Operator: Greetings, and welcome to the Rand Capital Corporation Fourth Quarter and Full-Year 2017 Financial Results Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If anyone should require Operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

I'll now turn the conference over to your host Karen Howard, Investor Relations for Rand Capital Corporation. Thank you. You may begin.

Karen Howard: Thank you, Operator, and good afternoon, everyone. We certainly appreciate your time today for Rand's fourth quarter and full-year 2017 financial results conference call. On the line with me today are Pete Grum, our Chief Executive Officer; and Dan Penberthy, our Executive Vice President and Chief Financial Officer. Pete and Dan will be reviewing the results that were published in the press release distributed this morning. If you don't have that release, it is available on our website at www.randcapital.com.

The slides that will accompany our discussions today are also posted on the website. If you look at the slide deck, and turn to slide two, we will discuss our Safe Harbor Statement. As you're likely aware, we may make some forward-looking statements during this presentation and also during the question-and-answer session. These statements apply to future events that are subject to risks and uncertainties, as well as other factors that could cause actual results to differ from where we are today. These risks and uncertainties and other factors are provided in the earnings release as well as in other documents filed by the Company with the Securities and Exchange Commission. These documents can be found on our website, or at www.sec.gov.

With that, let me turn it over to Pete who is going to summarize highlights for the fourth quarter and the year and then Dan who will add more detail regarding the financials. It is now my pleasure to introduce Pete.

Pete Grum: Good afternoon, everyone, and thank you all for joining us. We are happy to have this opportunity to update you on Rand's fourth quarter activities and reflect on the full-year of 2017. For those of you who are following along, I am going to start on Slide 3, which highlights our fourth quarter.

At the end of the year, our net asset value, or as we refer to it, our NAV, grew to $5.05 per share, up from $5.01 per share at the end of September. Due to the portfolio activities, we grew by $0.09, but that was partially offset by a $0.05 impact of the Tax Cuts and Jobs Act. Dan, during his financial presentation, will go over that in more detail.

During the fourth quarter, we invested $1.5 million in Tilson Technology. Half of that was in the form of preferred shares and half of that was a loan. I will talk more about this exciting growing company in a few moments.

During the quarter, we had one exit. We liquidated our entire position in Athenex. Recall from previous conversation, we mentioned that that company went public in June. After waiting for the expiration of our lockup period, we sold all of our shares in the open market. We generated approximately $781,000 of proceeds and realized about a $638,000 pretax gain.

I want to update you at this point on the status of our ongoing discussions with the Small Business Administration. We continue to work with them and anticipate concluding this work in the next several months. Our goal is to get more leverage and continue our mutually successful relationship with the SBA.

Let's now turn to Slide 4, where I'll summarize some highlights for the year. We had a solid year of investments totaling $5.4 million. To remind you of them, we listed the nine transactions here. As usual, the amounts vary from quarter to quarter. Eight of them were follow-ons and one was an investment in a new portfolio company, Centivo, in the third quarter.

During 2016 and 2017, we continued our focus on building investment income. Accordingly, 81% of our 2017 investments were in debt instruments and 19% were in the form of equity. Our investments drove a significant increase in our investment income, which is up over 41% when compared to 2016. We ended the year with a portfolio valued at $32.3 million.

If you could all turn to Slide 5, we once again take this opportunity to feature some of the companies within our portfolio to give you more insight into them. As you may recall, we have been doing this each quarter to give you a better sense of what's going on inside of our portfolio of companies.

Let's start with Tilson. Tilson, headquartered in Portland, Maine, has a presence throughout the U.S., including upstate New York. As I mentioned a moment ago, we invested $1.5 million as a follow-on during the fourth quarter and that was part of a $5 million Series D round financing. This investment was Rand’s third one since our initial investment in 2015.

You may recall that Tilson is an award-winning, and veteran-owned IT professional services and network deployment firm. They primarily operate in two very fast-growing markets: network deployment for cellular carriers, utilities, and governments; and consulting for construction IT, broadband and energy, and government institutional markets. I will give you some examples of their projects.

First, in New Era Stadium, home of the Buffalo Bills, they needed a facility-wide distributed antenna system, or DAS, upgrade without causing interruptions in service during the NFL season. Tilson provided AT&T and Verizon Wireless with the DAS installation, commissioning and optimization. By utilizing a phased approach and coordinating work around team practices and game schedules, Tilson was able to complete the project in five weeks during the NFL season with no customer-impacting downtime during the games.

The next project that I'm going to tell you about is an example of Tilson’s software development service. They were asked to assist with a grantee selection for the new New York Broadband Program, a $500 million investment in universal broadband deployment. Tilson's understanding of public policy issues was particularly important in being selected. They helped the state think through everything from the intricacies of outlining a public program to maximizing the chance that the companies will respond, and from compliance issues to coordinating state and federal communications requirements. Tilson combined its expertise in network deployment with application development to create, in essence, a reverse auction system to analyze the financial details projected in each application. So far, and to-date, 126,000 homes, businesses and institutions in under-served communities have been funded through the program to receive new or dramatically improved broadband service. New York is well on its way to reaching its ultimate goal of broadband for all.

In total, we have invested $2.5 million in Tilson, which also has a fair value on our financial statements as of December 31, of the same amount. I want to make sure that you are aware, each time companies reach milestones in their life cycle, the inherent value of the business may increase. Typically, these incremental financing transactions are done as stepped increases in valuation, reflecting the improved nature of the company's development. However, the accounting rules have our fair value remaining consistent with our original cost. Tilson is an example of this and we have others as well.

Let me tell you about Carolina Skiff, which is based in Georgia. They are the leading manufacturer of high quality, versatile outboard boats, including the number one fiberglass outboard brand within their size range. They offer more than 60 models, providing the most features and the best functionality available. Carolina Skiff has an established footprint with over 94 dealers in 23 states and also international installations. Since 2014, Carolina Skiff's revenue and EBITDA have grown at compound annual growth rates greater than 9% and 27%, respectively.

We initially invested in them 2004. Their recent strong financial performance has driven us to increase our carrying value by $650,000 during the fourth quarter. As you can see here, our $1.75 million fair value is significantly greater than our $15,000 cost.

Subsequent to year-end, two of our portfolio companies had good news. Based in Buffalo, ACV Auction's mission is to become the trusted source for dealers to purchase wholesale vehicles. The ACV Auction platform starts with a thorough vehicle condition report and then instantly alerts buyers that a 20-minute auction has begun. They cover wholesale auction operations, including title management, floor plan purchasing, arbitration, and facilitating logistics.

Our initial investment was in 2016. Just last month, the company announced that it secured $31 million in Series C venture funding. Rand did not participate in that round, but we believe that the value of our shares is continuing to grow. This new capital brings total funding to $53 million since inception and will enable ACV Auctions to continue to expand. The company is currently selling over 1,000 cars per week and growing rapidly, with over 400 new dealer sign-ups per month.

ACV Auctions currently operates and sells vehicles in 35 markets located throughout the East Coast and Midwest. By the end of 2018, the company expects to double its local presence to over 70 markets by expanding to the West Coast. ACV Auctions also plans to use the funding to further advance its technology and end-to-end customer experience, including enhancing its growing warehouse of data and analytics around the vehicle. It's an exciting time for ACV.

Finally, let me touch on GiveGab, which is based in Ithaca, New York. You may recall that GiveGab is modern, easy-to-use software that cultivates long-term, giving relationships between not-for-profits and their supporters, provides robust online fundraising, donor management and supporter engagement, Giving Days and more. From their first Giving Days in 2015, GiveGab has launched over 30 successful Giving Days across the country, many of which are multimillion dollar days, with several more in the works.

In January, GiveGab announced its acquisition of Kimbia. Kimbia is best known for its nationwide Giving Day events, having supported the fund raising efforts of thousands of not-for-profits across the country through their everyday giving products and Giving Days. This acquisition brings GiveGab closer to its goal of being the largest chartable software platform through the combined support of over 40,000 not-for-profits since its inception. We initially invested in GiveGab in 2013. This is another exciting event for GiveGab.

Let's go to Slide 6, on which you will see the logos of all the companies in our portfolio, categorized by revenue stage. You've seen this before and we include it in most of our presentations. If you look, start-ups are on the left, initial revenue, expansion and then what we call high traction on the right. Regarding the four companies we just featured, you can see that Tilson and Carolina Skiff are on the far right, which is the high traction revenue category. Just this quarter, ACV Auctions moved from initial revenue to expansion and two quarters ago, they were in the startup phase. They are growing rapidly. GiveGab is there in the initial revenue phase, which they progress into just a few quarters ago.

I want to point out that a few others have moved from startup phase to initial revenue during the fourth quarter. They are Grainful, Clear View Social and PostProcess, driven by their business plans and gaining traction in the marketplace. As I've mentioned previously, as companies progress to the right, they may start to develop exit plans from our portfolio. It’s virtually impossible to predict how quickly or slowly each transaction will take, as they are all dependent on the market conditions.

We can now turn to Slide 7. You likely know how diverse our portfolio is and the breakdown by the industry category doesn't change dramatically over time. Consistent with our strategy, we are a diversified Company. We invest in almost all industries with the exception of real estate, retail and financial services.

Let's now turn to Slide 8. Here, we've dissected our portfolio into capital characteristics: primarily, debt or equity are the two basic choices. Our strategy has always been focused on capital appreciation to grow our net asset value. Accordingly, our portfolio is more heavily weighted towards equity as opposed to debt instruments. However, we have adjusted our investment objectives, and continue to, depending on the mix of cash flow streams within our portfolio. As we talked about before, over the past year, we have focused on building investment income to generate cash flow to cover our expenses.

Let's go to Slide 9 and look at our top five investments in our portfolio, based on the end of the year fair value. Our portfolio is valued at $32 million and included 30 active companies. Compared to last quarter, Tilson has moved into the top five, driven by our recent investment. The value of our top five investments consistently comprises about half of our portfolio value and, as you can see here, they are leaning towards healthcare.

Given their significance in our portfolio, I would like to summarize them for you. Our top investment is Genicon, valued at $4 million. Based in Orlando, Florida, they design, produce and distribute patented surgical instrumentation. We invested in them beginning in 2015.

Second on the list is eHealth, which we value at $3.5 million. Based in Rochester, New York, they provide a proprietary electronic platform to aggregate patient clinical records and the images to support medical referrals. Our initial investment into eHealth was in 2016.

Rheonix follows, with our investment of $2.9 million. This Ithaca, New York company develops fully-automated molecular assays for use in research labs and also for medical as well as food and beverage applications. We started investing with this team in 2009. Recently, you may have seen their press release, they announced they are developing a rapid diagnostic test for the Zika virus.

Fourth is Tilson, which we just finished discussing.

And the fifth is Outmatch, with our investment of $2.1 million. They are in the business of helping companies be more productive by providing tools to facilitate hiring people who are the right match for the job. Based in Dallas, Texas, Outmatch provides workplace analytics, driven from candidate assessments, which have been proven to predict employee performance. We've started investing in this company in 2010.

Next, I'd like to turn it over to Dan Penberthy, our Executive Vice President and Chief Financial Officer, to cover the financial results.

Daniel Penberthy: Thanks, Pete, and good afternoon, everyone. If you could please turn to Slide 11, I'll start with the net asset value per share, or NAV. As Pete mentioned, and I am also very pleased to report, we finished the year with net asset value at $5.05 per share. As you can see, NAV increased $0.04 per share over the trailing quarter. I'll break this down into two separate pieces. Our operational results drove a $0.09 per share increase, but that was partially offset by $0.05 per share for the one-time impact of adopting the new Tax Cuts and Jobs Act. Basically, we had to revalue our deferred tax assets at the new lower federal tax rates. Going forward, Rand will benefit from this lower rate when we will be taxed at 21% for U.S. federal purposes.

Please turn to Slide 12. Here, I've summarized our operating performance for the fourth quarters of 2017 and 2016, as well as comparable full-year periods. As we've previously mentioned, we've been investing in more financial instruments over the past year or so, which has increased our interest income. You can see the results here. Our fourth quarter investment income of $379,000 is up 26% over last year and our full-year 2017 investment income of $1.455 million is up 41%.

Our fourth quarter expenses of $448,000 are 8% below last year. Full-year 2017 total expenses were 41% lower than last year. The 2017 expenses do include approximately $133,000 related to our SBIC application process. Last year's, or 2016 expenses, did include Gemcor exit-related transaction expenses – certain taxes and incentive compensation costs.

In the fourth quarter of 2017, we recorded approximately $347,000 of one-time tax expense to implement the Tax Cuts and Jobs Act reform. This resulted from lowering the federal tax rate on our deferred tax assets from 35% to 21%. As I mentioned earlier, we will benefit from this lower federal tax rate beginning in 2018.

Regarding realized and unrealized changes in our investments, these are in accordance with our valuation policy. In the fourth quarter, we recorded a $638,000 realized gain on the sale of our Athenex stock, which we discussed last quarter. We also recorded a $650,000 unrealized gain on our investment in Carolina Skiff, which Pete also mentioned earlier. The 2017 fourth quarter resulted in an increase in net assets from operations, while the 2016 fourth quarter and both full-year periods reflected a decrease. The respective per share amounts are also shown here.

Please turn to Slide 13. Our balance sheet continues to remain strong. On a per share basis, we have $0.99 of cash and $5.11 of portfolio investments at the end of the year. Our portfolio growth has benefited from and has been personally funded by our past SBA leverage for which we have $1.27 per share outstanding. This is due to the SBA as of the end of the year. We also have $0.22 per share of other assets, net of liabilities. This all adds up to our net asset value, or NAV per share, of $5.05.

With that, I'll turn it back to Pete.

Pete Grum: Thanks, Dan. Before we open the lines for questions, I just want to say that I hope you can see there is a lot of excitement going on with Rand and its portfolio companies. We, as a management team, are working hard to take the Company to the next level by driving our growth strategy. We hope to soon have additional SBA capital to put to work as we have a wide variety of opportunities in our pipeline.

With that, let me open it up for questions.

Operator: Thank you. At this time, we will be conducting a question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment please while we poll for questions.

Our first question is from Sam Rebotsky from SER Asset Management. Please go ahead.

Sam Rebotsky: Yes, good afternoon, Pete and Dan. It seems to have been a pretty busy year. The SBA, you say that it could be two months before you resolve the issue. How much are we seeking and how much have we invested so far of what we expected to receive from the SBA?

Pete Grum: That's one of the things we're working on. As you know, they have a new leader and he's got some goals. We are working to make sure what we end up with is workable for both Rand and for the SBA. We have not invested any of it because we're seeking new leverage. We have invested our own cash of $5.4 million into the new SBIC.

Daniel Penberthy: And $4.6 million of total investments have been made out of those proceeds.

Pete Grum: So, $4.6 million is one answer. We are negotiating with them for additional leverage. I think we're going to be able to wrap that up fairly soon, but we've been working on it for well over a year.

Sam Rebotsky: For example, initially did you get a 2:1 ratio? Are you seeking more than that because you're doing basically more debt, would that be a way to look at it?

Pete Grum: It won't be more than 2:1, but we are negotiating with the proper amount for the way that we invest.

Sam Rebotsky: Okay. In other words, to the extent you plan to do more debt, I assume there would be less risk going forward?

Pete Grum: Well, I would hope so. That tends to be less risky, but the SBA, really, I've never seen them give more than 2:1 and we're certainly not seeking that.

Sam Rebotsky: Okay. Now, do we expect to have any significant transactions in the year ending December 31, 2018, based on your knowledge of the companies that you're invested in?

Pete Grum: Well, that's kind of a loaded question, Sam.

Sam Rebotsky: Okay.

Pete Grum: We have some companies that are seeking—they all have an exit strategy. When it happens, I can't really tell you when, but there are a handful that we now have in active discussion. I can't tell you historically, but once they get sold, there is probably more than half where it comes out of an unanticipated result, or either a customer or competitor comes to them and says they want to buy them. But we have a fairly aged portfolio. Do we expect exits? Sure, we do. Can I tell you which ones? No, not at this point.

Sam Rebotsky: Okay. We have a book value of $5.05 and we have unrealized depreciation of about $0.70 a share, assuming that’s utilizable against gains or there's a way of wiping out the losses to make them breakeven. And yet, we're trading, even though it's up at $2.65, it got basically 50% below the valuation, and it would appear the market is not responsive to what you're doing. I have discussed about a dividend or some way of buying some stock. If we get this loan in place, is there any way the Board has thought more about what you might do so that you get more attention of the investors to invest in stock like Rand? Because there has been less and less interest in these type of stocks of late, based on the size you are.

Pete Grum: You are correct. We had a call with an investment banker that we use and the Board this morning and that was one of the issues. The BDC space has certainly been under pressure and certainly, when you get to our size, and I think there are only four or five left that are equity-based and don't pay a dividend, and they're not trading well. We have some ideas that we are pursuing. The loan that we are discussing with the SBA is to be used for investments and it’s not to be used to buy shares back or pay a dividend. But we are looking at, if we have free cash flow, whether it can be used for a dividend or to buy shares back and if we have the right answer, you will be the first to know.

Sam Rebotsky: All right. Looking forward for the market to know and I see you are having an LD Micro Virtual Conference today.

Pete Grum: Yes. Right after this.

Sam Rebotsky: Okay. That's good. I will step back into the queue. If there’s nobody else, I will come back. Good luck.

Pete Grum: Sam, you can always call us.

Sam Rebotsky: Okay. Thank you.

Operator: As a reminder, if you would like to ask a question, it is star, one. The next question is from Sam Rebotsky, again, from SER. Please go ahead.

Sam Rebotsky: Okay. All right. I have not seen your website that you had this conference with LD Micro. Is it too late to put a press release out or has there ever been press release on that?

Pete Grum: I think there has been one that was put out and I believe that it's on the website.

Sam Rebotsky: Yes. I saw that on the website. Okay, hopefully it will attract some new investors, based on the cheapness of the stock, as long as the potential investor could expect something, as you discussed with your outside banker, they would be willing to hold the stock. I know that one of the companies, Safeguard, has been under pressure and they're trying to get them to do something but they haven't functioned as well as you have.

They've spent a lot of money and you’ve spent less and you've been very profitable relative to increasing the value of your investments. Hopefully, if this story becomes better known, and as long as you could do something, the stock should trade at a higher valuation. Good luck on the conference with LD Micro, and hopefully the outside bankers can come up with something to work for you. Good luck.

Pete Grum: Thank you, Sam.

Operator: Our next question is from Bill Nicklin from Circle N Advisors. Please go ahead.

Bill Nicklin: Hey, good afternoon. How are you?

Pete Grum: Hi, Bill.

Bill Nicklin: I got a question. Is Rand stock considered a penny stock under current SEC pronouncements?

Pete Grum: I don't know the answer to that, Bill.

Bill Nicklin: All right. I have had some experiences lately that, frankly, are disturbing in that the penny stock, according to what I read at the SEC, and what I've been told, the SEC now says a penny stock can be considered anything $5 or less and your stock trades under $5. Leave it to the SEC where I guess government believes that $5 is only worth a penny, I have no idea.

But if it is considered a penny stock, it's problematic in the sense that clearing firms are cracking down on the transfers of penny stocks because it appears that there been a lot of fake stock or people owning stock that’s not registered. And the SEC's just thrown everybody into one basket and because of this, and there has been an ongoing trend, many brokerage firms won't even allow their customers to buy penny stocks. And the custodians that invest and so forth won't even take accounts in that have penny stocks in them. In my personal experience, when you get fortunate enough to find the high quality custodian who will take them in, they then make you go back and produce every trade confirmation for when the position was acquired.

You can see there is a whole group of stocks out there, who are, let's say, in the dog house, where there are sellers from people being put into this situation by the custodians and no buyers because the broker dealers are making it extremely difficult for customers of any type to even buy penny stocks.

I'm kind of on a mini crusade here trying to figure out—I know why that is, but probably not for this call. But anyway, that may be something you might want to take a look at, and if you're not considered a penny stock, then that's terrific. If you are, it might be worth exploring how the heck to fix it.

Pete Grum: Okay. I'll look into that.

Bill Nicklin: Okay. On that, nice work. We just have to figure out a way to put it on full display and make somebody care.

Pete Grum: Thank you. Thanks for your support.

Operator: Thank you. This concludes the question-and-answer session. I'd like to turn the floor back over to management for any closing comments.

Pete Grum: Sure. Thank you. We enjoyed talking to you today. As you know, you can call us in between quarters at any time. We're always happy to talk about what's going on with our business. We look forward to talking to you again in May with our first quarter results.

Operator: This concludes today's teleconference. Thank you, again, for your participation. You may disconnect your lines at this time.