Q1 2017 Financial Results Call Transcript

Company Participants

- Daniel Wolfe, President, Chief Financial Officer and Portfolio Manager
- Kevin Rendino, Chief Executive Officer and Portfolio Manager

Presentation

Daniel Wolfe, President, Chief Financial Officer and Portfolio Manager

Good day, and welcome to the 180 Degree Capital Corp. Financial Results Call for the First Quarter 2017. All participants are currently in a listen-only mode. We will open up the lines to questions following prepared remarks from Kevin Rendino and myself, Daniel Wolfe.

Before beginning the call, I would like to remind all participants that this call is being recorded. Additionally, we will be referring to slides during the presentation that can be found on our Investor Relations website at ir.180degreecapital.com under the menu option, "Calendar of Events."

Please turn to slide two. I would also like to remind participants in this call that this presentation may contain statements of a forward-looking nature relating to future events. Statements contained in this presentation that are forward-looking statements are intended to be made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to the inherent uncertainties in predicting future results and conditions. These statements reflect the Company's current beliefs and a number of important factors could cause actual results to differ materially from those expressed herein.

Please see the Company's filings with the Securities and Exchange Commission for a more detailed discussion of the risks and uncertainties associated with the Company's business, including but not limited to, the risks and uncertainties associated with investing in privately held and publicly traded companies and other significant factors that could affect the Company's actual results. Except as otherwise required by Federal securities laws, 180 Degree Capital Corp. undertakes no obligation to update or revise these forward-looking statements to reflect new events or uncertainties.

I would now like to turn the call over to Kevin Rendino, Chief Executive Officer and Portfolio Manager of 180 Degree Capital Corp.

Kevin Rendino, Chief Executive Officer and Portfolio Manager

Thanks, Daniel. Thanks everyone for joining us for our first earnings call for the newly formed 180 Degree Capital. Before turning the call back over to Daniel, who will walk you through the quarter and discuss a couple of our holdings, given that this is my first opportunity to speak with you in my new role, I thought I would share some of my early observations as well as discuss our key strategic initiatives.

Let's start on slide three, which is the summary of the last three months. We're pleased our NAV increased by nearly 4% in the quarter and our share price was up nearly 5% in the quarter. I'm firmly aware this has not been the norm over the last few years, and I'll have more on that in a minute. We completed our restructuring. We are now 180 Degree Capital Corp under the new symbol TURN. I'd like to thank our Board for their work in getting us here and of course our shareholders for your support over the last four months.

We took a considerable chunk of our expense base out and we'll have some added color on that. And as we start Q2, we are a new business with new leadership and a new strategy focused on investing in deeply undervalued publicly traded companies. Our first step in our new strategy was put in place in early January when we filed an amended 13D on one of our holding semiconductor company, Adesto. Daniel will talk more about that.

Please go to slide four and then slide five. First and foremost, the reason for me being here. The reason this Company exists is the stock price. I'm firmly aware of the direction our stock has had over the last few years. You can see that on slide five. Every investment we make, every decision we contemplate, any strategy we pursue will all start by asking ourselves the following question, is this good for shareholders and is this good for TURN's stock price? If it is, we will go forward. If it isn't, we won't. That's it.

I've been a public markets investor for nearly 30 years. I have expectations for the companies that we own and the management teams that run those businesses. We want higher earnings and a rising stock price. You all have the same expectation for us. We get it. It's the stock price. I've spent my whole career in your shoes. I still sit in those shoes as an investor. We share your expectations of what is required of us and I view our stock price as a giant voting machine, a giant scoreboard.

New York used to have a mayor named Ed Koch. He was a popular figure. He used to greet his constituents on street corners and greet them with the slogan, “how am I doing?” We're not going to have to ask our shareholders how we're doing. We get to see it every day in our stock price and that is what I will use to measure our success. Improving on our share price is why I'm here, and that's priorities one, two and three.

So how we're going to improve our stock price? Slide six shows the historical trend of our NAV. It has not been a pretty picture. We need to grow our NAV, period, end of story. To do that, we must extract the most value possible for the private market assets that we have, and as quickly as we can. Some of our companies are early stage, but several are mid-to-later stage. Over the ensuing months, we hope to be able to share with you the potential for liquidity events for several of our holdings. As far as our future strategy goes, the vast majority of new investments will be made in small public companies like the one we recently made into Synacor.

180 Degree Capital is an investment management business attempting to adhere to the concept of investing 101, buy low and sell higher. It really isn't that complicated. That is how you grow NAV, and that is what we plan on doing to grow NAV. We'll have more on our investment approach in a little bit.

Slide seven shows you the historical relationship between our stock price and NAV. As you can see, we are trading at a historical low percentage of NAV, essentially the lowest ratio in our Company's history. We must narrow the discount our stock trades relative to NAV, and we think we have a strategy for doing so. Our current share price trades at 58% of net asset value. If a 100% of our assets were trading in cash or liquid public market assets, we would expect our stock to trade at or very close to NAV. Because a considerable portion of our assets are private companies, the lack of liquidity has led to a wide spread between our stock and the NAV.

We dig a little deeper, and if you turn to slide eight, you'll see that the discount is even greater when you look at the “sum of the parts” analysis. If you strip out our cash and public companies, our private portfolio is actually trading at 43% of NAV, not the 58% that everyone thinks it does. Not only has the street concluded our private marks are not worth NAV, they've ascribed a 60% discount of that value vis-a-vis our stock. Here's our goal. Over time, we will be converting each and every private market holding to cash and public companies. As that happens, we expect the discount to narrow; materially narrow, I might add. The higher Adesto and Synacor go, the higher our cash goes with the flat NAV in our private holdings, our stock should meaningfully appreciate towards our NAV. If the market actually truly valued our private portfolio assets at our current discount, it will yield a value today of $1.08, and our cash and liquid securities at $0.65 a share, and our stock should be 20% higher today. That's not taking into consideration the possibility that many of our portfolio holdings are actually worth NAV, or there I say more than NAV.

We also want to manage third-party capital. This will reduce our burn faster as well as share in the profits our investors will earn, and we look forward to putting together an investment deck and going out to the markets and raising third-party capital.

Slide nine looks at our expenses. NAV needs to grow faster than our expense burn. This has been a problem for our business over the past few years. Despite lowering our operating expenses in prior years, they were still too high, which is one of the primary reasons we recommended our reorganization and the removal of our BDC status. We have dramatically reduced our operating expenses through reduced regulatory costs, and we have lowered our expenses as well through lowered headcount, reduced T&E budgets and other expenses.

By way of example, our 2016 expenses were $5.5 million, which equates to $0.18 per share, or 7.5% of our NAV. That means our portfolio needs to rise 7.5% per year just to breakeven. It's too high a bogey. Our expenses in the first quarter were $1.6 million, which equates to $0.051 per share, or an annualized 8% of NAV. As a result of our strategy change to a closed-end fund, we have talked a lot about how we expect our operating expenses to be reduced. I'm happy to now share with you some specifics. By way of example, we can forecast for Q2 operating expense numbers that are significantly lower than the runway from last year and the first quarter of this year. We expect our expense numbers to decline to less than $1 million per quarter in Q2 and our cost savings will be 36% quarter-over-quarter. We hope that we will be able to offload more of that expense as we sublet our Broadway New York office, as well as having some of our severance run off in the next 12 months. Our next quarter's expenses are $0.027 per quarter, 1.1% of NAV, or predicted to be 4.4% annualized as a percentage of our NAV. Simply put, it is easier to achieve NAV growth when your expense burn is 4.4% as opposed to 7.5%, more on cost savings later.

As to our strategy and investment process, our new strategy centers on investing in undervalued small cap companies that are orphaned and removed from the ETF passive world that has completely overtaken the current environment. So why are we doing this? We believe having a constructive activist bent in the microcap world is a differentiated solution. If done effectively, it should lead to attractive returns in a non-correlated manner. We are headed to a place that isn't as crowded as the Index ETF world of large-cap investing.

Slide 10 highlights the 20-year rolling return profile dating back 90 years. As you can see, microcap's not only outperformed small and large-cap stocks on average, but they do sell over both low and high return periods.

Slide 11 shows the orphan nature of the aspect to the Group. Companies with market caps of $300 million and less are covered by only 2% of Wall Street analysts. This group is simply not as picked over as other asset classes.

Slide 12 is a little good news, bad news scenario. By definition, we like our companies and management teams to have skin in the game. If the stock does well, we as shareholders do well, coinciding with the Management and the Board doing well. As you can see from the slide, the average insider ownership of sub-$300 million market caps is 26.1%, far exceeding higher capitalization companies. We know management teams like to pad their own wallets, so high ownership generally means the interest of the Company's management team and investors are aligned.

That said, sometimes too much ownership will scare us off. Sometimes a change in business strategy may be necessary to propel a stock higher. If the company doesn't share the vision shareholders have or is unwilling to alter its strategy, substantial insider ownership can actually work against shareholders. So it's a balance.

Slide 13 should be self-explanatory. Over the last 25 years, nearly 60% of mergers occurred with companies that were sub-$300 million market caps. Slide 14 shows the non-correlation aspect to our asset class. I view the investing world right now as being one giant ETF. Not our space. 0.76 is the actual number. We feel good about tracking in a group of stocks that the world isn't paying attention to.

As far as our own process goes, you can see our investment process highlighted on slide 15. We are Graham and Dodd value investors focused on investing in companies that trade at two-thirds the market on either price to earnings, price to cash flow, price to sales or half the market on price to book, or have an above average dividend yields, although I must say, you don't find that all that often in this asset class.

Once we screen for companies that fit our fundamental profile, we do a deep dive researching the business, speaking with managements, industry contacts, Wall Street analysts and the rest. There always needs to be a reason for ownership. We want to own cheap stocks, but being cheap is just the price of admission. To become an actual holding of 180 Degree, we need more than just being inexpensive stock. We want to own companies where we can identify a catalyst, whereby if that catalyst comes to fruition, it will cause a stock to move higher. We assemble our own components for a strategy to improve the financial performance of the target company. They can be a management change, new products, specific operating model changes, whatever it is, we need to have a reason to believe. We will attempt to work with management teams and boards to effect change. It is all meant to be a collegial and not antagonistic, at least in the beginning.

Turning to slide 16, you can see the evolution of our form of constructive activism. Phase 1 is identifying quality deep undervalued companies with strong management teams in the process of executing a turnaround. These companies do not require substantial time or involvement. Essentially what we have here are companies that have already gotten some sort of outside activism in the past, or the Board has pursued its own changes without outside pressure. Our new position in Synacor is an example of this. Several years ago, the board made significant changes to its business and its management. The work has already been done, but investors have yet to reap the rewards. Daniel will talk more about this later.

Phase 2 is investing in the same company as Phase 1, except small changes are necessary to effect change. It could be enhanced Investor Relations strategies, or small focus changes to the operating model, which could lead to improved financial performance. More time is involved in Phase 2, but it's not substantial. Phase 3 are companies that need dramatic change to its Board or its Management team, proposing drastic fundamental change to a company's business. It could be advocating for a sale of the company in certain instances. Sometimes, it can mean proxy campaigns in taking seats on the Board.

Our hope is never to get here, but you have to be willing to do it, our companies won't take you seriously. All-in-all, we prefer Phases 1 and 2 types of investments. The hard work has already been done by either an activist or the Board and the Management itself. The stock hasn't moved all that much as the company was undergoing its changes and time has already elapsed. The turnaround is coming sooner rather than later. Essentially, we don't want to be the first one in, but early enough to benefit from a company's turn and yes, that was a pun intended.

With that, let me turn our call over to Daniel for a review of the quarter.

Daniel Wolfe, President, Chief Financial Officer and Portfolio Manager

Thanks, Kevin. As Kevin mentioned previously, we completed our transition from a business development company to a registered closed-end fund on March 30, 2017. With this change, we are no longer required to file our quarterly financial statements on Form 10-Q, and instead file a schedule of investments on Form N-Q. In this document, we have provided the updated valuation of our portfolio companies as well as a calculation of net assets and net asset value per share.

We are pleased to report that net assets increased by approximately \$3.2 million, or 4.5%, from \$72.3 million as of December 31, 2016 to \$75.5 million as of March 31, 2017. Net asset value per share increased by \$0.09, or 3.8%, from \$2.34 as of December 31, 2016 to \$2.43 as of March 31, 2017. The value of our investment portfolio netted approximately \$3.1 million of cash invested during the quarter increased in value by approximately \$4.3 million or \$0.14 per share. Our expenses investing in the restricted stock during the quarter accounted for a decrease in value of approximately \$0.05 a share. We no longer have any restricted stock outstanding. Two companies, Adesto and Nanosys, accounted for substantially all of the increases in value during the quarter. NGX Bio, Senova Systems and potential milestone payments from the acquisition of Molecular Imprints by Canon accounted for the majority of our decreases in value.

We ended the quarter with approximately \$10.6 million in cash, and we currently have approximately \$8.2 million in cash on hand.

I would like to speak about the largest increase in value in our portfolio during the quarter, Adesto Technologies Corporation. Please refer to slide 17. As many of you already know, Adesto is a publicly traded company that trades under the symbol, IOTS. Adesto completed its IPO in October 2015 at a price per share of $5. The stock subsequently rose to a high of $8.50 before decreasing substantially throughout the year to a low of $1.50. We own approximately 1.8 million shares of Adesto.

While Kevin did not formally join as CEO until March 30, 2017, we changed our passive approach of managing this investment to an active approach as discussed in our 13D filing on January 9, 2017. Since this point in early January, we have been actively engaged with management of Adesto to convey our thoughts and ideas regarding primarily messaging and spending on R&D. Many of our proposals were reflected in their updated presentation materials and investor communications. We were also pleased to see its spend on R&D decrease from prior quarters, and their commitment to continue to decrease these levels as a percentage of overall revenue.

Adesto's stock was trading at $1.90 on January 9, 2017. It was trading at $4.15 as of March 31, 2017, and it closed at $5.35 yesterday. We are obviously pleased with this trend.

The largest decrease in value in our portfolio during the quarter was NGX Bio due to risks associated with its ongoing financing requirements. Additionally, we did not receive a potential milestone payment associated with the acquisition of Molecular Imprints by Canon, and we decreased the probabilities associated with the receipt of milestone payments associated with the sale of the assets of Senova to an undisclosed corporation.

That said, a number of our most mature privately held companies continue to make progress building their respective businesses. Please refer to slide 18.

- D-Wave Systems announced the sale of its new 2000-qubit system to Temporal Data Systems. A 2000-qubit upgrade system will also be installed at the Quantum Artificial Intelligence Lab run by Google, NASA and the Universities Space Research Association. Additionally, Volkswagen announced a collaboration with D-Wave on a traffic-flow-optimization project.
- AgBiome received EPA approval for its first product, a biological fungicide product marketed as Zio, for use in the turf and ornamental applications.
- HZO continues to penetrate the tablet, automotive, audio and wearable markets with its differentiated water proofing solutions.
- Nanosys announced they had partnered with a Chinese film manufacturer, Exciton, to bring its quantum dot enhancement films to market alongside existing partners, 3M and Hitachi.
- Mersana presented data at the recent American Association for Cancer Research Annual Meeting that supported the efficacy and tolerability of its clinical stage antibody-drug conjugate therapeutic for cancer.

I note that these five companies have a collective valuation of approximately $32.1 million, or more than the $24 million in value that our stock price currently reflects on our private portfolio as a whole, if cash and public securities are valued at full value. As Kevin mentioned, we also have a number of early-stage companies that comprise the remaining $25 millions of our portfolio assets.

While a 180 Degree Capital technically began as a Company on March 24, 2017, as Kevin mentioned, he and I have been actively in diligence on a number of potential investment opportunities since announcing this transition in December 2016.

In February 2017, we were introduced to a company called Synacor that trades under the symbol SYNC. Please refer to slide 19. Synacor is a technology development multi-platform services and revenue provider for video, Internet and communication providers, device manufacturers and enterprises. Through its managed portals and advertising solutions, the company enables its customers to earn revenue by monetizing media across their customers. The company's reoccurring and fee-based revenue solutions include end-to-end advanced video services, e-mail and collaboration services, cloud-based authentication and paid content and premium services.

When we began our diligence on the company, it was trading at $3.15 per share. During the period between our introduction and our investment, we became increasingly convinced that this company was deeply undervalued and could be a very interesting investment opportunity owing to factors including:

- Synacor has a high-quality management team that joined in 2014 and is executing on a plan to reach $300 million in revenue and $30 million in EBITDA in 2019.
- The company won AT&T's portal business from Yahoo! in May 2016, which we believe was a potential transformative event. This business is projected to generate a $100 million in annual revenue starting in second half of 2017.
- The company successfully integrated acquisitions of Zimbra, Technorati and Nimble TV. When combined with its Cloud ID authentication technology, we believe this suite of products provides a platform for growth of high-margin reoccurring revenue streams, alongside its portal and advertising businesses.
- Synacor has a strong balance sheet. When combined with its strengthening income statement and overall business execution, we believe these factors support a substantially higher valuation than is currently ascribed to the company.

The company's stock ran up to a high of $4.20 following the announcement in March 2017 that was on schedule to launch the AT&T portal in the second half this year. We remained patient during this time looking for the right opportunity to purchase a meaningful position in the company. The secondary offering presented in such an opportunity. We believe we received a meaningful allocation in the oversubscribed financing owing to our early, active and constructive engagement with Synacor's management.

I'll now turn the call back over to Kevin for closing remarks before we open the line to questions.

Kevin Rendino, Chief Executive Officer and Portfolio Manager

Thanks, Daniel. I've talked to a number of you over the past four months and I plan on talking to all of you in the ensuing months. By now, you should know the reasons for me being here. We want to get the stock price higher, and that is going to be how we measure our success. To do so, we have to narrow the discount to NAV vis-a-vis our share price. We need to increase our NAV share through investment appreciation. We need to decrease and eliminate the drag on the NAV from non-investment activities through minimizing day-to-day operating expenses as much as possible, as well as generating income from managing third-party capital or our other sources.

We are 100% aligned with shareholders. We must increase the price of our stock to truly be successful. We think we're on our way to doing so, and we look forward to reporting to you on our ensuing quarters.

Thanks. Daniel and I will take some questions.

Questions And Answers

Daniel Wolfe, President, Chief Financial Officer and Portfolio Manager

Our first question comes from the line of Michael Morelli. Michael, please go ahead.

Michael Morelli, Individual Investor

Yes. In this restructuring, is there a reduction or an increase in executive compensation? And if so, what are the percentages in terms of higher or lower?

Kevin Rendino, Chief Executive Officer and Portfolio Manager

Thanks Michael for your question. As we said in our earlier comments, expenses were roughly 8%, or 7.5%, of our NAV in year 2016, and we expect to get that number down to 4.4% for the balance of this year, and potentially even lower for next year. We're not going to break out each line item of our expense base, but our expenses are materially lower with the newer reorganization.

Michael Morelli, Individual Investor

Well, I was concerned that the executive part was going to jump?

Kevin Rendino, Chief Executive Officer and Portfolio Manager

Well we actually have less people now than we had before, by a factor of 50%. You'll see executive compensation vis-a-vis our proxy. You can look at our compensation for last year, and then of course this year's compensation will be reflected in our proxy in 2018. But expenses are going down. We have less people, and so all the things that you want from us, we're delivering on.

Daniel Wolfe, President, Chief Financial Officer and Portfolio Manager

And you'll see in the proxy materials who is with the firm going forward, and who is not with the firm going forward, and you can see that, as Kevin mentioned, we dramatically reduced the headcount and are really focused on building value for shareholders.

Michael Morelli, Individual Investor

All right. Thank you.

Daniel Wolfe, President, Chief Financial Officer & Portfolio Manager

Thank you. Our next question comes from the line of Tom Bonvissuto. Tom, go ahead.

Tom Bonvissuto – Financial Consulate

Yes. Good morning, gentlemen. Thank you for the call. Appreciate it. Just a few clarifying questions, if I may. As I observed the -- and I want to make sure I get my data right here. The Synacor purchase, if I did my numbers right, is it about a 2% position that you have in Synacor of Synacor?

Daniel Wolfe, President, Chief Financial Officer & Portfolio Manager

Yeah. It's about right.

Kevin Rendino, Chief Executive Officer and Portfolio Manager

$2.25 million divided by the assets, you're talking about almost a 3% position.

Tom Bonvissuto – Financial Consulate

Okay. So somewhere in that range. And then, Adesto, if I've got my numbers, it's about 11% of Adesto. Is that correct?

Daniel Wolfe, President, Chief Financial Officer and Portfolio Manager

That's correct.

Tom Bonvissuto – Financial Consulate

Okay. So if we were to compare those two companies and we think about what your strategy is going forward, do you feel there is a certain percentage that you need to achieve in order to have the influence you want to have to make the changes you want to make?

Kevin Rendino, Chief Executive Officer and Portfolio Manager

So it depends. Obviously the more ownership you have, by definition, the more influence you'll have. A lot depends upon the boards though. You can own 10% of a business, but if you've got an entrenched board and a management team with a significantly higher percentage of ownership than you have, it becomes a little more difficult. If you go into another position that kind of hasn't worked, and stock prices have done nothing for a long period of time, you may have a couple of Board members that are really uneasy, but don't know how to go about actually effecting change. Even with a position of 2% or 3%, you can effect some change.

So it truly does depend, Tom, on the individual company. Obviously the more you own, the more influence you should have. Generally speaking, that's true. It doesn't practically work that way all the time. We're not going to take a position in a company that's less than 2% to 3% to 4% though.

Tom Bonvissuto – Financial Consulate

Right.

Kevin Rendino, Chief Executive Officer and Portfolio Manager

Any new positions we'll have significant ownership in.

Tom Bonvissuto – Financial Consulate

Okay. And then along those lines, on slide 15, it refers in your process that you've outlined, low inside ownership and maybe you'll give me a similar answer. Is there a kind of a level of inside ownership that you say, well, hey, the inside ownership, and I assume that's Executive Management and the Board, is less than a certain this level, that's a good screen, but some of the things you have there are more qualitative, you know, so --

Kevin Rendino, Chief Executive Officer and Portfolio Manager

So you have to look at the page one shareholders, but anything that approaches 20% is an outlier. Meaning, we really need to feel good about the business and the strategy of the business for us to get involved. If we look at something and we think the business strategy is completely flawed and we think there are a number of changes that need to be made, and the insider ownership is 20%, were probably not going to get involved.

If you look at a company like US Cellular, for instance -- and by the way, it doesn't necessarily only come from ownership, it also comes from some dual class stock. In other words, you get involved in a lot of these companies that have Class A and Class B stock. So management may own 1%, but if they're Sumner Redstone, they own the entire voting rights of the companies, we're not going to get involved in any of that. US Cellular, by example of a larger name, is one that no matter what we think of US Cellular, it's not a position for 180. I'm just using it as a reference point.

Tom Bonvissuto – Financial Consulate

Sure.

Kevin Rendino, Chief Executive Officer and Portfolio Manager

Until that family decides to actually do the right thing, the stock is going to be $39 for life. If they decide to do the right thing, it will be a $100 in a heartbeat, but we don't want to bang our heads against the wall fighting management when we know at the end of the day, we're going to lose. So anything nearing 20% is a flag for sure. Actually, anything sort of at the 15% level is a flag.

Tom Bonvissuto – Financial Consulate

Okay. And then you've talked a lot about investing in microcap, where you can really have an influence, yet on pages 10 through 14, your titles all reference small cap. I was thrown off by that a little bit, can you speak to that?

Kevin Rendino, Chief Executive Officer and Portfolio Manager

Sorry, those slides that I referenced are -- it's really microcap. Now it depends how you define it. We are focused on microcaps, but we are also focused on small caps. So sort of the $250 million and below. You have to define microcap and how you want to define it. We are focused on the smallest of small right now, given our own asset base. And so, that's why you should take a look at the blue charts or the blue bar as opposed to the orange bar or the black bar on slide 10.

Tom Bonvissuto – Financial Consulate

Okay. All right. Well, great. Thank you, guys.

Kevin Rendino, Chief Executive Officer and Portfolio Manager

Thanks, Tom.

Daniel Wolfe, President, Chief Financial Officer and Portfolio Manager

Thanks, Tom. All right. Next comes from Scoggin Capital. Please go ahead.

Doug Rothschild – Scoggin Capital

Hey, guys. Congrats on the quarter. I just noticed cash seem to have decreased from the end of the year till May by about $6 million. I think you mentioned the investment of Synacor and then maybe some G&As probably $4-ish million, where is the other $2 million? And then stock buyback, I know you guys had a program in place. Just curious to hear your thoughts, given the discount to NAV?

Daniel Wolfe, President, Chief Financial Officer and Portfolio Manager

Yeah. So during the quarter, there was -- there were other investments that were made as well. So you had $2 million that went into HALE, you have $625,000 that went into TARA Biosystems and then you have operating expenses during the quarter in terms of the cash burn during the quarter.

Kevin Rendino, Chief Executive Officer and Portfolio Manager

In future quarters, we're going to actually use cash plus liquid securities and you should look at that as one bucket as opposed to just cash or as opposed to just liquid securities. We want to build the bucket for both of those as a percentage of our assets. That’s the goal here over the next three years.

In terms of share repurchase, I'm firmly aware of where the stock trades relative to NAV. To me, it's not the right price, the market has decided it is the right price today. We will as a Board and a Management team assess asset allocation decisions vis-a-vis the cash that we have. It's not like we're sitting in a tremendous amount of cash right now, and we've used some of it to initiate our new strategy, but rest assured, we think about share repurchase in a manner that you want us to think about it. And on top of that, as you can see from prior reporting periods, insiders have actually been buying stock as well. So, if we can figure out a way to do it and then continue to still run our strategy then share repurchase is going to make a lot of sense for us.

Doug Rothschild – Scoggin Capital

Great. Thanks.

Kevin Rendino, Chief Executive Officer and Portfolio Manager

Thanks.

Daniel Wolfe, President, Chief Financial Officer and Portfolio Manager

Thank you. Next question from the line of Palogic.

Palogic

Hey, guys. Thanks for taking my question. The last caller asked the question I was going to ask, but could you may be further give us a little more detail as it relates to how you think about share repurchases, and if and when it would make sense? I mean from a third party looking at your private portfolio, we don't have the information that you've got as it relates to the ability to judge the value of that. And if kind of your confidence level that the largest positions in your most mature private portfolio companies are valued kind of at where you say they are versus the downside and kind of the upside that may exist there et cetera. So you're in a better position to judge that than maybe the market. And so, how do you make that determination, and how do you think about that?

Kevin Rendino, Chief Executive Officer and Portfolio Manager

So we've asked the same question to the companies that we own. I expect you to ask that question of us, and we ask ourselves that question every day. It's really an asset allocation decision. Just because the market thinks our stock price at $1.43 is what the current true value of the business is, we don't necessarily agree with that. Our NAV is the NAV for a reason. It's audited marks on private businesses by Pricewaterhouse and Duff & Phelps. We don't make these numbers up. They are what they are. Many of our companies are marked because of rounds of finance that they've done and the market caps of those rounds when the rounds were done. So we see what other investors have been willing to pay for businesses in the private world.

We take share repurchase very seriously. We want to make sure that we balance that against actually making investment decisions on behalf of our shareholders vis-a-vis our public companies. If I had more money, I'd do both today because we are, I would say because we can argue we are cash starved, the challenges are greater than if we had twice the amount of cash sitting on our balance sheet. That's not to suggest that we're not going to go in and buy stock. That's not to suggest at all that share repurchase is not on the table because it is. We just want to make smart asset allocation decisions based on the cash that we have and we take share repurchase very seriously.

And I don't think that $1.43 is the right price. And my way of reflecting that to you is if you go back and look in the one week that I haven't been restricted this year, I was in the open market buying stock in my personal account. So that shares with you the confidence that I have not only in our business strategy, but in our portfolio of assets that we currently have.

Palogic

Okay. And then would you guys consider margin borrowings or are you out of the borrowing game?

Kevin Rendino, Chief Executive Officer and Portfolio Manager

So de-BDCing means we can use less leverage today than we could before. I'm not really a leverage guy. I mean, money is cheap, we know that. The last thing I'm going to do is lever up this balance sheet. It's just not part of my investment process in my past. Might we use some leverage at some point, perhaps, it's certainly not something that we think about doing or something what we are going to be doing in the next six months.

Palogic

Okay, fantastic. Thank you very much.

Daniel Wolfe, President, Chief Financial Officer and Portfolio Manager

Thank you. Our next question comes from anonymous caller. Please go ahead.

Sam Rebotsky – SAR Capital

Yeah. Hi. It's, Sam Rebotsky. Yeah. Kevin and Dan, this is a good start. Now, tell me the cash at the $8.1 million as of May, what was the cash as of March 31 and what are expectations of creating cash for the June quarter?

Daniel Wolfe, President, Chief Financial Officer and Portfolio Manager

So cash as of the end of the quarter was $10.6 million. The bulk of the transition of cash from the $10.6 million to the $8.2 million, obviously, was the investment in Synacor and then some operating expenses. We don't give guidance as to the expectations for conversion of securities to cash. I think we believe there are meaningful opportunities to see liquidity events in the portfolio, but I think this is also why we're going to be speaking about cash plus liquid securities going forward because the portfolio will be dynamic and we have the more flexibility to do so with the liquid positions. Kevin, I don't know if you want to add anything to that?

Kevin Rendino, Chief Executive Officer and Portfolio Manager

Yeah. Sam, this is a business that historically when I joined the Board in April was in runoff. Harris & Harris actually wasn't even in business. They had a portfolio of private businesses with too high a burn and were not really making any new investments, they were trying to make follow-on investments, but the only way they were able to do that because the burn was so high was to sell other positions. It was self-defeating and Harris & Harris was getting itself into forced liquidations.

We've gotten ourselves in a position where the end of the year we sold Metabolon, where our cash position was pretty strong. Adesto has risen, as Daniel said in his earlier comments from a $1.90 to $5.20. We view that as cash. Now maybe it's not a 100% of the cash, you've got to sell it, there could be some discount there if you had to sell it, but we look at that as cash.

So we are going to convert these private market holdings and we are going to convert them, when they become liquid, we are going to take that cash and we either are going to put it on the balance sheet, we're going to invest it in the public markets, we're going to use it for share repurchase or we're just going to hand it back to shareholders. And so, you just need to simply look at the combination of cash and liquid securities, just don't look at cash.

Sam Rebotsky – SAR Capital

Okay. That's good --

Kevin Rendino, Chief Executive Officer and Portfolio Manager

Cash could be $4 million next quarter, but that's because we found a $4 million investment in something, a public company. So look at it by combining the two.

Sam Rebotsky – SAR Capital

Kevin, how many situations would you say you are presently looking at, and what stages would you say they would be if you had the appropriate cash? Would you pull the trigger to invest in or are investing in?

Kevin Rendino, Chief Executive Officer and Portfolio Manager

So there's one that if the quarter ended today, we would have a new position. We haven't reflected that yet on our balance sheet or in our statements. It's not a large position; it's a small starter position. We are looking to get bigger in that name. There is a number of factors that it will be easier to get bigger if something happens, and it will be impossible to get bigger if something doesn't happen. So we're in the middle of one right now and we're looking at, I would say, two or three others, but there is one that sort of, I would call it hot on the press.

Sam Rebotsky – SAR Capital

Okay. All right. Well, I guess --

Kevin Rendino, Chief Executive Officer and Portfolio Manager

Well, I could put the same amount of investment in that one as we did Synacor, we would do it.

Sam Rebotsky – SAR Capital

Okay. Sounds good. And I think the approach is good, Kevin. And I think time will show that you're probably going to be right because this approach has worked over the past; it just takes time. And it's a change and people have to know you're changing. Okay. Good luck.

Kevin Rendino, Chief Executive Officer and Portfolio Manager

Thanks.

Daniel Wolfe, President, Chief Financial Officer and Portfolio Manager

Thank you.

Kevin Rendino, Chief Executive Officer and Portfolio Manager

Appreciate your support.

Daniel Wolfe, President, Chief Financial Officer and Portfolio Manager

So we are not showing any additional questions in the queue.

Kevin Rendino, Chief Executive Officer and Portfolio Manager

With that, thank you very much for taking the time today. You can find myself or Daniel vis-a-vis email or call us if you have any further questions. We look forward to chatting with you down the road or seeing you if your travels take you to New York. We look forward to reporting on our future strategy next quarter and sharing with you our progress in the ensuing months.

Thank you very much for your time today, and have a good one.

Daniel Wolfe, President, Chief Financial Officer and Portfolio Manager

The call is now over. Everyone can disconnect from the call. Thank you.