

RAND CAPITAL CORP
Form 10-Q
August 02, 2016
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 June 30, 2016

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)

New York (State or Other Jurisdiction of	16-0961359 (IRS Employer
Incorporation or Organization)	Identification No.)
2200 Rand Building, Buffalo, NY (Address of Principal executive offices)	14203 (Zip Code)
(716) 853-0802	

(Registrant's telephone number, including area code)

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

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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, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of August 2, 2016, there were 6,328,538 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 June 30, 2016 (Unaudited) and December 31, 2015</u>	3
	<u>Consolidated Statements of Operations for the Three Months and Six Months Ended June 30, 2016 and 2015 (Unaudited)</u>	4
	<u>Consolidated Statements of Changes in Net Assets for the Three Months and Six Months Ended June 30, 2016 and 2015 (Unaudited)</u>	5
	<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2016 and 2015 (Unaudited)</u>	6
	<u>Consolidated Schedule of Portfolio Investments as of June 30, 2016 (Unaudited)</u>	7
	<u>Consolidated Schedule of Portfolio Investments as of December 31, 2015</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>	34
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	40
Item 4.	<u>Controls and Procedures</u>	41

PART II. OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	42
Item 1A.	<u>Risk Factors</u>	42
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	42
Item 3.	<u>Defaults upon Senior Securities</u>	42
Item 4.	<u>Mine Safety Disclosures</u>	42
Item 5.	<u>Other Information</u>	42
Item 6.	<u>Exhibits</u>	43

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

As of June 30, 2016 and December 31, 2015

	June 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Investments at fair value:		
Control investments (cost of \$99,500 and \$1,141,472, respectively)	\$ 1,512,000	\$ 13,916,472
Affiliate investments (cost of \$16,708,952 and \$17,663,217, respectively)	12,824,154	14,662,219
Non-Control/Non-Affiliate investments (cost of \$13,468,832 and \$8,606,053, respectively)	13,321,933	8,253,709
Total investments, at fair value (cost of \$ 30,277,284 and \$27,410,742, respectively)	27,658,087	36,832,400
Cash	14,376,673	5,844,795
Interest receivable (net of allowance: \$122,000 at 6/30/16 and 12/31/15)	254,801	215,224
Deferred tax asset	633,086	
Prepaid income taxes		65,228
Other assets	1,650,534	1,604,413
Total assets	\$ 44,573,181	\$ 44,562,060
LIABILITIES AND STOCKHOLDERS EQUITY (NET ASSETS)		
Liabilities:		
Debentures guaranteed by the SBA (net of debt issuance costs)	\$ 7,814,073	\$ 7,800,373
Income tax payable	1,417,888	
Deferred tax liability		2,361,186
Profit sharing and bonus payable	1,593,659	282,000
Accounts payable and accrued expenses	249,177	238,911
Deferred revenue	60,336	25,930
Total liabilities	11,135,133	10,708,400
Commitments and contingencies (See Note 5)		
Stockholders equity (net assets):		
Common stock, \$.10 par; shares authorized 10,000,000; shares issued 6,863,034; shares outstanding of 6,328,538 as of 6/30/16 and 12/31/15	686,304	686,304
Capital in excess of par value	10,581,789	10,581,789
Accumulated net investment loss	(1,261,104)	(24,580)

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Undistributed net realized gain on investments	26,629,373	18,262,401
Net unrealized (depreciation) appreciation on investments	(1,750,823)	5,795,237
Treasury stock, at cost; 534,496 shares as of 6/30/16 and 12/31/15	(1,447,491)	(1,447,491)
Total stockholders' equity (net assets) (per share 6/30/16: \$5.28, 12/31/15: \$5.35)	33,438,048	33,853,660
Total liabilities and stockholders' equity	\$ 44,573,181	\$ 44,562,060

See accompanying notes

Table of Contents

RAND CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three Months and the Six Months Ended June 30, 2016 and 2015

(Unaudited)

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Investment income:				
Interest from portfolio companies:				
Control investments	\$	\$ 20,275	\$ 11,828	\$ 42,420
Affiliate investments	94,614	96,522	159,575	211,651
Non-Control/Non-Affiliate investments	68,527	66,422	129,632	115,222
Total interest from portfolio companies	163,141	183,219	301,035	369,293
Interest from other investments:				
Non-Control/Non-Affiliate investments	18,648	8,369	21,709	15,190
Total interest from other investments	18,648	8,369	21,709	15,190
Dividend and other investment income:				
Control investments		491,208		903,359
Affiliate investments	33,232	29,061	80,797	58,429
Total dividend and other investment income	33,232	520,269	80,797	961,788
Fee income:				
Control investments		2,000	2,000	4,000
Affiliate investments	1,167	416	1,862	1,833
Non-Control/Non-Affiliate investments	4,318	4,251	7,234	8,167
Total fee income	5,485	6,667	11,096	14,000
Total investment income	220,506	718,524	414,637	1,360,271
Operating expenses:				
Salaries	155,437	149,555	310,875	299,110
Bonus and profit sharing			1,411,659	
Employee benefits	36,711	29,394	126,222	59,801
Directors fees	47,380	29,300	94,755	51,050
Professional fees	86,288	20,433	151,048	93,502
Stockholders and office operating	61,542	55,717	124,036	115,114
Insurance	6,258	6,300	17,518	17,554

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Corporate development	16,055	14,400	31,525	31,381
Other operating	2,375	2,224	5,975	5,874
	412,046	307,323	2,273,613	673,386
Interest on SBA obligations	77,570	77,569	155,139	151,891
Total operating expenses	489,616	384,892	2,428,752	825,277
Net investment (loss) income before income taxes	(269,110)	333,632	(2,014,115)	534,994
Income tax (benefit) expense	(114,564)	101,920	(777,591)	173,987
Net investment (loss) income	(154,546)	231,712	(1,236,524)	361,007
Net realized gain on investments:				
Control investments			13,176,313	
Non-Control/Non-Affiliate investments	168,140	131,181	168,140	262,925
Net realized gain before income taxes	168,140	131,181	13,344,453	262,925
Income tax expense	34,520	42,591	4,977,481	89,742
Net realized gain on investments	133,620	88,590	8,366,972	173,183
Net change in unrealized depreciation or appreciation on investments:				
Control investments			(11,362,500)	
Affiliate investments	(325,000)	(193,436)	(747,800)	(193,436)
Non-Control/Non-Affiliate investments	69,444	(73,219)	69,444	(127,728)
Change in unrealized depreciation or appreciation before income taxes	(255,556)	(266,655)	(12,040,856)	(321,164)
Deferred income tax benefit	(78,390)	(89,449)	(4,494,796)	(109,618)
Net decrease in unrealized depreciation or appreciation on investments	(177,166)	(177,206)	(7,546,060)	(211,546)
Net realized and unrealized (loss) gain on investments	(43,546)	(88,616)	820,912	(38,363)
Net (decrease) increase in net assets from operations	(\$ 198,092)	\$ 143,096	(\$ 415,612)	\$ 322,644
Weighted average shares outstanding	6,328,538	6,328,538	6,328,538	6,328,538
Basic and diluted net (decrease) increase in net assets per share from operations	(\$ 0.03)	\$ 0.02	(\$ 0.07)	\$ 0.05

See accompanying notes

Table of Contents

RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
For the Three Months and the Six Months Ended June 30, 2016 and 2015
(Unaudited)

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Net assets at beginning of period	\$ 33,636,140	\$ 32,532,989	\$ 33,853,660	\$ 32,353,441
Net investment (loss) income	(154,546)	231,712	(1,236,524)	361,007
Net realized gain on investments	133,620	88,590	8,366,972	173,183
Net change in unrealized depreciation or appreciation on investments	(177,166)	(177,206)	(7,546,060)	(211,546)
Net (decrease) increase in net assets from operations	(198,092)	143,096	(415,612)	322,644
Total (decrease) increase in net assets	(198,092)	143,096	(415,612)	322,644
Net assets at end of period	\$ 33,438,048	\$ 32,676,085	\$ 33,438,048	\$ 32,676,085
Accumulated net investment loss	(\$ 1,261,104)	(\$ 506,475)	(\$ 1,261,104)	(\$ 506,475)

See accompanying notes

Table of Contents

RAND CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Six Months Ended June 30, 2016 and 2015

(Unaudited)

	Six months ended June 30, 2016	Six months ended June 30, 2015
Cash flows from operating activities:		
Net (decrease) increase in net assets from operations	(\$ 415,612)	\$ 322,644
Adjustments to reconcile net (decrease) increase in net assets to net cash provided by (used in) operating activities:		
Investments in portfolio companies	(3,898,466)	(4,719,008)
Proceeds from sale of investments	13,969,453	648,605
Proceeds from loan repayments	416,972	99,080
Change in unrealized depreciation or appreciation on investments	12,040,856	321,164
Deferred tax (benefit) expense	(2,994,272)	24,113
Realized gain on portfolio investments	(13,344,453)	(262,925)
Depreciation and amortization	16,692	16,448
Original issue discount amortization	(4,998)	(7,746)
Change in interest receivable allowance		(6,311)
Non-cash conversion of debenture interest	(5,051)	(32,669)
Changes in operating assets and liabilities:		
Increase in interest receivable	(39,577)	(36,036)
Increase in other assets	(49,113)	(8,925)
Decrease (increase) in prepaid income taxes	65,228	(148,807)
Increase (decrease) in income taxes payable	1,417,888	(2,065,795)
Increase (decrease) in accounts payable and accrued expenses	10,266	(106,629)
Increase (decrease) in profit sharing and bonus payable	1,311,659	(758,750)
Increase in deferred revenue	34,406	11,000
Total adjustments	8,947,490	(7,033,191)
Net cash provided by (used in) operating activities	8,531,878	(6,710,547)
Net increase (decrease) in cash	8,531,878	(6,710,547)
Cash:		
Beginning of period	5,844,795	13,230,717
End of period	\$ 14,376,673	\$ 6,520,170

See accompanying notes

Table of Contents

RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

June 30, 2016

(Unaudited)

(a)

Company, Geographic Location, Business Description, (Industry) and Website	(b) Date	(c) Equity	(d)(f) Fair Value	Percent of Net Assets
<u>Type of Investment</u>	<u>Acquired</u>	<u>Equity</u>	<u>Cost</u>	<u>Value</u>
Non-Control/Non-Affiliate Investments 39.8% of net assets: (j)				
Athenex, Inc. (e)(g) (Formerly Kinex Pharmaceuticals, Inc.) Buffalo, NY. Specialty pharmaceutical and drug development. (Health Care) www.athenex.com	46,296 common shares. 9/8/14	<1%	\$143,285 \$416,664	1.2%
City Dining Cards, Inc. (Loupe) (e)(g) Buffalo, NY. Customer loyalty technology company that helps businesses attract and retain customers. (Software) www.loupeapp.io	9,525.25 Series B preferred shares. 9/1/15	4%	500,000 500,000	1.5%
eHealth Global	\$1,500,000 senior subordinated 6/28/16	0%	1,500,000 1,500,000	4.5%

Technologies, Inc. (g)

secured term loan at 9% due
September 2, 2019.

Henrietta, NY. eHealth
Connect® improves health
care delivery through
intelligently aggregated
clinical record and images for
patient referrals.

(Health Care)

www.ehealthtechnologies.com

Empire Genomics, LLC (e)(g)	\$900,000 senior secured convertible term notes at 10% due April 1, 2017.	6/13/14	<1%		3.4%
Buffalo, NY. Molecular diagnostics company that	\$250,000 promissory note at 12% due December 31, 2019.			900,000	900,000
offers a comprehensive menu of assay services for	(i) Interest receivable \$140,182.			<u>250,000</u>	<u>250,000</u>
diagnosing and guiding patient therapeutic treatments.					
(Health Care)					
www.empiregenomics.com					
	Total Empire			<u>1,150,000</u>	<u>1,150,000</u>
GoNoodle, Inc. (g)	\$1,000,000 secured note at 12% due January 31, 2020, (1% Payment in Kind (PIK)).	2/6/15	<1%		3.0%
(Formerly HealthTeacher, Inc.)	Warrant for 47,324 Series C Preferred shares.			1,014,025	1,014,025
Nashville, TN. Student engagement education					
software providing core aligned physical activity				<u>25</u>	<u>25</u>
breaks. (Software)					
www.gonoodle.com					
	Total GoNoodle			<u>1,014,050</u>	<u>1,014,050</u>
Mercantile Adjustment Bureau, LLC (g)	\$1,099,039 subordinated secured note at 13% (3% for the calendar year 2016) due October 30, 2017.	10/22/12	4%		3.2%
Williamsville, NY. Full service accounts receivable	(e) \$150,000 subordinated debenture at 8% due June 30, 2018.			1,085,692	1,085,692

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management and collections company. (Contact Center) www.mercantilesolutions.com	Warrant for 3.29% membership interests. Option for 1.5% membership interests. (i) Interest receivable \$66,610.			150,000		0	
				<u>97,625</u>		<u>0</u>	
				<u>1,333,317</u>		<u>1,085,692</u>	
							Total Mercantile
Outmatch (e)(g)	2,353,854 Class P1 Units.	11/18/10	4%	2,140,007	2,140,007	6.4%	
(Chequed Holdings, LLC)	109,788 Class C1 Units.			<u>5,489</u>	<u>5,489</u>		
Saratoga Springs, NY. Web based predictive employee selection and reference checking. (Software) www.outmatch.com							
							Total Outmatch
				<u>2,145,496</u>	<u>2,145,496</u>		
Rheonix, Inc. (e)	9,676 common shares.	10/29/09	4%	-	11,000	8.8%	
Ithaca, NY. Developer of fully automated microfluidic based molecular assay and diagnostic testing devices. (Health Care) www.rheonix.com	(g) 1,839,422 Series A preferred shares. (g) 50,593 common shares. (g) 589,420 Series B preferred shares.			2,099,999	2,165,999		
				-	59,000		
				<u>702,732</u>	<u>702,732</u>		
				<u>2,802,731</u>	<u>2,938,731</u>		Total Rheonix

Table of Contents

RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

June 30, 2016 (Continued)

(Unaudited)

(a)	(b)	(c)	(d)(f)		
<u>Company, Geographic Location, Business Description, (Industry) and Website</u>	<u>Date</u>	<u>Equity</u>	<u>Cost</u>	<u>Fair Value</u>	
Inc. (e)(g)	1,049,538 Series B preferred shares.	4/5/13	4%	500,000	731,431
Y. Provides instant analysis of social media activity using a proprietary, predictive analytic engine to optimize advertising and publishing. www.socialflow.com	1,204,819 Series B-1 preferred shares.			750,000	839,648
	717,772 Series C preferred shares.			<u>500,000</u>	<u>500,221</u>
	Total Social Flow			<u>1,750,000</u>	<u>2,071,300</u>
s Transmission Company, LLC (e)	26.5337 units.	7/10/02	3%	719,097	500,000
H. Natural gas transportation.					
etgas.com					
Control/Non-Affiliate Investments:					
LLC (Software) (e)	Membership Interest	-	-	310,357	-
Manufacturing) (e)	Common Stock.	-	-	100,500	-
Non-Control/Non-Affiliate Investments				\$ 13,468,833	\$ 13,321,933
Investments 38.4% of net assets (k)					
LLC (Grainful) (e)(g)	1,119,024 Series A-2 Preferred Membership Units.	10/20/14	9%		
Frozen entrées and packaged dry side products from 100% whole grain steel cut oats under the brand name. (Consumer Product)	\$150,000 convertible promissory note at 8% due September 1, 2017.			\$359,000	\$359,000
	Total BeetNPath			<u>150,000</u>	<u>150,000</u>

				<u>509,000</u>	<u>509,000</u>
ff LLC (g)	6.0825% Class A common membership interest.	1/30/04	7%	15,000	600,000
A. Manufacturer of fresh water, ocean leisure boats.					
(g)					
askiff.com					
ocial, Inc. (e)(g)	312,500 Series seed plus preferred shares.	1/4/16	6%	200,000	200,000
Social media publishing tool for law, professional firms. (Software)					
ewsocial.com					
Products Group, LLC (e)(g)	\$500,000 senior term notes at 10% due December 31, 2016.	4/19/12	7%		
Sells First Crush automated pill crushers and grinds medical pills for hospitals and medical institutions. (Health)				661,563	250,000
Warrant for 41,619 capital securities.				316,469	0
veproducts.com					
Total First Wave				<u>22,000</u>	<u>0</u>
				<u>1,000,032</u>	<u>250,000</u>
. (g)	1,586,902 Series B preferred shares.	4/10/15	6%	1,000,000	1,000,000
FL. Designs, produces and distributes medical instrumentation.					
\$1,100,000 senior term loans at 12% due April 1, 2019.					
Total Genicon				<u>1,100,000</u>	<u>1,100,000</u>
				<u>2,100,000</u>	<u>2,100,000</u>
hendo.com					
c. (e)(g)	5,084,329 Series Seed preferred shares.	3/13/13	9%	616,221	424,314
Online fundraising, day of giving management software for non-profit organizations. (Software)					
o.com					
ral Gas Systems (e)	17.845% Class A membership interest. 8% cumulative dividend.	8/31/99	18%	400,000	100,000
Manufactures and distributes systems for natural gas to be used as an alternative fuel. (Manufacturing)					
com					

Table of Contents

RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

June 30, 2016 (Continued)

(Unaudited)

(a)		(b)	(c)		(d)(f)	
Company, Geographic Location, Business		Date			Fair	Percent
<u>Description, (Industry) and Website</u>	<u>Type of Investment</u>	<u>Acquired</u>	<u>Equity</u>	<u>Cost</u>	<u>Value</u>	<u>of Net Assets</u>
Intrinsiq Materials, Inc. (e)(g)	599,055 Series 2 preferred shares.	9/19/13	7%	600,002	0	0.3%
Rochester, NY. Produces printable electronics utilizing a unique process of nanomaterial based ink in a room-temperature environment. (Manufacturing)	\$95,000 convertible promissory note at 8% due March 31, 2016.			<u>95,000</u>	<u>95,000</u>	
www.intrinsiqmaterials.com	Total Intrinsiq			<u>695,002</u>	<u>95,000</u>	
Knoa Software, Inc. (e)(g)	973,533 Series A-1 convertible preferred shares.	11/20/12	7%	750,000	0	1.5%
New York, NY. End user experience management and performance (EMP) solutions utilizing enterprise applications. (Software)	1,876,922 Series B preferred shares.			479,155	449,455	
www.knoa.com	\$48,466 convertible promissory note at 8% due May 9, 2018.			<u>48,466</u>	<u>48,466</u>	
	Total Knoa			<u>1,277,621</u>	<u>497,921</u>	
KnowledgeVision Systems, Inc. (e)(g)	200,000 Series A-1 preferred shares.	11/13/13	7%	250,000	0	1.5%
Lincoln, MA. Online presentation and training software. (Software)	214,285 Series A-2 preferred shares.			300,000	300,000	
www.knowledgevision.com	129,033 Series A-3 preferred shares.			165,001	165,001	
				<u>35,000</u>	<u>35,000</u>	
				<u>750,001</u>	<u>500,001</u>	

	Warrant for 46,743 Series A-3 shares.						
	Total KnowledgeVision						
Mezmeriz, Inc. (e)(g)	1,554,565 Series Seed preferred shares.	1/9/08	15%	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							
Microcision LLC (g)	\$1,500,000 subordinated promissory note at 11% due January 31, 2017.	9/24/09	15%		1,891,964	1,891,964	5.7%
Philadelphia, PA. Manufacturer of precision machined medical implants, components and assemblies. (Manufacturing)							
www.microcision.com	15% Class A common membership interest.				<u> -</u>	<u> -</u>	
					<u>1,891,964</u>	<u>1,891,964</u>	
	Total Microcision						
New Monarch Machine Tool, Inc. (g)	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							
OnCore Golf Technology, Inc. (e)(g)	150,000 Series AA preferred shares.	12/31/14	7%	375,000	187,500	1.5%	
Buffalo, NY. Maker of patented hollow-metal core golf balls. (Consumer Product)							
www.oncoregolf.com	\$300,000 subordinated convertible promissory notes at 6% due January 24, 2017.				<u>300,000</u>	<u>300,000</u>	
					<u>675,000</u>	<u>487,500</u>	
	Total OnCore						
SciAps, Inc. (e)(g)	187,500 Series A convertible preferred shares.	7/12/13	9%		1,500,000	1,000,000	5.8%
Woburn, MA. Instrumentation company producing portable analytical devices using							

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XRF, LIBS and RAMAN spectroscopy to identify compounds, minerals, and elements. (Manufacturing)	274,299 Series A-1 convertible preferred shares.			504,710	504,710
www.sciaps.com	117,371 Series B preferred shares.			250,000	250,000
	\$200,000 subordinated convertible note at 10% due April 8, 2017			<u>200,000</u>	<u>200,000</u>
				<u>2,454,710</u>	<u>1,954,710</u>

Total SciAps

SOMS Technologies, LLC (g)	5,959,490 Series B membership interests.	12/2/08	9%	472,632	528,348	1.6%
Valhalla, NY. Produces and markets the microGreen Extended Performance Oil Filter. (Consumer Products)						
www.microgreenfilter.com						
Statisfy, Inc. (e)(g)	65,000 Series seed preferred shares.	8/18/14	10%	20,968	10,484	1.0%
Boston, MA. Mobile marketing platform for engagement, advertising and surveys. (Software)	Warrant for 1,950,000 Series seed preferred shares.			<u>629,032</u>	<u>314,516</u>	
www.statisfy.co				<u>650,000</u>	<u>325,000</u>	

Total Statisfy

Table of Contents

RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

June 30, 2016 (Continued)

(Unaudited)

(a)	(b)	(c)	(d)(f)	(e)		
Company, Geographic Location, Business	Date	Equity	Fair Value	Percent of Net Assets		
<u>Description, (Industry) and Website</u>	<u>Type of Investment</u>	<u>Acquired</u>	<u>Cost</u>	<u>Value</u>		
Teleservices Solutions Holdings, LLC (g)(m)	250,000 Class B preferred units.	5/30/14	6%	250,000	0	4.1%
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	1,190,680	
www.ipacesetters.com	80,000 Class D preferred units.			91,200	91,200	
	104,198 Class E preferred units.			<u>104,198</u>	<u>104,198</u>	
	PIK dividend for Series C and D at 12% and 14%, respectively.			<u>1,636,078</u>	<u>1,386,078</u>	
	Total Teleservices					
Tilson Technology Management, Inc.(g)	12 Series B preferred shares.	1/20/15	8%	600,000	600,000	1.8%
Portland, ME. Cellular, fiber optic and wireless information systems, construction, and management. (Professional Services)						
www.tilsontech.com						
Subtotal Affiliate Investments				\$16,708,952	\$12,824,154	

Control Investments 4.5% of net assets (I)

Advantage 24/7 LLC (e)(g)	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						
Gemcor II, LLC (e)(g)	Escrow receivable due from sale of business in March 2016.	6/28/04	31%	0	1,412,500	4.2%
West Seneca, NY. Holding company following sale of business in March 2016. (Manufacturing)						
www.gemcor.com						
Subtotal Control Investments				\$99,500	\$1,512,000	
TOTAL INVESTMENTS 82.7%				\$30,277,285	\$27,658,087	
OTHER ASSETS IN EXCESS OF LIABILITIES 17.3%					5,779,961	
NET ASSETS 100%					\$33,438,048	

Table of Contents

RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

June 30, 2016 (Continued)

(Unaudited)

Notes to the Consolidated Schedule of Portfolio Investments

- (a) At June 30, 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 June 30, 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 June 30, 2016, the total cost of investment securities was approximately \$30.3 million. Net unrealized depreciation was approximately \$2.6 million, which was comprised of \$2.8 million of unrealized appreciation of investment securities and (\$5.4) million of unrealized depreciation of investment securities. At June 30, 2016, the aggregate gross unrealized gain for federal income tax purposes was \$3.0 million and the aggregate gross unrealized loss for federal income tax purposes was (\$5.1) million. The net unrealized loss for federal income tax purposes was \$2.1 million based on a tax cost of \$29.8 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 June 30, 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

June 30, 2016 (Continued)

(Unaudited)

Investments in and Advances to Affiliates

Company	Type of Investment	December 31, 2015 Fair Value	Gross Additions (1)	Gross Reductions (2)	June 30, 2016 Fair Value	Amount of Interest/ Dividend/ Fee Income (3)
Control Investments:						
Advantage 24/7 LLC	53% Membership interest.	\$99,500	\$ -	\$ -	\$99,500	\$ -
Gemcor II, LLC	\$1,000,000 subordinated promissory note at 15%.					
	31.25 membership units.	416,972	-	(416,972)	-	11,828
	Escrow receivable due from sale of business.	13,400,000	-	(13,400,00)	-	2,000
		<u>-</u>	<u>1,412,500</u>	<u>-</u>	<u>1,412,500</u>	<u>-</u>
	Total Gemcor	13,816,972	1,412,500	(13,816,972)	1,412,500	13,828
	Total Control Investments	\$13,916,472	\$1,412,500	(\$13,816,972)	\$1,512,000	\$13,828
Affiliate Investments:						
BeetNPath, LLC	1,119,024 Series A-2 Preferred Membership	\$359,000	\$ -	\$ -	\$359,000	\$ -
		<u>-</u>	<u>150,000</u>	<u>-</u>	<u>150,000</u>	<u>-</u>

Units.

\$150,000
convertible
promissory note
at 8%.

		Total					
		BeetNPath	<u>\$359,000</u>	<u>\$150,000</u>	<u>\$ -</u>	<u>\$509,000</u>	<u>-</u>
Carolina Skiff LLC	6.0825% Class A common membership interest.	600,000	-	-	-	600,000	63,583
ClearView Social, Inc.	312,500 Series seed plus preferred shares.	-	200,000	-	-	200,000	-
First Wave Products Group, LLC	\$500,000 senior term notes at 10%.						
	\$280,000 junior term notes at 10%.	250,000	-	-	-	250,000	666
	Warrant for 41,619 capital securities.	-	-	-	-	-	-
	Total First Wave	<u>250,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>250,000</u>	<u>666</u>
Genicon, Inc.	1,586,902 Series B preferred shares.						
	\$1,100,000 senior term loans at 12%.	1,000,000	-	-	-	1,000,000	1,196
	Total Genicon	<u>1,000,000</u>	<u>1,100,000</u>	<u>-</u>	<u>-</u>	<u>2,100,000</u>	<u>43,434</u>
GiveGab, Inc.	5,084,329 Series Seed preferred shares.	424,314	-	-	-	424,314	-
G-TEC Natural Gas Systems	17.845% Class A membership interest. 8% cumulative dividend.	100,000	-	-	-	100,000	-
Intrinsiq Materials, Inc.	599,055 Series 2 preferred shares.	-	-	-	-	-	-
		<u>95,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>95,000</u>	<u>-</u>

	\$95,000 convertible promissory note at 8%.					
	Total Intrinsic	<u>95,000</u>	-	-	<u>95,000</u>	-
Knoa Software, Inc.	973,533 Series A-1 convertible preferred shares.					
	1,876,922 Series B preferred shares.	381,503	-	(381,503)	-	-
	\$48,466 convertible promissory note at 8%.	490,752	-	(41,297)	449,455	-
		<u>-</u>	<u>48,466</u>	<u>-</u>	<u>48,466</u>	<u>560</u>
	Total Knoa	<u>872,255</u>	<u>48,466</u>	<u>(422,800)</u>	<u>497,921</u>	<u>560</u>
KnowledgeVision Systems, Inc.	200,000 Series A-1 preferred shares.					
	214,285 Series A-2 preferred shares.					
	129,033 Series A-3 preferred shares.	-	-	-	-	-
	Warrant for 46,743 Series A-3 shares.	300,000	-	-	300,000	-
		165,001	-	-	165,001	-
		<u>35,000</u>	=	=	<u>35,000</u>	=
	Total Knowledge Vision	<u>500,001</u>	=	=	<u>500,001</u>	=
Mezmeriz, Inc.	1,554,565 Series seed preferred shares.	351,477	-	-	351,477	-
Microcision LLC	\$1,500,000 subordinated promissory note at 11%.					
	15% Class A common membership interest.	1,891,964	-	-	1,891,964	104,059
		<u>-</u>	=	=	<u>-</u>	<u>-</u>
	Total Microcision	<u>1,891,964</u>	=	=	<u>1,891,964</u>	<u>104,059</u>

New Monarch Machine Tool, Inc.	22.84 common shares.	22,841	-	-	22,841	-
OnCore Golf Technology, Inc.	150,000 Series AA preferred shares.					
	\$300,000 subordinated convertible promissory notes at 6%.	187,500	-	-	187,500	-
		<u>150,000</u>	<u>150,000</u>	=	<u>300,000</u>	<u>12,723</u>
	Total OnCore	<u>337,500</u>	<u>150,000</u>	=	<u>487,500</u>	<u>12,723</u>

Table of Contents

RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

June 30, 2016 (Continued)

(Unaudited)

Investments in and Advances to Affiliates

Company	Type of Investment	December 31, 2015 Fair Value	Gross Additions (1)	Gross Reductions (2)	June 30, 2016 Fair Value	Amount of Interest/ Dividend/ Fee Income (3)
Rheonix, Inc.	9,676 common shares.					
	1,839,422 Series A preferred shares.	11,000	-	(11,000)	-	-
	50,593 common shares.	2,165,999	-	(2,165,999)	-	-
		59,000	-	(59,000)	-	-
	589,420 Series B preferred shares.	<u>702,732</u>	=	<u>(702,732)</u>	=	=
	Total Rheonix	<u>2,938,731</u>	=	<u>(2,938,731)</u>	=	=
SciAps, Inc.	187,500 Series A convertible preferred shares.	1,000,000	-	-	1,000,000	-
		504,710	-	-	504,710	-
	274,299 Series A-1 convertible preferred shares.	250,000	-	-	250,000	-
		<u> -</u>	<u>200,000</u>	=	<u>200,000</u>	=
	117,371 Series B preferred shares.					
	\$200,000 subordinated					

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	promissory note at 10%.					
	Total SciAps	<u>1,754,710</u>	<u>200,000</u>	=	<u>1,954,710</u>	=
SOMS Technologies, LLC	5,959,490 Series B membership interests.	528,348	-	-	528,348	13,464
Satisfy, Inc.	65,000 Series seed preferred shares.					
	Warrant for 1,950,000 Series seed preferred shares.	20,968	-	-	20,968	-
		<u>629,032</u>	=	<u>(325,000)</u>	<u>304,032</u>	=
	Total Satisfy	<u>650,000</u>	=	<u>(325,000)</u>	<u>325,000</u>	=
Teleservices Solutions Holdings, LLC	250,000 Class B shares.					
	1,000,000 Class C shares.	-	-	-	-	-
	80,000 Class D preferred units.	1,190,680	-	-	1,190,680	-
		91,200	-	-	91,200	-
	104,198 Class E preferred units.	<u>104,198</u>	=	=	<u>104,198</u>	=
	Total Teleservices	<u>1,386,078</u>	=	=	<u>1,386,078</u>	=
Tilson Technology Management, Inc.	12 Series B preferred shares.	600,000	-	-	600,000	3,750
	Total Affiliate Investments	\$14,662,219	\$1,848,466	(\$3,686,531)	\$12,824,154	\$242,235
	Total Control and Affiliate Investments	\$28,578,691	\$3,260,966	(\$17,503,503)	\$14,336,154	\$256,063

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

June 30, 2016 (Continued)

(Unaudited)

<u>Industry Classification</u>	Percentage of Total Investments (at fair value) as of June 30, 2016
Healthcare	30.2%
Software	27.8%
Manufacturing	22.0%
Contact Center	8.9%
Consumer Product	5.5%
Professional Services	2.2%
Oil and Gas	1.8%
Electronics	1.2%
Marketing	0.4%
Total Investments	100%

Table of Contents

RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

December 31, 2015

(a)	(b)	(c)	(d)(f)			
Company, Geographic Location, Business	Date	Equity	Fair	Percent		
<u>Description, (Industry) and Website</u>	<u>Type of Investment</u>	<u>Acquired</u>	<u>Cost</u>	<u>Value</u>		
<u>Assets</u>						
Non-Control/Non-Affiliate Investments 24.4% of net assets: (j)						
Athenex, Inc. (e)(g) (Formerly Kinex Pharmaceuticals, Inc.) Buffalo, NY. Specialty pharmaceutical and drug development. (Health Care) www.athenex.com	46,296 common shares.	9/8/14	<1%	\$143,285	\$347,220	1.0%
City Dining Cards, Inc. (Loupe) (e)(g) Buffalo, NY. Customer loyalty technology company that helps businesses attract and retain customers. (Software) www.citydiningcards.com	9,525.25 Series B preferred shares.	9/1/15	4%	500,000	500,000	1.5%
Empire Genomics, LLC (e)(g) Buffalo, NY. Molecular diagnostics company that offers a comprehensive menu of assay services for diagnosing and guiding patient therapeutic treatments. (Health Care)	\$600,000 senior secured convertible term note at 10% due April 1, 2017. (i) Interest receivable \$92,833.	6/13/14	-	600,000	600,000	1.8%

www.empiregenomics.com

GoNoodle, Inc. (g)	\$1,000,000 secured note at 12% due	2/6/15	<1%	1,008,974	1,008,974	3.0%
(Formerly HealthTeacher, Inc.)	January 31, 2020, (1% Payment in Kind (PIK)).			<u>25</u>	<u>25</u>	
Nashville, TN. Student engagement education software providing core aligned physical activity breaks. (Software)	Warrant for 47,324 Series C Preferred shares.					
www.gonoodle.com	Total GoNoodle			<u>1,008,999</u>	<u>1,008,999</u>	

Mercantile Adjustment Bureau, LLC (g)	\$1,099,039 subordinated secured note at 13% (3% for the calendar year 2015) due October 30, 2017. (e) \$150,000 subordinated debenture at 8% due June 30, 2018.	10/22/12	4%			3.2%
Williamsville, NY. Full service accounts receivable management and collections company. (Contact Center)	Warrant for 3.29% membership interests. Option for 1.5% membership interests.			1,080,694	1,080,694	
www.mercantilesolutions.com	(i) Interest receivable \$93,455.			150,000	0	
	Total Mercantile			<u>97,625</u>	<u>0</u>	

Outmatch (e)(g)	2,264,995 Class P1 Units.	11/18/10	4%	2,140,007	2,140,007	6.3%
(Formerly Chequed Holdings, LLC)	109,788 Class C1 Units.			<u>5,489</u>	<u>5,489</u>	
Saratoga Springs, NY. Web based predictive employee selection and reference checking. (Software)	Total Outmatch			<u>2,145,496</u>	<u>2,145,496</u>	
www.outmatch.com						

SocialFlow, Inc. (e)(g)	1,049,538 Series B preferred shares.	4/5/13	4%	500,000	731,431	6.1%
New York, NY. Provides instant analysis of social networks using	1,204,819 Series			750,000	839,648	

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a proprietary, predictive analytic algorithm to optimize advertising and publishing. (Software)	B-1 preferred shares.			<u>500,000</u>	<u>500,221</u>
www.socialflow.com	717,772 Series C preferred			<u>1,750,000</u>	<u>2,071,300</u>

Total Social Flow

Somerset Gas Transmission Company, LLC (e)	26.5337 units.	7/10/02	3%	719,097	500,000	1.5%
Columbus, OH. Natural gas transportation.						
(Oil and Gas)						
www.somersetgas.com						

Other Non-Control/Non-Affiliate Investments:

DataView, LLC (Software) (e)	Membership Interest	-	-	310,357	-	0.0%
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Table of Contents

RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

December 31, 2015 (Continued)

(a)	(b)	(c)	(d)(f)		
Company, Geographic Location, Business Description, (Industry) and Website	Type of Investment	Date Acquired	Equity	Cost	Fair Value
(Manufacturing) (e)	Common Stock.	-	-	100,500	-
Non-Control/Non-Affiliate Investments				\$8,606,053	\$8,253,709
Investments 43.3% of net assets (k)					
LLC (e)(g)	1,119,024 Series A-2 Preferred Membership Units.	10/20/14	9%	\$359,000	\$359,000
Frozen entrées and packaged dry side from 100% whole grain steel cut oats under brand name. (Consumer Product)					
www.veproducts.com					
LLC (g)	6.0825% Class A common membership interest.	1/30/04	7%	15,000	600,000
A. Manufacturer of fresh water, ocean leisure boats.					
www.skiff.com					
Products Group, LLC (e)(g)	\$500,000 senior term notes at 10% due	4/19/12	7%		
Sells First Crush automated pill					
crushes and grinds medical pills for					
hospitals and medical institutions. (Health Care)					
www.veproducts.com					
	December 31, 2016.			661,563	250,000
	\$280,000 junior term notes at 10% due				
	December 31, 2016.			316,469	0
	Warrant for 41,619 capital securities.			<u>22,000</u>	0
Total First Wave				<u>1,000,032</u>	<u>250,000</u>
LLC (e)(g)	1,586,902 Series B preferred shares.	4/10/15	6%	1,000,000	1,000,000

FL. Designs, produces and patented surgical instrumentation.) nendo.com	5,084,329 Series Seed preferred shares.	3/13/13	9%	616,221	424,314
Online fundraising, day of giving engagement software for non-profit s. (Software) b.com					
Natural Gas Systems (e) Manufactures and distributes systems natural gas to be used as an alternative fuel manufacturing) .com	17.845% Class A membership interest.	8/31/99	18%	400,000	100,000
	8% cumulative dividend.				
Materials, Inc. (e)(g) Y. Produces printable electronics Unique process of nanomaterial based n-temperature environment. ing) qmaterials.com	599,055 Series 2 preferred shares.	9/19/13	7%	600,002	0
	\$95,000 convertible promissory note at 8% due March 31, 2016.			<u>95,000</u>	<u>95,000</u>
				<u>695,002</u>	<u>95,000</u>
	Total Intrinsic				
are, Inc. (e)(g) NY. End user experience management ance (EMP) solutions utilizing enterprise (Software) om	973,533 Series A-1 convertible preferred shares.	11/20/12	7%	750,000	381,500
	1,876,922 Series B preferred shares.			<u>479,155</u>	<u>490,750</u>
				<u>1,229,155</u>	<u>872,250</u>
ision Systems, Inc. (e)(g) . Online presentation and training (software) edgevision.com	200,000 Series A-1 preferred shares.	11/13/13	7%	250,000	0
	214,285 Series A-2 preferred shares.			300,000	300,000
	129,033 Series A-3 preferred shares.			165,001	165,000
	Warrant for 46,743 Series A-3 shares.			<u>35,000</u>	<u>35,000</u>
	Total KnowledgeVision			<u>750,001</u>	<u>500,000</u>

Table of Contents

RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

December 31, 2015 (Continued)

(a) Geographic Location, Business (Industry) and Website	(b) Date	(c) Equity	(d)(f) Fair Value
<u>Type of Investment</u>	<u>Acquired</u>	<u>Equity</u>	<u>Cost</u>
(g) 1,554,565 Series Seed preferred shares. Electronic mechanical developer of carbon fiber modules for gesture scanning. (Electronics)	1/9/08	15%	742,850
(g) \$1,500,000 subordinated promissory note at 11% due January 31, 2017. Manufacturer of precision implants, components manufacturing)	9/24/09	15%	1,891,964
15% Class A common membership interest.			-
			<u>1,891,964</u>
Total Microcision			
Machine Tool, Inc. (g) 22.84 common shares. Manufactures and services machining centers.	9/24/03	15%	22,841
Technology, Inc. (e)(g) 150,000 Series AA preferred shares. Manufacturer of patented golf balls. (Consumer)	12/31/14	7%	375,000
\$150,000 subordinated convertible promissory note at 6% due January 24, 2017.			150,000
			<u>525,000</u>
Total OnCore			
9,676 common shares.	10/29/09	5%	-

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per of fully automated molecular assay and devices. (Health Care)	(g) 1,839,422 Series A preferred shares.			2,099,999	2,16
	(g) 50,593 common shares.			-	5
	(g) 589,420 Series B preferred shares.			<u>702,732</u>	<u>70</u>
				<u>2,802,731</u>	<u>2,93</u>
	Total Rheonix				
	187,500 Series A convertible preferred shares.	7/12/13	9%	1,500,000	1,00
umentation company analytical devices using MAN spectroscopy to s, minerals, and elements.	274,299 Series A-1 convertible preferred shares.			504,710	50
	117,371 Series B preferred shares.			<u>250,000</u>	<u>25</u>
				<u>2,254,710</u>	<u>1,75</u>
	Total SciAps				
es, LLC (e)(g)	5,959,490 Series B membership interests.	12/2/08	9%	472,632	52
uces and markets the led Performance Oil Products)					
lter.com					
	65,000 Series seed preferred shares.	8/18/14	10%	20,968	2
le marketing platform for ising and surveys.	Warrant for 1,950,000 Series seed preferred shares.			<u>629,032</u>	<u>62</u>
				<u>650,000</u>	<u>65</u>
	Total Statify				
ions Holdings, LLC	250,000 Class B preferred units. 1,000,000 Class C preferred units. 80,000 Class D preferred units.	5/30/14	6%	250,000	
omer contact center omer acquisition and ed industries. (Contact	104,198 Class E preferred units.			1,190,680	1,19
	PIK dividend for Series C and D at 12%			91,200	9
	and 14%, respectively.			<u>104,198</u>	<u>10</u>
om					
	Total Teleservices				
				<u>1,636,078</u>	<u>1,38</u>
Management, Inc.(g)	12 Series B preferred shares.	1/20/15	8%	600,000	60
ular, fiber optic and n systems, construction, Professional Services)					
m					

Investments	\$17,663,217	\$14,663,217
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Table of Contents

RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

December 31, 2015 (Continued)

(a) Company, Geographic Location, Business Description, (Industry) and Website	(b) Date Acquired	(c) Equity Cost	(d)(f) Fair Value	Percent of Net Assets
Control Investments 41.1% of net assets (l)				
Advantage 24/7 LLC (e)(g) Williamsville, NY. Marketing program for wine and spirits dealers. (Marketing Company) www.advantage24-7.com	12/30/10	53% Membership interest.	\$99,500	0.3%
Gemcor II, LLC (g)(h)(m) West Seneca, NY. Designs and sells automatic riveting machines used in the assembly of aircraft. (Manufacturing) www.gemcor.com	6/28/04	31% subordinated promissory note at 15% due September 1, 2017. 31.25 membership units.	416,972 <u>625,000</u> <u>1,041,972</u>	40.8% <u>13,400,000</u> <u>13,816,972</u>
Total Gemcor				
Subtotal Control Investments			\$1,141,472	\$13,916,472
TOTAL INVESTMENTS 108.8%			\$27,410,742	\$36,832,400
LIABILITIES IN EXCESS OF OTHER				
ASSETS (8.8%)				(2,978,740)
NET ASSETS 100%				\$33,853,660

Table of Contents

RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

December 31, 2015 (Continued)

Notes to the Consolidated Schedule of Portfolio Investments

- (a) At December 31, 2015, 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. Freed Maxick CPAs P.C. has not audited the business descriptions of the portfolio companies.
- (b) The Date Acquired column indicates the year in which the Corporation acquired its first 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, 2015, 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, 2015, the total cost of investment securities was approximately \$27.5 million. Net unrealized appreciation was approximately \$9.4 million, which was comprised of \$14.1 million of unrealized appreciation of investment securities and (\$4.7) million related to unrealized depreciation of investment securities. At December 31, 2015, the aggregate gross unrealized gain for federal income tax purposes was \$10.2 million and the aggregate gross unrealized loss for federal income tax purposes was (\$4.4) million. The net unrealized gain for federal income tax purposes was \$5.8 million based on a tax cost of \$31.0 million.
- (g) Rand Capital SBIC, Inc. investment.
- (h) Reduction in cost and value from previously reported balances reflects current principal repayment.

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- (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) Gemcor II, LLC is an unconsolidated significant subsidiary as defined in SEC's Regulation S-X.
- (n) 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, 2015 (Continued)

Investments in and Advances to Affiliates

Company	Type of Investment	December 31, 2014 Fair Value	Gross Additions (1)	Gross Reductions (2)	December 31, 2015 Fair Value	Amount of Interest/ Dividend/ Fee Income (3)
Control Investments:						
Advantage 24/7 LLC	53% Membership interest.	\$99,500	\$ -	\$ -	\$99,500	\$ -
Gemcor II, LLC	\$1,000,000 subordinated promissory note at 15%.					
	31.25 membership units.	622,800	-	(205,828)	416,972	77,077
	Total	<u>9,300,000</u>	<u>4,100,000</u>	<u>-</u>	<u>13,400,000</u>	<u>1,743,934</u>
	Gemcor	9,922,800	4,100,000	(205,828)	13,816,972	1,821,011
	Total Control Investments	\$10,022,300	\$4,100,000	(\$205,828)	\$13,916,472	\$1,821,011
Affiliate Investments:						
BeetNPath, LLC	1,119,024 Series A-2 Preferred Membership Units.	-	\$359,000	-	\$359,000	7,250
Carolina Skiff LLC	\$985,000 Class A preferred membership interest at 9.8%.	985,000	-	(985,000)	-	81,782
		125,000	-	(125,000)	-	14,778
		<u>600,000</u>	<u>=</u>	<u>-</u>	<u>600,000</u>	<u>116,052</u>

	\$250,000 subordinated promissory note at 14%.	<u>1,710,000</u>	=	<u>(1,110,000)</u>	<u>600,000</u>	<u>212,612</u>
	6.0825% Class A common membership interest.					
	Total Carolina Skiff					
Chequed.com, Inc.	408,476 Series A preferred shares.					
	\$250,000 convertible promissory note at 8%.	1,383,222	-	(1,383,222)	-	-
		<u>250,000</u>	=	<u>(250,000)</u>	=	<u>11,507</u>
	Total Chequed	<u>1,633,222</u>	=	<u>(1,633,222)</u>	=	<u>11,507</u>
CrowdBouncer, Inc.	300,000 Series A preferred shares.	-	-	-	-	-
First Wave Products Group, LLC	\$500,000 senior term notes at 10%.					
	\$280,000 junior term notes at 10%.	637,992	23,571	(411,563)	250,000	24,571
	Warrant for 41,619 capital securities.	308,687	7,782	(316,469)	-	8,447
		<u>22,000</u>	<u>-</u>	<u>(22,000)</u>	<u>-</u>	<u>-</u>
	Total First Wave	<u>968,679</u>	<u>31,353</u>	<u>(750,032)</u>	<u>250,000</u>	<u>33,018</u>
Genicon, Inc.	1,586,902 Series B preferred shares.	-	1,000,000	-	1,000,000	-
GiveGab, Inc.	5,084,329 Series Seed preferred shares.	403,388	212,833	(191,907)	424,314	-

G-TEC Natural Gas Systems	17.8% Class A membership interest. 8% cumulative dividend.	100,000	-	-	100,000	-
Intrinsiq Materials, Inc.	599,055 Series 2 preferred shares.					
	\$95,000 convertible promissory note at 8%.	600,002	-	(600,002)	-	-
		<u>-</u>	<u>95,000</u>	<u>-</u>	<u>95,000</u>	<u>2,436</u>
	Total Intrinsiq	<u>600,002</u>	<u>95,000</u>	<u>(600,002)</u>	<u>95,000</u>	<u>2,436</u>
Knoa Software, Inc.	973,533 Series A-1 convertible preferred shares.	381,503	-	-	381,503	-
	1,876,922 Series B preferred shares.	<u>490,752</u>	=	=	<u>490,752</u>	=
		<u>872,255</u>	=	=	<u>872,255</u>	=
KnowledgeVision Systems, Inc.	200,000 Series A-1 preferred shares.					
	214,285 Series A-2 preferred shares.					
	129,033 Series A-3 preferred shares.	250,000	-	(250,000)	-	-
	Warrant for 46,743 Series A-3 shares.	300,000	-	-	300,000	-
		-	165,001	-	165,001	-
		<u>-</u>	<u>35,000</u>	<u>-</u>	<u>35,000</u>	=
	Total Knowledge Vision	<u>550,000</u>	<u>200,001</u>	<u>(250,000)</u>	<u>500,001</u>	=
Mezmeriz, Inc.	1,554,565 Series seed preferred shares.	-	351,477	-	351,477	-
		<u>200,000</u>	<u>-</u>	<u>(200,000)</u>	<u>-</u>	-

	\$200,000 convertible notes at 8%.	<u>200,000</u>	<u>351,477</u>	<u>(200,000)</u>	<u>351,477</u>	-
	Total Mezmeriz					
Microcision LLC	\$1,500,000 subordinated promissory note at 11%.					
	15% Class A common membership interest.	1,891,964	-	-	1,891,964	208,116
		<u>-</u>	<u>=</u>	<u>=</u>	<u>-</u>	<u>-</u>
	Total Microcision	<u>1,891,964</u>	<u>=</u>	<u>=</u>	<u>1,891,964</u>	<u>208,116</u>
New Monarch Machine Tool, Inc.	22.84 common shares.	22,841	-	-	22,841	30,409
OnCore Golf Technology, Inc.	150,000 Series AA preferred shares.					
	\$150,000 subordinated convertible promissory note at 6%.	-	375,000	(187,500)	187,500	-
		<u>=</u>	<u>150,000</u>	<u>-</u>	<u>150,000</u>	<u>3,945</u>
	Total OnCore	<u>=</u>	<u>525,000</u>	<u>(187,500)</u>	<u>337,500</u>	<u>3,945</u>

Table of Contents

RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

December 31, 2015 (Continued)

Investments in and Advances to Affiliates

Company	Type of Investment	December 31, 2014 Fair Value	Gross Additions (1)	Gross Reductions (2)	December 31, 2015 Fair Value	D I Fee
nc.	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.	-	702,732	-	702,732	
	\$680,475 convertible promissory notes at 8%.	<u>-</u>	<u>702,732</u>	<u>(702,732)</u>	<u>-</u>	
	Total Rheonix	<u>2,235,999</u>	<u>1,405,464</u>	<u>(702,732)</u>	<u>2,938,731</u>	
c.	187,500 Series A convertible preferred shares.	1,500,000	-	(500,000)	1,000,000	
	274,299 Series A-1 convertible preferred shares.	-	504,710	-	504,710	
	117,371 Series B preferred shares.	<u>-</u>	<u>250,000</u>	<u>-</u>	<u>250,000</u>	
	Total SciAps	<u>1,500,000</u>	<u>754,710</u>	<u>(500,000)</u>	<u>1,754,710</u>	
Technologies,	5,959,490 Series B membership interests.	528,348	-	-	528,348	
nc.	65,000 Series seed preferred shares.	-	20,968	-	20,968	
	Warrant for 1,950,000 Series seed preferred shares.	-	<u>629,032</u>	-	<u>629,032</u>	
	Total Statisfy	<u>-</u>	<u>650,000</u>	<u>-</u>	<u>650,000</u>	
es Solutions	250,000 Class B shares.	250,000	-	(250,000)	-	
LLC	1,000,000 Class C shares.	1,070,680	120,000	-	1,190,680	
	80,000 Class D preferred units.	80,000	11,200	-	91,200	

	104,198 Class E preferred units.	-	<u>104,198</u>	-	<u>104,198</u>
	Total Teleservices	<u>1,400,680</u>	<u>235,398</u>	<u>(250,000)</u>	<u>1,386,078</u>
Technology ent, Inc.	12 Series B preferred shares.	-	600,000	-	600,000
	Total Affiliate Investments	\$14,617,378	\$6,420,236	(\$6,375,395)	\$14,662,219
	Total Control and Affiliate Investments	\$24,639,678	\$10,520,236	(\$6,581,223)	\$28,578,691

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, 2015 (Continued)

<u>Industry Classification</u>	Percentage of Total Investments (at fair value) as of December 31, 2015
Manufacturing	49.6%
Software	22.2%
Healthcare	13.9%
Contact Center	6.7%
Consumer Product	3.3%
Professional Services	1.6%
Oil and Gas	1.4%
Electronics	1.0%
Marketing	0.3%
Total Investments	100%

Table of Contents

Rand Capital Corporation and Subsidiary

Notes to the Consolidated Financial Statements

For the Six Months Ended June 30, 2016 and 2015

(Unaudited)

Note 1. ORGANIZATION

Rand Capital Corporation (Rand , we , us and our) was incorporated under the laws of New York in February 1969. 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, 2015.

The majority of our venture capital investments are completed 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 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.

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 Corporation and Rand SBIC.

Our corporate office is located in Buffalo, NY and our website address is 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 .

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 six months ended June 30, 2016 are not necessarily indicative of the results for the full year.

Table of Contents

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, 2015. 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	2016 Definitive Proxy Statement submitted to shareholders
Form 10-K	Annual Report on Form 10-K for the year ended December 31, 2015
Form 10-Q	Quarterly Report on Form 10-Q for the quarter ended March 31, 2016

Principles of Consolidation The consolidated financial statements include the accounts of Rand and its wholly-owned subsidiary Rand SBIC. 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 maturity of these financial instruments.

Fair Value of SBA Debentures In March 2016, the SBIC Funding Corporation completed a pooling of SBA debentures that have a coupon rate of 2.507%, excluding a mandatory SBA annual charge estimated to be 0.804%, resulting in a total estimated fixed rate for ten years of 3.311%. The carrying value of Rand's SBA debentures is a reasonable estimate of fair value because 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.

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.

Table of Contents

Rand SBIC's interest accrual is also 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.

After reviewing each of our portfolio companies' performance and the circumstances surrounding each investment, the Corporation ceased accruing interest income on First Wave Products Group, LLC (First Wave), Intrinsic Materials Inc. (Intrinsic) and a portion of the Mercantile Adjustment Bureau, LLC (Mercantile) outstanding loans in 2015 and G-TEC Natural Gas Systems in 2004.

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 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 holds preferred equity securities that contain cumulative dividend provisions. Cumulative dividends are recorded as dividend income, 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 the revenue associated with the amortization of financing fees charged to the portfolio companies upon successful closing of Rand SBIC financings and income associated with portfolio company board attendance fees. The income associated with the amortization of financing fees was \$9,096 and \$9,000 for the six months ended June 30, 2016 and 2015, respectively. The board fees were \$2,000 and \$5,000 for the six months ended June 30, 2016 and 2015, 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 \$4,998 and \$7,746 in OID income for the six months ended June 30, 2016 and 2015, respectively. OID income is estimated to be approximately \$5,000 for the remainder of 2016 and \$8,350 for 2017.

Deferred Debenture Costs - The Financial Accounting Standards Board (FASB) issued an Accounting Standard Update 2015-03 (ASU) that required the debt issuance costs be presented as a direct deduction from the related debt liability. Therefore, the SBA debenture origination and commitment costs are presented as a direct deduction from the debt liability (see Note 6). As a result \$199,627 was reclassified from other assets to debentures guaranteed by the SBA in the accompanying consolidated statement of financial position as of December 31, 2015. As of June 30, 2016, the balance in debt issuance costs was \$185,927.

Table of Contents

These costs are amortized ratably over the terms of the SBA debentures and are expensed when the debt is repaid early. Amortization expense was \$13,700 for each of the six months ended June 30, 2016 and 2015. Amortization over the next five years is estimated to be approximately \$27,000 per year.

SBA Debenture - The Corporation had \$8,000,000 in outstanding SBA debentures at June 30, 2016 and December 31, 2015 with a weighted average interest rate of 3.54% as of June 30, 2016. 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.

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, which may include our automatic consent to the appointment of 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. We do not have any common stock equivalents outstanding.

Supplemental Cash Flow Information - Income taxes paid during the six months ended June 30, 2016 and 2015 was \$1,216,250 and \$2,344,600, respectively. Interest paid during the six months ended June 30, 2016 and 2015 was \$141,050 and \$128,650, respectively. The Corporation converted \$5,051 and \$32,669 of interest receivable into investments during the six months ended June 30, 2016 and 2015, 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 June 30, 2016 and December 31, 2015, there were 500,000 shares of \$10.00 par value preferred stock authorized and unissued.

On October 22, 2015, the Board of Directors authorized the repurchase of up to 1,000,000 shares of the Corporation's outstanding common stock on the open market through October 22, 2016 at prices that are no greater than the then current net asset value. No shares were repurchased during the six months ended June 30, 2016 and the total treasury shares held was 534,496 shares with a total cost of \$1,447,491 at June 30, 2016. Therefore, at June 30, 2016, the Corporation had authorization to purchase up to an additional 465,504 shares of common stock.

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 June 30, 2016, 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.

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.

Table of Contents

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.

The Corporation accrued \$1,411,659 under the Plan for the six months ended June 30, 2016. There were no amounts earned pursuant to the Plan for the six months ended June 30, 2015. Estimated payroll taxes and benefits on the profit sharing under the Plan have been accrued at June 30, 2016. The amounts accrued do not exceed the defined limits under the Plan. During the year ended December 31, 2014, the Corporation approved and accrued \$899,500 under the Plan, of which \$717,500 was paid during the six months ended June 30, 2015.

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 was \$10,000 in new uncertain tax positions at June 30, 2016. There were no new uncertain tax positions at December 31, 2015.

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 related to tax expense for the six months ended June 30, 2016 or 2015.

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 June 30, 2016, Rheonix, Inc. (Rheonix), Outmatch (formerly Chequed Holdings, LLC) (Outmatch), Genicon, Inc. (Genicon), Social Flow, Inc. (Social Flow) and SciAps, Inc. (Sciaps) represented 11%, 8%, 8%, 7% and 7%, respectively, of the fair value of the Corporation's investment portfolio.

Reclassification Certain balances in prior years were reclassified to conform to presentations adopted in 2016.

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 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.

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.

Table of Contents

The loan and debt securities may also 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 and all other debt 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 all other debt securities, the Corporation may discount the value of such securities. 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 increase (decrease) in unrealized 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 June 30, 2016.

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

Financial information obtained from each portfolio company, including 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;

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;

Table of Contents

Internal occurrences 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.

This information is used to determine financial condition, performance, and valuation of the portfolio companies. 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 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 to the unobservable inputs, such as variances in financial performance from expectations, may result in a significantly higher or lower fair value measurement. 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 with a sophisticated non-strategic unrelated new investor entered into by the portfolio company. 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. 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.

Table of Contents

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 June 30, 2016:

Investment Type	Market Approach EBITDA Multiple	Market Approach Liquidation Seniority	Market Approach Revenue Multiple	Market Approach Transaction Pricing	Asset Approach Liquidation Method	Totals
Non-Control/Non-Affiliate Equity	\$ 1,085,692	\$	\$	\$ 8,072,216	\$ 500,000	\$ 9,657,908
Non-Control/Non-Affiliate Debt					3,664,025	3,664,025
Total Non-Control/Non-Affiliate	\$ 1,085,692	\$	\$	\$ 8,072,216	\$ 4,164,025	\$ 13,321,933
Affiliate Equity	\$ 1,128,348	\$ 22,841	\$ 600,001	\$ 7,037,534	\$	\$ 8,788,724
Affiliate Debt				300,000	3,735,430	4,035,430
Total Affiliate	\$ 1,128,348	\$ 22,841	\$ 600,001	\$ 7,337,534	\$ 3,735,430	\$ 12,824,154
Control Equity	\$	\$	\$ 99,500	\$	\$ 1,412,500	\$ 1,512,000
Control Debt						
Total Control	\$	\$	\$ 99,500	\$	\$ 1,412,500	\$ 1,512,000
Total Level 3 Investments	\$ 2,214,040	\$ 22,841	\$ 699,501	\$ 15,409,750	\$ 9,311,955	\$ 27,658,087
Range	3.6X-7.5X	1X	0.75X-2.5X	0.0X 1.0X	Not Applicable	
Unobservable Input	EBITDA Multiple	Asset Value	Revenue Multiple	Discount	Asset Value	
Weighted Average	5.74X	1X	2X	0.89X	Not Applicable	

The following table provides a summary of the components of Level 1, 2 and 3 Assets Measured at Fair Value on a Recurring Basis at June 30, 2016:

Description	Fair Value Measurements at Reported Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)			Significant Observable Inputs (Level 2)	Other Significant Unobservable Inputs (Level 3)
	June 30, 2016				

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Loan investments	\$ 2,600,000	\$	\$	\$ 2,600,000
Debt investments	6,185,147			6,185,147
Equity investments	18,872,940			18,872,940
Total	\$ 27,658,087	\$	\$	\$ 27,658,087

Table of Contents

The following table provides a summary of the components of Level 1, 2 and 3 Assets Measured at Fair Value on a Recurring Basis at December 31, 2015:

Description	Fair Value Measurements at Reported Date Using Quoted Prices in Active Markets for Identical Assets Significant			
	December 31, 2015	(Level 1)	Observable Inputs (Level 2)	Other Significant Unobservable Inputs (Level 3)
Loan investments	\$ 416,972	\$	\$	\$ 416,972
Debt investments	5,076,632			5,076,632
Equity investments	31,338,796			31,338,796
Total	\$ 36,832,400	\$	\$	\$ 36,832,400

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 six months ended June 30, 2016:

Description	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Venture Capital Investments			
	Loan Investments	Debt Investments	Equity Investments	Total
Ending Balance, December 31, 2015, of Level 3 Assets	\$ 416,972	\$ 5,076,632	\$ 31,338,796	\$ 36,832,400
<u>Realized Gains included in net change in net assets from operations:</u>				
Gemcor II, LLC (Gemcor)			13,176,313	13,176,313
Total Realized Gains			13,176,313	13,176,313
<u>Unrealized Gains and Losses included in net change in net assets from operations:</u>				
Athenex, Inc. (Athenex)			69,444	69,444
Gemcor II, LLC (Gemcor)			(11,362,500)	(11,362,500)
Knoa Software, Inc. (Knoa)			(422,800)	(422,800)
Satisfy, Inc. (Satisfy)			(325,000)	(325,000)
Total Unrealized Gains and Losses			(12,040,856)	(12,040,856)
<u>Purchases of Securities/Changes to Securities/Non-cash conversions:</u>				
BeetNPath, LLC (Beetnpath)		150,000		150,000

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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)	1,100,000			1,100,000
GoNoodle, Inc. (GoNoodle)		5,051		5,051
Knoa Software, Inc. (Knoa)		48,466		48,466
Mercantile Adjustment Bureau, LLC (Mercantile)		4,998		4,998
OnCore Golf Technology, Inc. (Oncore Golf)		150,000		150,000
SciAps, Inc. (Sciaps)		200,000		200,000

Total Purchases of Securities/Changes to

Securities/Non-cash conversions	2,600,000	1,108,515	200,000	3,908,515
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Repayments and Sale of Securities:

Gemcor	(416,972)		(13,801,313)	(14,218,285)
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Total Repayments and Sale of Securities

	(416,972)		(13,801,313)	(14,218,285)
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Ending Balance, June 30, 2016, of Level 3 Assets

	\$ 2,600,000	\$ 6,185,147	\$ 18,872,940	\$ 27,658,087
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Change in unrealized appreciation on investments for the period included in changes in net assets

(\$ 12,040,856)

Net realized gain on investments for the period included in changes in net assets

\$ 13,344,453

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 six months ended June 30, 2015:

Table of Contents

Description	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Venture Capital Investments			Total
	Loan Investments	Debt Investments	Equity Investments	
Ending Balance, December 31, 2014, of Level 3 Assets	\$ 622,801	\$ 5,384,339	\$ 23,692,236	\$ 29,699,376
<u>Unrealized Gains or Losses included in net change in net assets from operations</u>				
First Wave Products Group, LLC (First Wave)		(193,436)		(193,436)
Kinex Pharmaceuticals, Inc.			92,592	92,592
<i>Total Unrealized Gains and Losses</i>		(193,436)	92,592	(100,844)
<u>Purchases of Securities/Changes to Securities/Non-cash conversions:</u>				
First Wave		26,758		26,758
Genicon, Inc. (Genicon)			500,000	500,000
GiveGab, Inc. (Give Gab)			212,833	212,833
HealthTeacher, Inc. (Health Teacher)		1,003,949	25	1,003,974
Intrinsiq Material, Inc. (Intrinsiq)		95,000		95,000
KnowledgeVision Systems, Inc. (Knowledge Vision)			200,001	200,001
Mercantile Adjustment Bureau, LLC (Mercantile)		4,998		4,998
Mezmeriz, Inc. (Mezmeriz)		(200,000)	351,477	151,477
OnCore Golf Technology, Inc. (Oncore Golf)			175,000	175,000
Rheonix, Inc. (Rheonix)		680,475		680,475
SciAps, Inc. (Sciaps)			504,710	504,710
SocialFlow, Inc. (Social Flow)		500,000		500,000
Teleservices Solutions Holdings, LLC (Teleservices)			104,198	104,198
Tilson Technology Management, Inc. (Tilson)			600,000	600,000
<i>Total Purchases of Securities/Changes to Securities/Non-cash conversions</i>		2,111,180	2,648,244	4,759,424
<u>Repayments of Securities</u>				
Gemcor II, LLC (Gemcor)	(99,081)			(99,081)
<i>Total Repayments of Securities</i>	(99,081)			(99,081)
Transfers within Level 3				
Ending Balance, June 30, 2015, of Level 3 Assets	\$ 523,720	\$ 7,302,083	\$ 26,433,072	\$ 34,258,875
				(\$ 100,844)

Change in unrealized appreciation on investments for the period included in changes in net assets

Net realized (losses) on investments for the period included in changes in net assets \$

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

At June 30, 2016 and December 31, 2015 other assets was comprised of the following:

	June 30, 2016	December 31, 2015
Escrow receivable from BinOptics Corporation	\$ 1,504,854	\$ 1,504,854
Prepaid expenses	52,601	
Dividend receivable		86,724
Equipment (net)	8,684	11,676
Operating receivables	84,395	1,159
Total other assets	\$ 1,650,534	\$ 1,604,413

During 2014, the Corporation sold its investment in BinOptics Corporation and a portion of the proceeds are held in escrow and scheduled to be released during 2016.

Note 5. COMMITMENTS AND CONTINGENCIES

The Corporation did not have any commitments to fund any investments as of June 30, 2016.

Note 6. SBA DEBENTURES

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

	June 30, 2016	December 31, 2015
Debentures guaranteed by the SBA	\$ 8,000,000	\$ 8,000,000
Less unamortized issue costs	(185,927)	(199,627)
Debentures guaranteed by the SBA, net	\$ 7,814,073	\$ 7,800,373

Note 7. FINANCIAL HIGHLIGHTS

The following schedule provides the financial highlights, calculated based on weighted average shares outstanding, for the six months ended June 30, 2016 and the year ended December 31, 2015:

	Six months ended June 30, 2016 (Unaudited)	Year ended December 31, 2015
Income from investment operations (1):		

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Investment income	\$	0.06	\$	0.45
Operating expenses		0.38		0.29
Investment (loss) income before income taxes		(0.32)		0.16
Income tax (benefit) expense		(0.12)		0.02
Net investment (loss) income		(0.20)		0.14
Net realized and unrealized gain on investments		0.13		0.10
(Decrease) increase in net asset value		(0.07)		0.24
Net asset value, beginning of period		5.35		5.11
Net asset value, end of period	\$	5.28	\$	5.35
Per share market price, end of period	\$	3.77	\$	3.77
Total return based on market value		0.0%		(7.82%)
Total return based on net asset value		(1.23%)		4.64%
Supplemental data:				
Ratio of operating expenses before income taxes to average net assets		7.22%		5.49%
Ratio of operating expenses including income taxes to average net assets		6.34%		7.89%
Ratio of net investment (loss) income to average net assets		(3.68%)		2.55%
Portfolio turnover		12.1%		21.4%
Net assets, end of period	\$	33,438,048	\$	33,853,660
Weighted shares outstanding, end of period		6,328,538		6,328,538

(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 the 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, 2015.

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 invests in and lends to small and medium-sized companies primarily in connection with loans or investments made concurrently by other investors. 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. We make the majority of our 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 2002. We anticipate that most, if not all, of our investments made in the next year will be originated through Rand SBIC.

Outlook

At the end of the second quarter of 2016, we had approximately \$14.4 million in cash on hand, which is available for future investment and operating needs. We believe the combination of cash on hand and prospective investment income provides sufficient capital for us to continue to add new investments to our portfolio while reinvesting in existing portfolio companies that continue to demonstrate growth potential. The following short and long-term trends

provide us with confidence in our ability to grow Rand:

Table of Contents

We expect that well run U.S. businesses will require capital to continue to grow given the low cost of capital, strong business and consumer spending, and eager reception of new technologies and service concepts. We believe Rand will be able to participate in financing these businesses.

We have sufficient cash on hand to invest in new opportunities.

Given our available cash on hand, we are able to invest larger amounts in companies, which, we believe, will provide an opportunity to accelerate our rate of growth.

We will 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 to facilitate their growth.

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

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, 2015 under Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations.

Table of Contents**Financial Condition**

Overview:	6/30/16	12/31/15	Increase (Decrease)	% Increase (Decrease)
Total assets	\$ 44,573,181	\$ 44,562,060	\$ 11,121	0.0%
Total liabilities	11,135,133	10,708,400	426,733	4.0%
Net assets	\$ 33,438,048	\$ 33,853,660	(\$ 415,612)	(1.2%)

Net asset value per share (NAV) was \$5.28 at June 30, 2016 and \$5.35 at December 31, 2015.

Our outstanding SBA debentures at June 30, 2016 were \$8,000,000 and will mature from 2022 through 2025. Cash approximated 43% of net assets at June 30, 2016 as compared to 17% at December 31, 2015. The change is primarily due to the proceeds from the asset sale of one of our investments, Gemcor II, LLC, in March 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.

	6/30/16	12/31/15	Increase (Decrease)	% Increase (Decrease)
Investments, at cost	\$ 30,277,284	\$ 27,410,742	\$ 2,866,542	10.5%
Unrealized (depreciation) appreciation, net	(2,619,197)	9,421,658	(12,040,855)	(127.8%)
Investments at fair value	\$ 27,658,087	\$ 36,832,400	(\$ 9,174,313)	(24.9%)

Our total investments at fair value, as estimated by management and approved by our Board of Directors, approximated 83% of net assets at June 30, 2016 versus 109% of net assets at December 31, 2015 with the change primarily due to the asset sale of one of our investments, Gemcor II, LLC.

The change in investments during the six months ended June 30, 2016, at cost, is comprised of the following:

	Cost Increase (Decrease)
New investments:	
eHealth Global Technologies, Inc. (eHealth)	\$ 1,500,000
Genicon, Inc. (Genicon)	1,100,000
Empire Genomics, LLC (Empire Genomics)	550,000
ClearView Social, Inc. (Clearview Social)	200,000

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SciAps, Inc. (Sciaps)	200,000
BeetNPath, LLC (Beetnpath)	150,000
OnCore Golf Technology, Inc. (Oncore Golf)	150,000
Knoa Software, Inc. (Knoa)	48,466
Total of new investments	3,898,466
Other changes to investments:	
GoNoodle, Inc. (GoNoodle) interest conversion	5,050
Mercantile Adjustment Bureau, LLC (Mercantile) OID amortization	4,998
Total of other changes to investments	10,048
Investments repaid, sold or liquidated:	
Gemcor II, LLC (Gemcor) repayment	(1,041,972)
Total investments repaid, sold or liquidated	(1,041,972)
Net change in investments, at cost	\$ 2,866,542

Table of Contents**Results of Operations****Investment Income**

Our investment objective is to achieve long-term capital appreciation on our equity investments while investing in a mixture of loan, debenture and equity instruments, which may provide a current return on a portion of the investment portfolio. The equity investments contained in our investment portfolio are structured to realize capital appreciation over the long-term.

Comparison of the six months ended June 30, 2016 to the six months ended June 30, 2015

	June 30, 2016	June 30, 2015	(Decrease) Increase	% (Decrease) Increase
Interest from portfolio companies	\$ 301,035	\$ 369,293	(\$ 68,258)	(18.5%)
Interest from other investments	21,709	15,190	6,519	42.9%
Dividend and other investment income	80,797	961,788	(880,991)	(91.6%)
Fee income	11,096	14,000	(2,904)	(20.7%)
Total investment income	\$ 414,637	\$ 1,360,271	(\$ 945,634)	(69.5%)

Interest from portfolio companies Interest income from portfolio companies decreased during the six months ended June 30, 2016 versus the six months ended June 30, 2015 due to decreases in the principal balances on loan and debt investments with Gemcor, II, LLC (Gemcor) and Carolina Skiff, LLC (Carolina Skiff), respectively, and the timing of new debt investments in the second quarter of 2016 which should help offset these repayments.

After reviewing their performance and the circumstances surrounding our investments, we ceased accruing interest income on First Wave Products Group, LLC (First Wave), Intrinsic Materials, Inc. (Intrinsic), and a portion of the Mercantile Adjustment Bureau, LLC (Mercantile) outstanding loan balances during 2015.

Interest from other investments - The increase in interest from other investments is primarily due to higher average cash balances during the six months ended June 30, 2016 versus the same period in 2015.

Dividend and other investment income - Dividend income is comprised of 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. Dividend and other investment income decreased in 2016 due to the asset sale of Gemcor II, LLC during March 2016. The dividend distributions for the respective periods were:

	June 30, 2016	June 30, 2015
Carolina Skiff LLC (Carolina Skiff)	\$ 63,583	\$ 51,512

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SOMS Technologies, LLC (SOMS)	13,464	
Tilson Technology Management, Inc. (Tilson)	3,750	6,917
Gemcor, II, LLC (Gemcor)		903,359
Total dividend and other investment income	\$ 80,797	\$ 961,788

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 Rand 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 \$9,096 and \$9,000 for the six months ended June 30, 2016 and 2015, respectively. The income from board fees was \$2,000 and \$5,000 for the six months ended June 30, 2016 and 2015, respectively.

Operating Expenses***Comparison of the six months ended June 30, 2016 to the six months ended June 30, 2015***

	June 30, 2016	June 30, 2015	Increase	% Increase
Total operating expenses	\$ 2,428,752	\$ 825,277	\$ 1,603,475	194.3%

Operating 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 increase in operating expenses during the six months ended June 30, 2016 was comprised primarily of a \$1,411,659 increase in bonus and profit sharing expense, a 111%, or \$66,421, increase in employee benefits and a 62%, or \$57,546, increase in professional fees.

Our largest portfolio company, in terms of fair value, Gemcor II, LLC (Gemcor) sold its assets during March 2016 and based on our ownership percentage, we received gross cash proceeds of approximately \$13.8 million, excluding amounts that continue to be held in escrow, and recognized a realized gain, before income taxes, of approximately \$13.2 million from the sale. Related to this asset sale, we accrued \$1,411,659 under our Profit Sharing Plan for the six months ended June 30, 2016, that is payable to our executive officers. There were no amounts earned pursuant to the Profit Sharing Plan for the six months ended June 30, 2015. Estimated payroll taxes and benefits on the profit sharing amounts under our Profit Sharing Plan, in the amount of \$36,000, have been accrued at June 30, 2016 and account for the increase in the employee benefit line.

Professional fees were also higher during the six months ended June 30, 2016 versus the same period in 2015 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***Comparison of the six months ended June 30, 2016 to the six months ended June 30, 2015***

	June 30, 2016	June 30, 2015	Increase
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Realized gain on investments before income taxes	\$ 13,344,453	\$ 262,925	\$ 13,081,528
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During the first quarter of 2016, our portfolio company Gemcor II, LLC sold its assets, and accordingly, we received gross cash proceeds of \$13,801,313, excluding amounts that continue to be held in escrow, and recognized a realized gain, before income taxes, of \$13,176,313.

Table of Contents

In addition, we recorded a realized gain of \$168,140 during the second quarter of 2016 from the earn out provision in connection with the 2014 sale of QuaDPharma, LLC to Athenex Inc.

During the six months ended June 30, 2015, we recognized a net realized gain, before income taxes, of \$262,925 on the sale of 301,582 shares of Synacor, Inc. (Synacor). We sold our remaining shares of Synacor during the six months ended June 30, 2015.

Change in Unrealized Appreciation of Investments**Comparison of the six months ended June 30, 2016 to the six months ended June 30, 2015**

	June 30, 2016	June 30, 2015	Decrease
Change in unrealized appreciation before income taxes	(\$ 12,040,856)	(\$ 321,164)	(\$ 11,719,692)

The decrease in unrealized appreciation before income taxes for the six months ended June 30, 2016 was comprised of the following:

	June 30, 2016
Reclassify Gemcor II, LLC (Gemcor) to a realized gain	(\$ 11,362,500)
Knoa Software, Inc. (Knoa)	(422,800)
Satisfy, Inc. (Satisfy)	(325,000)
Athenex, Inc. (Athenex)	69,444
Total change in net unrealized appreciation of investments before income taxes during the six months ended June 30, 2016	(\$ 12,040,856)

During March of 2016, our portfolio company, Gemcor II, LLC sold its assets and accordingly, we received gross cash proceeds of approximately \$13.8 million and recognized a realized gain, before income taxes, of approximately \$13.2 million. As of June 30, 2016, we continue to own 31% of Gemcor II, LLC, which is the entity that sold substantially all of its assets. After the asset sale, a contingent escrow remains on the books of Gemcor, which we valued at \$1,412,500. Once a plan of liquidation of Gemcor II, LLC is agreed to by all members of the limited liability company, this escrowed amount will be released and a gain will be realized.

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

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

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.

The decrease in net unrealized appreciation before income taxes for the six months ended June 30, 2015 was comprised of the following:

	June 30, 2015
Athenex, Inc. (Athenex) (formerly Kinex Pharmaceuticals, Inc.)	\$ 92,592
First Wave Products Group, LLC (First Wave)	(193,436)
Synacor, Inc. (Synacor) reclassify to a realized gain	(220,320)
Total change in net unrealized appreciation of investments before income taxes during the six months ended June 30, 2015	(\$ 321,164)

Table of Contents

In accordance with our valuation policy, we increased the value of our investment in Athenex based on a significant equity financing during 2015 by a new non-strategic outside investor, and the financing used a higher valuation for Athenex than had been used for its prior financing rounds.

The First Wave investment was revalued after our management reviewed the portfolio company and its financial condition and determined that a valuation adjustment was necessary.

Synacor, as a publicly traded stock, is marked to market at the end of each quarter. We sold our remaining shares of Synacor during the six months ended June 30, 2015.

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) Increase 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) increase in net assets from operations on our consolidated statements of operations. For the six months ended June 30, 2016 and 2015, the net (decrease) increase in net assets from operations was (\$415,612) and \$322,644, respectively.

Liquidity and Capital Resources

Our principal 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 June 30, 2016, our total liquidity was approximately \$14.4 million in cash on hand.

Management expects that the cash on hand at June 30, 2016, coupled with the scheduled interest payments from our portfolio investments, will be sufficient to meet our liquidity needs through the next twelve months. As a result of the reduction of investment income related to the Gemcor asset sale, we will continue to look for new investments that provide interest and dividend payments so as to provide cash flow to cover operating costs. Future exits from portfolio companies may increase the amount of liquidity available for new investments, operating activities and future SBA debenture 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 of appreciation 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.

Table of Contents

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 June 30, 2016, we did not have any off-balance sheet arrangements or hedging or similar derivative financial instrument investments.

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 of June 30, 2016. 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 June 30, 2016.

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, 2015.

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
4/1/2016 - 4/30/2016				465,504
5/1/2016 - 5/31/2016				465,504
6/1/2016 - 6/30/2016				465,504

- (1) There were no shares repurchased during the second quarter of 2016.
(2) The average price paid per share is calculated on a settlement basis and includes commission.
(3) On October 22, 2015, 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 22, 2016.

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 (b) of Form N-2 filed with the Securities Exchange Commission on April 22, 1997. (File No. 333-25617).
- (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 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: August 2, 2016

RAND CAPITAL CORPORATION

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

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