Operator: Greetings, and welcome to the Rand Capital Corporation Fourth Quarter and Full Year 2018 Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions]

As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Deborah Pawlowski, Investor Relations for Rand. Please go ahead.

Deborah K. Pawlowski: Thank you, Kevin, and good afternoon, everyone. We certainly appreciate your time today for Rand's fourth quarter 2018 financial results conference call.

On the line with me 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 discussion today are also posted on the website.

If you look at the slide deck and turn to slide 2, we'll review 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 Securities and Exchange Commission. These documents can be found either on our website or SEC.gov.

Before I turn it over to Pete, let me point out that we are restricted in what we can discuss in regards to the proposed strategic investment by East Asset Management into Rand that we announced on Friday, January 25th. We anticipate that the preliminary proxy will be filed within the next week or so with the SEC. Until it is filed, we're not really in a position to provide any more details. As a result, we will not be taking any questions relating to the transactions on today's call. So to avoid any confrontation regarding this, I ask that you please limit your questions today to Rand's performance in current business.

With that, let me now turn it over to Pete, who is going to summarize the highlights for the quarter and the year as well as feature some of our portfolio companies, then Dan will follow with more details regarding the financials. Pete?

Pete Grum: Good afternoon, everyone. We're happy to have this opportunity to update you on Rand's fourth quarter and reflect on the 2018 full year. We will start on **Slide 3**, where we can summarize some of the highlights of the fourth quarter.

As previously announced, it was a very long process spanning over the past two years, but in December, we announced that we have successfully secured an additional $6 million leverage commitment from the United States Small Business Administration. This demonstrates the SBA's confidence in Rand, and the important role we serve in the funding cycle of young businesses in underserved markets. We have a healthy pipeline of deserving opportunities, and have already begun putting some of the capital to work.

During the quarter, we invested $1.1 million, consisting of almost all loan instruments. I'll review the details of those investments with you on the next slide.

At the end of the quarter, our net asset value, or as we call it NAV, increased to $4.99 per share, up from $4.84 at the end of September. This increase was driven by net appreciation in certain portfolio investments. Dan, during his discussion, will provide further details on this.

We are pleased to see our investment income up considerably again this quarter, growing 76% above last year's fourth quarter. We benefited from a couple of items that don't necessarily recur each quarter, including a $60,000 one-time distribution from one portfolio company and an increase of $95,000 in the year end distribution from another, which also provides quarterly dividends. Excluding those fourth quarter items, the investment income was up 39%, benefiting from our strategy to include more loan and debt instruments in our portfolio. Regarding the balance between investment income and expenses, we finished the quarter close to break even, which is our goal.

Subsequent to the end of the quarter, on January 25, we announced that East Asset Management, or EAM, plans to make a $25 million strategic investment in Rand subject to shareholder approval. This will be in return for approximately 8.3 million shares of Rand common stock at a purchase price of $3 per share. On closing, the investment will provide additional capital for new investments to facilitate our growth and, importantly, our investment strategy is expected to support an ongoing and ultimately growing cash dividend.

We believe that EAM's investment in Rand is a testament to the Company we have created as well as their commitment to Buffalo and Western New York. This proposed strategic investment, combined with additional leverage available from the SBA, provides us greater liquidity to expand our portfolio and enable a step change in our rate of growth and scale.

Let's now turn to **Slide 4**. Our investing activity was somewhat light in 2018, as we've focused on securing the additional SBA capital and also worked on the potential EAM investment. For the year, we invested $2.5 million. These investments went into one new portfolio company and eight existing portfolio companies. To recap, we had two investments in the first quarter, one each in the second quarter and third quarters, and we finished off the year with five investments in the fourth quarter.

I'll provide you some details of our fourth quarter investments. First, we invested an additional $50,000 in Empire Genomics in the form of a promissory note. The second investment was in Tilson Technology Management for $100,000 in the form of a subordinated promissory note and Series D preferred shares. Our third investment in the quarter was $250,000 in the form of a convertible promissory note to another one of our existing portfolio companies, Genicon. Our largest investment in the quarter was $600,000 in a new portfolio company named Tech 2000, Inc. This is one of our feature portfolio companies that I will discuss in more detail later on. Finally our last investment of the year was in BeetNPath, also known under the Grainful brand, with a convertible secured note of $122,628.

To remind you, our focus over the last couple of years has been to invest in vehicles to build investment income, which has been evident in our investment income results over the past several quarters. In addition to that, we realized non-recurring loan restructuring interest income in the third quarter and nonrecurring distributions during the fourth quarter as I mentioned a few minutes ago. Excluding those nonrecurring items, our investment income was up 18% over 2017. Dan will go over the financial results later in the discussion.

On **Slide 5**, as I do each quarter, I want to take the opportunity to feature some of the companies within our portfolio and give you more insight into that. I'll start with Tech 2000, the most recent addition to our portfolio. Based near Washington D.C., Tech 2000 is a Cisco Training Partner that offers information technology training, courses and certification. As I mentioned a moment ago, we recently invested $600,000 during our fourth quarter as part of a broader financing. They have worked with Fortune 500 companies to develop and deliver solutions for the last 25 years. Tech 2000 currently offers 225 IT training courses with a satisfaction rating of nearly perfect, at 4.83 out of 5. They believe they're in the forefront of providing next generation learning and training solutions. Our recent investment at Tech 2000 is expected to support their expansion plans and allow them to leverage ongoing industry advancement. We categorize them in our expansion revenues stage, which includes companies with revenue between $5 million and $20 million.

Please turn to **Slide 6**. The next company I'd like to talk about is Knoa, which is headquartered in New York City. They are a leading provider of user management software. They deliver solutions that generate unique insight for the optimization of the end user experience, and improved efficiencies for enterprise applications including SAP, Oracle and other. SAP resells Knoa's solution under the name SAP User Experience Management by Knoa. The company's patented software provides CIOs and business executives the actionable metrics needed to ensure that organizations and end users realize the full valuation of their software investment. As evidence of their market penetration and advancements in cloud technology, in 2018, Knoa's cloud revenue accelerated by more than 250% and its total number of cloud customers doubled. Additionally, they closed on the largest cloud deal in their history in 2018. Knoa has found that the implementation process for complex systems such as SAP can be a very difficult process for a company; with Knoa’s help, they can ensure a more seamless implementation process and realize the full benefits of the enterprise system. Knoa believes that this dedication to customers is facilitating significant success. At December 31, 2018 our investment in Knoa was valued at approximately $1.2 million.

We can now turn to **Slide 7**. The next company I'd like to discuss is Microcision, which is based in Pennsauken Township, New Jersey, near Philadelphia. Included in our expansion revenue stage category, Microcision is a leading manufacturer of medical device, implants and instrumentation. Applications include small bone, orthopedic, spine infusion, dental implants, urology, maxillofacial and wrist, foot and ankle, and many others. From product development through production, Microcision capabilities include complex turning, drilling, cross-drilling, threading and milling of small parts made from all medical grade metals and plastics. The company has invested millions of dollars in state-of-the-art CNC technology, training, information and tracking systems, allowing them to produce the most complex configurations in the most cost-effective manner. The recent financial results led us to increase the fair value of our investment by $610,000 in the fourth quarter. At December 31, 2018, Rand's investment in Microcision was valued at approximately $2.5 million.

Moving on to **Slide 8**. This shows the logos of all the companies in our portfolio, characterized by revenue stage. You've seen this before with start-ups on the left, initial revenue and expansion, moving on to high traction on the right. The newest investment in our portfolio Tech 2000, which I spoke to you about a few minutes ago, is in the expansion category. Regarding the other two companies we just featured, you can also see that Knoa and Microcision are within the expansion space. As I mentioned before, if companies progress in the right, they may start to develop exit plans from our portfolio. It's virtually impossible to predict how quickly or slowly such transactions progress, as they're all depended on market conditions.

Slide 9 presents those same company logos, but they are categorized based on how long the company has been in our portfolio. Tech 2000 is the only addition to our portfolio in the past year. The average age of a company in our portfolio is just over five-and-a-half years and our normal investment period is approximately five years. As you can see, the majority of our companies are above the five-year time horizon. Today, 17 of our companies are there.

If you turn to **Slide 10**, you can see how diverse our portfolio is and that the breakdown by industry categories doesn't change drastically over time. Consistent with our strategy, we are and have been a diversified company. We invest in almost all industries with the exception of real estate, retail and financial services. Year-over-year comparisons as of December 31 show a drastic increase within the software industry driven by the addition of Tech 2000. Decreases in healthcare and consumer products were primarily due to our write-downs of Empire Genomics SOMS Technologies.

I'd ask you now to turn to **Slide 11**. As we dissect our portfolio into capital characteristics with debt and equity being the two main choices, our strategy has always been for capital appreciation to grow our net asset value. Accordingly, our portfolio is more heavily weighted towards equity as opposed to debt. However, we adjust our investment objectives depending on the mix of cash flow stream within our portfolio. As this slide illustrates, since 2016 we have trended to more debt. We focused on building investment income to generate cash flow to cover our expenses. As a matter of fact, during 2018, approximately 60% of our investments were debt-related instruments. Consequently, at the end of the year, nearly 60% of our investments are in equity and about 40% are in debt, virtually unchanged since 2017. Looking forward, anticipating the proposed EAM investment in RAND, we anticipate a heavier focus on debt-related investments to support an ongoing dividend.

Everyone, if we can turn to **Slide 12.** This is a snapshot of the five top investments in our portfolio based on the values at the end of December. Our portfolio was valued at nearly $34.7 million, and includes 30 active companies.

The value of our top five investments consistently comprises about half of our portfolio. And as you can see, they're weighted toward healthcare. Our largest portfolio company is Genicon, which is valued at $4.4 million. Based in Orlando, Florida, they design, produce and distribute patented surgical instrumentation. We started investing in them in 2015.

eHealth remains the second largest investment in our portfolio valued at $3.5 million. Based in Rochester, New York, they provide proprietary electronic platforms to aggregate patient clinical records and images to support medical referrals. Our initial investment in eHealth was in 2016.

There are two new investments in our top five. One is our third largest investment, ACV Auctions. They're an exciting and growing Buffalo-based software company that provides a mobile platform for automobile auctions, operations, title management, floor plan purchasing, arbitration and logistics. They are revolutionaries in dealer-to-dealer car sales by automating the process, replacing the expensive and inefficient physical auction. Founded less than four years ago, ACV now has 500 employees. In 2018, they expanded from 30 to 80 markets. They estimate more than 10,000 cars are now being sold per month on their platform. We began investing in ACV in 2016 and increased the fair value of our investment in them in the fourth quarter. The $2.5 million appreciation to $2.8 million at December 31 was based on valuation assigned by third-party investors during ACV's recent $93 million Series D funding round.

Fourth is Tilson, headquartered in Portland, Maine. They construct and manage cellular, fiber optic and wireless information systems. We have been investing in them since 2015. At the end of 2018, Tilson reported that they had 17 nationwide offices spread across 36 states, and their total employment almost doubled in 2018 to 490 team members. In 2019, they resolved to hire an additional 250 great people and double their business, building America's information infrastructure. Our investment in Tilson was valued at $2.6 million at the end of 2018.

The second new company in the list is our fifth largest investment, Microcision, which we'll discuss in detail later. We began investing in them in 2009 and their recent financial performance led us to increase the fair value of our investment to $2.5 million as of year-end.

Now, I'd like to turn it over 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 14**, I'll start with the net asset value per share or NAV. As Pete mentioned, we finished the year with net asset value at $4.99 per share. As you can see on the chart, NAV increased $0.15 per share over the trailing quarter. This increase is primarily attributable to a net increase in the valuations of certain of our portfolio investments driven by the appreciation recorded for ACV Auctions and Microcision, partially offset by depreciation recorded on other investments within our portfolio.

Please turn to **Slide 15**. Here we summarize our operating performance for the fourth quarters of 2018 and 2017, and also the comparable full-year periods. Investment income increased significantly, to $668,000, in the fourth quarter. This is a 76% increase over the prior year's quarter. Incremental investment income drove a 35% increase and nonrecurring distributions drove a 41% increase. As we previously mentioned, we have been investing in more income-producing instruments over the past few years and that has driven increased investment income.

On a year-to-date basis, investment income was up $652,000, or 45%, to $2.1 million. In addition to the fourth quarter nonrecurring distributions, we had nonrecurring loan restructuring income in the third quarter. To give you a sense for the increase in our investment income driven by our investment strategy, excluding those nonrecurring items, investment income grew by 18% in 2018 over 2017.

Our fourth quarter expenses of $684,000 are 53% above the same quarter of last year, but our full-year expenses are up only 9%. Excluding bonus, fourth quarter expenses were up $123,000 and full-year expenses were up $70,000. The increase was driven by higher professional fees, primarily due to the pending strategic investment by East Asset Management.

Net investment loss before income taxes refers to the difference between our investment income and our expenses. This is before changes in the valuations of our investments. Our goal is to reach breakeven level at that line. We're significantly closer to reaching that goal in 2018 with a net loss of $15,000 in the fourth quarter and a net loss of $87,000 for the full year.

Below that line, the net realized and unrealized gains or losses on investments drove the $0.15 increase in NAV in the fourth quarter and the overall $0.06 decline for the year.

Please turn to **Slide 16.** Our balance sheet continues to be strong. On a per share basis, we have $0.64 of cash at the end of the year. This includes $0.44 per share which resides at the corporate parent level, and $0.20 per share in our SBIC which is available for investing.
Our portfolio investments are valued at $5.48 per share at the end of the year. Our portfolio growth has benefited from and has been partially funded via SBA leverage which, as of the end of the year, we have $1.38 per share which we owe to the SBA. We also have $0.25 per share of other assets, net of liabilities. This all adds up to our net asset value, or NAV, per share of $4.99.

With that, I think it's time to open up the line for questions.

Operator: Thank you. We'll now be conducting a question-and-answer session. [Operator Instructions] My first question today is coming from MJ Bartlett from IIU. Your line is now live.

MJ Bartlett: Hello, gentlemen. Thanks for taking my call. Congratulations on bringing the NAV up to just under $5 a share. Am I right in understanding that is what you generally would call the orderly liquidation value of the portfolio today?

Pete Grum: That's not really a defined term that we use. I think our term is fair value and that's a GAAP term.

MJ Bartlett: You would say that the portfolio, net of all debt, is $5 a share or $4.99 a share?

Pete Grum: Correct.

MJ Bartlett: Given that, I'm struggling to understand why you would contemplate a change of control transaction at a $2 discount to that value when change of control transactions normally happen at a premium, and that $2 discount will be highly dilutive to all of your shareholders?

Pete Grum: As we talked about earlier, that will all be described in the proxy, which should be out shortly. Once that is out, I'd be happy to talk to you.

MJ Bartlett: Okay, but I'm not asking for any new information. This is the information that's already been released by the Company. Your idea is to issue shares at $3 a share which, by your own accounting, is a $2 per share discount to the current NAV.

Deborah Pawlowski: MJ, this is Deb Pawlowski, Investor Relations, here. In the proxy statement what you're going to find is all of the discussion regarding the Board's decision on the price per share and it will go through exactly the answer to your question. That is why, until the proxy is filed, we're kind of restricted as to what we can talk to.

MJ Bartlett: Yeah. I think that's rather evasive. We all know what the rules are and you're more than in a position to answer my question now, but clearly you don't want to. I'll relinquish the line to somebody else.

Operator: Thank you. [Operator Instructions] Our next question is coming from Sam Rebotsky from SER Asset Management. Your line is now live.

Sam Rebotsky: Good quarter, Pete and Dan. To the previous gentleman's question, my understanding is there will be a $1.50 dividend and I assume that dividend is prior to the new investment of $3. I think that was described previously. Am I incorrect on that, Pete?

Pete Grum: Sam, I think you are better off waiting and reading the proxy.

Sam Rebotsky: My understanding is if the new investors were putting in $3, they're not getting a $1.50 back. That's just my understanding. Do we have a date for the meeting to vote on the proxy?

Pete Grum: We don't have that yet.

Sam Rebotsky: Okay. The ACV Auctions, we have 1% and so they raised $93 million. That values that company at $288 million. Is that a fair assumption?

Pete Grum: I think it's higher than that.

Sam Rebotsky: Did the increase in this valuation only come about because of the $93 million raise?

Pete Grum: Yeah. They had previous money raised primarily with insiders and we don't look at that as a basis to increase our value. I think you can get it on the web, and see this is primarily our new investors.

Sam Rebotsky: Okay. Do we have any other investments where the insiders have been putting money in and the possibility there are raises that aren't needed or might happen, that are similar to this ACV transaction?

Pete Grum: Yeah. As you and I have talked there are two or three, not a handful, where the insiders have been investing and it's very common. The insiders will continue to fund it and we do not reflect the write up when they do it at a higher valuation.

Sam Rebotsky: Okay. This basically covers whatever write-downs there were towards that $0.15 increase, which is very good, all right. Will the proxy be filed in a week, or two weeks or so?

Pete Grum: Yeah. I think that's a good estimate.

Sam Rebotsky: I look forward to receiving it.

Pete Grum: Thanks, Sam.

Operator: Thank you. Our next question is coming from Brett Reiss from Janney Montgomery Scott. Your line is now live.

Brett Reiss: Hi, Pete. Hi, Dan.

Pete Grum: Hi, Brett.

Brett Reiss: The $6 million you're getting from the SBIC, what is the cost of that capital? Then can you use that to make equity or debt investments? How much leverage are you able to employ with that?

Pete Grum: What happens is our borrowings, along with all the other SBA debt, gets pooled and it gets priced in the agency market. This is a 10-year interest rate on the instrument and it gets priced, in general, based on the 10-year treasury rate. I would guess it would be in the mid-3s these days, may be closer to 4 all-in. We can use it for any of our portfolio investments and it's not really technically done on a deal-by-deal basis, it's done on a portfolio basis. I guess the answer is yes, it can be used for debt or equity. We are mindful though that we have to have enough interest income to pay our expenses.

Brett Reiss: Right, are there any restrictions on the leverage?

Pete Grum: Not sure what you mean by leverage.

Brett Reiss: Well, if they, if you're borrowing $6 million, can you only make $6 million in investments or can you make $12 million in investments?

Pete Grum: Well, if we're borrowing $6 million, you really only have $6 million to deploy.

Brett Reiss: Okay. And the SBIC, that's the same as the SBA?

Pete Grum: Correct.

Brett Reiss: Okay. All right. Thank you.

Operator: Thank you. We've reached the end of our question-and-answer session. I'd like to turn the floor back over to management for any further or closing comments.

Pete Grum: Thank you for your time and attention this afternoon. I hope you can see there's a lot of excitement going on with Rand and a lot of underlying value in our portfolio companies. Further, we are very excited about our investment by EAM and we believe this will take us to a new level for the benefit of all stakeholders. We look forward to updating you as we progress with that process. Have a great evening.

Operator: Thank you. That does conclude today's teleconference. You may disconnect your line at this time and have a wonderful day.