Operator: Greetings and welcome to the Rand Capital Second Quarter 2017 Financial Results Conference Call. At this time, all participants are in a listen-only mode. An interactive 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, Ms. Deborah Pawlowski, Investor Relations for Rand Capital. Thank you. You may begin.

Deborah K. Pawlowski: Thank you, Operator and good afternoon, everyone. We certainly appreciate your time today for our inaugural quarterly earnings conference call. We will be addressing our second quarter 2017 financial results and our progress. We are excited to introduce this new forum to you.

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: randcapital.com.

The slides that will accompany our discussions today are also posted on the website. Looking at the slide deck, if you turn to slide 2, we show 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.

First let me turn it over to Pete, who'll summarize the quarter's results and then Dan will go into greater detail regarding the financials. With that, it's my pleasure to turn the call over to Pete to begin. Pete?

Allen F. (Pete) Grum: Thanks, Deb. Good afternoon everyone. We're happy to have this opportunity to tell you what's been going on with Rand. For those of you who are following along, I'm starting on slide 3 which highlights our second quarter.

We spent a lot of the quarter, a lot of hard work, culminating in us filing our application to establish our second Small Business Investment Company, or SBIC Fund, with the U.S. Small Business Administration. While the SBA is undergoing their normal review process, we got the fund going by contributing $7.5 million of our cash into this new entity. In accordance with the way that the SBA structures these funds we requested a debenture commitment in an amount equal to twice our cash contribution into the new fund. We're hopeful to receive approval for $15 million of debenture leverage later this year. That will be in addition to the $8 million that we currently have outstanding with the SBA. We intend to use these new funds to further our growth strategy.

In the meantime, in the last quarter we began investing from the new fund under the SBA's pre-licensing approval protocol. We had somewhat of a pent-up demand situation with the low-level investing in the first quarter this year as we were preparing our application for the new fund. As a result, we closed on a high level of investments in the second quarter, $3.35 million. Of that, $3 million was from the new fund, and $350,000 was from our previously existing SBIC fund.

All of this quarter's investments were follow-ons into companies already included in our portfolio. As you may know, on average we make about three separate investments into each of our portfolio companies during our holding period as they grow and mature.

This quarter's investments took the form of $3 million of debt instruments and $350,000 of equity instruments. The split between the debt and equity is in line with our near-term plan to increase interest income. On a long-term basis, our strategy remains to be more heavily weighted towards equity instruments, and to drive capital appreciation within our funds.

At the end of this quarter our NAV or net asset value stood at $5 per share. This represents a reduction from the end of last quarter, which is primarily impacted by unrealized losses that we recorded on certain investments. Dan will address more details of that later in the presentation.

You want to now turn to slide 4. I'm going to address four investments that we made during the second quarter, which I mentioned a moment ago. Starting in the upper left, our largest investment in this quarter was a $2 million term note to eHealth Technology. eHealth, based in Rochester, New York, provides a proprietary electronic platform to aggregate patient clinical records and images to support medical referrals.

The system eases the referral process for both the patient and the clinician. The company serves more than half of the top 100 hospitals in the U.S. as well as the leading health information exchanges. Our investment will be used to fund an additional 84 new jobs over the next three years and to support their plans to digitally organize the growing volume of electronic medical records.

Our initial investment in eHealth was a year ago and, with this latest note, our investment is now $3.5 million. This makes up the second largest investment in our portfolio at the end of June.

Let's now refer to the upper right quadrant of this slide, and I'll tell you about Genicon, into which we invested an additional $1 million note during the second quarter. The size of this round was $6.6 million and we were joined by some of our co-investors to provide this growth capital. Based in Winter Park, Florida, near Orlando, this company is a leading designer, producer and distributor of patented surgical instrumentation that's used for laparoscopic, or minimally invasive, surgery. Interestingly, several of Genicon's shareholders are surgeons who utilize the product, so the company has a direct feedback loop to support their R&D efforts.

Genicon has been rapidly growing and expanding, and was chosen by the Society of Laparoendoscopic Surgeons to receive the 2015 Innovations of the Year recognition. This represents the fourth time that one of their inventions was distinguished by this prestigious organization. We started investing in Genicon in 2015, and our latest investment will represent our sixth. Our total investment is now $4 million, making it the largest in our portfolio at the end of June.

Now, look to the lower left quadrant on the slide. SciAps, based in Woburn, Massachusetts, is a company that develops affordable handheld analytical instruments. During this quarter, we invested $250,000 in growth equity and we participated with various other insiders in the round. Their devices are used in the scientific community to identify compounds, minerals, elements and materials that are being analyzed in the field. The SciAps instruments use a variety of spectroscopy, depending on the application. This includes X-ray Florescence, or XRF; Laser-Induced Breakdown Spectroscopy, or LIBS; and RAMAN, which evaluates low frequency modes for sample identification.

The products are used in a wide variety of industries and applications, including metal, geochemical, military and law enforcement, various labs and field studies, pharmaceutical and elemental and chemical analysis.

We started investing in SciAps in 2013. This quarter's investment marks our ninth investment. Our total investment in SciAps was valued about $2 million at the end of the second quarter.

And now I'll tell you a little about BeetNPath, into which we invested $100,000 in equity during this second quarter. This was part of a company raise of $3.3 million in new equity, which we have published, and $2 million of it came from Advantage Capital which is one of our co-investors in many deals. BeetNPath, based in Ithaca, New York which is in the central part of New York State, creates chef-inspired frozen entrées and side dishes from 100% whole grain steel cut oats. The company markets its products to consumers using the brand name of Grainful. The products are gluten-free and use non-GMO ingredients.

Our initial investment in BeetNPath was in 2014 and this quarter's investment represents our fourth. Our total investment was valued at $650,000 at the end of the quarter.

If you can now turn to slide 5, I'm going to feature one of our portfolio companies, Athenex. We received shares in this company in 2014, when Athenex acquired one of our portfolio companies, QuaDPharma. As part of that transaction we received cash and shares in Athenex. In June, Athenex executed a successful IPO, initially pricing their shares at $11. The shares are currently trading at about $14 per share representing about a $790 million market cap for Athenex. We currently hold 46,000 shares and, given the trading restrictions associated with these shares, we valued them at a discount at the end of the quarter. At June 30, we have our shares valued at $614,000 in our financial statements, reflecting about $13.26 per share.

To tell you a little about this company, Athenex is a global oncology focused biopharmaceutical company headquartered in Buffalo, New York. They are dedicated to discovering, developing and commercializing novel therapies for the treatment of cancer, aiming to develop safer and more tolerable cancer treatment. Their proprietary delivery system allows a class of existing high potency oncology drugs to be dosed orally to improve patient outcomes and quality of life. The company currently has seven products, including one currently in Phase 3 and another for which they will soon commence a Phase 3 study.

Next if we can turn to page six. That's a view of our entire portfolio by revenue stage. We have characterized all of the companies within our portfolio, based on their current revenue levels, from startups on the left to expansion and then high traction as you progress to the right. The companies we talked about, you can see they are in various stages of their growth evolution. BeetNPath or Grainful, as we've talked about, is in the startup category. SciAps is in the initial revenue stage. Athenex, eHealth and Genicon are all in the expansion phase.

As these companies progress to the right, they reach a point where they're maturing for our investment strategy, and they seek out new levels of growth capital or strategic M&A. Accordingly, they may start to develop exit plans from our portfolio. That is the case with some of the companies currently in our portfolio. However, it's impossible to predict how quickly or slowly such transactions will take. These are all dependent on market conditions.

Turn to slide 7. If you know us and have followed us, you know how diverse our portfolio is and that breakdown doesn't change dramatically over time. Consistent with our diverse strategy, we invest in almost all industries with the exception of real estate, retail and financial services.

Please turn to slide 8. Here we have dissected our portfolio into capital characteristics, debt or equity as two basic choices. Our strategy is always focused on capital appreciation, growing NAV. Accordingly, our portfolio has been more heavily weighted towards equity as opposed to debt instruments. However, we may flex our near-term investment objectives depending on the mix of the cash flow stream within our portfolio. Currently our mix is focused on building investment income, as I mentioned earlier, so that we can develop a cash flow balance to cover our expenses.

Let's now turn to slide 9. This gives you a snapshot of the top five investments in our portfolio based on the market value at June 30th. Our portfolio was valued at $30 million and included 29 active companies. The value of our investment in the top five compromised almost half of our portfolio's value and, as you can see here, they are weighted toward the healthcare and software industries.

We've already talked about the top two, Genicon and eHealth. Rheonix follows closely behind with our investment valued at $2.9 million. Based in Ithaca, New York, Rheonix develops fully automated molecular assays for use in research labs for both medical as well as food and beverage applications. We started investing in them in 2009.

Number four is Outmatch, with our investment valued at $2.1 million at the end of the quarter. Outmatch is in the business of helping companies be more productive, 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 started investing in them in 2010.

Rounding out the top five is SocialFlow, with our investment valued at $2.1 million. SocialFlow handles online customized advertising for electronic publishers, including Facebook, Twitter and LinkedIn. They also provide data driven solutions for social media marketing campaigns. SocialFlow was selected as an ad-tech partner for Pinterest's Marketing Developer Partners program and is based in New York City. We started investing in them in 2013.

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

Daniel P. Penberthy: Thanks Pete and good afternoon everyone. If you could please turn to slide 11, and I'll start with net asset value per share, or NAV. As Pete mentioned, we did finish the quarter with a net asset value at $5 per share. NAV reached a peak of $5.35 at December 31, 2015. The reduction since that time is a natural progression of the Rand portfolio as the companies in our portfolio both succeed and struggle in their respective markets.

As these market dynamics play out at the portfolio company level, we will adjust our carrying values accordingly. Note that net asset value per share is up over 25% from where it was just 4.5 years ago at December 31, 2012. The end of 2015 was the timing of our last exit, which was Gemcor. We did realize a sizeable gain on that exit which helped us monetize our unrealized appreciation and helped drive net asset value.

Gemcor was also a strong cash flow provider for us and since then, we have been focused on rebuilding our portfolio to include more cash flow generating assets. We believe that these investments will help to more fully cover our expenses on a quarterly basis over time. Additionally, exits such as this result in Rand realizing an investment's full potential. But we do know from experience that we can't rush exits nor predict their timing.

Please turn to slide 12. Here I've summarized our operating performance for the second quarter of 2017 and 2016 as well as the comparable year-to-date periods. As we've mentioned a couple of times here this afternoon, in the near-term we've been investing in more financial instruments which increase our interest income and you can see the results.

Our second quarter investment income of $349,000 is up 58% over last year and our first half investment income of $678,000 is up 64%. Our Q2 expenses of $607,000 did exceed last year, and the increase is primarily due to higher professional fees associated with the formation of our new SBIC. These costs are essentially behind us now.

For the first half of the year, our total expenses were lower than last year as last year's expenses included Gemcor exit-related transaction expenses, certain taxes and incentive compensation costs. Regarding our realized and unrealized changes in our investments, these are in accordance with our valuation policy. We've recorded some unrealized losses on certain investments this quarter and earlier in the first quarter of this year. These reflect the current operating conditions within these specific businesses.

Last year's first half reflected a gain primarily driven by the finalization of our accounting for the Gemcor exit. These factors impacted our bottom line comparability, which is a decrease in net assets from operations for each of the periods, and the respective per share amounts as shown here.

Please turn to slide 13. Our balance sheet continues to remain strong. On a per share basis we have $1.04 of cash and $4.79 of portfolio investments. Our portfolio growth has benefitted from and has been partially funded by our past SBA leverage, for which we have a $1.27 per share remaining due to the SBA. We also have $0.44 per share of other net assets and liabilities. That all adds up to our net asset value, or NAV, per share of $5.00.

With that I'll turn it back to Pete.

Allen F. (Pete) Grum: Thanks, Dan. In closing hopefully, you can see that there's a lot of excitement going on with Rand and its portfolio of companies. We, as management, are working hard to take the Company to the next level by driving our growth strategy. We hope to soon have this additional SBA capital to put to work and we certainly have a wide variety of opportunities in our pipeline to invest in. With that, let me open up the line for any questions.

Operator: Thank you. At this time, we'll 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'd 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 Brett Reiss from Janney Montgomery Scott. Please go ahead.

Brett Reiss: Good afternoon, gentlemen and thanks for the comparable. Pete or Dan do you have any plans in the near future to pay a cash dividend or buyback stock, to try to narrow the discount between the net asset value and the market price of the stock?

Allen F. (Pete) Grum: We're certainly looking at that. It's tied into our current cash flow and our desire, if we're going to have a dividend, to have it be a consistent dividend. We don't believe a one-time dividend would do much good. Buying back stock, which we've done historically, is also under consideration. When we get our license for our second SBIC from the SBA, which I believe should be soon, and get some of these companies monetized, we'll certainly look at it closer. It continues to be on the list of things that we talk about at every Board meeting.

Brett Reiss: Right, right. I appreciate that. If I could just leave you with just some empirical data. I bought the stock personally and for clients back in the fall of 2013 and I'm happy with all of the progress you guys have made. But at that time, the NAV was around $4.40 and we're going on, pushing four years this coming fall and the NAV is now $5 and the stock price is $2.80. The extent that you can pull out the tool chest to try to narrow that in the foreseeable future, I would appreciate that.

Allen F. (Pete) Grum: Thank you. I appreciate that. We certainly feel it. Personally, management and the Board have been big buyers of the stock. At the end of the year we made substantial purchases, but I think your feedback is warranted.

Brett Reiss: Thank you.

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

Bill Nicklin: Gentlemen, how are things in Buffalo?

Allen F. (Pete) Grum: Good, Bill, how are you?

Bill Nicklin: Good. I got a question. I think it's a three-part question. The first is, how do you determine, when you make an investment, where you want to be in the capital structure of the company you are investing in. Number two, how much is that influenced by your need for income to support the operation of your business. Then the third, once you get this new funding, is that going to change any, so that perhaps you may be looking at higher risk, higher reward tranches in the capital structure of these companies that you may take a look at.

Allen F. (Pete) Grum: Let me go backward with your questions. With the new funds, certainly in the beginning, and as you've seen with our recent investments, we will probably be more on the debt side, convertible debt or mezzanine debt with these companies. As when we started our first SBIC, we need to get it up and running and covering expenses and our first couple of investments out of that new fund have been debt type instruments, which are probably less risk and less reward.

To your original question about what we do on the capital structure, when we go in, as you know we always invest with other institutional Investors. With that said we never really buy public shares. But we also want to make sure that, with the people that we invest with, we've got enough money around the table to bring the company to fruition. We tend to be a little more patient than most people. I think in general we're in for about five years and we'll continue to look at that. But in the beginning of this fund, we're going to do more debt type investments. I don't know if that answered all your questions, Bill.

Bill Nicklin: Pretty much. I'm trying to figure out what you can do as an entity if you feel it's appropriate to get into a higher risk, higher reward situation that may inspire investors in the Company. Then number two, that whole thought, is that influenced by the fact that, unlike a lot of venture capital firms that have termination dates, this is kind of a business in perpetuity?

Allen F. (Pete) Grum: Well it is, and it's my goal as a Company being in perpetuity, as we have been around for 40 something years, I think we'll continue. Really our portfolio that we've invested in the last

10 years has been fairly high risk, high returns. I was looking the other day, our IRR of companies that we've exited, of the 50 that came into the SBIC, we've invested and we've exited about half. They've earned us about three times our money and an IRR in the mid-20s, which we're happy about.

We're as frustrated as any anyone that it has not translated into a growth in the stock price. Part of the reason we're having these calls and we've engaged Kei Advisors is take a more professional approach to investor relations. The Management and the Board are very disappointed with what's happened to the stock price. There's no way to really get around that.

Daniel P. Penberthy: This is Dan Penberthy. In regards to how we invest in the capital structure, much like when we first started with our first SBIC Fund in 2002, some of the first several investments which we did lead were subordinated debt with warrant structures. Those were companies like Synacor, Liazon, RAMSCO; all those original warrant instruments ended up being where we drove most of our investment value with final realization. The subject of a warrant structure is a structure where I think RAND can make the higher equity returns that both Management and our Investors are looking for while maintaining some of the credit worthiness of a subordinated debt portfolio.

Bill Nicklin: Great and, I just want to make the comment that your batting average is pretty darn good and when you are swinging the bat, it's been productive. I'm just trying to noodle with you and throw out some thoughts on how to raise interest in what you're doing, in a period where no one wants to own anything other than an S&P 500 ETF. It's kind of an uphill battle at the moment. If you guys can figure this out, my hat's off to you. I agree I think, this call is both appropriate and well done by both you folks and Kei. My hats off to you.

Allen F. (Pete) Grum: Thank you.

Deborah K. Pawlowski: Thanks, Bill.

Operator: Once again as a reminder, if you would like to ask a question it is star one. We've another question from Brett Reiss from Janney Montgomery Scott. Please go ahead.

Brett Reiss: Thanks for taking an additional one. What is the interest rate on the term note with eHealth? I don’t think I heard it or saw it on the slide.

Allen F. (Pete) Grum: We disclose in our consolidated SEC schedules of portfolio investments, the full details and type of investment that we make by instrument as well as the cost and fair value of those. In that disclosure, we have the eHealth note at 10% with a maturity of 2019.

Brett Reiss: Okay, thank you.

Operator: Our next question is from Sam Rebotsky from SER Asset Management. Please go ahead.

Sam Rebotsky: Yes, good afternoon, Pete and Dan. You really have done a wonderful job with your investments and, as I’ve indicated all along, I’m a very long-time shareholder but the market is not willing to recognize it. I think it’s impacted by the inability of people to buy stocks that are not paying a dividend. If you did pay a dividend, I believe this would produce a large portion of additional Investors who can then buy the stock. I appreciate that you’re going to consider this. When do we expect to get the money, you said later this year, the $15 million, is that expected to happen in the fourth quarter or is it possible to be in this third quarter?

Allen F. (Pete) Grum: Well I want to make sure I answer this correctly. What we would get next is approval. We've been asked by the SBA to apply. We’ve done the application. They’ve given us some feedback and we’re working on that. The next step would be for us to be granted a license and I fully think that will be the third quarter. With that happening, we will be granted the ability to borrow, if everything goes right, up to $15 million. We have already taken $7.5 million of cash and put it into the subsidiary. We would invest that first and draw down the leverage afterwards.

There are two parts to getting the money. There's getting the approval for it and then actually using it. We invest about $5 million to $6 million a year to give you some perspective and we also have in our portfolio, companies that I believe will exit over the near-term timeline. I don't know which ones and I can't really predict, but that will provide money for us also to pay down the outstanding debt and then also to put into new investment.

Daniel P. Penberthy: This is Dan, to continue on that, what the SBA will do is when we're licensed we will pay an upfront fee of 1% to the SBA and that will guarantee access to the $15 million of SBA leverage for between a 4.5 to 5-year period, depending on the final date on which we're licensed. Then the money is available to be drawn as needed when we identify transactions. We're not required to take down the full $15 million and bear the interest burden on that. We can draw it down as needed on an individual transaction basis.

Sam Rebotsky: Okay. Your expectation, even though you may get approval you won't need the money, until you're cash is fully invested and then you will gradually pull down the money?

Allen F. (Pete) Grum: Correct.

Sam Rebotsky: The one thing with the book value being $5 and the stock trading at $2.75, that's more than a 40% discount. Along with the dividend you have authorization for 458,000 shares. To the extent that you can buy some shares, even though this would reduce your ability to lend, the return on equity would be pretty significant because your book value would go up and that might light the fire of other Investors as they see how you're putting your money to use. What do you think of that?

Allen F. (Pete) Grum: I think all if things were equal and if we had a lot of money, I would do it immediately. But we're really cognizant of competing cash flow needs until we get this next license put together, and we can look at exits and figure out how that goes. But you're correct in your conclusion and I wish we had a lot of extra money on the balance sheet.

Sam Rebotsky: In final conclusion, you guys have done a good job, increasing the value of your asset for all shareholders but unfortunately the public shareholders are not getting the benefit because as your large shareholder keeps selling, he's selling at a discount. To the extent that you can figure out how to move the stock up and get other people involved, this would be a strong statement. The dividend clearly, say a nickel per quarter, $0.20 annually, that would be a phenomenal dividend relative to what's going on and that should improve the stock and maybe move it up to $3.50 or someplace higher. That's my suggestion for you. Good luck and hopefully you achieve the better results for the shareholders. Thank you.

Allen F. (Pete) Grum: Thanks Sam. That's great feedback and I will point out that this $15 million—both the $7.5 million and the $15 million of SBA leverage commitment will be held at a subsidiary level that is available only for investments. We cannot move that money, or upstream it up to the parent, to pay dividends or buy back stock.

Sam Rebotsky: All right. Good luck.

Allen F. (Pete) Grum: Thanks Sam.

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

Bill Nicklin: Hi, guys. Sam very adroitly asked a question which answered the one which I was going to ask. So, I am in good shape. Thanks.

Allen F. (Pete) Grum: Okay, thanks Bill. Appreciate it and thank you, Sam.

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

Allen F. (Pete) Grum: Thank you everyone, and this is our inaugural call and I appreciate all the questions. We appreciate all your time today and look forward to updating you again with our third quarter results in November. Feel free to call us individually. We're always here, and I appreciate the feedback and have a great day.

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