevant regulations and laws are also subject to change. Any change in the regulations and laws governing our business could have a material impact on our financial condition and our results of operations. Moreover, the laws and regulations that govern BDCs and SBICs may place conflicting demands on the manner in which we operate, and the resolution of those conflicts may restrict or otherwise adversely affect our operations.

We are subject to risks created by borrowing funds from the SBA

Our liabilities include large amounts of debt instruments issued through the SBA which have fixed interest rates. Until and unless we are able to invest substantially all of the proceeds from debentures at annualized interest or other rates of return that substantially exceed annualized interest rates that Rand SBIC must pay the SBA, our operating results may be adversely affected which may, in turn, depress the market price of our common stock.

In addition, our outstanding \$8.0 million in principal amount of SBA debentures will reach maturity and become payable between 2022 and 2025. In order to repay our outstanding SBA debentures, we will need to identify sources of additional funding if the proceeds received upon the exits of our investments are insufficient to fund our operations and repay our SBA obligations. We cannot be assured that the proceeds to be received upon the exits from our investments will be sufficient to meet our funding needs or that, if such proceeds are insufficient, that we will be able to obtain access to the necessary funding on terms that are acceptable to us.

We are subject to risks created by the valuation of our portfolio investments

At December 31, 2017, 100% of our investments are in private securities that are not publicly traded. There is typically no public market for securities of the small privately held companies in which we invest. Investments are valued in accordance with our established valuation policy and are stated at fair value as determined in good faith by management and approved by our Board of Directors. In the absence of a readily ascertainable market value, the estimated value of our portfolio of securities may differ significantly, favorably or unfavorably, from the values that would be placed on the portfolio if a ready market for the securities existed. Any changes in estimated value are recorded in the consolidated statement of operations as Net increase (decrease) in unrealized depreciation or appreciation on investments.

We are dependent upon key management personnel for future success

We are dependent on the skill, diligence, and the network of business contacts of our executive officers for the sourcing and selection, structuring, closing, monitoring and valuation of our investments. Our future success depends, to a significant extent, on the continued employment of these officers and their departure could materially adversely affect our ability to implement our business strategy. We do not maintain key man life insurance or employment agreements on the officers.

We operate in a competitive market for investment opportunities

We operate in a competitive market for investment opportunities. We face competition in our investing activities from many entities including other SBICs, private venture capital funds, investment affiliates of large companies, wealthy individuals and other domestic or foreign investors. The competition is not limited to entities that operate in the same geographical area as we do. As a regulated BDC, we are required to disclose quarterly

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and annually the name and business description of our portfolio companies and the value of their portfolio securities. Most of our competitors are not subject to this disclosure requirement. This obligation to disclose this information could hinder our ability to invest in some portfolio companies. Additionally, other regulations, current and future, may make us less attractive as a potential investor to a given portfolio company than a private venture capital fund.

We are subject to cybersecurity risks and incidents that may adversely affect the operations of our company or the companies in which we invest. A failure in our cyber security systems could impair our ability to conduct business and damage our business relationships, compromise or corrupt our confidential information and ultimately negatively impact business, financial condition and operating results.

Our operations are dependent on secure information technology systems for data processing, storage and reporting. Increased cybersecurity vulnerabilities, threats and more sophisticated and targeted cyber-attacks pose a risk to the security of our information and the information of our portfolio companies. These cyber-attacks could affect our computer network, our website or our service providers (such as, but not limited to, accountants, lawyers, and transfer agents) and could result in operation disruptions or information misappropriation, which could have a material adverse effect on our business operations and the integrity and availability of our financial information. We have attempted to mitigate these cybersecurity risks by employing a number of processes, procedures and internal controls within our company but we remain potentially vulnerable to additional known and unknown threats.

We may experience fluctuations in our quarterly results

Our quarterly operating results could fluctuate significantly as a result of a number of factors. These factors include, among others, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which portfolio companies encounter competition in their markets, their ability to raise additional capital, if needed, and general economic conditions. As a result of these factors, results for any quarter cannot be relied upon as being indicative of performance in future quarters or for a full year.

Risks related to our investments

We have a limited number of companies in our portfolio of investments, and may be subjected to greater risk if any of these companies default

Our portfolio investment values are concentrated in a small number of companies and as such, we may experience a significant loss in our net asset value if one or more of these companies perform poorly or go out of business. The unrealized or realized depreciation in the value of the securities of any one of these companies would negatively impact our net asset value.

The lack of liquidity in our investments may adversely affect our business

We invest, and will continue to invest, in portfolio companies whose securities are not publicly traded and may be subject to restrictions on resale, and as a result will be less liquid than publicly traded securities. Most of our investments are or will be either equity securities or subordinated debt securities acquired directly from small, private companies. The illiquidity of most of our portfolio may adversely affect our ability to dispose of the securities at times when it may be advantageous for us to liquidate investments. In addition, we may not realize the full value of these private investments if we have to liquidate all or a part of our portfolio investment quickly, given the lack of available markets for their sale.

Economic downturns or recessions may adversely affect our portfolio companies financial performance and therefore harm our operating results

The United States economy has periodically experienced periods of instability and recessions and the financial results of the small companies in which we invest could be more acutely affected negatively by this instability and suffer deterioration in operational or financial results. This deterioration may have a negative effect on our financial performance.

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Investing in private companies involves a high degree of risk

We typically invest a substantial portion of our assets in small private companies. These private businesses may be thinly capitalized, unproven companies with risky technologies, products or services, may lack management depth, and may not have attained profitability. Because of the speculative nature and the lack of a public market for these investments, there is significantly greater risk of loss than is the case with securities traded on a public exchange. We expect that some of our investments will become worthless and that some will appear likely to become successful but will never realize their potential. We have been risk seeking rather than risk averse in our approach to our investments.

Even if our portfolio companies are able to develop commercially viable technologies, products or services, the market for those new technologies, products and services is likely to be highly competitive and rapidly changing. Commercial success is difficult to predict and the marketing efforts of the portfolio companies may not be successful.

We typically are minority shareholders in companies

We typically invest as a minority shareholder in our portfolio companies. As a minority shareholder we are unable to require the company to seek or entertain liquidity events as a way to exit our investments. This may cause us to hold investments longer than planned or to seek a sale that may not reflect the full value of our investment.

We may not have the funds or ability to make follow-on investments in our portfolio companies

We may not have the funds or ability to make additional investments in our portfolio companies. After our initial investment in a company, we may be asked to participate in another round of financing to the company. There is no assurance that we will make, or have sufficient funds to make, these follow-on investments. Any decision to not make an additional investment in our portfolio company may have a negative impact on the portfolio company in need of the capital, and have a negative impact on our ownership in the company.

Risks related to our common stock

Investing in our shares may be inappropriate for an investor's risk tolerance

Our venture capital investments, in accordance with our investment objective and principal strategies, result in a greater than average amount of risk and volatility and may result in loss of principal. Our investments in portfolio companies are highly speculative and aggressive and, therefore, an investment in our shares may not be suitable for investors for whom such risk is inappropriate. Neither our investments nor an investment in our shares constitutes a balanced investment program.

Sales of substantial amounts of our securities may have an adverse effect on the market price of our securities.

Sales of substantial amounts of our securities, or the availability of such securities for sale, could adversely affect the prevailing market prices for our securities.

Our shares often trade at a discount to our net asset value

Shares of business development companies may trade at a market price that is less than the net asset value that is attributable to those shares and our shares have often traded at such a discount. This characteristic of closed-end investment companies is separate and distinct from the risk that our net asset value per share may decline. It is not possible to predict if, and when, our shares will trade at, above, or below net asset value.

Item 1B. *Unresolved Staff Comments*

Not applicable.

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We currently lease office space in Buffalo, New York for our corporate headquarters. We believe that these leased facilities are adequate to support our current staff and expected future needs.

Item 3. Legal Proceedings

None.

Item 4. Mine Safety Disclosures

Not applicable.

Part II**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common stock (Common Stock) is traded on the NASDAQ Capital Market (NASDAQ) under the symbol RAND. The following table sets forth, for the periods indicated, the range of high and low closing sales prices per share of Common Stock as reported by NASDAQ:

2017 Quarter ended:	High	Low
March 31	\$ 3.28	\$ 2.93
June 30	\$ 3.10	\$ 2.76
September 30	\$ 2.99	\$ 2.75
December 31	\$ 3.30	\$ 2.77
2016 Quarter ended:	High	Low
March 31	\$ 4.69	\$ 3.48
June 30	\$ 4.50	\$ 3.65
September 30	\$ 3.78	\$ 3.21
December 31	\$ 3.61	\$ 3.12

We have not paid any cash dividends in the two most recent fiscal years.

Issuer Purchases of Equity Securities

Period	Total number of shares purchased(1)	Average price paid per share(2)	Total number of shares purchased as part of publicly announced plan(3)	Maximum number of shares that may yet be purchased under the share repurchase plan(3)
10/1 10/31/2017				458,954
11/1 11/30/2017				458,954
12/1 12/31/2017				458,954

(1) There were no shares repurchased during the fourth quarter of 2017.

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- (2) The average price paid per share is calculated on a settlement basis and includes commission.
- (3) On October 26, 2017, the Board of Directors extended the repurchase authorization of up to 1,000,000 shares of the Common Stock on the open market at prices no greater than the then current net asset value through October 26, 2018.

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Shareholders of Record

On March 1, 2018, we had a total of approximately 766 shareholders, which included 78 record holders of our Common Stock, and an estimated 688 holders with shares beneficially owned in nominee name or under clearinghouse positions of brokerage firms or banks.

Corporation Performance Graph

The following graph shows a five-year comparison of cumulative total shareholder returns for our Common Stock, the NASDAQ Market Index, and our Peer Group, assuming a base index of \$100 at the end of 2011. The cumulative total return for each annual period within the five years presented is measured by dividing (1) the sum of (A) the cumulative amount of dividends for the measurement period, assuming dividend reinvestment, and (B) the difference between share prices at the end and at the beginning of the measurement period by (2) the share price at the beginning of the measurement period.

Comparison of 5 Year Cumulative Total Return

Assumes Initial Investment of \$100

December 2017

Comparison of cumulative total return of one or more companies, peer groups, industry indexes and/or broad markets

FISCAL YEAR ENDED DECEMBER 31,

Company/Index/Market	2012	2013	2014	2015	2016	2017
Rand Capital Corporation	\$ 100.00	\$ 131.20	\$ 174.79	\$ 161.11	\$ 135.04	\$ 129.06
NASDAQ Market Index	\$ 100.00	\$ 140.12	\$ 160.78	\$ 171.97	\$ 187.22	\$ 242.71
Peer Group Index	\$ 100.00	\$ 134.94	\$ 134.07	\$ 71.29	\$ 61.78	\$ 70.00

The Peer Group was comprised of the following companies:

Capital Southwest Corporation (NasdaqGS: CSWC)

Firsthand Technology Value Fund, Inc. (NasdaqGS: SVVC)

GSV Capital Corp. (NasdaqCM: GSVC)

180 Degree Capital Corp. (NasdaqGM: TURN)

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We selected the Peer Group because it is our belief that the four issuers in the group have investment objectives that are similar to ours, and among the publicly traded companies, they are relatively similar in size to us. During 2017, Harris and Harris Group announced it would change its corporate name to 180 Degree Capital Corp. and its ticker symbol on the NASDAQ stock market to TURN. The peer group is unchanged from 2016.

The performance graph information provided above will not be deemed to be soliciting material or filed with the SEC or subject to Regulations 14A or 14C, or to the liabilities of section 18 of the Securities Exchange Act, unless in the future we specifically request that the information be treated as soliciting material or specifically incorporate it by reference into any filing under the Securities Act or the Exchange Act.

Item 6. Selected Financial Data

The following table provides selected consolidated financial data for the periods indicated. You should read the selected financial data set forth below in conjunction with Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and with the consolidated financial statements and related notes appearing within Item 8 of this Annual Report.

Balance Sheet Data as of December 31:

	2017	2016	2015	2014	2013
Total assets	\$ 40,133,913	\$ 42,418,530	\$ 44,562,060	\$ 45,525,987	\$ 39,750,370
Total liabilities	\$ 8,215,228	\$ 9,789,167	\$ 10,708,400	\$ 13,172,546	\$ 11,681,038
Net assets	\$ 31,918,685	\$ 32,629,363	\$ 33,853,660	\$ 32,353,441	\$ 28,069,332
Net asset value per outstanding share	\$ 5.05	\$ 5.16	\$ 5.35	\$ 5.11	\$ 4.38
Shares of common stock outstanding	6,321,988	6,321,988	6,328,538	6,328,538	6,411,918

Operating Data for the years ended December 31:

	2017	2016	2015	2014	2013
Investment income	\$ 1,454,782	\$ 1,031,858	\$ 2,824,337	\$ 2,584,475	\$ 2,451,036
Total expenses	\$ 2,010,977	\$ 3,401,037	\$ 1,817,279	\$ 2,499,297	\$ 2,359,252
Net investment (loss) gain, net of tax	(\$ 19,298)	(\$ 1,553,268)	\$ 842,902	\$ 21,835	\$ 154,478
Net realized gain (loss) on sales and dispositions of investments, net of tax	\$ 88,684	\$ 8,864,653	(\$ 27,973)	\$ 4,767,484	\$ 4,374,354
Net (decrease) increase in unrealized depreciation or appreciation on investments, net of tax	(\$ 780,064)	(\$ 8,514,068)	\$ 685,290	(\$ 247,838)	(\$ 1,655,475)
Net (decrease) increase in net assets from operations	(\$ 710,678)	(\$ 1,202,683)	\$ 1,500,219	\$ 4,541,481	\$ 2,873,357

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the consolidated financial statements and related notes included within Item 8 of this Annual Report.

FORWARD LOOKING STATEMENTS

Statements included in this Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this Report that do not relate to present or historical conditions are forward-looking

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statements within the meaning of that term in Section 27A of the Securities Act of 1933, as amended, and in Section 21E of the Securities Exchange Act of 1934, as amended. Additional oral or written forward-looking statements may be made by us from time to time, and forward-looking statements may be included in documents that are filed with the SEC. Forward-looking statements involve risks and uncertainties that could cause our results or outcomes to differ materially from those expressed in the forward-looking statements. Forward-looking statements may include, without limitation, statements relating to our plans, strategies, objectives, expectations and intentions and are intended to be made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Words such as believes, forecasts, intends, possible, expects, estimates, anticipates, or plans and similar expressions are intended to identify forward-looking statements. Among the important factors on which such statements are based are assumptions concerning the state of the United States economy and the local markets in which our portfolio companies operate, the state of the securities markets in which the securities of our portfolio companies could be traded, liquidity within the United States financial markets, and inflation. Forward-looking statements are also subject to the risks and uncertainties described under the caption Risk Factors contained in Part I, Item 1A. of this Annual Report.

There may be other factors not identified that affect the accuracy of our forward-looking statements. Further, any forward-looking statement speaks only as of the date when it is made and, except as required by law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which it is made or to reflect the occurrence of anticipated or unanticipated events or circumstances. New factors emerge from time to time that may cause our business not to develop as we expect, and we cannot predict all of them.

Overview

We are an internally managed investment company that lends to and invests in small companies often concurrently with other investors. We have elected to be treated as a business development company (BDC) under the Investment Company Act of 1940, as amended (the 1940 Act). As a BDC, we are required to comply with certain regulatory requirements. We have historically made the majority of our investments through our wholly-owned subsidiary, Rand Capital SBIC, Inc. (Rand SBIC), which operates as a small business investment company (SBIC) and has been licensed by the U.S. Small Business Administration (SBA) since 2002. During 2017, we established a second SBIC subsidiary, Rand Capital SBIC II, L.P. (Rand SBIC II) and began making investments from this SBIC subsidiary. We continue to work with the SBA in determining an optimal structure within its regulatory parameters which, once completed, may result in new SBA leverage commitments in 2018.

Our principal investment objective is to achieve long-term capital appreciation on our equity investments while maintaining a current cash flow from our debenture and pass-through equity instruments to fund our operating expenses. Therefore, we invest in a variety of financial instruments to provide a current return on a portion of the investment portfolio. The equity features contained in our investment portfolio are structured to realize capital appreciation over the long-term and typically do not generate current income in the form of dividends or interest.

We have historically made initial investments of \$500,000 to \$1,000,000 directly in companies through equity or in debt or loan instruments and frequently provided follow-on investments during our investment tenure. The debt instruments generally have a maturity of not more than five years and usually have detachable equity warrants. Interest may be paid currently or deferred, based on the investment structure negotiated.

We may exit investments through the maturation of a debt security or when a liquidity event takes place, such as the sale, recapitalization, or initial public offering of a portfolio company. The method and timing of the disposition of our portfolio investments can be critical to the realization of maximum total return. We generally expect to dispose of our equity securities through private sales of securities to other investors or through an outright sale of the portfolio company or a merger. We anticipate our debt investments will be repaid with interest and hope to realize further appreciation from the warrants or other equity type instruments we receive in connection with the investment. We fund new investments and operating expenses through existing cash balances, investment returns, and interest and principal payments from our portfolio companies

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2017 Portfolio and Investment Activity

We believe the change in net asset value over time is the leading valuation metric of our performance. Exits from our portfolio holdings are the key driver of growth in net asset value over time.

Net asset value of our portfolio decreased to \$5.05 per share, or \$31.9 million, at December 31, 2017, down (\$0.11) per share, or (2.1%), compared with net asset value of \$5.16 per share, or \$32.6 million, at the end of the prior year.

At year end, the estimated value of our portfolio, which included securities from 30 active companies, was \$32.3 million. This value included \$4.4 million in net pre-tax unrealized depreciation.

Approximately 58% of the portfolio was equity investments with the remainder being debt and loan investments.

The portfolio generated approximately \$1.5 million in interest, fee, dividend and other income.

During 2017, we made \$5.4 million of new investments in 8 companies, of which one was a new portfolio company.

Outlook

At the end of 2017, we had \$6.3 million in cash available for future investments and expenses, a decrease from \$12.3 million at the end of 2016. The decrease was primarily due to \$5.4 million of investments originated during 2017 as well as funding of ongoing operating expenses.

We continue to work with the SBA in determining an optimal structure within its regulatory parameters which, once completed, may result in new SBA leverage commitments in 2018.

We believe the combination of cash on hand, proceeds from portfolio exits, potential additional SBA leverage, and prospective investment income provide sufficient capital for us to continue to add new investments to our portfolio while reinvesting in existing portfolio companies that demonstrate continued growth potential. The following short and long-term trends provide us confidence in our ability to grow Rand:

We expect that well run businesses will require capital to grow and should be able to compete effectively given the strong macroeconomic environment and eager reception of new technologies and service concepts.

We continue to manage risk by investing with other investors, when possible.

We are actively involved with the governance and management of our portfolio companies, which enables us to support their operating and marketing efforts and facilitate their growth.

As our portfolio expands, we are able to better leverage our infrastructure.

We have sufficient cash to invest in new opportunities and to repurchase shares. At year end, we had authorization to repurchase an additional 458,954 shares of our Common Stock. However, our prioritized use of cash continues to be growing our portfolio.

Critical Accounting Policies

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We prepare our consolidated financial statements in accordance with United States generally accepted accounting principles, or GAAP, which require the use of estimates and assumptions that affect the reported amounts of assets and liabilities. For a summary of all significant accounting policies, including critical accounting policies, see Note 1 to the consolidated financial statements in Item 8 of this Annual Report.

The increasing complexity of the business environment and applicable authoritative accounting guidance require us to closely monitor our accounting policies and procedures. We have two critical accounting policies that require the use of significant judgment. The following summary of critical accounting policies is intended to enhance a reader's ability to assess our financial condition and results of operations and the potential volatility due to changes in estimates.

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Valuation of Investments

Investments are valued at fair value as determined in good faith by management and approved by our Board of Directors. We invest in loan, debt, and equity instruments and there is no single standard for determining fair value of these investments. As a result, determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment while employing a consistent valuation process. We analyze and value each investment quarterly, and record unrealized depreciation for an investment that we believe has become impaired, including where collection of a loan or realization of the recorded value of an equity security is doubtful. Conversely, we will record unrealized appreciation if we believe that an underlying portfolio company has appreciated in value and, therefore, its equity security has also appreciated in value. These estimated fair values may differ from the values that would have been used had a ready market for the investments existed and these differences could be material if our assumptions and judgments differ from results of actual liquidation events.

Our investments are carried at fair value in accordance with Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, which defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements.

Loan investments are defined as traditional loan financings with no equity features. Debt investments are defined as debt financings that include one or more equity features such as conversion rights, stock purchase warrants, and/or stock purchase options. A financing may also be categorized as a debt financing if it is accompanied by the direct purchase of an equity interest in the company.

We utilize several approaches to determine the fair value of an investment. The main approaches are:

Loan and debt securities are valued at cost when it is representative of the fair value of the investment or sufficient assets or liquidation proceeds are expected to exist from a sale of a portfolio company at its estimated fair value. However, they may be valued at an amount other than cost given the carrying interest rate versus the related inherent portfolio risk of the investment. A loan or debt instrument may be reduced in value if it is judged to be of poor quality, collection is in doubt or insufficient liquidation proceeds exist.

Equity securities may be valued using the asset approach, market approach or income approach. The asset approach involves estimating the liquidation value of the portfolio company's assets. To the extent the value exceeds the remaining principal amount of the debt or loan securities of the portfolio company, the fair value of such securities is generally estimated to be their cost. However, where value is less than the remaining principal amount of the loan and debt securities, the Corporation may discount the value of an equity security. The market approach uses observable prices and other relevant information generated by similar market transactions. It may include the use of market multiples derived from a set of comparables to assist in pricing the investment. Additionally, the Corporation adjusts valuations if a subsequent significant equity financing has occurred that includes a meaningful portion of the financing by a sophisticated, unrelated new investor. The income approach employs a cash flow and discounting methodology to value an investment. ASC 820 classifies the inputs used to measure fair value into the following hierarchy:

Level 1: Quoted prices in active markets for identical assets or liabilities, used in our valuation at the measurement date.

Level 2: Quoted prices for similar assets or liabilities in active markets, or quoted prices for identical or similar assets or liabilities in markets that are not active, or other observable inputs other than quoted prices.

Level 3: Unobservable and significant inputs to determining the fair value.

Financial assets are categorized based upon the level of judgment associated with the inputs used to measure their fair value.

Any changes in estimated fair value are recorded in the statement of operations as Net (decrease) increase in unrealized depreciation or appreciation on investments.

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Under the valuation policy, we value unrestricted publicly traded companies, categorized as Level 1 investments, at the average closing bid price for the last three trading days of the reporting period. There were no Level 1 or Level 2 investments as of December 31, 2017.

In the valuation process, we value restricted securities, categorized as Level 3 investments, using information from these portfolio companies, which may include:

Audited and unaudited statements of operations, balance sheets and operating budgets;

Current and projected financial, operational and technological developments of the portfolio company;

Current and projected ability of the portfolio company to service its debt obligations;

The current capital structure of the business and the seniority of the various classes of equity if a deemed liquidation event were to occur;

Pending debt or capital restructuring of the portfolio company;

Current information regarding any offers to purchase the investment, or recent fundraising transactions;

Current ability of the portfolio company to raise additional financing if needed;

Changes in the economic environment which may have a material impact on the operating results of the portfolio company;

Internal circumstances and events that may have an impact (both positive and negative) on the operating performance of the portfolio company;

Qualitative assessment of key management;

Contractual rights, obligations or restrictions associated with the investment; and

Other factors deemed relevant by our management to assess valuation.

The valuation may be reduced if a portfolio company's performance and potential have deteriorated significantly. If the factors that led to a reduction in valuation are overcome, the valuation may be readjusted.

Equity Securities

Equity Securities may include preferred stock, common stock, warrants and limited liability company membership interests.

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The significant unobservable inputs used in the fair value measurement of our equity investments are earnings before interest, taxes and depreciation and amortization (EBITDA) and revenue multiples, where applicable, the financial and operational performance of the business, and the senior equity preferences that may exist in a deemed liquidation event. Standard industry multiples may be used when available; however, our portfolio companies are typically small and in early stages of development and these industry standards may be adjusted to more closely match the specific financial and operational performance of the portfolio company. Due to the nature of certain investments, fair value measurements may be based on other criteria, which may include third party appraisals. Significant changes to the unobservable inputs, such as variances in financial performance from expectations, may result in a significantly higher or lower fair value measurement. Significant changes in any of these unobservable inputs may result in a significantly higher or lower fair value estimate.

Another key factor used in valuing equity investments is a significant recent arms-length equity transaction with a sophisticated non-strategic unrelated new investor entered into by the portfolio company. The terms of these equity transactions may not be identical to the equity transactions between the portfolio company and us, and the impact of the difference in transaction terms on the market value of the portfolio company may be difficult or impossible to quantify.

When appropriate the Black-Scholes pricing model is used to estimate the fair value of warrants for accounting purposes. This model requires the use of highly subjective inputs including expected volatility and expected life, in addition to variables for the valuation of minority equity positions in small private and early stage companies. Significant changes in any of these unobservable inputs may result in a significantly higher or lower fair value estimate.

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For recent investments, we generally rely on the cost basis, which is deemed to represent fair value, unless other fair market value inputs are identified causing us to depart from this basis.

Loans and Debt Securities

The significant unobservable inputs used in the fair value measurement of our loan and debt securities are the financial and operational performance of the portfolio company, similar debt with similar terms with other portfolio companies, current market rates for underlying risks associated with the particular company, as well as the market acceptance of the portfolio company's products or services and its future performance. These inputs will likely provide an indicator as to the probability of principal recovery of the investment. Our debt investments are often junior secured or unsecured debt securities. Fair value may also be determined based on other criteria where appropriate. Significant changes to the unobservable inputs may result in a change in fair value. For recent investments, we generally rely on the cost basis, which is deemed to represent the fair value, unless other fair market value inputs are identified causing us to depart from this basis.

Revenue Recognition

Interest income generally is recognized on the accrual basis except where the investment is in default or otherwise presumed to be in doubt. In such cases, interest income is recognized at the time of receipt. A reserve for possible losses on interest receivable is maintained when appropriate.

Our SBIC's interest accrual is also regulated by the SBA's Accounting Standards and Financial Reporting Requirements for Small Business Investment Companies. Under these rules, interest income cannot be recognized if collection is doubtful, and a 100% reserve must be established. The collection of interest is presumed to be in doubt when there is substantial doubt about a portfolio company's ability to continue as a going concern or the loan is in default more than 120 days. Management also uses other qualitative and quantitative measures to determine the value of a portfolio investment and the collectability of any accrued interest.

We hold debt securities in our investment portfolio that contain payment-in-kind (PIK) interest provisions. PIK interest, computed at the contractual rate specified in each debt agreement, is periodically added to the principal balance of the debt and is recorded as interest income. Thus, the actual collection of this interest may be deferred until the time of debt principal repayment.

We may receive distributions from portfolio companies that are limited liability companies or corporations. These distributions are classified as dividend income on the consolidated statement of operations. Dividend income is recognized on an accrual basis when it can be reasonably estimated.

We hold preferred equity securities that may contain cumulative dividend provisions. Cumulative dividends are recorded as dividend income when they are declared and deemed a contractual obligation. Any dividends in arrears are added to the balance of the preferred equity investment. The actual collection of these dividends in arrears may be deferred until such time as the preferred equity is redeemed.

Financial Condition***Overview:***

	12/31/17	12/31/16	Decrease	% Decrease
Total assets	\$ 40,133,913	\$ 42,418,530	(\$ 2,284,617)	(5.4%)
Total liabilities	8,215,228	9,789,167	(1,573,939)	(16.1%)
Net assets	\$ 31,918,685	\$ 32,629,363	(\$ 710,678)	(2.2%)

Net asset value was \$5.05 per share at December 31, 2017 versus \$5.16 per share at December 31, 2016.

The outstanding SBA debentures at December 31, 2017 are \$8,000,000, which will mature from 2022 through 2025.

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Cash approximated 20% of net assets at December 31, 2017 compared to 38% at December 31, 2016.

Composition of the Investment Portfolio

Our financial condition is dependent on the success of our portfolio holdings, which are investments in small companies. The following summarizes our investment portfolio at the yearends indicated.

	12/31/17	12/31/16	Increase (Decrease)	% Increase (Decrease)
Investments, at cost	\$ 36,689,319	\$ 31,631,030	\$ 5,058,289	16.0%
Unrealized depreciation, net	(4,405,257)	(4,130,549)	(274,708)	(6.7%)
Investments, at fair value	\$ 32,284,062	\$ 27,500,481	\$ 4,783,581	17.4%

Number of Active Portfolio Companies	30	33
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Our total investments at fair value, as estimated by management and approved by the Board of Directors, approximated 101% of net assets at December 31, 2017 and 84% of net assets at December 31, 2016.

The change in investments, at cost, during the year ended December 31, 2017, is comprised of the following:

	Cost Increase (Decrease)
New investments:	
eHealth Global Technologies, Inc. (eHealth)	\$ 2,000,000
Tilson Technology Management, Inc. (Tilson)	1,500,000
Genicon, Inc. (Genicon)	1,300,000
SciAps, Inc. (Sciaps)	250,000
BeetNPath, LLC (Beetnpath)	100,000
Centivo Corporation (Centivo)	100,000
Mercantile Adjustment Bureau, LLC (Mercantile)	100,000
KnowledgeVision Systems, Inc. (Knowledge Vision)	50,000
Total of new investments	5,400,000
Other changes to investments:	
Empire Genomics, LLC (Empire Genomics) interest conversion	201,489
Sciaps interest conversion	24,274
Genicon OID amortization	23,779
Microcision LLC (Microcision) interest conversion	22,176
Beetnpath interest conversion	11,277
GoNoodle, Inc. (GoNoodle) interest conversion	10,229
Mercantile OID amortization	8,350
Total of other changes to investments	301,574
Investments repaid, sold or liquidated:	
Athenex Inc. (Athenex) sold shares	(143,285)
City Dining Cards, Inc. (Loupe) realized loss	(500,000)
Total investments repaid, sold or liquidated	(643,285)

Net change in investments, at cost

\$ 5,058,289

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Our top five portfolio companies represented 37% of total assets at December 31, 2017:

Company	Industry	Fair Value at December 31, 2017	% of Total Assets at December 31, 2017
Genicon, Inc.	Health Care Testing Device	\$ 4,023,779	10%
eHealth Global Technologies, Inc.	Health Care	\$ 3,500,000	9%
Rheonix, Inc.	Health Care Testing Device	\$ 2,938,731	7%
Tilson Technology Management, Inc.	Professional Services	\$ 2,500,000	6%
Outmatch Holdings, LLC	Software	\$ 2,145,496	5%

Our top five portfolio companies represented 28% of total assets at December 31, 2016:

Company	Industry	Fair Value at December 31, 2016	% of Total Assets at December 31, 2016
Rheonix, Inc.	Health Care Testing Device	\$ 2,938,731	7%
Genicon, Inc.	Health Care Testing Device	\$ 2,700,000	6%
Outmatch Holdings, LLC	Software	\$ 2,145,496	5%
Social Flow, Inc.	Software	\$ 2,071,300	5%
SciAps, Inc.	Manufacturing	\$ 2,054,710	5%

Below is the geographic breakdown of our investments at fair value as of December 31, 2017 and 2016:

Geographic Region	% of Net Asset Value at December 31, 2017	% of Net Asset Value at December 31, 2016
USA East	86%	78%
USA South	15%	6%
Total investments as a % of net asset value	101%	84%

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As of December 31, 2017 and 2016, the investment portfolio consisted of the following types of investments:

	Cost	Percentage of Total Portfolio	Fair Value	Percentage of Total Portfolio
<u>December 31, 2017:</u>				
Subordinated Debt and Promissory Notes	\$ 12,924,321	35%	\$ 11,796,289	37%
Convertible Debt	1,849,955	5	1,849,955	6
Equity and Membership Interests	21,640,393	59	18,482,793	57
Equity Warrants	274,650	1	155,025	0
Total	\$ 36,689,319			