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

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**FORM 10-Q**

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

For the quarter ended June 30, 2014

**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

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**Rand Capital Corporation**

(Exact Name of Registrant as specified in its Charter)

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New York  
(State or Other Jurisdiction of  
Incorporation or Organization)

16-0961359  
(IRS Employer  
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)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 July 31, 2014 there were 6,411,892 shares of the registrant's common stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements and Supplementary Data

RAND CAPITAL CORPORATION AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
As of June 30, 2014 and December 31, 2013

	June 30, 2014 (Unaudited)	December 31, 2013
<b>ASSETS</b>		
Investments at fair value:		
Control investments (cost of \$1,489,686 and \$1,640,156, respectively)	\$10,159,349	\$10,309,819
Affiliate investments (cost of \$15,111,700 and \$12,844,406, respectively)	14,840,143	12,542,869
Non-affiliate investments (cost of \$6,929,621 and \$5,410,248, respectively)	8,251,489	5,495,865
Total investments, at fair value (cost of \$23,531,007 and \$19,894,810, respectively)	33,250,981	28,348,553
Cash and cash equivalents	4,090,943	9,764,810
Interest receivable (net of allowance: 6/30/14—\$128,311 and 12/31/13- \$122,000 )	86,266	58,093
Other assets	320,602	1,578,914
<b>Total assets</b>	<b>\$37,748,792</b>	<b>\$39,750,370</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (NET ASSETS)</b>		
<b>Liabilities:</b>		
Debentures guaranteed by the SBA	\$ 7,000,000	\$ 7,000,000
Deferred tax liability	2,036,407	2,206,808
Income tax payable	4,999	1,223,427
Accounts payable and accrued expenses	251,763	1,224,339
Deferred revenue	36,208	26,464
Total liabilities	9,329,377	11,681,038
<b>Stockholders' equity (net assets):</b>		
Common stock, \$.10 par; shares authorized 10,000,000; shares issued 6,863,034; shares outstanding of 6,411,892 as of 6/30/14 and 6,411,918 as of 12/31/13	686,304	686,304
Capital in excess of par value	10,581,789	10,581,789
Accumulated net investment (loss)	(553,974)	(889,317)
Undistributed net realized gain on investments	12,719,924	13,522,890
Net unrealized appreciation on investments	6,175,571	5,357,785
Treasury stock, at cost; 451,142 as of 6/30/14 and 451,116 shares as of 12/31/13	(1,190,199)	(1,190,119)
Total stockholders' equity (net assets) (per share 6/30/14 - \$4.43 and 12/31/13 - \$4.38)	28,419,415	28,069,332
<b>Total liabilities and stockholders' equity</b>	<b>\$37,748,792</b>	<b>\$39,750,370</b>

See accompanying notes

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**RAND CAPITAL CORPORATION AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**For the Three Months and the Six Months Ended June 30, 2014 and 2013**  
**(Unaudited)**

	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
<b>Investment income:</b>				
Interest from portfolio companies:				
Control investments	\$ 29,460	\$ 40,205	\$ 61,759	\$ 81,993
Affiliate investments	130,517	115,050	253,373	259,818
Non-Control/Non-Affiliate investments	41,320	30,074	79,344	70,359
Total interest from portfolio companies	201,297	185,329	394,476	412,170
Interest from other investments	3,031	2,452	8,197	5,342
Total interest from other investments	3,031	2,452	8,197	5,342
Dividend and other investment income:				
Control investments	399,895	477,635	682,981	1,012,925
Affiliate investments	59,232	44,797	90,065	44,797
Non-Control/Non-Affiliate investments	2,531	16,670	2,531	16,670
Total dividend and other investment income	461,658	539,102	775,577	1,074,392
Other income:				
Control investments	2,500	3,500	6,000	5,000
Affiliate investments	1,767	2,600	2,700	3,200
Non-Control/Non-Affiliate investments	1,306	1,250	2,556	2,500
Total other income	5,573	7,350	11,256	10,700
<b>Total investment income</b>	<b>671,559</b>	<b>734,233</b>	<b>1,189,506</b>	<b>1,502,604</b>
<b>Operating expenses:</b>				
Salaries	147,669	135,375	295,338	270,750
Bonus and profit sharing	(45,635)	—	(45,635)	—
Employee benefits	24,689	34,323	62,756	87,495
Directors' fees	55,500	57,000	74,250	72,000
Professional fees	44,021	46,525	100,512	75,362
Stockholders and office operating	55,361	52,693	85,650	79,367
Insurance	7,500	7,500	19,909	19,504
Corporate development	16,431	20,526	27,556	38,013
Other operating	1,979	1,680	3,256	2,503
	307,515	355,622	623,592	644,994
Interest on SBA obligations	68,137	34,180	126,417	95,924
Bad debt expense (recovery)	—	—	6,311	(64,654)
Total expenses	375,652	389,802	756,320	676,264
<b>Investment gain before income taxes</b>	<b>295,907</b>	<b>344,431</b>	<b>433,186</b>	<b>826,340</b>
Income tax expense	48,712	109,147	97,843	283,116
<b>Net investment gain</b>	<b>247,195</b>	<b>235,284</b>	<b>335,343</b>	<b>543,224</b>
<b>Realized (loss) gain on investments:</b>				
Affiliate investments	—	—	(778,253)	(1,063,698)
Non-Control/Non-Affiliate investments	(444,172)	86,905	(446,939)	1,842,265
Realized (loss) gain on investments before income taxes	(444,172)	86,905	(1,225,192)	778,567
Income tax (benefit) expense	(142,701)	41,410	(422,226)	291,100
Net realized (loss) gain on investments	(301,471)	45,495	(802,966)	487,467
<b>Net increase (decrease) in unrealized appreciation on investments:</b>				
Control investments	—	—	—	6,652
Affiliate investments	(356,900)	—	29,980	1,063,698
Non-Control/Non-Affiliate investments	1,236,251	(7,100)	1,236,251	(2,593,870)
Change in unrealized appreciation before income taxes	879,351	(7,100)	1,266,231	(1,523,520)
Deferred income tax expense (benefit)	305,299	(1,393)	448,445	(570,836)
Net increase (decrease) in unrealized appreciation on investments	574,052	(5,707)	817,786	(952,684)
<b>Net realized and unrealized gain (loss) on investments</b>	<b>272,581</b>	<b>39,788</b>	<b>14,820</b>	<b>(465,217)</b>
<b>Net increase in net assets from operations</b>	<b>\$ 519,776</b>	<b>\$ 275,072</b>	<b>\$ 350,163</b>	<b>\$ 78,007</b>
<b>Weighted average shares outstanding</b>	<b>6,411,892</b>	<b>6,575,184</b>	<b>6,411,892</b>	<b>6,592,522</b>
<b>Basic and diluted net increase in net assets per share from operations</b>	<b>\$ 0.08</b>	<b>\$ 0.04</b>	<b>\$ 0.05</b>	<b>\$ 0.01</b>

See accompanying notes

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**RAND CAPITAL CORPORATION AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Six Months Ended June 30, 2014 and 2013**  
**(Unaudited)**

	Six months ended June 30, 2014	Six months ended June 30, 2013
<b>Cash flows from operating activities:</b>		
Net increase in net assets from operations	\$ 350,163	\$ 78,007
Adjustments to reconcile net increase in net assets to net cash used in operating activities:		
Depreciation and amortization	12,668	28,428
Original issue discount amortization	(7,746)	(7,746)
Change in interest receivable allowance	6,311	(74,795)
(Increase) decrease in unrealized appreciation on investments	(1,266,231)	1,523,520
Deferred tax benefit	(170,401)	(790,877)
Realized loss (gain) on portfolio investments, net	1,225,192	(778,567)
Non-cash conversion of debenture interest	(89,271)	(203,945)
Changes in operating assets and liabilities:		
(Increase) decrease in interest receivable	(34,484)	22,167
Decrease (increase) in other assets	770,375	(206,518)
(Increase) in prepaid income taxes	—	(65,036)
Decrease in accounts payable and accrued expenses	(972,576)	(416,389)
Decrease in income taxes payable	(1,218,428)	(27,695)
Increase (decrease) in deferred revenue	9,744	(3,700)
Total adjustments	<u>(1,734,847)</u>	<u>(1,001,153)</u>
<b>Net cash used in operating activities</b>	<b>(1,384,684)</b>	<b>(923,146)</b>
<b>Cash flows from investing activities:</b>		
Investments originated	(4,501,152)	(1,575,000)
Proceeds from sale of investments	62,645	2,977,145
Proceed from loan repayments	150,469	305,371
Capital expenditures	(1,065)	—
<b>Net cash (used in) provided by investing activities</b>	<b>(4,289,103)</b>	<b>1,707,516</b>
<b>Cash flows from financing activities:</b>		
Repayment of SBA debentures	—	(900,000)
Purchase of treasury stock	(80)	(339,091)
<b>Net cash used in financing activities</b>	<b>(80)</b>	<b>(1,239,091)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(5,673,867)</b>	<b>(454,721)</b>
<b>Cash and cash equivalents:</b>		
Beginning of period	<u>9,764,810</u>	<u>4,224,763</u>
End of period	<u>\$ 4,090,943</u>	<u>\$ 3,770,042</u>

See accompanying notes

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**RAND CAPITAL CORPORATION AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**  
**For the Three Months and the Six Months Ended June 30, 2014 and 2013**  
**(Unaudited)**

	Three months ended <u>June 30, 2014</u>	Three months ended <u>June 30, 2013</u>	Six months ended <u>June 30, 2014</u>	Six months ended <u>June 30, 2013</u>
<b>Net assets at beginning of period</b>	<b>\$27,899,639</b>	<b>\$25,585,235</b>	<b>\$28,069,332</b>	<b>\$25,782,300</b>
Net investment gain	247,195	235,284	335,343	543,224
Net realized (loss) gain on sales and dispositions of investments	(301,471)	45,495	(802,966)	487,467
Net increase (decrease) in unrealized appreciation	<u>574,052</u>	<u>(5,707)</u>	<u>817,786</u>	<u>(952,684)</u>
Net increase in net assets from operations	<b>519,776</b>	275,072	350,163	78,007
Purchase of treasury stock	<u>—</u>	<u>(339,091)</u>	<u>(80)</u>	<u>(339,091)</u>
Total increase (decrease) in net assets	<b>519,776</b>	<b>(64,019)</b>	<b>(350,083)</b>	<b>(261,084)</b>
<b>Net assets at end of period</b>	<b><u>\$28,419,415</u></b>	<b><u>\$25,521,216</u></b>	<b><u>\$28,419,415</u></b>	<b><u>\$25,521,216</u></b>

See accompanying notes

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**RAND CAPITAL CORPORATION AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**  
**June 30, 2014**  
**(Unaudited)**

(a) Company, Geographic Location, Business Description, (Industry) and Website	Type of Investment	(b) Date Acquired	(c) Equity	Cost	(d)(f) Fair Value	Per Share of Rand
<b>Non-Control/Non-Affiliate Investments: (j)</b>						
<b>BinOptics Corporation (e)(g)</b> Ithaca, NY. Design and manufacture of semiconductor FP and DFB lasers. (Electronics Developer) www.binoptics.com	20,891,357 Series 2 convertible preferred shares.	11/8/11	4%	\$1,799,999	\$3,000,000	\$ .47
<b>Empire Genomics, LLC (g)</b> Buffalo, NY. A molecular diagnostics company that develops and offers a comprehensive menu of assay services for use in diagnosing and guiding precise therapeutic treatments for patients. (Health Care) www.empiregenomics.com	\$600,000 senior secured convertible term note at 10% due December 1, 2015.	6/13/14	<1%	600,000	600,000	.09
<b>KnowledgeVision Systems, Inc. (e)(g)</b> Lincoln, MA. Online presentation software. (Software) www.knowledgevision.com	200,000 Series A-1 preferred shares.	11/13/13	3%	250,000	250,000	.04
<b>Mercantile Adjustment Bureau, LLC (g)</b> Williamsville, NY. Full service accounts receivable management and collections company. (Accounts Receivable) www.mercantilesolutions.com	\$1,099,039 subordinated secured note at 13% due October 30, 2017. \$150,000 subordinated debenture at 8% due June 30, 2018. Warrant for 3.29% membership interests.	10/22/12	2%	1,307,241	1,307,241	.20
<b>SocialFlow, Inc. (e)(g)</b> New York, NY. Provides instant analysis of current opportunities on social networks using proprietary, predictive analytic algorithm to determine best time for its customers to publish or advertise. (Software) www.socialflow.com	1,049,538 Series B preferred shares. 1,204,819 Series B-1 preferred shares.	4/5/13	4%	1,250,000	1,250,000	.20
<b>Somerset Gas Transmission Company, LLC</b> Columbus, OH. Natural gas transportation company. (Oil and Gas) www.somersetgas.com	26.5337 units.	7/10/02	3%	719,097	786,748	.12
<b>Synacor, Inc. NASDAQ: SYNC (e)(g)(n)(o)</b> Buffalo, NY. Develops provisioning platforms for aggregation and delivery of content and services across multiple digital devices. (Software) www.synacor.com	403,643 unrestricted common shares valued at \$2.62 per share.	11/18/02	2%	592,427	1,057,500	.17
<b>Other Non-Control/Non-Affiliate Investments</b>				410,857	0	.00
<b>Subtotal Non-Control/Non-Affiliate Investments</b>				<u>\$6,929,621</u>	<u>\$8,251,489</u>	<u>\$ 1.29</u>
<b>Affiliate Investments: (k)</b>						
<b>Carolina Skiff LLC (g)</b> Waycross, GA. Manufacturer of fresh water, ocean fishing and pleasure boats. (Manufacturing) www.carolinaskiff.com	\$985,000 Class A preferred membership interest at 9.8%. \$250,000 subordinated promissory note at 14% due December 31, 2016. 6.0825% Class A common membership interest.	1/30/04	7%	\$1,250,000	\$1,835,000	\$ .29
<b>Chequed.com, Inc. (e)(g)</b> Saratoga Springs, NY. Predictive employee selection and development software. (Software) www.chequed.com	408,476 Series A preferred shares.	11/18/10	16%	1,383,222	1,383,222	.22

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**RAND CAPITAL CORPORATION AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**  
**June 30, 2014 (Continued)**  
**(Unaudited)**

(a) Company, Geographic Location, Business Description, (Industry) and Website	Type of Investment	(b) Date Acquired	(c) Equity	Cost	(d)(f) Fair Value	Per Share of Rand
<b>CrowdBouncer, LLC (e)(g)</b> Buffalo, NY. Platform-as-a-Service (PaaS) solution for JOBS Act compliance and back-end transactional processing for broker-dealers, equity crowdfunding portals and other financial institutions. (Software) www.crowdbouncer.com	270,000 Series A preferred shares.	1/22/14	12%	270,000	270,000	.04
<b>First Wave Products Group, LLC (e)(g)</b> Batavia, NY. Develops medical devices including First Crush, a dual action pill crusher that crushes and grinds medical pills. (Manufacturing) www.firstwaveproducts.com	\$500,000 senior term notes at 10% due December 31, 2016. \$200,000 junior term note at 10% due December 31, 2016. Warrant for 37,732 capital securities.	4/19/12	7%	840,838	840,838	.13
<b>GiveGab, Inc. (e)(g)</b> Ithaca, NY. Social network dedicated to helping volunteers and nonprofit organizations interact, on a local level, in their communities. (Software) www.givegab.com	2,254,822 Series A preferred shares.	3/13/13	6%	403,388	403,388	.06
<b>G-TEC Natural Gas Systems (e)</b> Buffalo, NY. Manufactures and distributes systems that allow natural gas to be used as an alternative fuel to gases. (Manufacturing) www.gas-tec.com	18.545% Class A membership interest. 8% cumulative dividend.	8/31/99	19%	400,000	100,000	.02
<b>Intrinsic Materials, Inc. (e)(g)</b> Rochester, NY. Produces a variety of printable electronics utilizing a unique process of making nanomaterial based ink used in a room-temperature manufacturing environment. (Manufacturing) www.intrinsicmaterials.com	599,055 Series 2 Preferred shares.	9/19/13	7%	600,002	600,002	.09
<b>Knoa Software, Inc. (e)(g)</b> New York, NY. End user experience management and performance (EMP) solutions utilizing enterprise applications. (Software) www.knoa.com	973,533 Series A-1 convertible preferred shares. 1,876,922 Series B preferred shares. (Fully diluted common share equivalent of 3,336,010)	11/20/12	7%	1,229,155	872,255	.14
<b>Mezmeriz, Inc. (e)(g)</b> Ithaca, NY. Micro-electronic mechanical systems (MEMS) developer of carbon fiber MEMS mirror modules to be embedded into mobile electronics for projection, gesture recognition and 3D scanning. (Electronics Developer) www.mezmeriz.com	360,526 Series A preferred shares. \$200,000 convertible notes at 8% due December 31, 2014.	1/9/08	10%	591,373	200,000	.03
<b>Microcision LLC (g)</b> Philadelphia, PA. Custom manufacturer of medical and dental implants. (Manufacturing) www.microcision.com	\$1,500,000 subordinated promissory note at 11% due January 31, 2017. 15% Class A common membership interest.	9/24/09	15%	1,891,965	1,891,965	.30
<b>QuadPharma, LLC (g)</b> Clarence, NY. Small scale pre-commercial and commercial manufacturing for the Pharmaceutical industry. (Manufacturing) www.quadpharmainc.com	\$556,285.22 second note allonge at 14% due November 1, 2017. 141.75 Class A units of membership interest.	6/26/12	14%	906,285	906,285	.14
<b>Rheonix, Inc. (e)(g)</b> Ithaca, NY. Developer of microfluidic testing devices including channels, pumps, reaction vessels, & diagnostic chambers, for testing of small volumes of chemicals and biological fluids. (Manufacturing) www.rheonix.com	9,676 common shares. (g) 1,839,422 Series A preferred shares. 50,593 common shares.	10/29/09	5%	2,099,999	2,235,999	.35

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**RAND CAPITAL CORPORATION AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**  
**June 30, 2014 (Continued)**  
**(Unaudited)**

(a) Company, Geographic Location, Business Description, (Industry) and Website	Type of Investment	(b) Date Acquired	(c) Equity	Cost	(d)(f) Fair Value	Per Share of Rand
<b>SciAps, Inc. (e)(g)</b> Woburn, MA. Instrumentation company specializing in portable analytical instruments. Provides durable, field-tested, portable instruments to identify any compound, any mineral, and any element, anyplace on the planet. (Manufacturing) www.sciaps.com	187,500 Series A preferred shares.	7/12/13	9%	1,500,000	1,500,000	.23
<b>SOMS Technologies, LLC (e)(g)</b> Valhalla, NY. Produces and markets the microGreen Extended Performance Oil Filter. (Auto Parts Developer) www.microgreenfilter.com	5,959,490 Series B membership interests.	12/2/08	10%	472,632	528,348	.08
<b>Teleservices Solutions Holdings, LLC (e)(g)</b> Montvale, NJ. Customer contact center specializing in customer acquisition and retention for selected industries. (Contact Center) www.ipacesetters.com	250,000 Class B shares. 1,000,000 Class C shares.	5/30/14	9%	1,250,000	1,250,000	.19
Other Affiliate Investments				22,841	22,841	.00
<b>Subtotal Affiliate Investments</b>				<u>\$15,111,700</u>	<u>\$14,840,143</u>	<u>\$ 2.31</u>
<b>Control Investments: (l)</b>						
<b>Gemcor II, LLC (g)(h)(m)</b> West Seneca, NY. Designs and sells automatic riveting machines used in the assembly of aircraft components. (Manufacturing) www.gemcor.com	\$500,000 subordinated promissory note at 15% due November 1, 2014. \$1,000,000 subordinated promissory note at 15% due September 1, 2017. 31.25 membership units.	6/28/04	31%	\$ 1,384,849	\$10,059,849	1.57
Other Control Investments				104,837	99,500	.02
<b>Subtotal Control Investments</b>				<u>\$ 1,489,686</u>	<u>\$10,159,349</u>	<u>\$ 1.59</u>
	<b>Total portfolio investments</b>			<u>\$23,531,007</u>	<u>\$33,250,981</u>	<u>\$ 5.19</u>

**RAND CAPITAL CORPORATION AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**  
**June 30, 2014 (Continued)**  
**(Unaudited)**

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

a) At June 30, 2014 restricted securities represented approximately 97% 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. Individual securities with a fair value less than \$100,000 are included in "Other Investments."

(b) The Date Acquired column indicates the year in which the Corporation acquired its first investment in the company or a predecessor company. Freed Maxick CPAs, P.C. has not audited the date acquired of the portfolio companies.

(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. Freed Maxick CPAs, P.C. has not audited the equity percentages of the portfolio companies. 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" which defines fair value and establishes guidelines for measuring fair value. At June 30, 2014, ASC 820 designates 3% of the Corporation's investments as "Level 1" and 97% 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 which 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 Condensed 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, 2014, the total cost of investment securities approximated \$23.5 million. Net unrealized appreciation was approximately \$9.7 million, which was comprised of \$11.2 million of unrealized appreciation of investment securities and (\$1.5) million related to unrealized depreciation of investment securities.

(g) Rand Capital SBIC, Inc. investment.

(h) Reduction in cost and value from previously reported balances reflects current principal repayment.

(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. As of June 30, 2014 there were no interest receivable amounts exceeding \$50,000.

(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.

(l) Control investments are defined by the 1940 Act as investments in companies in which more than 25% of the voting securities are owned 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) Publicly owned company.

(o) On June 30, 2014, the Corporation's shares of Synacor were valued at \$2.62 per share in accordance with the Corporation's valuation policy for unrestricted publicly held securities (Level 1). See Synacor's publicly disclosed financial reports at SEC.gov for additional information on Synacor's industry, financial results and business operations.

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**RAND CAPITAL CORPORATION AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**  
**December 31, 2013**

(a) Company, Geographic Location, Business Description, (Industry) and Website	Type of Investment	(b) Date Acquired	(c) Equity	Cost	(d)(f) Fair Value	Per Share of Rand
<b>Non-Control/Non-Affiliate Investments: (j)</b>						
<b>BinOptics Corporation (e)(g)</b> Ithaca, NY. Design and manufacture of semiconductor FP and DFB lasers. (Electronics Developer) www.binoptics.com	20,891,357 Series 2 convertible preferred shares.	11/8/11	4%	\$1,799,999	\$1,799,999	\$ .28
<b>KnowledgeVision Systems, Inc. (e)(g)</b> Lincoln, MA. Online presentation software. (Software) www.knowledgevision.com	200,000 Series A-1 preferred shares.	11/13/13	3%	250,000	250,000	.04
<b>Mercantile Adjustment Bureau, LLC (g)</b> Williamsville, NY. Full service accounts receivable management and collections company. (Accounts Receivable) www.mercantilesolutions.com	\$1,075,000 subordinated secured note at 13% due October 30, 2017. Warrant for 2.47% membership interests.	10/22/12	2%	1,104,618	1,104,618	.17
<b>SocialFlow, Inc. (e)(g)</b> New York, NY. Provides instant analysis of current opportunities on social networks using proprietary, predictive analytic algorithm to determine best time for its customers to publish or advertise. (Software) www.socialflow.com	1,049,538 Series B preferred shares.	4/5/13	2%	500,000	500,000	.08
<b>Somerset Gas Transmission Company, LLC</b> Columbus, OH. Natural gas transportation company. (Oil and Gas) www.somersetgas.com	26.5337 units.	7/10/02	3%	719,097	786,748	.12
<b>Synacor, Inc. NASDAQ: SYNC (e)(g)(n)(o)</b> Buffalo, NY. Develops provisioning platforms for aggregation and delivery of content and services across multiple digital devices. (Software) www.synacor.com	428,643 unrestricted common shares valued at \$2.46 per share.	11/18/02	2%	625,677	1,054,500	.16
Other Non-Control/Non-Affiliate Investments				410,857	0	.00
<b>Subtotal Non-Control/Non-Affiliate Investments</b>				<u>\$5,410,248</u>	<u>\$5,495,865</u>	<u>\$ .85</u>
<b>Affiliate Investments: (k)</b>						
<b>Carolina Skiff LLC (g)</b> Waycross, GA. Manufacturer of fresh water, ocean fishing and pleasure boats. (Manufacturing) www.carolinaskiff.com	\$985,000 Class A preferred membership interest at 9.8%. \$250,000 subordinated promissory note at 14% due December 31, 2016. 6.0825% Class A common membership interest.	1/30/04	7%	\$1,250,000	\$1,835,000	\$ .29
<b>Chequed.com, Inc. (e)(g)</b> Saratoga Springs, NY. Predictive employee selection and development software. (Software) www.chequed.com	305,118 Series A preferred shares.	11/18/10	12%	1,033,222	1,033,222	.16
<b>First Wave Products Group, LLC (e)(g)</b> Batavia, NY. Develops medical devices including First Crush, a dual action pill crusher that crushes and grinds medical pills. (Manufacturing) www.firstwaveproducts.com	\$500,000 senior term notes at 10% due December 31, 2016. \$200,000 junior term note at 10% due December 31, 2016. Warrant for 34,228 capital securities.	4/19/12	5%	797,834	797,834	.12

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**RAND CAPITAL CORPORATION AND SUBSIDIARY  
CONDENSED CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS  
December 31, 2013 (Continued)**

(a) Company, Geographic Location, Business Description, (Industry) and Website	Type of Investment	(b) Date Acquired	(c) Equity	Cost	(d)(f) Fair Value	Per Share of Rand
<b>GiveGab, Inc. (e)(g)</b> Ithaca, NY. Social network dedicated to helping volunteers and nonprofit organizations interact, on a local level, in their communities. (Software) www.givegab.com	1,397,428 Series A preferred shares.	3/13/13	6%	250,000	250,000	.04
<b>G-TEC Natural Gas Systems (e)</b> Buffalo, NY. Manufactures and distributes systems that allow natural gas to be used as an alternative fuel to gases. (Manufacturing) www.gas-tec.com	19.081% Class A membership interest. 8% cumulative dividend.	8/31/99	19%	400,000	100,000	.02
<b>Intrinsic Materials, Inc. (e)(g)</b> Rochester, NY. Produces a variety of printable electronics utilizing a unique process of making nanomaterial based ink used in a room-temperature manufacturing environment. (Manufacturing) www.intrinsicmaterials.com	599,055 Series 2 Preferred shares.	9/19/13	7%	600,002	600,002	.09
<b>Knoa Software, Inc. (e)(g)</b> New York, NY. End user experience management and performance (EMP) solutions utilizing enterprise applications. (Software) www.knoa.com	973,533 Series A-1 convertible preferred shares.	11/20/12	6%	750,000	750,000	.12
<b>Mezmeriz, Inc. (e)(g)</b> Ithaca, NY. Micro-electronic mechanical systems (MEMS) developer of carbon fiber MEMS mirror modules to be embedded into mobile electronics for projection and gesture recognition. (Electronics Developer) www.mezmeriz.com	360,526 Series A preferred shares. \$200,000 convertible notes at 8% due December 31, 2014.	1/9/08	8%	591,373	591,373	.09
<b>Microcision LLC (g)</b> Philadelphia, PA. Custom manufacturer of medical and dental implants. (Manufacturing). www.microcision.com	\$1,500,000 subordinated promissory note at 5%, 6% deferred interest due January 31, 2014. 15% Class A common membership interest.	9/24/09	15%	1,891,965	1,891,965	.29
<b>QuadPharma, LLC (g)(h)</b> Clarence, NY. Small scale pre-commercial and commercial manufacturing for the Pharmaceutical industry. (Manufacturing) www.quadpharmainc.com	\$556,285.22 second note allonge at 10% due November 1, 2017. 141.75 Class A units of membership interest.	6/26/12	14%	906,285	906,285	.14
<b>Rheonix, Inc. (e)(g)</b> Ithaca, NY. Developer of microfluidic testing devices including channels, pumps, reaction vessels, & diagnostic chambers, for testing of small volumes of chemicals and biological fluids. (Manufacturing) www.rheonix.com	9,676 common shares. (g) 1,839,422 Series A preferred shares. 50,593 common shares.	10/29/09	5%	2,099,999	2,235,999	.35
<b>SciAps, Inc. (e)(g)</b> Woburn, MA. Instrumentation company specializing in portable analytical instruments. Provides durable, field-tested, portable instruments to identify any compound, any mineral, and any element, anyplace on the planet. (Manufacturing) www.sciaps.com	125,000 Series A preferred shares.	7/12/13	6%	1,000,000	1,000,000	.16

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**RAND CAPITAL CORPORATION AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**  
**December 31, 2013 (Continued)**

(a) Company, Geographic Location, Business Description, (Industry) and Website	Type of Investment	(b) Date Acquired	(c) Equity	Cost	(d)(f) Fair Value	Per Share of Rand
<b>SOMS Technologies, LLC (e)(g)</b> Valhalla, NY. Produces and markets the microGreen Extended Performance Oil Filter. (Auto Parts Developer) www.microgreenfilter.com	5,959,490 Series B membership interests.	12/2/08	10%	472,632	528,348	.08
Other Affiliate Investments				801,094	22,841	.00
<b>Subtotal Affiliate Investments</b>				<u>\$12,844,406</u>	<u>\$12,542,869</u>	<u>\$ 1.95</u>
<b>Control Investments (l)</b>						
<b>Gemcor II, LLC (g)(h)(m)</b> West Seneca, NY. Designs and sells automatic riveting machines used in the assembly of aircraft components. (Manufacturing) www.gemcor.com	\$500,000 subordinated promissory note at 15% due November 1, 2014. \$1,000,000 subordinated promissory note at 15% due September 1, 2017. 31.25 membership units.	6/28/04	31%	\$ 1,535,319	\$10,210,319	1.59
Other Control Investments				104,837	99,500	.02
<b>Subtotal Control Investments</b>				<u>\$ 1,640,156</u>	<u>\$10,309,819</u>	<u>\$ 1.61</u>
	<b>Total portfolio investments</b>			<u>\$19,894,810</u>	<u>\$28,348,553</u>	<u>\$ 4.41</u>

**RAND CAPITAL CORPORATION AND SUBSIDIARY  
CONDENSED CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS  
December 31, 2013 (Continued)**

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

- (a) At December 31, 2013 restricted securities represented approximately 96% 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. Individual securities with a fair value less than \$100,000 are included in "Other Investments."
- (b) The Date Acquired column indicates the year in which the Corporation acquired its first investment in the company or a predecessor company. Freed Maxick CPAs, P.C. has not audited the date acquired of the portfolio companies.
- (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. Freed Maxick CPAs, P.C. has not audited the equity percentages of the portfolio companies. The symbol "<1%" indicates that the Corporation holds an equity interest of less than one percent. As of December 31, 2013, the Corporation held no equity interests 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" which defines fair value and establishes guidelines for measuring fair value. At December 31, 2013, ASC 820 designates 4% of the Corporation's investments as "Level 1" and 96% 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 which 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 (also 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, 2013, the total cost of investment securities approximated \$19.9 million. Net unrealized appreciation was approximately \$8.5 million, which was comprised of \$9.9 million of unrealized appreciation of investment securities and (\$1.49) million related to unrealized depreciation of investment securities.
- (g) Rand Capital SBIC, Inc. investment.
- (h) Reduction in cost and value from previously reported balances reflects current principal repayment.
- (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. As of December 31, 2013 there were no interest receivable amounts exceeding \$50,000.
- (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.
- (l) Control investments are defined by the 1940 Act as investments in companies in which more than 25% of the voting securities are owned 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) Publicly owned company.
- (o) On December 31, 2013, the Corporation's shares of Synacor were valued at \$2.46 per share in accordance with the Corporation's valuation policy for unrestricted publicly held securities (Level 1). See Synacor's publicly disclosed financial reports at SEC.gov for additional information on Synacor's industry, financial results and business operations.

**Rand Capital Corporation and Subsidiary  
Notes to the Consolidated Financial Statements  
For the Six Months Ended June 30, 2014 and 2013  
(Unaudited)**

**Note 1. ORGANIZATION**

Rand Capital Corporation (“Rand”) was incorporated under the laws of New York in February 1969. Rand operates as a publicly traded, closed-end, diversified management company that has elected to be treated as a business development company (“BDC”) under the Investment Company Act of 1940, as amended (the “1940 Act”). Rand Capital SBIC, Inc. (“Rand SBIC”) is a wholly-owned subsidiary of Rand, operating as a small business investment company (“SBIC”) and licensed by the U.S. Small Business Administration (“SBA”). The predecessor of Rand SBIC had originally been organized as a Delaware limited partnership, and was converted into a New York corporation on December 31, 2008, at which time its operations as a licensed SBIC were continued by the newly formed corporation under its current name. 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. Rand and its wholly-owned subsidiary Rand SBIC are referred to herein, collectively, as the “Corporation”.

The Corporation is listed on the NASDAQ Capital Market under the symbol “Rand”.

Rand operates Rand SBIC for the same investment purposes and with investments in similar loan and equity securities as Rand. The operations of Rand SBIC are consolidated with those of Rand for both financial reporting and tax purposes.

On February 28, 2012, the Securities and Exchange Commission (the “SEC”) granted an Order of Exemption for Rand with respect to the operations of Rand SBIC to permit certain joint transactions that would otherwise be prohibited by the 1940 Act, but which would not be prohibited if Rand and Rand SBIC were a single entity and to permit an exemption from separate reporting requirements for Rand SBIC under Section 13(a) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). At that time, although Rand SBIC was operated as if it were a BDC, it was registered as an investment company under the 1940 Act. Upon the Corporation’s receipt of the order granting the exemption, on March 28, 2012, Rand SBIC filed an election to be regulated as a BDC under the 1940 Act pursuant to which it may engage in certain transactions which would be permitted if Rand and Rand SBIC were operated as a single entity, but which are not permitted between a parent BDC and a wholly-owned subsidiary BDC without specific exemptions.

**Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**—In Management’s opinion, the accompanying consolidated financial statements include all adjustments necessary for a fair presentation of the consolidated financial position, results of operations, and cash flows for the interim periods presented. Certain information and note disclosures normally included in audited annual consolidated financial statements prepared in accordance with United States generally accepted accounting principles (“GAAP”) have been omitted; however, the Corporation believes that the disclosures made are adequate to make the information presented not misleading. The interim results for the six months ended June 30, 2014 are not necessarily indicative of the results for the full year.

These statements should be read in conjunction with the consolidated financial statements and the notes included in the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2013. Information contained in this filing should also be reviewed in conjunction with the Corporation’s related filings with the SEC prior to the date of this report. Those filings include, but are not limited to, the following:

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N-54A	Election to Adopt Business Development Company status
DEF-14A	Definitive Proxy Statement submitted to shareholders
Form 10-K	Annual Report on Form 10-K for the year ended December 31, 2013
Form 10-Q	Quarterly Report on Form 10-Q for the quarters ended March 31, 2014, September 30, 2013 and June 30, 2013

The Corporation's website is [www.randcapital.com](http://www.randcapital.com). The Corporation's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, charters for the Corporation's Board committees and other reports filed with the SEC are available through the Corporation's website.

**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.

**Cash and Cash Equivalents**—Temporary cash investments having an original maturity of three months or less when purchased are considered to be cash equivalents.

**Fair Value of Financial Instruments** – The carrying amounts reported in the consolidated statement of financial position of cash and cash equivalents, interest receivable, accounts payable and accrued expenses approximate fair value because of the immediate or short-term maturity of these financial instruments. The carrying value of 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." The Corporation is deemed to control a portfolio company if 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 submitted to the Board of Directors for approval. 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 for each investment. 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 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 security has 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.

**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, the loan is placed on non-accrual status and interest income is recognized at the time of receipt. A reserve for possible losses on interest receivables is maintained when appropriate.

The Rand SBIC 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 the 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.

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

**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 \$7,746 in OID income for each of the six months ended June 30, 2014 and 2013.

**Deferred Debenture Costs**—SBA debenture origination and commitment costs, which are included in other assets, are amortized ratably over the terms of the SBA debentures and are expensed when the debt is repaid. Amortization expense for the six months ended June 30, 2014 and 2013 was \$11,438 and \$28,428, respectively. Future amortization over the next five years is estimated to be approximately \$23,000 per year.

**SBA Leverage** – The Corporation had \$7,000,000 in outstanding SBA leverage at June 30, 2014 and December 31, 2013. The \$7,000,000 in outstanding leverage at June 30, 2014 matures in 2022 through 2024. The remaining undrawn SBA commitment at June 30, 2014 is \$1,000,000 and expires on September 30, 2016.

**Net Assets per Share**—Net assets per share are based on the number of shares of common stock outstanding. There are no common stock equivalents.

**Supplemental Cash Flow Information**—Income taxes paid, net of refunds, during the six months ended June 30, 2014 and 2013 were \$1,512,891 and \$886,988, respectively. Interest paid during the six months ended June 30, 2014 and 2013 was \$98,913 and \$67,525, respectively. The Corporation converted \$89,271 and \$203,944 of interest receivable into investments during the six months ended June 30, 2014 and 2013, 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, 2014 and December 31, 2013, there were 500,000 shares of \$10.00 par value preferred stock authorized and unissued.

On October 24, 2013 the Board of Directors increased the repurchase authorization from 500,000 to 1,000,000 shares of the Corporation's outstanding common stock on the open market through October 24, 2014 at prices no greater than current net asset value. The Corporation repurchased 26 shares during the six months ended June 30, 2014 for a total cost of \$80 and an average cost of \$3.06/share. The Corporation had previously purchased 451,116 shares as of December 31, 2013. At June 30, 2014 the total shares held in treasury were 451,142 with a total cost of \$1,190,199.

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**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 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, 2014 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 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. Any profit sharing paid or accrued cannot exceed 20% of the Corporation’s net income, as defined. The profit sharing payments are split equally between the Corporation’s two executive officers, each of whom is fully vested in the Plan.

There were no amounts earned pursuant to the Plan for the six months ended June 30, 2014 and June 30, 2013, respectively. During the six months ended June 30, 2014 the Corporation adjusted the escrow receivable amount for Liazon Corporation to reflect the amount that was actually received. Due to this adjustment the amount accrued for profit sharing from fiscal year 2013 had to be adjusted and resulted in a reduction of (\$45,635) to profit sharing expense. During the year ended December 31, 2013, the Corporation approved and accrued \$887,244 under the Plan, of which \$784,560 was paid during the six months ended June 30, 2014.

**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.

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, 2014 or 2013, respectively.

The Corporation is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended December 31, 2011 through 2013. In general, the Corporation’s state income tax returns are open to audit under the statute of limitations for the years ended December 31, 2009 through 2013. The Corporation’s uncertain tax positions are not material and are not expected to change significantly within the next 12 months.

**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 the banks.

At June 30, 2014, Gemcor II, LLC (Gemcor), BinOptics Corporation (Binoptics), Rheonix, Inc. (Rheonix), Microcision, LLC (Microcision), and Carolina Skiff LLC (Carolina Skiff) represented 30%, 9%, 7%, 6% and 6%, respectively, of the fair value of the Corporation’s investment portfolio.

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### **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 an investment or sufficient assets or liquidation proceeds are expected to exist from a sale of a portfolio company at its estimated fair value.

The loan and debt securities may also be valued at an amount other than the price the security would command in order to provide a yield to maturity equivalent to the current yield of similar debt securities. 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 "market approach" or "income approach." 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 (decrease) increase in unrealized appreciation on investments."

Under the valuation policy, the Corporation values unrestricted publicly traded companies at the average closing bid price for the last three trading days of the month.

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

- Financial information obtained from each portfolio company, including 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 past sales transactions;
- Current ability of the portfolio company to raise additional financing if needed;
- Changes in the economic environment which may have a material impact on the operating results of the portfolio company;
- Internal 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 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 which 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 Interests.

The significant unobservable inputs used in the fair value measurement of the Corporation's equity investments are EBITDA and revenue multiples, where applicable, the financial and operational performance of the business, and the senior equity preferences which 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.

Another key factor used in valuing equity investments is recent arms-length equity transactions with unrelated new investors 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 increases or decreases in any of these unobservable inputs would result in a significantly higher or lower fair value measurement.

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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 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 provide an indicator as to the probability of principal recovery of the investment. The Corporation's 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 significantly higher or lower fair value measurement. 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 level.

The following table provides a summary of the significant unobservable inputs used to fair value the Corporation's Level 3 portfolio investments as of June 30, 2014:

<u>Investment Type</u>	<u>Fair Value at June 30, 2014</u>	<u>Valuation Technique</u>	<u>Significant Unobservable Inputs</u>	<u>Range</u>
Equity Investments	\$11,671,748	Market Approach	EBITDA Multiple	5X - 12X
	22,841	Market Approach	Liquidation Seniority	1X
	3,099,500	Market Approach	Revenue Multiple	1X - 1.5X
	10,993,214	Market Approach	Transaction Pricing	Not applicable
	119,625	Black Scholes Pricing Model	Stock pricing and volatility	\$1.13
Loan and Debt Investments	6,286,553	Face Value	Liquidation Seniority	Not applicable
Total	<u>\$32,193,481</u>			

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, 2014:

<u>Description</u>	<u>June 30, 2014</u>	<u>Fair Value Measurements at Reported Date Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Observable Inputs (Level 2)</u>	<u>Other Significant Unobservable Inputs (Level 3)</u>
Loan investments	\$ 1,316,135	\$ —	\$ —	\$ 1,316,135
Debt investments	4,970,418	—	—	4,970,418
Equity investments	26,964,428	1,057,500	—	25,906,928
Total	<u>\$33,250,981</u>	<u>\$ 1,057,500</u>	<u>\$ 0</u>	<u>\$ 32,193,481</u>

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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, 2013:

Description	December 31, 2013	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)
Loan investments	\$ 1,466,604	\$ —	\$ —	\$ 1,466,604
Debt investments	4,172,417	—	—	4,172,417
Equity investments	22,709,532	1,054,500	—	21,655,032
Total	<u>\$28,348,553</u>	<u>\$ 1,054,500</u>	<u>\$ 0</u>	<u>\$ 27,294,053</u>

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, 2014:

Description	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Venture Capital Investments			
	Loan Investments	Debt Investments	Equity Investments	Total
<b>Ending Balance, December 31, 2013, of Level 3 Assets</b>	\$1,466,604	\$4,172,417	\$21,655,032	\$ 27,294,053
<b>Realized Losses included in net change in net assets from operations</b>				
EmergingMed.com, Inc. (Emerging Med)	—	(778,253)	—	(778,253)
Liazon Corporation (Liazon)	—	—	(476,334)	(476,334)
<b>Total Realized Losses</b>	—	(778,253)	(476,334)	(1,254,587)
<b>Unrealized Gains or Losses included in net change in net assets from operations</b>				
BinOptics Corporation (Binoptics)	—	—	1,200,001	1,200,001
Emerging Med	—	778,253	—	778,253
Knoa Software, Inc. (Knoa)	—	—	(356,900)	(356,900)
Mezmeriz, Inc. (Mezmeriz)	—	—	(391,373)	(391,373)
<b>Total Unrealized Gains and Losses</b>	—	778,253	451,728	1,229,981
<b>Purchases of Securities/Changes to Securities/Non-cash conversions:</b>				
Chequed.com, Inc. (Chequed)	—	—	350,000	350,000
CrowdBouncer, LLC (Crowdbouncer)	—	—	270,000	270,000
Empire Genomics, LLC (Empire Genomics)	—	600,000	—	600,000
First Wave Products Group, LLC (First Wave)	—	43,003	—	43,003
GiveGab, Inc (Give Gab)	—	—	153,388	153,388
Knoa	—	—	479,155	479,155
Liazon	—	—	476,334	476,334
Mercantile Adjustment Bureau, LLC (Mercantile)	—	154,998	47,625	202,623
SciAps, Inc. (Sciaps)	—	—	500,000	500,000
SocialFlow, Inc. (Social Flow)	—	—	750,000	750,000
Teleservices Solutions Holdings, LLC (Teleservices Holdings)	—	—	1,250,000	1,250,000
<b>Total Purchases of Securities/Changes to Securities/Non-cash conversions</b>	—	798,001	4,276,502	5,074,503
<b>Repayments of Securities</b>				
Gemcor II, LLC (Gemcor)	(150,469)	—	—	(150,469)
<b>Total Repayments of Securities</b>	(150,469)	—	—	(150,469)
<b>Transfers within Level 3</b>	—	—	—	—
<b>Ending Balance, June 30, 2014, of Level 3 Assets</b>	<u>\$1,316,135</u>	<u>\$4,970,418</u>	<u>\$25,906,928</u>	<u>\$ 32,193,481</u>
Change in unrealized appreciation for the period included in changes in net assets				\$ 1,229,981
Total realized (losses) for the period included in changes in net assets				(1,254,587)

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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, 2013:

Description	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Venture Capital Investments			
	Loan Investments	Debt Investments	Equity Investments	Total
<b>Ending Balance, December 31, 2012, of Level 3 Assets</b>	<b>\$1,504,986</b>	<b>\$4,082,174</b>	<b>\$20,652,226</b>	<b>\$26,239,386</b>
<b>Realized Losses included in net change in net assets from operations</b>				
Mid America Brick & Structural Clay Products, LLC (Mid America Brick)	—	(126,698)	(937,000)	(1,063,698)
<b>Total Realized Losses</b>	<b>—</b>	<b>(126,698)</b>	<b>(937,000)</b>	<b>(1,063,698)</b>
<b>Unrealized Gains or Losses included in net change in net assets from operations</b>				
Mid America Brick	—	126,698	937,000	1,063,698
NDT Acquisitions, LLC (NDT)	—	—	6,652	6,652
Ultra-Scan Corporation (UltraScan)	—	—	(561,836)	(561,836)
<b>Total Unrealized Gains and Losses</b>	<b>—</b>	<b>126,698</b>	<b>381,816</b>	<b>508,514</b>
<b>Purchases of Securities/Changes to Securities/Non-cash conversions:</b>				
Chequed.com, Inc. (Chequed)	—	—	500,000	500,000
EmergingMed.com, Inc. (Emerging Med)	—	103,207	—	103,207
First Wave Products Group, LLC (First Wave)	—	29,742	—	29,742
GiveGab, Inc	—	—	250,000	250,000
Mercantile Adjustment Bureau, LLC (Mercantile)	—	79,998	—	79,998
Mezmeriz, Inc. (Mezmeriz)	—	100,000	19,864	119,864
Microcision LLC (Microcision)	—	53,879	—	53,879
Mid America Brick	150,000	—	—	150,000
SocialFlow, Inc. (Social Flow)	—	—	500,000	500,000
<b>Total Purchases/Changes to Securities</b>	<b>150,000</b>	<b>366,826</b>	<b>1,269,864</b>	<b>1,786,690</b>
<b>Repayments of Securities</b>				
Gemcor II, LLC (Gemcor)	(121,835)	—	—	(121,835)
Mid America Brick	—	(150,000)	—	(150,000)
NDT	—	—	(6,652)	(6,652)
QuaDPharma, LLC (Quadpharma)	(26,885)	—	—	(26,885)
UltraScan	—	—	(938,164)	(938,164)
<b>Total Repayments of Securities</b>	<b>(148,720)</b>	<b>(150,000)</b>	<b>(944,816)</b>	<b>(1,243,536)</b>
<b>Transfers within Level 3</b>	<b>—</b>	<b>(249,999)</b>	<b>250,000</b>	<b>1</b>
<b>Ending Balance, June 30, 2013, of Level 3 Assets</b>	<b>\$1,506,266</b>	<b>\$4,049,001</b>	<b>\$20,672,090</b>	<b>\$26,227,357</b>
Change in unrealized appreciation for the period included in changes in net assets				\$ 508,514
Total realized (losses) for the period included in changes in net assets				(\$385,978)

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**Note 4. UNCONSOLIDATED SIGNIFICANT SUBSIDIARY**

In accordance with the SEC's Regulation S-X, the Corporation has an unconsolidated significant subsidiary that is not required to be consolidated. Accordingly, comparative financial information is presented below.

	<b>For the periods ended (Unaudited)</b>	
	<b>6/30/2014</b>	<b>6/30/2013</b>
	<b>(000)</b>	<b>(000)</b>
<b>Income Statement:</b>		
Net sales	\$ 13,166	\$ 17,420
Gross profit	4,686	6,469
Net income	1,742	3,547

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[Table of Contents](#)**Note 5. FINANCIAL HIGHLIGHTS**

The following schedule provides the financial highlights, calculated based on weighted average shares outstanding, for the six months ended June 30, 2014 and the year ended December 31, 2013:

	Six months ended June 30, 2014 (Unaudited)	Year ended December 31, 2013
Income from investment operations (1):		
Investment income	\$ 0.19	\$ 0.38
Expenses	0.12	0.37
Investment gain before income taxes	0.07	0.01
Income tax expense (benefit)	0.02	(0.01)
Net investment gain	0.05	0.02
Purchase of treasury stock (2)	0.00	0.04
Net realized and unrealized gain on investments	0.00	0.42
Increase in net asset value	0.05	0.48
Net asset value, beginning of period	4.38	3.90
Net asset value, end of period	\$ 4.43	\$ 4.38
Per share market price, end of period	\$ 3.11	\$ 3.07
Total return based on market value	1.30%	31.2%
Total return based on net asset value	1.25%	8.87%
Supplemental data:		
Ratio of expenses before income taxes to average net assets	2.68%	8.76%
Ratio of expenses including taxes to average net assets	3.02%	8.53%
Ratio of net investment income to average net assets	1.19%	0.57%
Portfolio turnover	14.9%	17.9%
Net assets, end of period	\$ 28,419,415	\$28,069,332
Weighted shares outstanding, end of period	6,411,892	6,513,385

- (1) *Per share data are based on weighted average shares outstanding and the results are rounded*  
(2) *Net increase is due to purchase of common stock at prices less than beginning of period net asset value per share*

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 in future periods.

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### **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

You should read the following discussion and analysis of the Corporation’s financial condition and results of operations in conjunction with the Corporation’s 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, and in Section 21F of the Exchange Act. Additional oral or written forward-looking statements may be made by the Corporation 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 results or outcomes to differ materially from those expressed in the forward-looking statements. Forward-looking statements may include, without limitation, statements relating to the Corporation’s 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 expressions are intended to identify forward-looking statements. Among the important factors on which such statements are based are assumptions concerning the state of the national economy and the local markets in which the Corporation’s portfolio companies operate, the state of the securities markets in which the securities of the Corporation’s portfolio companies trade or could be traded, liquidity within the national 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.

There may be other factors not identified that affect the accuracy of the Corporation’s forward-looking statements. Further, any forward-looking statement speaks only as of the date it is made and, except as required by law, the Corporation undertakes 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 the Corporation’s business not to develop as we expect, and we cannot predict all of them.

#### **Overview**

The following discussion describes the financial position and operations of Rand Capital Corporation (“Rand”) and its wholly-owned subsidiary Rand SBIC, Inc. (“Rand SBIC” and, together with Rand, collectively, the “Corporation”).

Rand is incorporated in New York and has elected to operate as a business development company (“BDC”) under the 1940 Act. Its wholly-owned subsidiary, Rand SBIC, operates as a small business investment company (“SBIC”) regulated by the Small Business Administration (“SBA”). On February 28, 2012, the SEC granted an Order of Exemption for Rand with respect to the operations of Rand SBIC under which Rand SBIC was permitted to elect BDC status. On March 28, 2012, Rand SBIC elected BDC status with the SEC pursuant to which it may now engage in certain transactions which would be permitted if Rand and Rand SBIC were operated as a single entity, but which are not permitted between a parent BDC and a wholly-owned subsidiary BDC without specific exemption.

The Corporation anticipates that most, if not all, of its investments in the next year will be originated through the SBIC subsidiary.

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**Business Developments**

The United States and global economic conditions continued to improve throughout the first six months of 2014. To the extent the financial market conditions continue to improve, the Corporation believes its financial condition and the financial condition of the portfolio companies will improve. It remains difficult to forecast when future investment exits will happen.

**Critical Accounting Policies**

The Corporation prepares its consolidated financial statements in accordance with U.S. 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 the Corporation's critical accounting policies can be found in the Corporation's 2013 Form 10-K under Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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### Financial Condition

Overview:	6/30/14	12/31/13	(Decrease) Increase	% (Decrease) Increase
Total assets	\$37,748,792	\$39,750,370	(\$ 2,001,578)	(5.0%)
Total liabilities	9,329,377	11,681,038	(2,351,661)	(20.1%)
Net assets	<u>\$28,419,415</u>	<u>\$28,069,332</u>	<u>\$ 350,083</u>	1.2%

Net asset value per share (NAV) was \$4.43 at June 30, 2014 and \$4.38 at December 31, 2013.

The outstanding SBA leverage at June 30, 2014 is \$7,000,000 and will mature from 2022 to 2024. Cash and cash equivalents approximated 14% of net assets at June 30, 2014 and 35% at December 31, 2013.

### Composition of the Corporation's Investment Portfolio

The Corporation's financial condition is dependent on the success of its portfolio holdings. It has invested substantially all of its assets in small to medium-sized companies. The following summarizes the Corporation's investment portfolio at the period-ends indicated.

	6/30/14	12/31/13	Increase	% Increase
Investments, at cost	\$23,531,007	\$19,894,810	\$3,636,197	18.3%
Unrealized appreciation, net	9,719,974	8,453,743	1,266,231	15.0%
Investments at fair value	<u>\$33,250,981</u>	<u>\$28,348,553</u>	<u>\$4,902,428</u>	17.3%

The Corporation's total investments at fair value, as estimated by management and approved by the Board of Directors, approximated 117% of net assets at June 30, 2014 and 101% of net assets at December 31, 2013.

The change in investments during the six months ended June 30, 2014, at cost, is comprised of the following:

	Cost Increase (Decrease)
<b>New investments:</b>	
Teleservices Solutions Holdings, LLC (Teleservices Holdings)	\$1,250,000
SocialFlow, Inc. (Socialflow)	750,000
Empire Genomics, LLC (Empire Genomics)	600,000
SciAps, Inc. (Sciaps)	500,000
Knoa Software, Inc. (Knoa)	477,764
Chequed.com, Inc. (Chequed)	350,000
CrowdBouncer, LLC (Crowdbouncer)	270,000
GiveGab, Inc. (Give Gab)	153,388
Mercantile Adjustment Bureau, LLC (Mercantile)	150,000
Total of new investments	<u>4,501,152</u>
<b>Other changes to investments:</b>	
Mercantile interest conversion and OID amortization	52,623
First Wave Products Group, LLC (First Wave) interest conversion and OID amortization	43,003
Knoa interest conversion	1,391
Total of other changes to investments	<u>97,017</u>
<b>Investments repaid, sold or liquidated</b>	
EmergingMed.com, Inc. (Emerging Med)	(778,253)
Gemcor II, LLC (Gemcor) repayment	(150,469)
Synacor, Inc. (Synacor)	(33,250)
Total of investments repaid, sold or liquidated	<u>(961,972)</u>
<b>Net change in investments, at cost</b>	<u><b>\$3,636,197</b></u>

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### Results of Operations

#### Investment Income

The Corporation's investment objective is to achieve long-term capital appreciation on its equity investments while investing in a mixture of debenture and equity instruments, which provide a current return on a portion of the investment portfolio. The equity features contained in the Corporation's investment portfolio are structured to realize capital appreciation over the long-term and may not generate current income in the form of dividends or interest. In addition, the Corporation earns interest income from investing its idle funds in money market instruments held at well capitalized financial institutions.

#### *Comparison of the six months ended June 30, 2014 to the six months ended June 30, 2013*

	June 30, 2014	June 30, 2013	(Decrease) Increase	% (Decrease) Increase
Interest from portfolio companies	\$ 394,476	\$ 412,170	(\$17,694)	(4.3%)
Interest from other investments	8,197	5,342	2,855	53.4%
Dividend and other investment income	775,577	1,074,392	(298,815)	(27.8%)
Other income	11,256	10,700	556	5.2%
Total investment income	<u>\$1,189,506</u>	<u>\$1,502,604</u>	<u>(\$313,098)</u>	<u>(20.8%)</u>

Interest from portfolio companies – The portfolio interest income decrease is due to the fact the Corporation recognized a realized loss on Emerging Med during the fourth quarter of 2013. This investment had generated approximately \$39,000 in interest income during the six months ended June 30, 2013.

After reviewing the portfolio company's performance and the circumstances surrounding the Corporation's investment, the Corporation ceased accruing interest income on Mezmeriz in 2014.

Interest from other investments—The increase in interest from other investments is primarily due to higher average cash balances during the six months ending June 30, 2014 versus the same six month period in 2013.

Dividend and other investment income—Dividend income is comprised of distributions from Limited Liability Companies (LLCs) in which the Corporation has invested. The Corporation's investment agreements with certain LLCs require the LLCs to distribute funds to the Corporation for payment of income taxes on its allocable share of the LLC's profits. These portfolio companies may also elect to distribute additional discretionary distributions. These dividends will fluctuate based upon the profitability of the LLCs and the timing of the distributions.

Dividend income for the six months ended June 30, 2014 consisted of a distribution from Gemcor for \$682,981, Monarch Machine Tool LLC for \$45,682, Carolina Skiff LLC (Carolina Skiff) for \$44,383 and Somerset Gas Transmission Company, LLC (Somerset) for \$2,531. Dividend income for the six months ended June 30, 2013 consisted of a distribution from Gemcor for \$1,012,925, Carolina Skiff for \$44,797 and Somerset for \$16,670.

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**Other income**—Other 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 \$4,256 and \$3,700 for the six months ended June 30, 2014 and 2013, respectively. The board fees were \$7,000 for both the six months ended June 30, 2014 and 2013.

## **Operating Expenses**

### *Comparison of the six months ended June 30, 2014 to the six months ended June 30, 2013*

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Increase</u>	<u>% Increase</u>
Total Expenses	\$ 756,320	\$ 676,264	80,056	11.8%

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

The 12% or \$80,056 increase in operating expenses for the six months ended June 30, 2014 as compared to the same six month period in 2013 is due, in part, to the fact that the Corporation had a bad debt recovery for \$64,654 in the six months ended June 30, 2013, whereas the Corporation incurred a bad debt expense of \$6,311 for the six months ended June 30, 2014. In addition, the bonus and profit sharing expense was (\$45,635) for the six months ended June 30, 2014 due to the fact that the Corporation adjusted the escrow receivable amount for Liazon Corporation to reflect the amount that was actually received in the second quarter of 2014 and therefore, incurred a realized loss and a related adjustment to the profit sharing and benefit accrual.

The SBA borrowings increased from \$4,000,000 at June 30, 2013 to \$7,000,000 at June 30, 2014. The increase in outstanding leverage caused a 32% or \$30,493 increase in SBA interest expense for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013.

## **Net Realized Gains and Losses on Investments**

### *Comparison of the six months ended June 30, 2014 to the six months ended June 30, 2013*

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Decrease</u>
Net realized (loss) gain	(\$1,225,192)	\$ 778,567	(\$2,003,759)

During the six months ended June 30, 2014, the Corporation recognized a realized loss of \$778,253 on Emerging Med when it was sold during January 2014 and the Corporation did not receive proceeds from the sale. This investment had been valued at \$0 at December 31, 2013.

The Corporation also recognized a loss of \$476,334 on an adjustment of the Liazon Corporation escrow receivable.

During the six months ended June 30, 2014, the Corporation recognized a realized gain of \$29,395 on the sale of 25,000 shares of Synacor, Inc. (Synacor). Synacor trades on the NASDAQ Global Market under the symbol "SYNC". The Corporation owned 403,643 shares of Synacor at June 30, 2014 following such sale.

During the six months ended June 30, 2013, the Corporation recognized a net realized gain of \$1,164,545 on the sale of 252,200 shares of Synacor. At June 30, 2013, the Corporation owned 428,643 shares of Synacor.

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In addition, the Corporation recognized a realized gain of \$670,808 on the sale of its shares in Ultra-Scan to a strategic acquirer during the six months ended June 30, 2013. The Corporation also recognized a realized loss of \$1,063,698 on its investment in Mid-America Brick when the company announced in February 2013 that it had filed for bankruptcy.

### Net Change in Unrealized Appreciation of Investments

The Corporation recorded a net increase in unrealized appreciation on investments of \$1,266,231 during the six months ended June 30, 2014 as compared to a net decrease in unrealized appreciation on investments of (\$1,523,520) during the same six month period in 2014.

The increase in unrealized appreciation for the six months ended June 30, 2014 was comprised of the following:

	<u>June 30, 2014</u>
BinOptics Corporation (Binoptics)	\$ 1,200,001
EmergingMed.com, Inc. (Emerging Med) – reclass to a realized loss	778,253
Synacor, Inc. (Synacor)	36,250
Mezmeriz, Inc. (Mezmeriz)	(391,373)
Knoa Software, Inc. (Knoa)	<u>(356,900)</u>
<b>Total change in net unrealized appreciation during the six months ended June 30, 2014</b>	<b><u>\$ 1,266,231</u></b>

Binoptics was written up in accordance with ASC 820 due to an overall improvement in the revenues and financial performance of the company.

The Emerging Med investment was written off during the six months ended June 30, 2014, after the company was sold and the Corporation did not receive proceeds.

Synacor, as a publicly traded stock, is marked to market at the end of each quarter. The Corporation valued its 403,643 shares of Synacor at a three day average bid price of \$2.62 as of June 30, 2014.

The Mezmeriz investment was revalued during the six months ended June 30, 2014 after the Corporation's management reviewed the portfolio company and its financials and determined that the business of this portfolio company had deteriorated since the time of the original funding. The portfolio company remains in operation and is developing new business strategies.

The valuation of Knoa was decreased during the second quarter of 2014 to value the Corporations equity holdings at the price of the most recent insider round of financing.

The decrease in unrealized appreciation for the six months ended June 30, 2013 was comprised of:

	<u>June 30, 2013</u>
Mid America Brick & Structural Clay Products, LLC (Mid America Brick)—reclass to a realized loss	\$ 1,063,698
NDT Acquisition, LLC (NDT)	6,652
Ultra-Scan Corporation (Ultra-Scan)—reclass to realized gain	(561,836)
Synacor, Inc. (Synacor)	<u>(2,032,034)</u>
<b>Total change in net unrealized appreciation during the six months ended June 30, 2013</b>	<b><u>(\$1,523,520)</u></b>

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Synacor, as a publicly traded stock, is marked to market at the end of each quarter. The Corporation valued its 428,643 shares of Synacor at a three day average bid price of \$3.06 as of June 30, 2013.

The NDT investment value was adjusted for royalties received.

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

### **Net Increase in Net Assets from Operations**

The Corporation accounts for its operations under GAAP for investment companies. The principal measure of its financial performance is "net increase in net assets from operations" on its consolidated statements of operations. For the six months ended June 30, 2014 and 2013, the net increase in net assets from operations was \$350,163 and \$78,007, respectively.

### **Liquidity and Capital Resources**

The Corporation's principal objective is to achieve growth in net asset value per share through capital appreciation. Therefore, a significant portion of the 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, 2014, the Corporation's total liquidity, consisting of cash and cash equivalents, was \$4,090,943.

Management expects that the cash and cash equivalents at June 30, 2014, coupled with the \$1,000,000 of available SBA leverage and the scheduled interest and dividend payments on its portfolio investments, will be sufficient to meet the Corporation's cash needs throughout the next twelve months. The Corporation is also evaluating potential exits from portfolio companies to 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**

The Corporation's investment activities contain elements of risk. The portion of the Corporation's investment portfolio consisting of equity and debt securities in private companies is subject to valuation risk. Because there is typically no public market for the equity and equity-linked debt securities in which it invests, the valuation of the equity interests in the portfolio is stated at "fair value" as determined in good faith by the management of the Corporation and submitted to the Board of Directors for approval. This is in accordance with the Corporation's 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 Corporation's 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 in the Corporation's consolidated statement of operations as "Net unrealized appreciation on investments."

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

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As of June 30, 2014, the Corporation 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 Exchange Act 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, 2014. 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, 2014.

*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.

**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, 2013. The Risk Factors from our 2013 report on Form 10-K remain applicable with the exception of the following addition:

**Fluctuations of Quarterly Results**

The Corporation’s quarterly operating results could fluctuate as a result of a number of factors. These factors include, among others, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which portfolio companies encounter competition in their markets and general economic conditions and the market value of publicly traded securities. As a result of these factors, results for any one quarter should not be relied upon as being indicative of performance in future quarters.

**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
4/1/2014 – 4/30/2014	—	—	—	548,858
5/1/2014 – 5/31/2014	—	—	—	548,858
6/1/2014 – 6/30/2014	—	—	—	548,858

(1) No treasury shares were purchased in the second quarter of 2014.

(2) The average price paid per share is calculated on a settlement basis and includes commission.

(3) On October 24, 2013, 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 at prices no greater than the then current net asset value through October 24, 2014.

**Item 3. Defaults upon Senior Securities**

None

**Item 4. Mine Safety Disclosures**

None

**Item 5. Other Information**

None

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**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) of Form N-2 filed with the Securities Exchange Commission on April 22, 1997. (File No. 814-00235).
- (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. 814-00235).
- (4) Specimen certificate of common stock certificate, incorporated by reference to Exhibit (b) of Form N-2 filed with the Securities Exchange Commission on April 22, 1997. (File No. 814-00235).
- (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) Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – Rand Capital Corporation – furnished herewith

**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 1, 2014

RAND CAPITAL CORPORATION

By: /s/ Allen F. Grum

Allen F. Grum, President

By: /s/ Daniel P. Penberthy

Daniel P. Penberthy, Treasurer

**EXHIBIT 31.1**

**CERTIFICATION**

**Chief Executive Officer Pursuant to Rules 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as amended**

I, Allen F. Grum, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Rand Capital Corporation and its Subsidiary:
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 1, 2014

/s/ Allen F. Grum  
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Allen F. Grum, President  
(Chief Executive Officer of Rand Capital  
Corporation)

**EXHIBIT 31.2**

**CERTIFICATION**

**Chief Financial Officer Pursuant to Rules 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as amended**

I, Daniel P. Penberthy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Rand Capital Corporation and its Subsidiary;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 1, 2014

/s/ Daniel P. Penberthy  
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Daniel P. Penberthy, Treasurer  
(Chief Financial Officer of Rand Capital  
Corporation)

**EXHIBIT 32.1**

**CERTIFICATION**

**Pursuant to 18 U.S.C Section 1350 as Adopted Pursuant to Section 906  
Of the Sarbanes-Oxley Act of 2002**

Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of Rand Capital Corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 (the Form 10-Q) of the Company fully complies with the requirement of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 1, 2014

*/s/ Allen F. Grum*

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Allen F. Grum, President  
(Chief Executive Officer)

Dated: August 1, 2014

*/s/ Daniel P. Penberthy*

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Daniel P. Penberthy, Treasurer  
(Chief Financial Officer)