

RAND CAPITAL CORP  
Form 10-Q  
November 06, 2017  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2017**

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

**For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 814-00235**

**Rand Capital Corporation**

**(Exact Name of Registrant as specified in its Charter)**

<b>New York</b> <b>(State or Other Jurisdiction of</b>	<b>16-0961359</b> <b>(IRS Employer</b>
<b>Incorporation or Organization)</b>	<b>Identification No.)</b>
<b>2200 Rand Building, Buffalo, NY</b> <b>(Address of Principal executive offices)</b>	<b>14203</b> <b>(Zip Code)</b>
<b>(716) 853-0802</b>	
<b>(Registrant's telephone number, including area code)</b>	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act.

Edgar Filing: RAND CAPITAL CORP - Form 10-Q

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

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

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

As of November 6, 2017, there were 6,321,988 shares of the registrant's common stock outstanding.

**Table of Contents**

**RAND CAPITAL CORPORATION**

**TABLE OF CONTENTS FOR FORM 10-Q**

**PART I. FINANCIAL INFORMATION**

Item 1.	<u>Financial Statements and Supplementary Data</u>	3
	<u>Consolidated Statements of Financial Position as of September 30, 2017 (Unaudited) and December 31, 2016</u>	3
	<u>Consolidated Statements of Operations for the Three Months and Nine Months Ended September 30, 2017 and 2016 (Unaudited)</u>	4
	<u>Consolidated Statements of Changes in Net Assets for the Three Months and Nine Months Ended September 30, 2017 and 2016 (Unaudited)</u>	5
	<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2017 and 2016 (Unaudited)</u>	6
	<u>Consolidated Schedule of Portfolio Investments as of September 30, 2017 (Unaudited)</u>	7
	<u>Consolidated Schedule of Portfolio Investments as of December 31, 2016</u>	15
	<u>Notes to the Consolidated Financial Statements (Unaudited)</u>	23
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	35
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	44
Item 4.	<u>Controls and Procedures</u>	45

**PART II. OTHER INFORMATION**

Item 1.	<u>Legal Proceedings</u>	46
Item 1A.	<u>Risk Factors</u>	46
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	46
Item 3.	<u>Defaults upon Senior Securities</u>	46
Item 4.	<u>Mine Safety Disclosures</u>	46
Item 5.	<u>Other Information</u>	46
Item 6.	<u>Exhibits</u>	47

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements and Supplementary Data****RAND CAPITAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	September 30, 2017 (Unaudited)	December 31, 2016
<b><u>ASSETS</u></b>		
Investments at fair value:		
Control investments (cost of \$99,500)	\$ 99,500	\$ 99,500
Affiliate investments (cost of \$19,356,165 and \$17,589,623, respectively)	14,706,841	13,605,974
Non-Control/Non-Affiliate investments (cost of \$16,358,555 and \$13,941,907, respectively)	15,889,347	13,795,007
Total investments, at fair value (cost of \$35,814,220 and \$31,631,030, respectively)	30,695,688	27,500,481
Cash	6,373,128	12,280,140
Interest receivable (net of allowance: \$161,000)	202,562	324,237
Deferred tax asset	1,708,081	1,165,164
Prepaid income taxes	266,935	
Other assets	584,010	1,148,508
<b>Total assets</b>	<b>\$ 39,830,404</b>	<b>\$ 42,418,530</b>
<b><u>LIABILITIES AND STOCKHOLDERS EQUITY (NET ASSETS)</u></b>		
<b>Liabilities:</b>		
Debentures guaranteed by the SBA, net	\$ 7,848,323	\$ 7,827,773
Profit sharing and bonus payable	132,000	1,270,052
Accounts payable and accrued expenses	114,365	324,537
Deferred revenue	43,240	46,797
Income tax payable		320,008
Total liabilities	8,137,928	9,789,167
Commitments and contingencies (See Note 5)		
<b>Stockholders equity (net assets):</b>		
Common stock, \$.10 par; shares authorized 10,000,000; shares issued 6,863,034; shares outstanding of 6,321,988 at 9/30/17 and 12/31/16	686,304	686,304
Capital in excess of par value	10,581,789	10,581,789
Accumulated net investment loss	(1,876,712)	(1,577,848)

Edgar Filing: RAND CAPITAL CORP - Form 10-Q

Undistributed net realized gain on investments	<b>27,127,054</b>	27,127,054
Net unrealized depreciation on investments	<b>(3,356,854)</b>	(2,718,831)
Treasury stock, at cost: 541,046 shares	<b>(1,469,105)</b>	(1,469,105)
<b>Total stockholders equity (net assets) (per share \$5.01 at 9/30/17; \$5.16 at 12/31/16)</b>	<b>31,692,476</b>	32,629,363
<b>Total liabilities and stockholders equity (net assets)</b>	<b>\$ 39,830,404</b>	\$ 42,418,530

See accompanying notes

Table of Contents

## RAND CAPITAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
<b>Investment income:</b>				
Interest from portfolio companies:				
Control investments	\$	\$	\$	\$ 11,828
Affiliate investments	142,247	113,643	416,247	273,218
Non-Control/Non-Affiliate investments	167,675	110,395	417,406	240,027
Total interest from portfolio companies	309,922	224,038	833,653	525,073
Interest from other investments:				
Non-Control/Non-Affiliate investments	6,348	11,974	24,182	33,683
Total interest from other investments	6,348	11,974	24,182	33,683
Dividend and other investment income:				
Affiliate investments	74,408	69,010	189,805	149,807
Non-Control/Non-Affiliate investments	2,405	3,011	7,598	3,011
Total dividend and other investment income	76,813	72,021	197,403	152,818
Fee income:				
Control investments				2,000
Affiliate investments	2,166	2,083	6,250	3,945
Non-Control/Non-Affiliate investments	1,770	5,770	13,307	13,004
Total fee income	3,936	7,853	19,557	18,949
<b>Total investment income</b>	<b>397,019</b>	<b>315,886</b>	<b>1,074,795</b>	<b>730,523</b>
<b>Expenses:</b>				
Salaries	165,413	155,437	496,239	466,312
Bonus and profit sharing				1,411,659
Employee benefits	38,454	38,730	138,523	164,952
Directors fees	36,374	47,380	107,623	142,135
Professional fees	48,433	86,938	310,628	237,986
Stockholders and office operating	45,355	50,846	193,290	174,882
Insurance	8,058	8,358	25,618	25,876

Edgar Filing: RAND CAPITAL CORP - Form 10-Q

Corporate development	<b>16,621</b>	17,794	49,938	49,319
Other operating	<b>2,772</b>	3,495	8,055	9,470
	<b>361,480</b>	408,978	1,329,914	2,682,591
Interest on SBA obligations	<b>77,568</b>	77,570	232,706	232,709
Total expenses	<b>439,048</b>	486,548	1,562,620	2,915,300
<b>Net investment loss before income taxes</b>	<b>(42,029)</b>	(170,662)	(487,825)	(2,184,777)
Income tax benefit	<b>(17,050)</b>	(55,934)	(188,961)	(833,525)
<b>Net investment loss</b>	<b>(24,979)</b>	(114,728)	(298,864)	(1,351,252)
<b>Net realized gain on sales and dispositions of investments:</b>				
Control investments		1,412,500		14,588,813
Non-Control/Non-Affiliate investments				168,140
Net realized gain before income tax expense		1,412,500		14,756,953
Income tax expense		526,862		5,504,343
Net realized gain on investments		885,638		9,252,610
<b>Net change in unrealized (depreciation) or appreciation on investments:</b>				
Control investments		(1,412,500)		(12,775,000)
Affiliate investments		(666,011)	(665,675)	(1,413,811)
Non-Control/Non-Affiliate investments	<b>111,000</b>		(322,308)	69,444
Change in unrealized depreciation or appreciation before income tax expense (benefit)	<b>111,000</b>	(2,078,511)	(987,983)	(14,119,367)
Deferred income tax expense (benefit)	<b>28,090</b>	(736,301)	(349,960)	(5,231,097)
Net change in unrealized depreciation or appreciation on investments	<b>82,910</b>	(1,342,210)	(638,023)	(8,888,270)
<b>Net realized and unrealized gain (loss) on investments</b>	<b>82,910</b>	(456,572)	(638,023)	364,340
<b>Net increase (decrease) in net assets from operations</b>	<b>\$ 57,931</b>	(\$ 571,300)	(\$ 936,887)	(\$ 986,912)
<b>Weighted average shares outstanding</b>	<b>6,321,988</b>	6,325,299	6,321,988	6,327,074
<b>Basic and diluted net increase (decrease) in net assets from operations per share</b>	<b>\$ 0.01</b>	(\$ 0.09)	(\$ 0.15)	(\$ 0.16)
	See accompanying notes			



Table of Contents

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**

(Unaudited)

	<b>Three months ended September 30, 2017</b>	<b>Three months ended September 30, 2016</b>	<b>Nine months ended September 30, 2017</b>	<b>Nine months ended September 30, 2016</b>
<b>Net assets at beginning of period</b>	<b>\$ 31,634,545</b>	<b>\$ 33,438,048</b>	<b>\$ 32,629,363</b>	<b>\$ 33,853,660</b>
Net investment loss	(24,979)	(114,728)	(298,864)	(1,351,252)
Net realized gain on investments		885,638		9,252,610
Net change in unrealized depreciation or appreciation on investments	<b>82,910</b>	(1,342,210)	(638,023)	(8,888,270)
Net increase (decrease) in net assets from operations	<b>57,931</b>	(571,300)	(936,887)	(986,912)
Purchase of treasury shares		(21,614)		(21,614)
<b>Total increase (decrease) in net assets</b>	<b>57,931</b>	<b>(592,914)</b>	<b>(936,887)</b>	<b>(1,008,526)</b>
<b>Net assets at end of period</b>	<b>\$ 31,692,476</b>	<b>\$ 32,845,134</b>	<b>\$ 31,692,476</b>	<b>\$ 32,845,134</b>
<b>Accumulated net investment loss</b>	<b>(\$ 1,876,712)</b>	<b>(\$ 1,375,832)</b>	<b>(\$ 1,876,712)</b>	<b>(\$ 1,375,832)</b>

See accompanying notes

Table of Contents

## RAND CAPITAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine months ended September 30, 2017	Nine months ended September 30, 2016
<b>Cash flows from operating activities:</b>		
Net decrease in net assets from operations	(\$ 936,887)	(\$ 986,912)
Adjustments to reconcile net decrease in net assets to net cash (used in) provided by operating activities:		
Investments in portfolio companies	(3,900,000)	(5,883,012)
Proceeds from sale of investments		14,313,203
Proceeds from loan repayments		416,972
Change in unrealized depreciation or appreciation on investments	987,983	14,119,367
Change in deferred tax benefit	(542,917)	(3,448,438)
Realized gain on portfolio investments		(14,756,953)
Depreciation and amortization	23,550	25,034
Original issue discount accretion	(21,085)	(7,497)
Non-cash conversion of debenture interest	(262,105)	(16,711)
Changes in operating assets and liabilities:		
Decrease (increase) in interest receivable	121,675	(97,299)
Decrease in other assets	561,499	61,484
(Increase) decrease in prepaid income taxes	(266,935)	65,228
(Decrease) increase in income tax payable	(320,008)	826,983
Decrease in accounts payable and accrued expenses	(210,173)	(85,678)
(Decrease) increase in profit sharing and bonus payable	(1,138,052)	1,311,659
(Decrease) increase in deferred revenue	(3,557)	27,553
Total adjustments	(4,970,125)	6,871,895
<b>Net cash (used in) provided by operating activities</b>	<b>(5,907,012)</b>	<b>5,884,983</b>
<b>Cash flows from financing activities:</b>		
Purchase of treasury shares		(21,614)
<b>Net cash used in financing activities</b>		<b>(21,614)</b>
<b>Net (decrease) increase in cash</b>	<b>(5,907,012)</b>	<b>5,863,369</b>
<b>Cash:</b>		
Beginning of period	12,280,140	5,844,795
End of period	\$ 6,373,128	\$ 11,708,164

See accompanying notes

Table of Contents

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**

**September 30, 2017**

**(Unaudited)**

(a)	(b)	(c)	(d)(f)			
Company, Geographic Location, Business Description, (Industry) and Website	Type of Investment	Date Acquired	Equity	<u>Cost</u>	Fair Value	Percent of Net Assets
<b>Non-Control/Non-Affiliate Investments</b>						
<b>50.1% of net assets: (j)</b>						
<b>ACV Auctions, Inc. (e)(g)</b>	1,181,160 Series A preferred shares.	8/12/16	1%			0.9%
Buffalo, NY. Live mobile auctions for new and used car dealers. (Software)				\$163,000	\$282,356	
www.acvauctions.com						
<b>Athenex, Inc. NASDAQ: ATNX (e)(g)(o)(p)</b>	46,296 restricted common shares valued at \$15.66 per share.	9/8/14	<1%	143,285	725,000	2.3%
<b>(Formerly Kinex Pharmaceuticals, Inc.)</b>						
Buffalo, NY. Specialty pharmaceutical and drug development. (Health Care)						
www.athenex.com						
<b>Centivo Corporation (e)(n)</b>	\$100,000 convertible unsecured note at 2% due February 1, 2019.	7/5/17	0%	100,000	100,000	0.3%
New York, NY. Tech-enabled health solutions company that helps self-insured employers and their employees save money and have a better experience.						
(Health Care)						
<b>City Dining Cards, Inc. (Loupe) (e)(g)</b>	9,525.25 Series B preferred shares.	9/1/15	4%	500,000	0	0.0%
Buffalo, NY. Customer loyalty technology						

company for restaurants. (Software)

<b>eHealth Global Technologies, Inc.</b>	<b>(g)</b> \$1,500,000 term note at 10% due September 2, 2019.	6/28/16	0%		11.0%
Henrietta, NY. eHealth Connect® improves health care delivery through intelligently aggregated clinical record and images for patient referrals.				1,500,000	1,500,000
(Health Care)	<b>(n)</b> \$2,000,000 term note at 10% due September 28, 2019.			<u>2,000,000</u>	<u>2,000,000</u>
	<b>Total eHealth</b>			<u>3,500,000</u>	<u>3,500,000</u>
www.ehealthtechnologies.com					

<b>Empire Genomics, LLC (g)</b>	\$1,101,489 senior secured convertible term notes at 10% due April 30, 2018.	6/13/14	0%		4.3%
Buffalo, NY. Molecular diagnostics company that offers a comprehensive menu of assay services for diagnosing and guiding patient therapeutic treatments. (Health Care)				1,101,489	1,101,489
www.empiregenomics.com	\$250,000 promissory note at 12% due December 31, 2019.			<u>250,000</u>	<u>250,000</u>
	<b>(i)</b> Interest receivable \$51,359.			<u>1,351,489</u>	<u>1,351,489</u>
	<b>Total Empire</b>				

<b>GoNoodle, Inc. (g)(m)</b>	\$1,000,000 secured note at 12% due January 31, 2020, (1% Payment in Kind (PIK)).	2/6/15	<1%		3.2%
(Formerly HealthTeacher, Inc.)				1,026,763	1,026,763
Nashville, TN. Student engagement education software providing core aligned physical activity breaks. (Software)					
www.gonoodle.com	Warrant for 47,324 Series C Preferred shares.			<u>25</u>	<u>25</u>
	<b>Total GoNoodle</b>			<u>1,026,788</u>	<u>1,026,788</u>

<b>Mercantile Adjustment Bureau, LLC (g)</b>	\$1,199,039 subordinated secured note at 13% (3% for the calendar year 2017) due January 31, 2018.	10/22/12	4%		3.0%
Williamsville, NY. Full service accounts receivable management and collections company.				1,198,187	948,187
(Contact Center)					
www.mercantilesolutions.com	<b>(e)</b> \$150,000 subordinated debenture at 8% due June 30, 2018.			150,000	-

	Warrant for 3.29% membership interests. Option for 1.5% membership interests.	<u>97,625</u>	<u>—</u>	
	(i) Interest receivable \$57,490.	<u>1,445,812</u>	<u>948,187</u>	
	<b>Total Mercantile</b>			

<b>Outmatch Holdings, LLC (e)(g)</b>	2,542,167 Class P1 Units.	11/18/10	4%	2,140,007	2,140,007	6.8%
<b>(Chequed Holdings, LLC)</b>				<u>5,489</u>	<u>5,489</u>	
	109,788 Class C1 Units.			<u>2,145,496</u>	<u>2,145,496</u>	
Dallas, TX. Web based predictive employee selection and reference checking. (Software)						
	<b>Total Outmatch</b>					
www.outmatch.com						

Table of Contents

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**

**September 30, 2017 (Continued)**

**(Unaudited)**

(a)	(b)	(c)	(d)(f)		
Geographic Location, Business Description, (Industry) and Website	Type of Investment	Date Acquired	Equity	<u>Cost</u>	Fair Value
3D Technologies LLC (e)(g) Provides innovative solutions in the processing of additive manufactured 3D parts. (Manufacturing) www.3dtechnologies.com	\$300,000 convertible promissory note at 5% due July 28, 2018.	7/25/16	0%	300,000	300,000
3D Systems, Inc. (e)	9,676 common shares.	10/29/09	4%	-	11,000
3D Systems, Inc. (e)(g)	(g) 1,839,422 Series A preferred shares.			2,099,999	2,165,999
3D Systems, Inc. (e)(g)	(g) 50,593 common shares.			-	59,000
3D Systems, Inc. (e)(g)	(g) 589,420 Series B preferred shares.			<u>702,732</u>	<u>702,732</u>
	<b>Total Rheonix</b>			<u>2,802,731</u>	<u>2,938,731</u>
3D Systems, Inc. (e)(g)	1,049,538 Series B preferred shares.	4/5/13	4%	500,000	731,430
3D Systems, Inc. (e)(g)	1,204,819 Series B-1 preferred shares.			750,000	839,640
3D Systems, Inc. (e)(g)	717,772 Series C preferred shares.			<u>500,000</u>	<u>500,220</u>
	<b>Total Social Flow</b>			<u>1,750,000</u>	<u>2,071,300</u>
3D Systems, Inc. (e)(g)	26.5337 units.	7/10/02	3%	719,097	500,000
3D Systems, Inc. (e)(g)	26.5337 units.				

OH. Natural gas transportation.

(s)

rsetgas.com

**Control/Non-Affiliate  
s:**

LLC (Software) (e)	Membership Interest.	-	-	310,357	
(Manufacturing) (e)	Common Stock.	-	-	100,500	

**on-Control/Non-Affiliate  
s**

\$16,358,555 \$15,889,347

**Investments 46.5% of net assets**

LLC (Grainful) (e)(g)	1,119,024 Series A-2 Preferred Membership Units.	10/20/14	9%		
Frozen entrées and packaged shes made from 100% whole cut oats under Grainful brand sumer Product)	1,032,918 Series B Preferred Membership Units.			\$359,000	\$359,000
	<b>Total BeetNPath</b>			<u>261,277</u>	<u>291,000</u>
				<u>620,277</u>	<u>650,000</u>

ful.com

**kiff LLC (g)**6.0825% Class A common membership  
interest.

1/30/04 7%

GA. Manufacturer of fresh water,  
g and pleasure boats.

15,000 1,100,000

ring)

naskiff.com

**Social, Inc. (e)(g)**

312,500 Series seed plus preferred shares.

1/4/16 6%

7. Social media publishing tool  
A and professional firms.

200,000 200,000

viewsocial.com

**Products Group, LLC (e)(g)**\$500,000 senior term notes at 10% due July  
31, 2017.

4/19/12 7%

7. Sells First Crush automated  
that crushes and grinds medical  
sing homes and medical  
(Health Care)

661,563 250,000

\$280,000 junior term notes at 10% due  
July 31, 2017.

Warrant for 41,619 capital securities. 316,469



aveproducts.com

**Total First Wave**

22,000

1,000,032

250,000

Table of Contents

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**

**September 30, 2017 (Continued)**

**(Unaudited)**

(a)	(b)	(c)	(d)(f)		(g)	
Company, Geographic Location, Business Description, (Industry) and Website	Date	Equity	Cost	Fair Value	Percentage of Assets	
<b>Genicon, Inc.</b>	(g) 1,586,902 Series B preferred shares.	4/10/15	6%	1,000,000	1,000,000	1
10000 Park, FL. Designs, produces and distributes patented surgical instrumentation. (Health Care)	(g) \$2,000,000 promissory note at 8% due May 1, 2020.			1,929,144	1,929,144	
geniconendo.com	(g) Warrant for 250,000 common shares.			80,000	80,000	
	(n) \$1,000,000 promissory note at 8% due May 1, 2020.			964,444	964,444	
	(n) Warrant for 125,000 common shares.					
	<b>Total Genicon</b>			<u>40,000</u>	<u>40,000</u>	
				<u>4,013,588</u>	<u>4,013,588</u>	
<b>GiveGab, Inc. (e)(g)</b>	5,084,329 Series Seed preferred shares.	3/13/13	7%	616,221	424,314	1
10000, NY. Online fundraising, day of supporter engagement software for nonprofit organizations. (Software)						
givegab.com						
<b>C Natural Gas Systems (e)</b>	16.930% Class A membership interest. 8% cumulative dividend.	8/31/99	17%	400,000	100,000	0
10000, NY. Manufactures and distributes products that allow natural gas to be used as						

Alternative fuel to gases. (Manufacturing)

gas-tec.com

<b>Intrinsic Materials, Inc. (e)(g)</b>	4,161,747 Series A preferred shares.	9/19/13	12%	1,125,673	780,000	2
-----------------------------------------	--------------------------------------	---------	-----	-----------	---------	---

Yonkers, NY. Produces printable electronics utilizing a unique process of material based ink in a high temperature environment. (Manufacturing)

intrinsicmaterials.com

<b>Software, Inc. (g)</b>	973,533 Series A-1 convertible preferred shares.	11/20/12	7%			1
---------------------------	--------------------------------------------------	----------	----	--	--	---

York, NY. End user experience measurement and performance (EMP) solutions utilizing enterprise applications. (Software)

knoa.com

	1,876,922 Series B preferred shares.			750,000	-	
	\$48,466 convertible promissory note at 8% due May 9, 2018.			479,155	449,455	

**Total Knoa**

48,466      48,466

1,277,621      497,921

<b>KnowledgeVision Systems, Inc. (e)(g)</b>	200,000 Series A-1 preferred shares.	11/13/13	7%	250,000	-	1
---------------------------------------------	--------------------------------------	----------	----	---------	---	---

Waltham, MA. Online presentation and design software. (Software)

knowledgevision.com

	214,285 Series A-2 preferred shares.			300,000	300,000	
	129,033 Series A-3 preferred shares.			165,001	165,001	
	Warrant for 46,743 Series A-3 shares.			35,000	35,000	
	\$50,000 subordinated promissory note at 8% payable on demand of majority of noteholders after August 31, 2017.			<u>50,000</u>	<u>50,000</u>	

**Total KnowledgeVision**

800,001      550,001

<b>Meriz, Inc. (e)(g)</b>	1,554,565 Series Seed preferred shares.	1/9/08	14%	742,850	351,477	1
---------------------------	-----------------------------------------	--------	-----	---------	---------	---

Yonkers, NY. Micro-electronic mechanical systems (MEMS) developer of carbon fiber MEMS mirror modules for gesture recognition and 3D scanning. (Electronics Manufacturer)

meriz.com

Edgar Filing: RAND CAPITAL CORP - Form 10-Q

<b>Microcision LLC (g)(m)</b>	\$1,500,000 subordinated promissory note at 12% (1% PIK) due December 31, 2024.	9/24/09	15%		
auken Township, NJ. Manufacturer of precision machined medical implants, components and assemblies. (Manufacturing)	15% Class A common membership interest.			1,909,367	1,909,367
microcision.com				-	-
	<b>Total Microcision</b>			<u>1,909,367</u>	<u>1,909,367</u>
<b>Monarch Machine Tool, Inc. (g)</b>	22.84 common shares.	9/24/03	15%	22,841	22,841
nd, NY. Manufactures and services of vertical/horizontal machining centers. (Manufacturing)					
monarchmt.com					

Table of Contents

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**

**September 30, 2017 (Continued)**

**(Unaudited)**

(a)	(b)	(c)	(d)(f)	Percent		
Company, Geographic Location, Business	Date	Equity	Fair Value	of Net Assets		
Description, (Industry) and Website	Type of Investment	Acquired	Cost	Value		
<b>OnCore Golf Technology, Inc. (e)(g)</b>	150,000 Series AA preferred shares.	12/31/14	7%	375,000	-	0.9%
Buffalo, NY. Maker of patented golf balls. (Consumer Product) www.oncoregolf.com	\$300,000 subordinated convertible promissory notes at 6% due January 24, 2018.			<u>300,000</u>	<u>300,000</u>	
				<u>675,000</u>	<u>300,000</u>	
	<b>Total OnCore</b>					
<b>SciAps, Inc. (e)(g)</b>	187,500 Series A convertible preferred shares.	7/12/13	9%			6.4%
Woburn, MA. Instrumentation company producing portable analytical devices using XRF, LIBS and RAMAN spectroscopy to identify compounds, minerals, and elements. (Manufacturing) www.sciaps.com	274,299 Series A-1 convertible preferred shares.			1,500,000	700,000	
	117,371 Series B convertible preferred shares.			504,710	504,710	
	113,636 Series C preferred shares.			250,000	250,000	
	369,698 Series C-1 preferred shares.			<u>175,000</u>	<u>175,000</u>	
				<u>399,274</u>	<u>399,274</u>	
	<b>Total SciAps</b>			<u>2,828,984</u>	<u>2,028,984</u>	

Edgar Filing: RAND CAPITAL CORP - Form 10-Q

<b>SOMS Technologies, LLC (g)</b>	5,959,490 Series B membership interests.	12/2/08	9%				1.7%
Valhalla, NY. Produces and markets the microGreen Extended Performance Oil Filter. (Consumer Products)				472,632	528,348		
www.microgreenfilter.com							
<b>Teleservices Solutions Holdings, LLC (e)(g)(m)</b>	250,000 Class B preferred units.	5/30/14	6%	250,000	-		0.0%
Montvale, NJ. Customer contact center specializing in customer acquisition and retention for selected industries. (Contact Center)	1,000,000 Class C preferred units.			1,190,680	-		
	80,000 Class D preferred units.			<u>91,200</u>	-		
www.ipacesetters.com	104,198 Class E preferred units.			<u>104,198</u>	=		
	PIK dividend for Series C and D at 12% and 14%, respectively.						
	<b>Total Teleservices</b>						
<b>Tilson Technology Management, Inc.(g)</b>	120,000 Series B preferred shares.	1/20/15	8%	600,000	600,000		3.2%
Portland, ME. Cellular, fiber optic and wireless information systems, construction, and management. (Professional Services)	21,391 Series C convertible preferred shares.			200,000	200,000		
www.tilsonotech.com	\$200,000 subordinated promissory note at 8% due September 28, 2021.			<u>200,000</u>	<u>200,000</u>		
				<u>1,000,000</u>	<u>1,000,000</u>		
	<b>Total Tilson</b>						
<b>Subtotal Affiliate Investments</b>				\$19,356,165	\$14,706,841		
<b>Control Investments 0.3% of net assets (l)</b>							
<b>Advantage 24/7 LLC (e)(g)</b>	53% Membership interest.	12/30/10	53%	\$99,500	\$99,500		0.3%

Williamsville, NY. Marketing program for wine and spirits dealers. (Marketing Company)

www.advantage24-7.com

<b>Subtotal Control Investments</b>	\$99,500	\$99,500
<b>TOTAL INVESTMENTS 96.9%</b>	\$35,814,220	\$30,695,688
<b>OTHER ASSETS IN EXCESS OF LIABILITIES 3.1%</b>		996,788
<b>NET ASSETS 100%</b>		\$31,692,476

**Table of Contents**

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**

**September 30, 2017 (Continued)**

**(Unaudited)**

**Notes to the Consolidated Schedule of Portfolio Investments**

(a) At September 30, 2017, restricted securities represented 100% of the fair value of the investment portfolio. Restricted securities are subject to one or more restrictions on resale and are not freely marketable.

(b) The Date Acquired column indicates the year in which the Corporation first acquired an investment in the company or a predecessor company.

(c) Each equity percentage estimates the Corporation's ownership interest in the applicable portfolio investment. The estimated ownership is calculated based on the percent of outstanding voting securities held by the Corporation or the potential percentage of voting securities held by the Corporation upon exercise of warrants or conversion of debentures, or other available data. If applicable, the symbol <1% indicates that the Corporation holds an equity interest of less than one percent.

(d) The Corporation's investments are carried at fair value in accordance with Accounting Standards Codification (ASC) 820 Fair Value Measurements and Disclosures, which defines fair value and establishes guidelines for measuring fair value. At September 30, 2017, ASC 820 designates 98% of the Corporation's investments as Level 3 assets. Under the valuation policy of the Corporation, unrestricted publicly held securities are valued at the average closing bid price for these securities for the last three trading days of the reporting period. Restricted securities are subject to restrictions on resale, and, other than with respect to the shares of common stock of Athenex, Inc. owned by the Corporation, are valued at fair value as determined by the management of the Corporation and submitted to the Board of Directors for approval. The Corporation valued the shares of common stock of Athenex using the average closing bid price for the last three trading days of the reporting period, and applied a discount to that value to address the sale restriction. Fair value is considered to be the amount that the Corporation may reasonably expect to receive for portfolio securities when sold on the valuation date. Valuations as of any particular date, however, are not necessarily indicative of amounts which may ultimately be realized as a result of future sales or other dispositions of securities and these favorable or unfavorable differences could be material. Among the factors considered in determining the fair value of restricted securities are the financial condition and operating results, projected operations, and other analytical data relating to the investment. Also considered are the market prices for unrestricted securities of the same class (if applicable) and other matters which may have an impact on the value of the portfolio company (see Note 3 Investments to the Consolidated Financial Statements).

(e) These investments are non-income producing. All other investments are income producing. Non-income producing investments have not generated cash payments of interest or dividends including LLC tax-related distributions within the last twelve months, or are not expected to do so going forward.

(f) As of September 30, 2017 the total cost of investment securities was approximately \$35.8 million. Net unrealized depreciation was approximately (\$5.1) million, which was comprised of \$2.3 million of unrealized appreciation of



investment securities and (\$7.4) million of unrealized depreciation of investment securities. At September 30, 2017, the aggregate gross unrealized gain for federal income tax purposes was \$2.6 million and the aggregate gross unrealized loss for federal income tax purposes was (\$6.9) million. The net unrealized loss for federal income tax purposes was (\$4.3) million based on a tax cost of \$35.0 million.

(g) Rand Capital SBIC, Inc. investment.

(h) Reduction in cost and value from previously reported balances reflects current principal repayment. There were no principal repayments during the nine months ended September 30, 2017.

(i) Represents interest due (amounts over \$50,000) from investments included as interest receivable on the Corporation's Statement of Financial Position.

(j) Non-Control/Non-Affiliate Investments are investments that are neither Control Investments nor Affiliate Investments.

(k) Affiliate Investments are defined by the Investment Company Act of 1940, as amended ( 1940 Act ), as those Non-Control investments in companies in which between 5% and 25% of the voting securities are owned by the Corporation.

(l) Control Investments are defined by the 1940 Act as investments in companies in which more than 25% of the voting securities are owned by the Corporation or where greater than 50% of the board representation is maintained.

(m) Payment in kind (PIK) represents earned interest that is added to the cost basis of the investment.

(n) Rand Capital SBIC II, L.P. investment.

(o) Publicly-traded company.

(p) At September 30, 2017, shares of common stock of Athenex owned by the Corporation were categorized as a Level 2 investment because these shares were subject to restriction on sale as of the end of the period. The Corporation valued the shares of common stock of Athenex that it owns using the average closing bid price for the last three trading days of the reporting period, and applied a discount to that value to address the sale restriction. See Athenex's publicly disclosed financial reports at [sec.gov](http://sec.gov) for additional information on Athenex's industry, financial results and business operations.

Table of Contents

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**

September 30, 2017 (Continued)

(Unaudited)

**Investments in and Advances to Affiliates**

Company	Type of Investment	December 31,		Gross Additions (1)	Gross Reductions (2)	September 30 2017 Fair Value	Realized Gains (Losses)	Amount of	
		2016 Fair Value	Gross Additions (1)					Net	Interest/ Dividend/ Fee Income (3)
<b>Control Investments:</b>									
<b>Advantage 24/7 LLC</b>	53% Membership interest.	\$99,500	\$-	\$-	\$99,500	\$-	\$-		
<b>Total Control Investments</b>		<b>\$99,500</b>	<b>\$0</b>	<b>\$0</b>	<b>\$99,500</b>	<b>-</b>	<b>\$0</b>		
<b>Affiliate Investments:</b>									
<b>BeetNPath, LLC</b>	1,119,024 Series A-2 Preferred Membership Units.	\$359,000	\$ -	\$-	\$359,000	-	\$ -		
		-	291,000	-	291,000	-	-		
	1,032,918 Series B Preferred Membership Units	<u>150,000</u>	<u>-</u>	<u>(150,000)</u>	<u>0</u>	-	<u>4,800</u>		
		<u>509,000</u>	<u>291,000</u>	<u>(150,000)</u>	<u>650,000</u>	-	<u>4,800</u>		
	\$150,000 convertible promissory note at 8%.								
<b>Total BeetNPath</b>									
<b>Carolina Skiff LLC</b>	6.0825% Class A common membership interest.	1,100,000	-	-	1,100,000	-	141,372		

Edgar Filing: RAND CAPITAL CORP - Form 10-Q

<b>ClearView Social, Inc.</b>	312,500 Series seed plus preferred shares.	200,000	-	-	200,000	-	-
<b>First Wave Products Group, LLC</b>	\$500,000 senior term notes at 10%.						
	\$280,000 junior term notes at 10%.	250,000	-	-	250,000	-	-
	Warrant for 41,619 capital securities.	-	-	-	-	-	-
	<b>Total First Wave</b>	<u>250,000</u>	=	=	<u>250,000</u>	-	=
<b>Genicon, Inc.</b>	1,586,902 Series B preferred shares.						
	\$1,100,000 senior term loans at 12%.						
	\$600,000 term loan at 14%.						
	\$2,000,000 promissory note at 8%	1,000,000	-	-	1,000,000	-	-
		1,100,000	-	(1,100,000)	-	-	50,234
	\$1,000,000 promissory note at 8%	600,000	-	(600,000)	-	-	32,200
		-	2,009,144	(80,000)	1,929,144	-	81,088
	Warrant for 250,000 common shares	-	1,004,444	(40,000)	964,444	-	35,833
		-	80,000	-	80,000	-	-
	Warrant for 125,000 common shares	-	40,000	-	40,000	-	-
	<b>Total Genicon</b>	<u>2,700,000</u>	<u>3,133,588</u>	<u>(1,820,000)</u>	<u>4,013,588</u>	-	<u>199,355</u>
<b>GiveGab, Inc.</b>	5,084,329 Series Seed preferred shares.	424,314	-	-	424,314	-	-
<b>G-TEC Natural Gas Systems</b>	16.930% Class A membership interest. 8% cumulative dividend.	100,000	-	-	100,000	-	-
<b>Intrinsiq Materials, Inc.</b>	4,161,747 Series A preferred shares.	780,000	-	-	780,000	-	-
<b>Knoa Software, Inc.</b>	973,533 Series A-1 convertible preferred shares. 1,876,922	-	-	-	-	-	-
		449,455	-	-	449,455	-	-

Edgar Filing: RAND CAPITAL CORP - Form 10-Q

	Series B preferred shares.	<u>48,466</u>	=	-	<u>48,466</u>	-	<u>2,908</u>
		<u>497,921</u>	=	-	<u>497,921</u>	-	<u>2,908</u>
	\$48,466 convertible promissory note at 8%.						
	<b>Total Knoa</b>						
<b>KnowledgeVision Systems, Inc.</b>	200,000 Series A-1 preferred shares.						
	214,285 Series A-2 preferred shares.						
	129,033 Series A-3 preferred shares.						
		-	-	-	-	-	-
	\$50,000 subordinated promissory note at 8%	300,000	-	-	300,000	-	-
		165,001	-	-	165,001	-	-
	Warrant for 46,743 Series A-3 shares.	-	50,000	-	50,000	-	2,751
		<u>35,000</u>	<u>-</u>	=	<u>35,000</u>	-	<u>-</u>
	<b>Total Knowledge Vision</b>	<u>500,001</u>	<u>50,000</u>	=	<u>550,001</u>	-	<u>2,751</u>
<b>Mezmeriz, Inc.</b>	1,554,565 Series seed preferred shares.	351,477	-	-	351,477	-	-
<b>Microcision LLC</b>	\$1,500,000 subordinated promissory note at 11%.	1,891,964	17,403	-	1,909,367	-	170,959
<b>New Monarch Machine Tool, Inc.</b>	22.84 common shares.	22,841	-	-	22,841	-	28,409
<b>OnCore Golf Technology, Inc.</b>	150,000 Series AA preferred shares.						
	\$300,000 subordinated convertible promissory notes at 6%.	<u>300,000</u>	=	=	<u>300,000</u>	-	<u>21,650</u>
	<b>Total OnCore</b>	<u>300,000</u>	=	=	<u>300,000</u>	-	<u>21,650</u>



Table of Contents

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**

**September 30, 2017 (Continued)**

**(Unaudited)**

**Investments in and Advances to Affiliates**

Company	Type of Investment	December 31, 2016 Fair Value	Gross Additions (1)	Gross Reductions (2)	September 30, 2017 Fair Value (Loss)	Net Amount of	
						Realized Gains	Interest/ Dividend/ Fee Income (3)
SciAps, Inc.	187,500 Series A convertible preferred shares.	1,000,000	-	(300,000)	700,000	-	-
		504,710	-	-	504,710	-	-
	274,299 Series A-1 convertible preferred shares.	250,000	-	-	250,000	-	-
		-	175,000	-	175,000	-	-
	117,371 Series B convertible preferred shares.	-	399,274	-	399,274	-	-
		200,000	-	(200,000)	-	-	4,731
	113,636 Series C preferred shares.						
		<u>100,000</u>	<u>-</u>	<u>(100,000)</u>	<u>-</u>	<u>-</u>	<u>2,376</u>
	369,698 Series C-1 preferred shares.	<u>2,054,710</u>	<u>574,274</u>	<u>(600,000)</u>	<u>2,028,984</u>	<u>-</u>	<u>7,107</u>
	\$200,000 subordinated promissory note at 10%.						
\$100,000 secured subordinated convertible note at 10%.							
<b>Total SciAps</b>							

**SOMS**

<b>Technologies, LLC</b>	5,959,490 Series B membership interests.	528,348	-	-	528,348	-	6,024
<b>Teleservices Solutions Holdings, LLC</b>	250,000 Class B shares.						
	1,000,000 Class C shares.	-	-	-	-	-	-
	80,000 Class D preferred units.	200,000	-	(200,000)	-	-	-
		91,200	-	(91,200)	-	-	-
	104,198 Class E preferred units.	<u>104,198</u>	=	<u>(104,198)</u>	=	=	=
	<b>Total Teleservices</b>	<u>395,398</u>	=	<u>(395,398)</u>	=	=	=
<b>Tilson Technology Management, Inc.</b>	120,000 Series B preferred shares.						
	21,391 Series C convertible preferred shares.	600,000	-	-	600,000	-	15,000
		200,000	-	-	200,000	-	-
	\$200,000 subordinated promissory note at 8%.	<u>200,000</u>	=	=	<u>200,000</u>	=	<u>11,967</u>
	<b>Total Tilson</b>	<u>1,000,000</u>	=	=	<u>1,000,000</u>	=	<u>26,967</u>

<b>Total Affiliate Investments</b>	<b>\$13,605,974</b>	<b>\$4,066,265</b>	<b>(\$2,965,398)</b>	<b>\$14,706,841</b>	<b>-</b>	<b>\$612,302</b>
------------------------------------	---------------------	--------------------	----------------------	---------------------	----------	------------------

<b>Total Control and Affiliate Investments</b>	<b>\$13,705,474</b>	<b>\$4,066,265</b>	<b>(\$2,965,398)</b>	<b>\$14,806,341</b>	<b>-</b>	<b>\$612,302</b>
------------------------------------------------	---------------------	--------------------	----------------------	---------------------	----------	------------------

This schedule should be read in conjunction with the Corporation's Consolidated Financial Statements, including the Consolidated Schedule of Portfolio Investments and Notes to the Consolidated Financial Statements.

(1) Gross additions include increases in the cost basis of investments resulting from new portfolio investments, follow on investments, capitalized interest and the accretion of discounts. Gross additions also include net increases in unrealized appreciation or net decreases in unrealized depreciation, and the movement of an existing portfolio company into this category and out of another category.

(2) Gross reductions include decreases in the cost basis of investments resulting from principal repayments, sales, note conversions, net increases in unrealized depreciation, net decreases in unrealized appreciation, the exchange of existing securities for new securities and the movement of an existing portfolio company out of this category and into another category.

(3) Represents the total amount of interest, fees or dividends credited to income for the portion of the period an

investment was included in Control or Affiliate categories, respectively.



Table of Contents

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**

**September 30, 2017 (Continued)**

**(Unaudited)**

<b><u>Industry Classification</u></b>	<b><u>Percentage of Total Investments (at fair value) as of September 30, 2017</u></b>
Healthcare	42.0%
Software	23.5%
Manufacturing	20.3%
Consumer Product	4.8%
Professional Services	3.3%
Contact Center	3.1%
Oil and Gas	1.6%
Electronics	1.1%
Marketing	0.3%
<b>Total Investments</b>	<b>100%</b>

Table of Contents

**RAND CAPITAL CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**

**December 31, 2016**

(a)	(b)	(c)	(d)(f)	(d)(f)	(d)(f)	(d)(f)
Company, Geographic Location, Business	Date	Equity	Cost	Fair Value	Fair Value	Percent of Net Assets
<u>Description, (Industry) and Website</u>	<u>Type of Investment</u>	<u>Acquired</u>	<u>Equity</u>	<u>Cost</u>	<u>Value</u>	<u>Assets</u>
<b>Non-Control/Non-Affiliate Investments</b>						
<b>42.3% of net assets: (j)</b>						
<b>ACV Auctions, Inc. (e)(g)</b>	118,116 Series A preferred shares.	8/12/16	1%	\$163,000	\$163,000	0.5%
Buffalo, NY. Live mobile auctions for new and used car dealers. (Software)						
www.acvauctions.com						
<b>Athenex, Inc. (e)(g)</b>	46,296 common shares.	9/8/14	<1%	143,285	416,664	1.3%
<b>(Formerly Kinex Pharmaceuticals, Inc.)</b>						
Buffalo, NY. Specialty pharmaceutical and drug development. (Health Care)						
www.athenex.com						
<b>City Dining Cards, Inc. (Loupe) (e)(g)</b>	9,525.25 Series B preferred shares.	9/1/15	4%	500,000	500,000	1.5%
Buffalo, NY. Customer loyalty technology company that helps businesses attract and retain customers. (Software)						
www.loupeapp.io						
<b>eHealth Global Technologies, Inc. (g)</b>	\$1,500,000 term note at 9% due September 2, 2019.	6/28/16	0%	1,500,000	1,500,000	4.6%
Henrietta, NY. eHealth Connect® improves health care delivery through intelligently aggregated clinical record and images for patient referrals.						
(Health Care)						

www.ehealthtechnologies.com							
<b>Empire Genomics, LLC (e)(g)</b>	\$900,000 senior secured convertible term notes at 10% due April 1, 2017.	6/13/14	0%				3.5%
Buffalo, NY. Molecular diagnostics company that offers a comprehensive menu of assay services for diagnosing and guiding patient therapeutic treatments. (Health Care)	\$250,000 promissory note at 12% due December 31, 2019.			900,000	900,000		
www.empiregenomics.com	(i) Interest receivable \$200,339.			<u>250,000</u>	<u>250,000</u>		
	<b>Total Empire</b>			<u>1,150,000</u>	<u>1,150,000</u>		
<b>GoNoodle, Inc. (g)</b>	\$1,000,000 secured note at 12% due January 31, 2020, (1% Payment in Kind (PIK)).	2/6/15	<1%				3.1%
(Formerly HealthTeacher, Inc.)	Warrant for 47,324 Series C Preferred shares.			1,019,101	1,019,101		
Nashville, TN. Student engagement education software providing core aligned physical activity breaks. (Software)				<u>25</u>	<u>25</u>		
www.gonoodle.com	<b>Total GoNoodle</b>			<u>1,019,126</u>	<u>1,019,126</u>		
<b>Mercantile Adjustment Bureau, LLC (g)</b>	\$1,099,039 subordinated secured note at 13% (3% for the calendar year 2016) due October 30, 2017.	10/22/12	4%	1,090,690	1,090,690		3.3%
Williamsville, NY. Full service accounts receivable management and collections company. (Contact Center)	(e) \$150,000 subordinated debenture at 8% due June 30, 2018.			150,000	-		
www.mercantilesolutions.com	Warrant for 3.29% membership interests. Option for 1.5% membership interests.			<u>97,625</u>	<u>-</u>		
	<b>Total Mercantile</b>			<u>1,338,315</u>	<u>1,090,690</u>		
<b>Outmatch Holdings, LLC (e)(g)</b>	2,446,199 Class P1 Units.	11/18/10	4%	2,140,007	2,140,007		6.6%
(Chequed Holdings, LLC)	109,788 Class C1 Units.			<u>5,489</u>	<u>5,489</u>		
Dallas, TX. Web based predictive employee selection and reference checking. (Software)	<b>Total Outmatch</b>			<u>2,145,496</u>	<u>2,145,496</u>		
www.outmatch.com							
<b>PostProcess Technologies LLC (e)(g)</b>	\$300,000 convertible promissory note at	7/25/16	0%	300,000	300,000		0.9%

Buffalo, NY. Provides innovative solutions for the post-processing of additive manufactured 3D parts. (Manufacturing) 5% due July 28, 2018.

[www.postprocess.com](http://www.postprocess.com)

Table of Contents

**RAND CAPITAL CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**

**December 31, 2016 (Continued)**

(a)	(b)	(c)	(d)(f)	(e)	(g)
Company, Geographic Location, Business	Date	Equity	Fair Value	Cost	Percent of Net Assets
<u>Description, (Industry) and Website</u>	<u>Type of Investment</u>	<u>Acquired</u>	<u>Value</u>	<u>Cost</u>	<u>Assets</u>
<b>Rheonix, Inc. (e)</b>	9,676 common shares.	10/29/09	11,000	-	9.0%
Ithaca, NY. Developer of fully automated microfluidic based molecular assay and diagnostic testing devices. (Health Care)	(g) 1,839,422 Series A preferred shares.		2,165,999	2,099,999	
www.rheonix.com	(g) 50,593 common shares.		59,000	-	
	(g) 589,420 Series B preferred shares.		<u>702,732</u>	<u>702,732</u>	
	<b>Total Rheonix</b>		<u>2,938,731</u>	<u>2,802,731</u>	
<b>SocialFlow, Inc. (e)(g)</b>	1,049,538 Series B preferred shares.	4/5/13	731,431	500,000	6.3%
New York, NY. Provides instant analysis of social networks using a proprietary, predictive analytic algorithm to optimize advertising and publishing.	1,204,819 Series B-1 preferred shares.		839,648	750,000	
(Software)	717,772 Series C preferred shares.		<u>500,221</u>	<u>500,000</u>	
www.socialflow.com	<b>Total Social Flow</b>		<u>2,071,300</u>	<u>1,750,000</u>	
<b>Somerset Gas Transmission Company, LLC (e)</b>	26.5337 units.	7/10/02	500,000	719,097	1.5%
Columbus, OH. Natural gas transportation.					
(Oil and Gas)					
www.somersetgas.com					
<b>Other Non-Control/Non-Affiliate Investments:</b>					
<b>DataView, LLC (Software) (e)</b>	Membership Interest.	-	-	310,357	0.0%
<b>USTec/Wi3 (Manufacturing) (e)</b>	Common Stock.	-	-	100,500	0.0%

<b>Subtotal Non-Control/Non-Affiliate Investments</b>				\$13,941,907	\$13,795,007	
<b>Affiliate Investments 41.7% of net assets (k)</b>						
<b>BeetNPath, LLC (Grainful) (e)(g)</b>	1,119,024 Series A-2 Preferred Membership Units. \$150,000 convertible promissory note at 8% due September 1, 2017.	10/20/14	9%			1.6%
Ithaca, NY. Frozen entrées and packaged dry side dishes made from 100% whole grain steel cut oats under Grainful brand name. (Consumer Product)				\$359,000	\$359,000	
www.grainful.com				<u>150,000</u>	<u>150,000</u>	
	<b>Total BeetNPath</b>			<u>509,000</u>	<u>509,000</u>	
<b>Carolina Skiff LLC (g)</b>	6.0825% Class A common membership interest.	1/30/04	7%	15,000	1,100,000	3.4%
Waycross, GA. Manufacturer of fresh water, ocean fishing and pleasure boats. (Manufacturing)						
www.carolinaskiff.com						
<b>ClearView Social, Inc. (e)(g)</b>	312,500 Series seed plus preferred shares.	1/4/16	6%			0.6%
Buffalo, NY. Social media publishing tool for law, CPA and professional firms. (Software)						
www.clearviewsocial.com				200,000	200,000	
<b>First Wave Products Group, LLC (e)(g)</b>	\$500,000 senior term notes at 10% due January 31, 2017. \$280,000 junior term notes at 10% due January 31, 2017. Warrant for 41,619 capital securities.	4/19/12	7%			0.8%
Batavia, NY. Sells First Crush automated pill crusher that crushes and grinds medical pills for nursing homes and medical institutions. (Health Care)				661,563	250,000	
www.firstwaveproducts.com				316,469	-	
				<u>22,000</u>	<u>-</u>	
	<b>Total First Wave</b>			<u>1,000,032</u>	<u>250,000</u>	
<b>Genicon, Inc. (g)</b>	1,586,902 Series B preferred shares. \$1,100,000 promissory note at 12% due April 1, 2019.	4/10/15	6%	1,000,000	1,000,000	8.3%
Winter Park, FL. Designs, produces and distributes patented surgical instrumentation. (Health Care)						
www.geniconendo.com				1,100,000	1,100,000	

	\$600,000 promissory note at 14% due March 31, 2018.			<u>600,000</u>	<u>600,000</u>	
	<b>Total Genicon</b>			<u>2,700,000</u>	<u>2,700,000</u>	
<b>GiveGab, Inc. (e)(g)</b>	5,084,329 Series Seed preferred shares.	3/13/13	7%	616,221	424,314	1.3%
Ithaca, NY. Online fundraising, day of giving supporter engagement software for non-profit organizations. (Software)						
www.givegab.com						

Table of Contents

**RAND CAPITAL CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**

**December 31, 2016 (Continued)**

(a)	(b)	(c)	(d)(f)			
Company, Geographic Location, Business	Date	Equity	Cost	Fair Value	Percent of Net Assets	
<u>Description, (Industry) and Website</u>	<u>Type of Investment</u>	<u>Acquired</u>	<u>Equity</u>	<u>Cost</u>	<u>Value</u>	<u>Assets</u>
<b>G-TEC Natural Gas Systems (e)</b> Buffalo, NY. Manufactures and distributes systems that allow natural gas to be used as an alternative fuel to gases. (Manufacturing)  www.gas-tec.com	16.930% Class A membership interest. 8% cumulative dividend.	8/31/99	18%	400,000	100,000	0.3%
<b>Intrinsiq Materials, Inc. (e)(g)</b> Rochester, NY. Produces printable electronics utilizing a unique process of nanomaterial based ink in a room-temperature environment. (Manufacturing)  www.intrinsiqmaterials.com	4,161,747 Series A preferred shares.	9/19/13	12%	1,125,673	780,000	2.4%
<b>Knoa Software, Inc. (e)(g)</b> New York, NY. End user experience management and performance (EMP) solutions utilizing enterprise applications. (Software)  www.knoa.com	973,533 Series A-1 convertible preferred shares. 1,876,922 Series B preferred shares. \$48,466 convertible promissory note at 8% due May 9, 2018.	11/20/12	7%	750,000 479,155 <u>48,466</u>	- 449,455 <u>48,466</u>	1.5%
	<b>Total Knoa</b>			<u>1,277,621</u>	<u>497,921</u>	
<b>KnowledgeVision Systems, Inc. (e)(g)</b> Lincoln, MA. Online presentation and training software. (Software)  www.knowledgevision.com	200,000 Series A-1 preferred shares. 214,285 Series A-2 preferred shares. 129,033 Series A-3 preferred shares.	11/13/13	7%	250,000 300,000 165,001	- 300,000 165,001	1.5%



	Warrant for 46,743 Series A-3 shares.				<u>35,000</u>	<u>35,000</u>	
	<b>Total KnowledgeVision</b>				<u>750,001</u>	<u>500,001</u>	
<b>Mezmeriz, Inc. (e)(g)</b>	1,554,565 Series Seed preferred shares.	1/9/08	14%	742,850	351,477	1.1%	
Ithaca, NY. Micro-electronic mechanical systems (MEMS) developer of carbon fiber MEMS mirror modules for gesture recognition and 3D scanning. (Electronics Developer)							
www.mezmeriz.com							
<b>Microcision LLC (g)</b>	\$1,500,000 subordinated promissory note at 12% (1% PIK) due December 31, 2024. 15% Class A common membership interest.	9/24/09	15%				5.8%
Pennsauken Township, NJ. Manufacturer of precision machined medical implants, components and assemblies. (Manufacturing)							
www.microcision.com							
	<b>Total Microcision</b>				<u>1,891,964</u>	<u>1,891,964</u>	
<b>New Monarch Machine Tool, Inc. (g)</b>	22.84 common shares.	9/24/03	15%	22,841	22,841	0.1%	
Cortland, NY. Manufactures and services vertical/horizontal machining centers. (Manufacturing)							
www.monarchmt.com							
<b>OnCore Golf Technology, Inc. (e)(g)</b>	150,000 Series AA preferred shares. \$300,000 subordinated convertible promissory notes at 6% due January 24, 2017.	12/31/14	7%	375,000	-	0.9%	
Buffalo, NY. Maker of patented hollow-metal core golf balls. (Consumer Product)							
www.oncoregolf.com							
	<b>Total OnCore</b>				<u>300,000</u>	<u>300,000</u>	
	<b>Total OnCore</b>				<u>675,000</u>	<u>300,000</u>	
<b>SciAps, Inc. (e)(g)</b>	187,500 Series A convertible preferred shares. 274,299 Series A-1 convertible preferred shares. 117,371 Series B convertible preferred	7/12/13	9%				6.3%
Woburn, MA. Instrumentation company producing portable analytical devices using XRF, LIBS and RAMAN spectroscopy to identify compounds, minerals, and elements. (Manufacturing)							
				1,500,000	1,000,000		
				504,710	504,710		
				250,000	250,000		

www.sciaps.com

shares.		
\$200,000		
subordinated		
convertible note at		
10% due April 8,		
2017.	200,000	200,000
\$100,000 secured	<u>100,000</u>	<u>100,000</u>
subordinated		
convertible note at		
10% due December		
31, 2017.	<u>2,554,710</u>	<u>2,054,710</u>
<b>Total SciAps</b>		

Table of Contents

**RAND CAPITAL CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**

**December 31, 2016 (Continued)**

(a)	(b)	(c)	(d)(f)	(g)		
Company, Geographic Location, Business	Date	Equity	Cost	Fair Value		
<u>Description, (Industry) and Website</u>	<u>Type of Investment</u>	<u>Acquired</u>	<u>Equity</u>	<u>Cost</u>		
MicroGreen Technologies, LLC (g) Sloat Hall, NY. Produces and markets the MicroGreen Extended Performance Oil Filter. (Consumer Products) www.microgreenfilter.com	5,959,490 Series B membership interests.	12/2/08	9%	472,632	528,348	1.6
IPacesetters Solutions Holdings, LLC (e)(m) Montvale, NJ. Customer contact center specializing in customer acquisition and retention for selected industries. (Contact center) www.ipacesetters.com	250,000 Class B preferred units. 1,000,000 Class C preferred units. 80,000 Class D preferred units. 104,198 Class E preferred units. PIK dividend for Series C and D at 12% and 14%, respectively.	5/30/14	6%	250,000  1,190,680 91,200 <u>104,198</u>	-  200,000 91,200 <u>104,198</u>	1.2
<b>Total Teleservices</b>				<u>1,636,078</u>	<u>395,398</u>	
Tilson Technology Management, Inc.(g) Portland, ME. Cellular, fiber optic and wireless information systems, construction, and management. (Professional Services) www.tilsontech.com	120,000 Series B preferred shares. 21,391 Series C convertible preferred shares. \$200,000 subordinated promissory note at 8% due September 28, 2021.	1/20/15	8%	600,000  200,000  <u>200,000</u>	600,000  200,000  <u>200,000</u>	3.1
<b>Total Tilson</b>				<u>1,000,000</u>	<u>1,000,000</u>	

<b>Subtotal Affiliate Investments</b>				\$17,589,623	\$13,605,974	
<b>Control Investments 0.3% of net assets (I)</b>						
<b>Advantage 24/7 LLC (e)(g)</b>	53% Membership interest.	12/30/10	53%	\$99,500	\$99,500	0.3%
Williamsville, NY. Marketing program for wine and spirits dealers. (Marketing company)						
www.advantage24-7.com						
<b>Subtotal Control Investments</b>				\$99,500	\$99,500	
<b>TOTAL INVESTMENTS 84.3%</b>				\$31,631,030	\$27,500,481	
<b>OTHER ASSETS IN EXCESS OF LIABILITIES 15.7%</b>					5,128,882	
<b>NET ASSETS 100%</b>					\$32,629,363	

**Table of Contents**

**RAND CAPITAL CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**

**December 31, 2016 (Continued)**

**Notes to the Consolidated Schedule of Portfolio Investments**

(a) At December 31, 2016, restricted securities represented 100% of the fair value of the investment portfolio. Restricted securities are subject to one or more restrictions on resale and are not freely marketable.

(b) The Date Acquired column indicates the year in which the Corporation first acquired an investment in the company or a predecessor company.

(c) Each equity percentage estimates the Corporation's ownership interest in the applicable portfolio investment. The estimated ownership is calculated based on the percent of outstanding voting securities held by the Corporation or the potential percentage of voting securities held by the Corporation upon exercise of warrants or conversion of debentures, or other available data. If applicable, the symbol <1% indicates that the Corporation holds an equity interest of less than one percent.

(d) The Corporation's investments are carried at fair value in accordance with Accounting Standards Codification (ASC) 820 Fair Value Measurements and Disclosures, which defines fair value and establishes guidelines for measuring fair value. At December 31, 2016, ASC 820 designates 100% of the Corporation's investments as Level 3 assets. Under the valuation policy of the Corporation, unrestricted publicly held securities are valued at the average closing bid price for these securities for the last three trading days of the month. Restricted securities are subject to restrictions on resale, and are valued at fair value as determined by the management of the Corporation and submitted to the Board of Directors for approval. Fair value is considered to be the amount that the Corporation may reasonably expect to receive for portfolio securities when sold on the valuation date. Valuations as of any particular date, however, are not necessarily indicative of amounts which may ultimately be realized as a result of future sales or other dispositions of securities and these favorable or unfavorable differences could be material. Among the factors considered in determining the fair value of restricted securities are the financial condition and operating results, projected operations, and other analytical data relating to the investment. Also considered are the market prices for unrestricted securities of the same class (if applicable) and other matters which may have an impact on the value of the portfolio company (see Note 3 Investments to the Consolidated Financial Statements).

(e) These investments are non-income producing. All other investments are income producing. Non-income producing investments have not generated cash payments of interest or dividends including LLC tax-related distributions within the last twelve months, or are not expected to do so going forward.

(f) As of December 31, 2016 the total cost of investment securities was approximately \$31.6 million. Net unrealized depreciation was approximately (\$4.1) million, which was comprised of \$1.9 million of unrealized appreciation of investment securities and (\$6.0) million of unrealized depreciation of investment securities. At December 31, 2016, the aggregate gross unrealized gain for federal income tax purposes was \$2.2 million and the aggregate gross unrealized loss for federal income tax purposes was (\$5.4) million. The net unrealized loss for federal income tax purposes was (\$3.3) million based on a tax cost of \$30.8 million.

- (g) Rand Capital SBIC, Inc. investment.
- (h) Reduction in cost and value from previously reported balances reflects current principal repayment. There were no principal repayments during the three months ended December 31, 2016.
- (i) Represents interest due (amounts over \$50,000 net of reserves) from investment included as interest receivable on the Corporation's Statement of Financial Position.
- (j) Non-Control/Non-Affiliate Investments are investments that are neither Control Investments nor Affiliate Investments.
- (k) Affiliate Investments are defined by the Investment Company Act of 1940, as amended ( 1940 Act ), as those Non-Control investments in companies in which between 5% and 25% of the voting securities are owned by the Corporation.
- (l) Control Investments are defined by the 1940 Act as investments in companies in which more than 25% of the voting securities are owned by the Corporation or where greater than 50% of the board representation is maintained.
- (m) Payment in kind (PIK) represents earned interest that is added to the cost basis of the investment.

Table of Contents

**RAND CAPITAL CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**

**December 31, 2016 (Continued)**

**Investments in and Advances to Affiliates**

Company	Type of Investment	December 31, 2015 Fair Value	Gross Additions (1)	Gross Reductions (2)	December 31, 2016 Fair Value	Net Realized Gains (Losses)	Amount of Interest/ Dividend/ Fee Income (3)
<b>Control</b>							
<b>Investments:</b>							
<b>Advantage 24/7</b>	53% Membership interest.	\$99,500	\$ -	\$ -	\$99,500	\$ -	\$ -
<b>LC</b>							
<b>Gemcor II, LLC</b>	\$1,000,000 subordinated promissory note at 15%.	416,972	-	(416,972)	-	14,620,063	11,828
	31.25 membership units.	13,400,000	=	(13,400,000)	-	-	2,000
	Escrow receivable due from sale of business.	-	=	-	=	=	-
	<b>Total Gemcor</b>	<u>13,816,972</u>	-	<u>(13,816,972)</u>	-	-	<u>13,828</u>
	<b>Total Control Investments</b>	<b>\$13,916,472</b>	<b>\$0</b>	<b>(\$13,816,972)</b>	<b>\$99,500</b>	<b>14,620,063</b>	<b>\$ 13,828</b>
<b>Affiliate</b>							
<b>Investments:</b>							
<b>NetPath, LLC</b>	1,119,024 Series A-2 Preferred Membership Units.	\$359,000	\$ -	\$ -	\$359,000	\$ -	\$ -
	\$150,000 convertible promissory note at 8%.	-	<u>150,000</u>	=	<u>150,000</u>	-	<u>6,477</u>
		-	<u>150,000</u>	=	<u>509,000</u>	-	<u>6,477</u>

	<b>Total BeetNPath</b>	<u>359,000</u>					
<b>Carolina Skiff LLC</b>	6.0825% Class A common membership interest.	600,000	500,000	-	1,100,000	-	131,785
<b>ClearView Social, Inc.</b>	312,500 Series seed plus preferred shares.	-	200,000	-	200,000	-	-
<b>First Wave Products Group, LLC</b>	\$500,000 senior term notes at 10%. \$280,000 junior term notes at 10%. Warrant for 41,619 capital securities.	250,000	-	-	250,000	-	834
		-	-	-	-	-	-
		<u>-</u>	<u>=</u>	<u>=</u>	<u>-</u>	<u>=</u>	<u>-</u>
	<b>Total First Wave</b>	<u>250,000</u>	<u>=</u>	<u>=</u>	<u>250,000</u>	<u>=</u>	<u>834</u>
<b>Genicon, Inc.</b>	1,586,902 Series B preferred shares.	1,000,000	-	-	1,000,000	-	3,028
	\$1,100,000 senior term loans at 12%. \$600,000 term loan at 14%.	-	1,100,000	=	1,100,000	=	109,700
		<u>-</u>	<u>600,000</u>	<u>=</u>	<u>600,000</u>	<u>=</u>	<u>28,700</u>
	<b>Total Genicon</b>	<u>1,000,000</u>	<u>1,700,000</u>	<u>=</u>	<u>2,700,000</u>	<u>=</u>	<u>141,428</u>
<b>LiveGab, Inc.</b>	5,084,329 Series Seed preferred shares.	424,314	-	-	424,314	-	-
<b>TEC Natural Gas Systems</b>	17.845% Class A membership interest. 8% cumulative dividend.	100,000	-	-	100,000	-	-
<b>Intrinsiq Materials, Inc.</b>	4,161,747 Series A preferred shares. \$95,000 convertible promissory note at 8%.	-	780,000	-	780,000	-	-
		<u>95,000</u>	<u>-</u>	<u>(95,000)</u>	<u>-</u>	<u>-</u>	<u>6,689</u>
	<b>Total Intrinsiq</b>	<u>95,000</u>	<u>780,000</u>	<u>(95,000)</u>	<u>780,000</u>	<u>=</u>	<u>6,689</u>
<b>Knoa Software, Inc.</b>	973,533 Series A-1 convertible preferred shares. 1,876,922 Series B preferred shares. \$48,466 convertible promissory note at 8%.	381,503	-	(381,503)	-	-	-
		490,752	-	(41,297)	449,455	-	-
		<u>-</u>	<u>48,466</u>	<u>-</u>	<u>48,466</u>	<u>-</u>	<u>2,499</u>
	<b>Total Knoa</b>	<u>872,255</u>	<u>48,466</u>	<u>(422,800)</u>	<u>497,921</u>	<u>=</u>	<u>2,499</u>



<b>KnowledgeVision Systems, Inc.</b>	200,000 Series A-1 preferred shares.	-	-	-	-	-	-
	214,285 Series A-2 preferred shares.	300,000	-	-	300,000	-	-
	129,033 Series A-3 preferred shares.	165,001	-	-	165,001	-	-
	Warrant for 46,743 Series A-3 shares.	<u>35,000</u>	=	=	<u>35,000</u>	-	=
	<b>Total Knowledge Vision</b>	<u>500,001</u>	=	=	<u>500,001</u>	=	=
<b>ezmeriz, Inc.</b>	1,554,565 Series seed preferred shares.	351,477	-	-	351,477	-	-
<b>Microcision LLC</b>	\$1,500,000 subordinated promissory note at 11%.	1,891,964	-	-	1,891,964	-	211,269
	15% Class A common membership interest.	<u>-</u>	=	=	<u>-</u>	-	<u>-</u>
	<b>Total Microcision</b>	<u>1,891,964</u>	=	=	<u>1,891,964</u>	=	<u>211,269</u>
<b>ew Monarch Machine Tool, Inc.</b>	22.84 common shares.	22,841	-	-	22,841	-	29,409
<b>nCore Golf Technology, Inc.</b>	150,000 Series AA preferred shares.	187,500	-	(187,500)	-	-	-
	\$300,000 subordinated convertible promissory notes at 6%.	<u>150,000</u>	<u>150,000</u>	<u>-</u>	<u>300,000</u>	-	<u>17,186</u>
	<b>Total OnCore</b>	<u>337,500</u>	<u>150,000</u>	<u>(187,500)</u>	<u>300,000</u>	=	<u>17,186</u>

Table of Contents

**RAND CAPITAL CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**

**December 31, 2016 (Continued)**

**Investments in and Advances to Affiliates**

Company	Type of Investment	December 31, 2015 Fair Value	Gross Additions (1)	Gross Reductions (2)	December 31, 2016 Fair Value	Net Realized Gains (Losses)	Amount of Interest/ Dividend/ Fee Income (3)
<b>Rheonix, Inc.</b>	9,676 common shares.	11,000	-	(11,000)	-	-	-
	1,839,422 Series A preferred shares.	2,165,999	-	(2,165,999)	-	-	-
	50,593 common shares.	59,000	-	(59,000)	-	-	-
	589,420 Series B preferred shares.	<u>702,732</u>	=	<u>(702,732)</u>	=	=	=
	<b>Total Rheonix</b>	<u>2,938,731</u>	=	<u>(2,938,731)</u>	=	=	=
<b>SciAps, Inc.</b>	187,500 Series A convertible preferred shares.	1,000,000	-	-	1,000,000	-	-
	274,299 Series A-1 convertible preferred shares.	504,710	-	-	504,710	-	-
	117,371 Series B preferred shares.	250,000	=	-	250,000	-	-
	\$200,000 subordinated promissory note at 10%.	-	200,000	-	200,000	-	14,611
	\$100,000 secured subordinated convertible note at 10%.	-	<u>100,000</u>	=	<u>100,000</u>	=	<u>2,555</u>
	<b>Total SciAps</b>	<u>1,754,710</u>	<u>300,000</u>	=	<u>2,054,710</u>	=	<u>17,166</u>
<b>SOMS Technologies,</b>	5,959,490 Series B membership interests.	528,348	-	-	528,348	-	13,464

LLC							
<b>Statisfy, Inc.</b>	65,000 Series seed preferred shares.	20,968	-	(20,968)	-	(20,968)	-
	Warrant for 1,950,000 Series seed preferred shares.	<u>629,032</u>	=	<u>(629,032)</u>	=	<u>(629,032)</u>	=
	<b>Total Statisfy</b>	<u>650,000</u>	=	<u>(650,000)</u>	=	<u>(650,000)</u>	=
<b>Teleservices Solutions Holdings, LLC</b>	250,000 Class B shares.	-	-	-	-	-	-
	1,000,000 Class C shares.	1,190,680	-	(990,680)	200,000	-	-
	80,000 Class D preferred units.	91,200	-	-	91,200	-	-
	104,198 Class E preferred units.	<u>104,198</u>	=	=	<u>104,198</u>	=	=
	<b>Total Teleservices</b>	<u>1,386,078</u>	=	<u>(990,680)</u>	<u>395,398</u>	=	=
<b>Tilson Technology Management, Inc.</b>	12 Series B preferred shares.	600,000	-	-	600,000	-	16,250
	21,390 Series C convertible preferred shares.	-	200,000	-	200,000	-	-
	\$200,000 subordinated promissory note at 8%.	-	<u>200,000</u>	=	<u>200,000</u>	=	4,164
	<b>Total Tilson</b>	<u>600,000</u>	<u>400,000</u>	=	1,000,000	=	20,414
	<b>Total Affiliate Investments</b>	<b>\$ 14,662,219</b>	<b>\$ 4,228,466</b>	<b>(\$ 5,284,711)</b>	<b>\$ 13,605,974</b>	<b>(650,000)</b>	<b>\$ 598,620</b>

**Total Control and Affiliate**

**Investments \$ 28,578,691 \$ 4,228,466 (\$ 19,101,683) \$ 13,705,474 \$ 13,970,063 \$ 612,448**

This schedule should be read in conjunction with the Corporation's Consolidated Financial Statements, including the Consolidated Schedule of Portfolio Investments and Notes to the Consolidated Financial Statements.

(1) Gross additions include increases in the cost basis of investments resulting from new portfolio investment, follow on investments, capitalized interest and the accretion of discounts. Gross additions also include net increases in unrealized appreciation or net decreases in unrealized depreciation, and the movement of an existing portfolio company into this category and out of another category.

(2) Gross reductions include decreases in the cost basis of investments resulting from principal repayments, sales, note conversions, net increases in unrealized depreciation, net decreases in unrealized appreciation, the exchange of existing securities for new securities and the movement of an existing portfolio company out of this category and into another category.

(3) Represents the total amount of interest, fees or dividends credited to income for the portion of the period an investment was included in Control or Affiliate categories, respectively.

---

**Table of Contents****RAND CAPITAL CORPORATION AND SUBSIDIARY  
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS****December 31, 2016 (Continued)**

<b>Industry Classification</b>	<b>Percentage of Total Investments (at fair value) as of December 31, 2016</b>
Healthcare	32.6%
Software	27.3%
Manufacturing	22.7%
Contact Center	5.4%
Consumer Product	4.9%
Professional Services	3.6%
Oil and Gas	1.8%
Electronics	1.3%
Marketing	0.4%
<b>Total Investments</b>	<b>100%</b>

---

**Table of Contents**

**Rand Capital Corporation and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**For the Nine Months Ended September 30, 2017 and 2016**

**(Unaudited)**

**Note 1. ORGANIZATION**

Rand Capital Corporation ( Rand ) was incorporated under the laws of New York in February 1969. We completed our initial public offering in 1971 as an internally managed, closed-end, diversified, management investment company. We have elected to be treated as a business development company ( BDC ) under the Investment Company Act of 1940, as amended (the 1940 Act ). As a BDC, we are required to comply with certain regulatory requirements. For instance, we generally have to invest at least 70% of our total assets in qualifying assets and provide managerial assistance to the portfolio companies in which we invest. See Item 1. Business Regulation, Regulation as a Business Development Company in our Annual Report on Form 10-K for the year ended December 31, 2016.

We have made the majority of our venture capital investments through our wholly-owned subsidiary, Rand Capital SBIC, Inc. ( Rand SBIC ), which operates as a small business investment company ( SBIC ) and has been licensed by the U.S. Small Business Administration ( SBA ) since its formation in 2002. Rand SBIC s predecessor was organized as a Delaware limited partnership and was converted into a New York corporation on December 31, 2008, at which time our operations as a licensed SBIC were continued. Although Rand SBIC was operated as if it were a BDC, it was registered as an investment company under the 1940 Act. In 2012, the SEC granted an Order of Exemption for Rand with respect to the operations of Rand SBIC, and then Rand SBIC filed an election to be regulated as a BDC under the 1940 Act. Rand SBIC s board of directors is comprised of the directors of Rand, a majority of whom are not interested persons of Rand or Rand SBIC.

Responding to our request submitted during 2016, the SBA issued a green light or go forth letter authorizing Rand to continue its application process to obtain a license to form and operate a second SBIC subsidiary. The application for the new SBIC fund was filed with the SBA in April 2017 and is currently under review by the SBA. We expect our new SBIC subsidiary, Rand Capital SBIC II, L.P. (Rand SBIC II) will continue our investment strategy of focusing on privately-held, early stage and emerging growth businesses with proven management teams. Our initial wholly-owned subsidiary, Rand SBIC, has historically been our primary investment vehicle since its formation and, once approved by the SBA, we expect to continue this investment strategy through our new SBIC subsidiary. Under the SBA s pre-licensing approval protocols, we have begun investing using Rand SBIC II.

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

In this Quarterly Report on Form 10-Q, unless the context otherwise requires, we , the Corporation , us , and our refer to Rand Capital Corporation, Rand SBIC, and Rand SBIC II.

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



**Table of Contents****Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation** It is our opinion that the accompanying consolidated financial statements include all adjustments of a normal recurring nature necessary for a fair presentation in accordance with United States generally accepted accounting principles ( GAAP ) of the consolidated financial position, results of operations, cash flows and statement of changes in net assets for the interim periods presented. Certain information and note disclosures normally included in audited annual consolidated financial statements prepared in accordance with GAAP have been omitted; however, we believe that the disclosures made are adequate to make the information presented herein not misleading. Our interim results for the nine months ended September 30, 2017 are not necessarily indicative of the results for the full year.

These statements should be read in conjunction with the consolidated financial statements and the notes included in our Annual Report on Form 10-K for the year ended December 31, 2016. Information contained in this filing should also be reviewed in conjunction with our related filings with the SEC prior to the date of this report. Those filings include, but are not limited to, the following:

N-54A	Election to Adopt Business Development Company status
DEF-14A	2017 Definitive Proxy Statement submitted to shareholders
Form 10-K	Annual Report on Form 10-K for the year ended December 31, 2016
Form 10-Q	Quarterly Reports on Form 10-Q for the quarterly periods ended June 30, 2017 and March 31, 2017

**Principles of Consolidation** - The consolidated financial statements include the accounts of Rand and its two wholly-owned SBIC subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

**Fair Value of Financial Instruments** The carrying amounts reported in the consolidated statement of financial position of cash, interest receivable, accounts payable and accrued expenses approximate fair value because of the immediate or short-term nature of these financial instruments.

**Fair Value of SBA Debentures** - In September 2017, the SBIC Funding Corporation completed a pooling of SBA debentures that have a coupon rate of 2.518%, excluding a mandatory SBA annual charge estimated to be 0.804%, resulting in a total estimated fixed rate for ten years of 3.322%. The carrying value of Rand's SBA debentures is a reasonable estimate of fair value because their stated interest rates approximate current interest rates that are available for debt with similar terms.

**Investment Classification** In accordance with the provisions of the 1940 Act, the Corporation classifies its investments by level of control. Under the 1940 Act, **Control Investments** are investments in companies that the Corporation is deemed to **Control** because it owns more than 25% of the voting securities of the company or has greater than 50% representation on the company's board. **Affiliate Investments** are companies in which the Corporation owns between 5% and 25% of the voting securities. **Non-Control/Non-Affiliate Investments** are those companies that are neither **Control Investments** nor **Affiliate Investments**.

**Investments** - Investments are valued at fair value as determined in good faith by the management of the Corporation and approved by the Board of Directors. The Corporation invests in loan instruments, debt instruments, and equity instruments. There is no single standard for determining fair value in good faith. As a result, determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment while employing a consistent valuation process. The Corporation analyzes and values each investment quarterly, and records



unrealized depreciation for an investment that it believes has become impaired, including where collection of a loan or debt security or realization of the recorded value of an equity security is doubtful. Conversely, the Corporation will record unrealized appreciation if it believes that an underlying portfolio company has appreciated in value and, therefore, its equity securities have also appreciated in value. These estimated fair values may differ from the values that would have been used had a ready market for the investments existed and these differences could be material if the Corporation's assumptions and judgments differ from results of actual liquidation events.

## **Table of Contents**

***Qualifying Assets*** - All of the Corporation's investments were made in privately held small business enterprises, that were not investment companies, were principally based in the United States, and represent qualifying assets as defined by Section 55(a) of the 1940 Act.

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

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

The following investments remain on non-accrual status: G-TEC Natural Gas Systems (G-Tec), First Wave Products Group, LLC (First Wave) and a portion of the Mercantile Adjustment Bureau, LLC (Mercantile) outstanding loan balance.

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

***Revenue Recognition - Dividend Income*** - The Corporation may receive cash distributions from portfolio companies that are limited liability companies or corporations and these distributions are classified as dividend income on the consolidated statement of operations. Dividend income is recognized on an accrual basis when it can be reasonably estimated.

The Corporation may hold preferred equity securities that contain cumulative dividend provisions. Cumulative dividends are recorded as dividend income, if declared and deemed collectible, and any dividends in arrears are added to the balance of the preferred equity investment. The actual collection of these dividends in arrears may be deferred until such time as the preferred equity is redeemed.

***Revenue Recognition - Fee Income*** - Consists of amortization of financing fees charged to the portfolio companies upon successful closing of our SBIC funds financings and income associated with portfolio company board attendance fees. The income associated with the amortization of financing fees was \$18,557 and \$15,948 for the nine months ended September 30, 2017 and 2016, respectively. The board fees were \$1,000 and \$3,000 for the nine months ended September 30, 2017 and 2016, respectively.

***Realized Gain or Loss and Unrealized Appreciation or Depreciation of Investments*** - Amounts reported as realized gains and losses are measured by the difference between the proceeds from the sale or exchange and the cost basis of the investment without regard to unrealized gains or losses recorded in prior periods. The cost of securities that have, in management's judgment, become worthless are written off and reported as realized losses when appropriate. Unrealized appreciation or depreciation reflects the difference between the fair value of the investments and the cost basis of the investments.

**Original Issue Discount** Investments may include original issue discount or OID income. This occurs when the Corporation purchases a warrant and a note from a portfolio company simultaneously, which requires an allocation of a portion of the purchase price to the warrant and reduces the note or debt instrument by an equal amount in the form of a note discount or OID. The note is reported net of the OID and the OID is accreted into interest income over the life of the loan. The Corporation recognized \$21,085 and \$7,497 in OID income for the nine months ended September 30, 2017 and 2016, respectively. OID income is estimated to be approximately \$13,000 for the remainder of 2017.

---

**Table of Contents**

**Deferred Debenture Costs** - SBA debenture origination and commitment costs, which are netted against the debenture obligation (See Note 6 SBA Debentures ), will be amortized ratably over the terms of the SBA debentures. Amortization expense was \$20,550 for each of the nine months ended September 30, 2017 and 2016. Amortization expense on currently outstanding debentures for the next five years is estimated to average approximately \$27,000 per year.

**SBA Debenture** - The Corporation had \$8,000,000 in outstanding SBA debentures at September 30, 2017 and December 31, 2016 with a weighted average interest rate of 3.54%. The debentures are presented net of deferred debenture costs (see Note 6). The \$8,000,000 in outstanding SBA leverage matures from 2022 through 2025.

In the event of a future default of such SBA obligations, the Corporation has consented to the exercise, by the SBA, of all rights of the SBA under 13 C.F.R. 107.1810(i) SBA remedies for automatic events of default and has agreed to take all actions that the SBA may so require. These actions may include the Corporation's automatic consent to the appointment of the SBA, or its designee, as receiver under Section 311(c) of the Small Business Investment Act of 1958.

**Net Assets per Share** - Net assets per share are based on the number of shares of common stock outstanding. The Corporation does not have any common stock equivalents outstanding.

**Supplemental Cash Flow Information** - Income taxes paid during the nine months ended September 30, 2017 and 2016, net of refunds, was \$590,940 and \$1,995,948, respectively. Interest paid during the nine months ended September 30, 2017 and 2016 was \$282,875 and \$283,650, respectively. The Corporation converted \$262,105 and \$16,711 of interest receivable into investments during the nine months ended September 30, 2017 and 2016, respectively.

**Accounting Estimates** - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Stockholders Equity (Net Assets)** - At September 30, 2017 and December 31, 2016, there were 500,000 shares of \$10.00 par value preferred stock authorized and unissued.

On October 26, 2017, the Board of Directors extended the repurchase authorization for up to 1,000,000 shares of the Corporation's outstanding common stock on the open market through October 26, 2018 at prices that are no greater than the then current net asset value. No shares were repurchased during the nine months ended September 30, 2017. There were 6,550 shares repurchased during the nine months ended September 30, 2016. At September 30, 2017, the total treasury shares held was 541,046 shares with a total cost of \$1,469,105.

**Profit Sharing and Stock Option Plan** - In 2001, the stockholders of the Corporation authorized the establishment of an Employee Stock Option Plan (the Option Plan ), that provides for the award of stock options to purchase up to 200,000 common shares to eligible employees. In 2002, the Corporation placed the Option Plan on inactive status as it developed a new profit sharing plan for the Corporation's employees in connection with the formation of its SBIC subsidiary. As of September 30, 2017, no stock options had been awarded under the Option Plan. Because Section 57(n) of the 1940 Act prohibits maintenance of a profit sharing plan for the officers and employees of a BDC where any option, warrant or right is outstanding under an executive compensation plan, no stock options will be granted under the Option Plan while any profit sharing plan is in effect with respect to the Corporation.



**Table of Contents**

In 2002, the Corporation established a Profit Sharing Plan (the Plan) for its executive officers in accordance with Section 57(n) of the 1940 Act. Under the Plan, the Corporation will pay its executive officers aggregate profit sharing payments equal to 12% of the net realized capital gains of its SBIC subsidiary, net of all realized capital losses and unrealized depreciation of the SBIC subsidiary, for the fiscal year, computed in accordance with the Plan and the Corporation's interpretation of the Plan. Any profit sharing paid or accrued cannot exceed 20% of the Corporation's net income, as defined in the Plan. For purposes of the 20% profit sharing test, the Corporation interprets net income to be the total of the Corporation's net investment gain (loss) and its net realized gain (loss) on investments, prior to inclusion of the estimated profit sharing obligation. The profit sharing payments are split equally between the Corporation's two executive officers, each of whom is fully vested in the Plan.

There were no amounts earned pursuant to the Plan for the nine months ended September 30, 2017. The Corporation had accrued \$1,411,659 under the Plan for the nine months ended September 30, 2016. Estimated payroll taxes and benefits on the profit sharing under the Plan were also accrued at September 30, 2016. The amounts accrued were within the defined limits under the Plan. At December 31, 2016, the Corporation's final approved and accrued amount was \$1,270,052 under the Plan, of which \$1,138,052 was paid during the nine months ended September 30, 2017.

**Income Taxes** - The Corporation reviews the tax positions it has taken to determine if they meet a more likely than not threshold for the benefit of the tax position to be recognized in the consolidated financial statements. A tax position that fails to meet the more likely than not recognition threshold will result in either a reduction of a current or deferred tax asset or receivable, or the recording of a current or deferred tax liability. There were no uncertain tax positions recorded at September 30, 2017.

It is the Corporation's policy to include interest and penalties related to income tax liabilities in income tax expense. There were no amounts recognized for interest or penalties for the nine months ended September 30, 2017 or 2016.

**Concentration of Credit and Market Risk** The Corporation's financial instruments potentially subject it to concentrations of credit risk. Cash is invested with banks in amounts which, at times, exceed insurable limits. Management does not anticipate non-performance by such banks.

At September 30, 2017, Genicon, Inc. (Genicon), eHealth Global Technologies, Inc. (eHealth), Rheonix, Inc. (Rheonix), Outmatch (formerly Chequed Holdings, LLC) (Outmatch) and Social Flow, Inc. (Social Flow) represented 13%, 11%, 10%, 7% and 7%, respectively, of the fair value of the Corporation's investment portfolio.

**Note 3. INVESTMENTS**

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

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

## Table of Contents

The Corporation uses several approaches to determine the fair value of an investment. The main approaches are:

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

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

ASC 820 classifies the inputs used to measure fair value into the following hierarchy:

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

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

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

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

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

Under the valuation policy, the Corporation values unrestricted publicly traded companies, categorized as Level 1 investments, at the average closing bid price for the last three trading days of the reporting period. There were no such Level 1 investments as of September 30, 2017. The Corporation did have one portfolio company, Athenex, that completed an initial public offering during the second quarter of 2017 and the shares of the common stock of Athenex were categorized as a Level 2 investment because these shares were subject to restriction on sale as of the end of the period. The Corporation valued the common stock of Athenex stock that it owns using the average closing bid price for the last three trading days of the reporting period, and applied a discount to that value to address the sale restriction.

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

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

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

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

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



**Table of Contents**

Pending debt or capital restructuring of the portfolio company;

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

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

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

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

Qualitative assessment of key management;

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

Other factors deemed relevant by the Corporation's management to assess valuation.

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

**Equity Securities**

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

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

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

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

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

#### Loan and Debt Securities

The significant unobservable inputs used in the fair value measurement of the Corporation's loan and debt securities are the financial and operational performance of the portfolio company, similar debt with similar terms with other portfolio companies, as well as the market acceptance for the portfolio company's products or services. These inputs will likely provide an indicator as to the probability of principal recovery of the investment. The Corporation's loan and debt investments are often junior secured or unsecured debt securities. Fair value may also be determined based on other criteria where appropriate.

**Table of Contents**

Significant changes to the unobservable inputs may result in a change in fair value. For recent investments, the Corporation generally relies on the cost basis, which is deemed to represent the fair value, unless other fair market value inputs are identified causing the Corporation to depart from this basis.

The following table provides a summary of the significant unobservable inputs used to determine the fair value of the Corporation's Level 3 portfolio investments as of September 30, 2017:

Investment	Market Approach EBITDA Multiple	Market Approach Liquidation Seniority	Market Approach Revenue Multiple	Market Approach Transaction Pricing	Black Scholes Pricing Model	Asset Approach Liquidation Method	
Control/Non-Affiliate	\$	\$	\$ 2,071,325	\$ 5,866,583	\$	\$	\$ 7
Control/Non-Affiliate	\$ 948,187		5,878,252			400,000	7
<b>Control/Non-Affiliate</b>	<b>948,187</b>		<b>7,949,577</b>	<b>5,866,583</b>		<b>400,000</b>	<b>15</b>
Equity	1,628,348	22,841	3,078,440	3,405,791	120,000	800,000	9
Debt	1,909,367		648,466	2,893,588		200,000	5
Affiliate	<b>3,537,715</b>	<b>22,841</b>	<b>3,726,906</b>	<b>6,299,379</b>	<b>120,000</b>	<b>1,000,000</b>	<b>14</b>
Equity			99,500				
Debt							
<b>Control</b>			<b>99,500</b>				
<b>Level 3 Investments</b>	<b>\$ 4,485,902</b>	<b>\$ 22,841</b>	<b>\$ 11,775,983</b>	<b>\$ 12,165,962</b>	<b>\$ 120,000</b>	<b>\$ 1,400,000</b>	<b>\$ 29</b>
	4.8X-6.7X	1X	0.5X-10.3X	Not Applicable	Not Applicable	Not Applicable	
Observable Input	EBITDA Multiple	Asset Value	Revenue Multiple	Transaction Price	Exercise Price	Asset Value	
Average	5.9X	1X	3.1X	Not Applicable	Not Applicable	Not Applicable	

The following table provides a summary of the components of Level 1, 2 and 3 Assets Measured at Fair Value at September 30, 2017:

**Fair Value Measurements at Reported Date  
Using**

<b>Description</b>	<b>Quoted Prices in Active Markets for Identical</b>			<b>Other Significant Unobservable Inputs (Level 3)</b>
	<b>September 30, 2017</b>	<b>Assets (Level 1)</b>	<b>Significant Observable Inputs (Level 2)</b>	
Loan investments	\$ 3,550,000	\$	\$	\$ 3,550,000
Debt investments	9,327,860			9,327,860
Equity investments	17,817,828		725,000	17,092,828
Total	\$ 30,695,688	\$	\$ 725,000	\$ 29,970,688

**Table of Contents**

The following table provides a summary of the components of Level 1, 2 and 3 Assets Measured at Fair Value at December 31, 2016:

Description	Fair Value Measurements at Reported Date Using Quoted Prices in Active Markets for			
	December 31, 2016	Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Significant Unobservable Inputs (Level 3)
Loan investments	\$ 3,200,000	\$	\$	\$ 3,200,000
Debt investments	6,700,221			6,700,221
Equity investments	17,600,260			17,600,260
Total	\$ 27,500,481	\$	\$	\$ 27,500,481

The following table provides a summary of changes in Assets Measured at Fair Value Using Significant Unobservable Inputs (Level 3) for the quarter ended September 30, 2017:

Description	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Venture Capital Investments			
	Loan Investments	Debt Investments	Equity Investments	Total
<b>Ending Balance, December 31, 2016, of Level 3 Assets</b>	\$ 3,200,000	\$ 6,700,221	\$ 17,600,260	\$ 27,500,481
<b><u>Unrealized Gains and Losses included in net change in net assets from operations:</u></b>				
ACV Auctions, Inc. (ACV Auctions)			119,356	119,356
Athenex, Inc. (Athenex)			308,336	308,336
BeetNPath, LLC (Beetnpath)			29,723	29,723
City Dining Cards, Inc. (Loupe)			(500,000)	(500,000)
Mercantile Adjustment Bureau, LLC (Mercantile)		(250,000)		(250,000)
SciAps, Inc. (Sciaps)			(300,000)	(300,000)
Teleservices Solutions Holdings, LLC (Teleservices)			(395,398)	(395,398)
<b>Total Unrealized Gains and Losses</b>		(250,000)	(737,983)	(987,983)
<b><u>Purchases of Securities/Changes to Securities/Non-cash conversions:</u></b>				

Edgar Filing: RAND CAPITAL CORP - Form 10-Q

Beetnpath	100,000	11,277	111,277
Centivo Corporation (Centivo)	100,000		100,000
eHealth Global Technologies, Inc. (eHealth)	2,000,000		2,000,000
Empire Genomics, LLC (Empire Genomics)	201,489		201,489
Genicon, Inc. (Genicon)	300,000	893,588	1,313,588
GoNoodle, Inc. (GoNoodle)		7,662	7,662
KnowledgeVision Systems, Inc. (Knowledge Vision)	50,000		50,000
Mercantile	107,497		107,497
Microcision LLC (Microcision)	17,403		17,403
Sciaps		274,274	274,274
<b>Total Purchases of Securities/Changes to Securities/Non-cash conversions</b>	2,350,000	1,427,639	405,551
<b>Transfers within Level 3</b>	(2,000,000)	1,450,000	550,000
<b>Transfers out of Level 3</b>			(725,000)
<b>Ending Balance, September 30, 2017, of Level 3 Assets</b>	\$ 3,550,000	\$ 9,327,860	\$ 17,092,828
Change in unrealized depreciation on investments for the period included in changes in net assets			(\$ 987,983)
Net realized gain on investments for the period included in changes in net assets			\$

**Table of Contents**

The following table provides a summary of changes in Assets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3) for the nine months ended September 30, 2016:

Description	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Venture Capital Investments			Total
	Loan Investments	Debt Investments	Equity Investments	
<b>Ending Balance, December 31, 2015, of Level 3 Assets</b>	\$ 416,972	\$ 5,076,632	\$ 31,338,796	\$ 36,832,400
<b><u>Realized Gains included in net change in net assets from operations:</u></b>				
Gemcor II, LLC (Gemcor)			14,588,813	14,588,813
<b>Total Realized Gains</b>			14,588,813	14,588,813
<b><u>Unrealized Gains and Losses included in net change in net assets from operations:</u></b>				
Athenex, Inc. (Athenex)			69,444	69,444
Gemcor II, LLC (Gemcor)			(12,775,000)	(12,775,000)
Intrinsiq Material, Inc. (Intrinsiq)			254,329	254,329
Knoa Software, Inc. (Knoa)			(422,800)	(422,800)
Satisfy, Inc. (Satisfy)			(650,000)	(650,000)
Teleservices Solutions Holdings, LLC (Teleservices)			(595,340)	(595,340)
<b>Total Unrealized Gains and Losses</b>			(14,119,367)	(14,119,367)
<b><u>Purchases of Securities/Changes to Securities/Non-cash conversions:</u></b>				
ACV Auctions, Inc. (ACV Auctions)			163,000	163,000
BeetNPath, LLC (Beetnpath)		150,000		150,000
ClearView Social, Inc. (Clearview Social)			200,000	200,000
eHealth Global Technologies, Inc. (eHealth)	1,500,000			1,500,000
Empire Genomics, LLC (Empire Genomics)		550,000		550,000
Genicon, Inc. (Genicon)	1,700,000			1,700,000
GoNoodle, Inc. (GoNoodle)		7,586		7,586
Intrinsiq			430,671	430,671
Knoa Software, Inc. (Knoa)		48,466		48,466
Mercantile Adjustment Bureau, LLC (Mercantile)		7,497		7,497

Edgar Filing: RAND CAPITAL CORP - Form 10-Q

OnCore Golf Technology, Inc. (Oncore Golf)		150,000		150,000
PostProcess Technologies, Inc. (Post Process)		300,000		300,000
SciAps, Inc. (Sciaps)		300,000		300,000
Tilson Technology Management, Inc. (Tilson)		200,000	200,000	400,000
<b><i>Total Purchases of Securities/Changes to Securities/Non-cash conversions</i></b>				
	3,200,000	1,713,549	993,671	5,907,220
<b><u>Repayments and Sale of Securities:</u></b>				
Gemcor	(416,972)		(15,213,813)	(15,630,785)
<b><i>Total Repayments and Sale of Securities</i></b>				
	(416,972)		(15,213,813)	(15,630,785)
<b>Transfers within Level 3</b>				
		(95,000)	95,000	
<b>Ending Balance, September 30, 2016, of Level 3 Assets</b>				
	\$ 3,200,000	\$ 6,695,181	\$ 17,683,100	\$ 27,578,281
Change in unrealized appreciation on investments for the period included in changes in net assets				
				(\$ 14,119,367)
Net realized gain on investments for the period included in changes in net assets				
				\$ 14,756,953



**Table of Contents****NOTE 4. OTHER ASSETS**

At September 30, 2017 and December 31, 2016, other assets was comprised of the following:

	<b>September 30, 2017 (Unaudited)</b>	<b>December 31, 2016</b>
Escrow receivable from Gemcor II LLC (Gemcor)	\$ 550,000	\$ 1,100,000
Prepaid expenses	26,208	6,758
Dividend receivable		34,101
Operating receivables	4,279	1,126
Equipment (net)	3,523	6,523
 Total other assets	 \$ 584,010	 \$ 1,148,508

During the first quarter of 2016, Gemcor II, LLC sold its assets, and \$1,100,000 of the proceeds were held in escrow, subject to potential claims. During the first quarter of 2017, \$550,000 of the Gemcor escrow receivable was released and the remainder was released in October 2017.

**Note 5. COMMITMENTS AND CONTINGENCIES**

The Corporation did not have any commitments to fund any investments as of September 30, 2017.

**Note 6. SBA DEBENTURES**

Pursuant to Accounting Standard Update (ASU) 2015-03, the debt origination costs associated with the SBA debt obligations are presented as a direct deduction of the related debt obligation.

	<b>September 30, 2017 (Unaudited)</b>	<b>December 31, 2016</b>
Debentures guaranteed by the SBA	\$ 8,000,000	\$ 8,000,000
Less unamortized issue costs	(151,677)	(172,227)
 Debentures guaranteed by the SBA, net	 \$ 7,848,323	 \$ 7,827,773

**Table of Contents**

The following schedule provides the financial highlights, calculated based on weighted average shares outstanding, for the nine months ended September 30, 2017 and the year ended December 31, 2016:

	<b>Nine months ended September 30, 2017 (Unaudited)</b>	<b>Year ended December 31, 2016</b>
<b>Income from investment operations (1):</b>		
Investment income	\$ 0.17	\$ 0.16
Operating expenses	0.25	0.54
Investment loss before income taxes	(0.08)	(0.38)
Income tax benefit	(0.03)	(0.13)
Net investment loss	(0.05)	(0.25)
Net realized and unrealized (loss) gain on investments	(0.10)	0.06
Decrease in net asset value	(0.15)	(0.19)
Net asset value, beginning of period	5.16	5.35
Net asset value, end of period	\$ 5.01	\$ 5.16
Per share market price, end of period	\$ 2.96	\$ 3.16
Total return based on market value	(6.3%)	(16.1%)
Total return based on net asset value	(2.87%)	(3.62%)
Supplemental data:		
Ratio of operating expenses before income taxes to average net assets	4.86%	10.23%
Ratio of operating expenses including income taxes to average net assets	3.18%	8.48%
Ratio of net investment loss to average net assets	(0.93%)	(3.62%)
Portfolio turnover	13.4%	18.4%
Net assets, end of period	\$ 31,692,476	\$ 32,629,363
Weighted shares outstanding, end of period	6,321,988	6,325,792

(1) *Per share data are based on weighted average shares outstanding and the results are rounded to the nearest cent.*

The Corporation's interim period results could fluctuate as a result of a number of factors; therefore results for any interim period should not be relied upon as being indicative of performance for the full year or in future periods.



---

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the consolidated financial statements and related notes included elsewhere in this report. Historical results and percentage relationships among any amounts in the consolidated financial statements are not necessarily indicative of trends in operating results for any future periods.

**FORWARD LOOKING STATEMENTS**

Statements included in this Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this report that do not relate to present or historical conditions are forward-looking statements within the meaning of that term in Section 27A of the Securities Act of 1933, as amended, and in Section 21E of the Securities Exchange Act of 1934, as amended. Additional oral or written forward-looking statements may be made by us from time to time, and forward-looking statements may be included in documents that are filed with the Securities and Exchange Commission. Forward-looking statements involve risks and uncertainties that could cause our results or outcomes to differ materially from those expressed in the forward-looking statements. Forward-looking statements may include, without limitation, statements relating to our plans, strategies, objectives, expectations and intentions and are intended to be made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Words such as believes, forecasts, intends, possible, expects, estimates, anticipates, or plans and similar are intended to identify forward-looking statements. Among the important factors on which such statements are based are assumptions concerning the state of the United States economy and the local markets in which our portfolio companies operate, the state of the securities markets in which the securities of our portfolio companies could be traded, liquidity within the United States financial markets, and inflation. Forward-looking statements are also subject to the risks and uncertainties described under the caption Risk Factors contained in Part II, Item 1A of this report and in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016.

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

**Overview**

We are an internally managed investment company that lends to and invests in small companies. We have elected to be treated as a business development company ( BDC ) under the Investment Company Act of 1940, as amended (the 1940 Act ). As a BDC, we are required to comply with certain regulatory requirements as provided for in the 1940 Act and the rules and regulations promulgated thereunder. We have historically made the majority of our investments through our wholly-owned subsidiary, Rand Capital SBIC, Inc. ( Rand SBIC ), which is our initial small business investment company ( SBIC ) subsidiary and has been licensed by the U.S. Small Business Administration ( SBA ) since 2002.

Responding to our request submitted during 2016, the U.S. Small Business Administration (SBA) issued a green light or go forth letter authorizing us to continue our application process to obtain a license to form and operate a second SBIC subsidiary and create a new SBIC fund, Rand Capital SBIC II, L.P. (Rand SBIC II). We filed an application for Rand SBIC II in April 2017 and it is currently under review by the SBA. We funded Rand SBIC II with \$7.5 million of cash from Rand Capital Corporation which, when combined with \$15 million of expected SBA leverage, will create a new \$22.5 million SBIC fund. We also expect Rand SBIC II to continue our investment strategy of focusing on privately-held, early stage and emerging growth businesses with proven management teams.



## **Table of Contents**

Our initial wholly-owned subsidiary, Rand SBIC, has historically been our primary investment vehicle since its formation and, once approved by the SBA, we expect to continue this investment strategy through Rand SBIC II. Under the SBA's pre-licensing approval protocols, we have begun investing using Rand SBIC II.

## **Outlook**

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

We expect that well run businesses will require capital to grow and should be able to compete effectively given the low cost of capital, strong business and consumer spending, and eager reception of new technologies and service concepts.

We are able to invest larger amounts in companies, which will provide an opportunity to accelerate our rate of growth.

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

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

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

We have sufficient cash to invest in new opportunities and to repurchase shares for the treasury. At quarter end, we had authorization to repurchase an additional 458,954 shares of our common stock. However, our preferred use of cash continues to be growing our portfolio.

## **Critical Accounting Policies**

We prepare our consolidated financial statements in accordance with United States generally accepted accounting principles (GAAP), which require the use of estimates and assumptions that affect the reported amounts of assets and liabilities. A summary of our critical accounting policies can be found in our Annual Report on Form 10-K for the year ended December 31, 2016 under Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations.

**Table of Contents****Financial Condition**

	September 30, 2017	December 31, 2016	Decrease	% Decrease
<b>Overview:</b>				
Total assets	\$ 39,830,404	\$ 42,418,530	(\$ 2,588,126)	(6.1%)
Total liabilities	8,137,928	9,789,167	(1,651,239)	(16.9%)
Net assets	\$ 31,692,476	\$ 32,629,363	(\$ 936,887)	(2.9%)

Net asset value per share (NAV) was \$5.01 at September 30, 2017 and \$5.16 at December 31, 2016.

Our gross outstanding SBA debentures at September 30, 2017 were \$8,000,000 and will mature from 2022 through 2025. Cash approximated 20% of net assets at September 30, 2017 as compared to 38% at December 31, 2016.

**Composition of Our Investment Portfolio**

Our financial condition is dependent on the success of our portfolio holdings. We have invested substantially all of our assets in small to medium-sized companies. The following summarizes our investment portfolio at the dates indicated.

	September 30, 2017	December 31, 2016	Increase (Decrease)	% Increase (Decrease)
Investments, at cost	\$ 35,814,220	\$ 31,631,030	\$ 4,183,190	13.2%
Unrealized depreciation, net	(5,118,532)	(4,130,549)	(987,983)	(23.9%)
Investments at fair value	\$ 30,695,688	\$ 27,500,481	\$ 3,195,207	11.6%

Our total investments at fair value, as estimated by management and approved by our Board of Directors, approximated 97% of net assets at September 30, 2017 versus 84% of net assets at December 31, 2016.

The change in investments during the nine months ended September 30, 2017, at cost, is comprised of the following:

	Cost Increase (Decrease)
<b>New investments:</b>	
eHealth Global Technologies, Inc. (eHealth)	\$ 2,000,000
Genicon, Inc. (Genicon)	1,300,000
SciAps, Inc. (Sciaps)	250,000
Mercantile Adjustment Bureau, LLC (Mercantile)	100,000
BeetNPath, LLC (Beetnpath)	100,000
Centivo Corporation (Centivo)	100,000
KnowledgeVision Systems, Inc. (Knowledge Vision)	50,000

Total of new investments	3,900,000
<b>Other changes to investments:</b>	
Empire Genomics, LLC (Empire Genomics) interest conversion	201,489
Sciaps interest conversion	24,274
Microcision LLC (Microcision) interest conversion	17,403
Genicon OID amortization	13,588
Beetnpath interest conversion	11,277
GoNoodle, Inc. (GoNoodle) interest conversion	7,662
Mercantile OID amortization	7,497
Total of other changes to investments	283,190
<b>Net change in investments, at cost</b>	<b>\$ 4,183,190</b>



**Table of Contents****Results of Operations**

Our principal investment objective is to achieve long-term capital appreciation on our equity investments while maintaining a current cash flow from our debenture and pass-through equity instruments to fund expenses. Therefore, we invest in a variety of financial instruments to provide a current return on a portion of the investment portfolio.

***Comparison of the three months ended September 30, 2017 to the three months ended September 30, 2016******Investment Income***

	<b>Three months Ended September 30, 2017</b>	<b>Three months ended September 30, 2016</b>	<b>Increase (Decrease)</b>	<b>% Increase (Decrease)</b>
Interest from portfolio companies	\$ 309,922	\$ 224,038	\$ 85,884	38.3%
Interest from other investments	6,348	11,974	(5,626)	(47.0%)
Dividend and other investment income	76,813	72,021	4,792	6.7%
Fee income	3,936	7,853	(3,917)	(49.9%)
<b>Total investment income</b>	<b>\$ 397,019</b>	<b>\$ 315,886</b>	<b>\$ 81,133</b>	<b>25.7%</b>

**Interest from portfolio companies** Interest from portfolio companies was 38% higher during the three months ended September 30, 2017 versus the same period in 2016 due to the fact that we have originated more income-producing debt investments in the last year. These new debt instruments were originated from Genicon Inc. (Genicon), eHealth Global Technologies, Inc. (eHealth), Empire Genomics, LLC (Empire Genomics) and several other portfolio companies.

The following investments remain on non-accrual status: G-TEC Natural Gas Systems (G-Tec), First Wave Products Group, LLC (First Wave) and a portion of the Mercantile Adjustment Bureau, LLC (Mercantile) outstanding loan balance.

**Interest from other investments** - The decrease in interest from other investments is primarily due to lower average cash balances during the three months ended September 30, 2017 versus the same period in 2016.

**Dividend and other investment income** - Dividend income is comprised of cash distributions from limited liability companies (LLCs) and corporations in which we have invested. Our investment agreements with certain LLCs require those LLCs to distribute funds to us for payment of income taxes on our allocable share of the LLC's profits. These portfolio companies may also elect to make additional discretionary distributions. Dividend income will fluctuate based upon the profitability of these LLCs and corporations and the timing of the distributions or the impact of new investments or divestitures. The dividend distributions for the respective periods were:

<b>Three months ended September 30, 2017</b>	<b>Three months ended September 30, 2016</b>
------------------------------------------------------	------------------------------------------------------

Edgar Filing: RAND CAPITAL CORP - Form 10-Q

Carolina Skiff LLC (Carolina Skiff)	\$	41,999	\$	34,101
New Monarch Machine Tool LLC (Monarch)		27,409		27,409
Tilson Technology Management, Inc. (Tilson)		5,000		7,500
Empire Genomics LLC (Empire Genomics)		2,405		3,011
Total dividend and other investment income	\$	76,813	\$	72,021

**Table of Contents**

**Fee income** - Fee income consists of the revenue associated with the amortization of financing fees charged to the portfolio companies upon successful closing of SBIC financings and income from portfolio company board attendance fees. The financing fees are amortized ratably over the life of the instrument associated with the fees. The unamortized fees are carried on the balance sheet under the line item Deferred revenue.

The income associated with the amortization of financing fees was \$3,936 and \$6,851 for the three months ended September 30, 2017 and 2016, respectively. The income from board fees was \$0 and \$1,000 for the three months ended September 30, 2017 and 2016, respectively.

*Expenses*

	<b>Three months ended</b>	<b>Three months ended</b>	<b>Decrease</b>	<b>% Decrease</b>
	<b>September 30, 2017</b>	<b>September 30, 2016</b>		
Total expenses	\$ 439,048	\$ 486,548	(\$ 47,500)	(9.8%)

Expenses predominately consist of interest expense on outstanding SBA borrowings, compensation expense, and general and administrative expenses, including stockholder and office operating expenses and professional fees.

The decrease in expenses during the three months ended September 30, 2017 versus the same period in 2016 was primarily caused by a 44% decrease in professional fees. Professional fees were higher during the three months ended September 30, 2016 versus the same period in 2017 because we incurred additional expenses in connection with implementing our long-term growth strategy. These expenses included external legal, tax consulting and other advisory expenses to support refinement of our strategy, which involved assessing options relative to the complex regulatory environment in which we operate.

*Realized Gains and Losses on Investments*

	<b>Three months ended</b>	<b>Three months ended</b>	<b>Decrease</b>
	<b>September 30, 2017</b>	<b>September 30, 2016</b>	
Realized gain on investments before income taxes	\$	\$ 1,412,500	(\$ 1,412,500)

There were no realized gains or losses during the three months ended September 30, 2017.

During the three months ended September 30, 2016, we recognized a gain on the escrow receivable related to the sale of Gemcor.

*Change in Unrealized Depreciation or Appreciation of Investments*

	<b>Three months ended</b>	<b>Three months ended</b>	<b>Increase</b>
	<b>September 30, 2017</b>	<b>September 30, 2016</b>	
Change in unrealized depreciation or appreciation before income taxes	\$ 111,000	(\$ 2,078,511)	\$ 2,189,511

The change in unrealized depreciation, before income taxes, for the three months ended September 30, 2017 was comprised of the following:

	<b>Three months ended September 30, 2017</b>
Athenex, Inc. (Athenex)	111,000
<b>Total change in net unrealized depreciation of investments before income taxes during the three months ended September 30, 2017</b>	<b>\$ 111,000</b>

**Table of Contents**

Athenex completed an initial public offering (IPO) during the second quarter of 2017 and its shares of common stock are now publicly traded on the NASDAQ Global Select Market under the symbol `ATNX`. We hold 46,296 shares of the common stock of Athenex and valued these shares using the average bid price for the last three trading days of the reporting period, which was then discounted 10% due to restrictions on the sale of the shares. Subsequent to quarter end, the sale restrictions on our shares in Athenex common stock were removed and its shares were freely tradable.

The decrease in unrealized depreciation or appreciation before income taxes for the three months ended September 30, 2016 was comprised of the following:

	<b>Three months ended September 30, 2016</b>
Reclassify Gemcor II, LLC (Gemcor) to a realized gain	(\$ 1,412,500)
Satisfy, Inc. (Satisfy)	(325,000)
Teleservices Solutions Holdings, LLC (Teleservices)	(595,340)
Intrinsiq Materials, Inc. (Intrinsiq)	254,329
<b>Total change in net unrealized depreciation of investments before income taxes during the three months ended September 30, 2016</b>	<b>(\$ 2,078,511)</b>

During the first quarter of 2016, Gemcor sold its assets and we received gross cash proceeds of approximately \$14.1 million. The realized gain from the sale, before income taxes, was \$14,588,813 and included \$1,068,750 that was held in escrow at September 30, 2016. The escrow holdback is recorded in `Other Assets` on the accompanying consolidated statement of financial position.

The valuation of our investment in Satisfy was decreased after we reviewed the portfolio company and its financial condition and determined that a valuation adjustment was necessary.

Our investment in Teleservices was revalued after we reviewed their operations and their current and past financial performance. This review indicated that a further deterioration of their business had occurred. If the factors that led to this reduction in valuation are overcome, the value may be restored. The portfolio company remains in operation and is developing new business strategies.

Intrinsiq's value was increased based on a financial analysis of the portfolio company, completed by management, indicating continued improved performance and the completion of an equity refinancing in the third quarter of 2016.

All of these value adjustments resulted from a review by our management using the guidance set forth by ASC 820 and our established valuation policy.

*Net Increase (Decrease) in Net Assets from Operations*

We account for our operations under GAAP for investment companies. The principal measure of our financial performance is `net increase (decrease) in net assets from operations` on our consolidated statements of operations. For

the three months ended September 30, 2017 and 2016, the net increase (decrease) in net assets from operations was \$57,931 and (\$571,300), respectively.

**Table of Contents*****Comparison of the nine months ended September 30, 2017 to the nine months ended September 30, 2016******Investment Income***

	<b>Nine months ended September 30, 2017</b>	<b>Nine months ended September 30, 2016</b>	<b>Increase (Decrease)</b>	<b>% Increase (Decrease)</b>
Interest from portfolio companies	\$ 833,653	\$ 525,073	\$ 308,580	58.8%
Interest from other investments	24,182	33,683	(9,501)	(28.2%)
Dividend and other investment income	197,403	152,818	44,585	29.2%
Fee income	19,557	18,949	608	3.2%
<b>Total investment income</b>	<b>\$ 1,074,795</b>	<b>\$ 730,523</b>	<b>\$ 344,272</b>	<b>47.1%</b>

**Interest from portfolio companies** Interest from portfolio companies was 59% higher during the nine months ended September 30, 2017 versus the same period in 2016 due to the fact that we have originated more income-producing debt investments in the last year. These new debt instruments were originated from Genicon Inc. (Genicon), eHealth Global Technologies, Inc. (eHealth), Empire Genomics, LLC (Empire Genomics) and several other portfolio companies.

The following investments remain on non-accrual status: G-TEC Natural Gas Systems (G-Tec), First Wave Products Group, LLC (First Wave) and a portion of the Mercantile Adjustment Bureau, LLC (Mercantile) outstanding loan balance.

**Interest from other investments** - The decrease in interest from other investments is primarily due to lower average cash balances during the nine months ended September 30, 2017 versus the same period in 2016.

**Dividend and other investment income** The dividend distributions for the respective periods were:

	<b>Nine months ended September 30, 2017</b>	<b>Nine months ended September 30, 2016</b>
Carolina Skiff LLC (Carolina Skiff)	\$ 141,372	\$ 97,684
New Monarch Machine Tool LLC (Monarch)	27,409	27,409
Tilson Technology Management, Inc. (Tilson)	15,000	11,250
Empire Genomics LLC (Empire Genomics)	7,598	3,011
SOMS Technologies, LLC (SOMS)	6,024	13,464
	<b>\$ 197,403</b>	<b>\$ 152,818</b>

Total dividend and other investment  
income

Fee income - The income associated with the amortization of financing fees was \$18,557 and \$15,949 for the nine months ended September 30, 2017 and 2016, respectively. The income from board fees was \$1,000 and \$3,000 for the nine months ended September 30, 2017 and 2016, respectively.

*Expenses*

	<b>Nine months ended September 30, 2017</b>	<b>Nine months ended September 30, 2016</b>	<b>Decrease</b>	<b>% Decrease</b>
Total expenses	\$ 1,562,620	\$ 2,915,300	(\$ 1,352,680)	(46.4%)

The decrease in expenses during the nine months ended September 30, 2017 versus the same period in 2016 was primarily caused by a decrease of \$1,411,659 in bonus and profit sharing expense related to the Gemcor II, LLC (Gemcor) exit in early 2016. However, we incurred higher professional fees during the nine months ended September 30, 2017 that were associated with the formation of our new SBIC fund.

Gemcor sold its assets in March 2016 and based on our ownership percentage, we received gross cash proceeds of approximately \$13.8 million, excluding an escrow receivable, and realized a gain, before income taxes, of approximately \$13.2 million from the sale. Related to this sale, we expensed \$1,411,659 under our Profit Sharing Plan during the nine months ended September 30, 2016. There were no amounts earned pursuant to the Profit Sharing Plan for the nine months ended September 30, 2017.



**Table of Contents***Realized Gains and Losses on Investments*

	<b>Nine months ended September 30, 2017</b>	<b>Nine months ended September 30, 2016</b>	<b>Decrease</b>
Realized gain on investments before income taxes	\$	\$ 14,756,953	(\$ 14,756,953)

There were no realized gains or losses during the nine months ended September 30, 2017.

During the nine months ended September 30, 2016, Gemcor sold its assets and we received gross cash proceeds of approximately \$13.8 million, excluding an escrow receivable, and recognized a realized gain, before income taxes, of \$13.2 million from the sale. In addition, we recorded a realized gain of \$168,140 during the second quarter of 2016 from an earn-out provision connected with the 2014 sale of QuaDPharma, LLC to Athenex, Inc.

*Change in Unrealized Depreciation or Appreciation of Investments*

	<b>Nine months ended September 30, 2017</b>	<b>Nine months ended September 30, 2016</b>	<b>Increase</b>
Change in unrealized depreciation or appreciation before income taxes	(\$ 987,983)	(\$ 14,119,367)	\$ 13,131,384

The change in unrealized depreciation, before income taxes, for the nine months ended September 30, 2017 was comprised of the following:

	<b>Nine months ended September 30, 2017</b>
City Dining Cards, Inc. (Loupe)	(\$ 500,000)
Teleservices Solutions Holdings, LLC (Teleservices)	(395,398)
SciAps, Inc. (Sciaps)	(300,000)
Mercantile Adjustment Bureau, LLC (Mercantile)	(250,000)
Athenex, Inc. (Athenex)	308,336
ACV Auctions, Inc. (ACV)	119,356
BeetNPath, LLC (Beetnpath)	29,723
<b>Total change in net unrealized depreciation of investments before income taxes during the nine months ended September 30, 2017</b>	<b>(\$ 987,983)</b>

The valuations of our investments in Loupe, Mercantile and Teleservices were decreased after we reviewed each portfolio company and its current and projected financial condition and determined that a valuation adjustment was necessary.

The valuation of Sciaps was decreased to revalue our equity holdings based upon the liquidation preferences of our securities as compared to the most recent equity round of financing completed by Sciaps.

In accordance with our valuation policy, we increased the value of our investments in ACV and Beetnpath based on a significant equity financing by a new non-strategic outside entity.

Athenex completed an initial public offering (IPO) during the second quarter of 2017 and its shares of common stock are now publicly traded on the NASDAQ Global Select Market under the symbol `ATNX`. We hold 46,296 shares of the common stock of Athenex and valued these shares using the average bid price for the last three trading days of the reporting period, which was then discounted due to restrictions on the sale of the shares.

**Table of Contents**

The decrease in unrealized depreciation or appreciation before income taxes for the nine months ended September 30, 2016 was comprised of the following:

	<b>Nine months ended September 30, 2016</b>
Reclassify Gemcor II, LLC (Gemcor) to a realized gain	(\$ 12,775,000)
Satisfy, Inc. (Satisfy)	(650,000)
Teleservices Solutions Holdings, LLC (Teleservices)	(595,340)
Knoa Software, Inc. (Knoa)	(422,800)
Athenex, Inc. (Athenex)	69,444
Intrinsiq Materials, Inc. (Intrinsiq)	254,329
<b>Total change in net unrealized depreciation of investments before income taxes during the nine months ended September 30, 2016</b>	<b>(\$ 14,119,367)</b>

During the first quarter of 2016, Gemcor sold its assets and we received gross cash proceeds of approximately \$14.1 million. The realized gain from the sale, before income taxes, was \$14,588,813 and included \$1,068,750 that was held in escrow at September 30, 2016. The escrow holdback is recorded in Other Assets on the accompanying consolidated statement of financial position.

The valuation of our investment in Satisfy was decreased after we reviewed the portfolio company and its financial condition and determined that a valuation adjustment was necessary.

Our investment in Teleservices was revalued after we reviewed their operations and their current and past financial performance. This review indicated that a further deterioration of their business had occurred. If the factors that led to this reduction in valuation are overcome, the value may be restored. The portfolio company remains in operation and is developing new business strategies.

The valuation of our investment in Knoa was decreased during the nine months ended September 30, 2016 to value our equity investment at a value consistent with the anticipated pricing for Knoa's equity financing.

In accordance with our valuation policy, we increased the value of our investment in Athenex based on a significant equity financing by a new non-strategic outside entity. This new financing used a higher valuation for Athenex than had been used for its prior financing rounds.

Intrinsiq's value was increased based on a financial analysis of the portfolio company, completed by management, indicating continued improved performance and the completion of an equity refinancing in the third quarter of 2016.

All of these value adjustments resulted from a review by our management using the guidance set forth by ASC 820 and our established valuation policy.

*Net Decrease in Net Assets from Operations*

We account for our operations under GAAP for investment companies. The principal measure of our financial performance is net decrease in net assets from operations on our consolidated statements of operations. For the nine months ended September 30, 2017 and 2016, the net decrease in net assets from operations was (\$936,887) and (\$986,912), respectively.

## **Table of Contents**

### **Liquidity and Capital Resources**

Our principal long-term objective is to achieve growth in net asset value per share through capital appreciation. Therefore, a significant portion of our investment portfolio is structured to maximize the potential for capital appreciation, and certain portfolio investments may be structured to provide little or no current yield in the form of dividends or interest payments.

As of September 30, 2017, our total liquidity consisted of approximately \$6.4 million in cash on hand.

Net cash used by operating activities has averaged approximately \$2,800,000 over the last three years. The average cash used for investment in portfolio companies over the last three years was \$5,500,000. Our cash flow from operations may fluctuate based on the timing of the receipt of dividend income and realized gains and the associated income taxes paid. We will generally use cash to fund our operating expenses and also to invest in companies, as we seek to build our portfolio utilizing our available cash and proceeds from liquidations of portfolio investments. We anticipate that we will continue to exit investments. However, the timing of liquidation events within the portfolio is difficult to project with any certainty. As of September 30, 2017, we did not have any outstanding commitments to borrow funds from the SBA. Starting in 2022, our SBA debt begins to reach maturity, and this will require us to identify sources of future funding if liquidation of investments is not sufficient to fund operations and repay the SBA debt obligation.

We received authorization from the SBA during the fourth quarter of 2016 to file a formal application to form and operate our second SBIC subsidiary and start a new SBIC fund. We capitalized Rand SBIC II with \$7.5 million of cash from Rand Capital Corporation during April 2017 and, if our application is approved by the SBA, we anticipate a debt commitment from the SBA equal to two times our equity capital investment, or \$15 million, for a total fund size of \$22.5 million.

We believe that the cash on hand at September 30, 2017 and the scheduled interest payments on our portfolio investments will be sufficient to meet our cash needs for the next twelve months. We continue to seek potential exits from portfolio companies to increase the amount of liquidity available for new investments, operating activities and future SBA debenture repayment obligations.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Our investment activities contain elements of risk. Our investment portfolio consists of equity and debt securities in private companies and is subject to valuation risk. Because there is typically no public market for the equity and debt securities in which we invest, the valuation of the equity interests in the portfolio is stated at fair value as determined in good faith by our management and approved by our Board of Directors. This is in accordance with our investment valuation policy (see the discussion of valuation policy contained in Note 3. Investments in the consolidated financial statements contained in Item 1 of this report, which is hereby incorporated herein by reference.) In the absence of readily ascertainable market values, the estimated value of the portfolio may differ significantly from the values that would be placed on the portfolio if a ready market for the investments existed. Any changes in valuation are recorded on the consolidated statement of operations as Net change in unrealized depreciation on investments.

At times, a portion of our portfolio may include marketable securities traded in the over-the-counter market. In addition, there may be a portion of the portfolio for which no regular trading market exists. In order to realize the full value of a security, the market must trade in an orderly fashion or a willing purchaser must be available when a sale is to be made. Should an economic or other event occur that would not allow markets to trade in an orderly fashion, we

may not be able to realize the fair value of our marketable investments or other investments in a timely manner.

As of September 30, 2017, we did not have any off-balance sheet arrangements or hedging or similar derivative financial instrument investments.

**Table of Contents**

**Item 4. Controls and Procedures**

*Disclosure Controls and Procedures.* The Corporation maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that this information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Chief Executive Officer and the Chief Financial Officer carried out an evaluation of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures as September 30, 2017. Based on the evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that the Corporation's controls and procedures were effective as of September 30, 2017.

*Changes in Internal Control over Financial Reporting.* There have been no changes in our internal control over financial reporting during the Corporation's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

**Table of Contents****PART II.****OTHER INFORMATION****Item 1. Legal Proceedings**

None.

**Item 1A. Risk Factors**

See Part I, Item 1A, Risk Factors, of the Annual Report on Form 10-K for the year ended December 31, 2016.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds****Issuer Purchases of Equity Securities**

Period	Total number of shares purchased (1)	Average price paid per share (2)	Total number of shares purchased as part of publicly announced plan (3)	Maximum number of shares that may yet be purchased under the share repurchase program
7/1/2017 - 7/31/2017				458,954
8/1/2017 - 8/31/2017				458,954
9/1/2017 - 9/30/2017				458,954

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

**Item 3. Defaults upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not Applicable.



**Item 5. Other Information**

None.

**Table of Contents**

**Item 6. Exhibits**

**(a) Exhibits**

The following exhibits are filed with this report or are incorporated herein by reference to a prior filing, in accordance with Rule 12b-32 under the Securities Exchange Act of 1934.

- (3)(i) Certificate of Incorporation of the Corporation, incorporated by reference to Exhibit (a) (1) and (a) (2) of Form N-2 filed with the Securities Exchange Commission on April 22, 1997 (File No. 333-25617).
- (3)(ii) By-laws of the Corporation, incorporated by reference to Exhibit 3(ii) to the Corporation's Quarterly Report on Form 10-Q for the period ended September 30, 2016 filed with the Securities and Exchange Commission on November 2, 2016 (File No. 814-00235).
- (4) Specimen certificate of common stock certificate, incorporated by reference to Exhibit (d) (1) of Form N-2 filed with the Securities Exchange Commission on April 22, 1997 (File No. 333-25617).
- (31.1) Certification of the Chief Executive Officer Pursuant to Rules 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as amended, filed herewith.
- (31.2) Certification of the Chief Financial Officer Pursuant to Rules 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as amended, filed herewith.
- (32.1) Section 1350 Certifications - Rand Capital Corporation - furnished herewith

**Table of Contents**

**Signatures**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: November 6, 2017

RAND CAPITAL CORPORATION

By: /s/ Allen F. Grum  
Allen F. Grum, President

By: /s/ Daniel P. Penberthy  
Daniel P. Penberthy, Treasurer