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

FORM 10-Q

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

For the quarterly period ended September 30, 2019

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

For the Transition Period from _____ to _____

Commission File Number: 814-00235

Rand Capital Corporation

(Exact Name of Registrant as specified in its Charter)

New York
(State or Other Jurisdiction of
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)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|--------------------------------|----------------------|--|
| Common Stock, \$0.10 par value | RAND | Nasdaq Capital Market |

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 every Interactive Data File required to be submitted 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 such files). Yes No

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

| | | | |
|-------------------------|-------------------------------------|---------------------------|--------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input checked="" type="checkbox"/> | Smaller reporting company | <input type="checkbox"/> |
| | | Emerging growth company | <input type="checkbox"/> |

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

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

As of November 7, 2019, there were 6,321,988 shares of the registrant's common stock outstanding.

[Table of Contents](#)

RAND CAPITAL CORPORATION
TABLE OF CONTENTS FOR FORM 10-Q

| | | |
|----------|--|----|
| | <u>PART I. – FINANCIAL INFORMATION</u> | 1 |
| Item 1. | <u>Financial Statements and Supplementary Data</u> | 1 |
| | <u>Consolidated Statements of Financial Position as of September 30, 2019 (Unaudited) and December 31, 2018</u> | 1 |
| | <u>Consolidated Statements of Operations for the Three Months and Nine Months Ended September 30, 2019 and 2018 (Unaudited)</u> | 2 |
| | <u>Consolidated Statements of Changes in Net Assets for the Three Months and Nine Months Ended September 30, 2019 and 2018 (Unaudited)</u> | 3 |
| | <u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2019 and 2018 (Unaudited)</u> | 4 |
| | <u>Consolidated Schedule of Portfolio Investments as of September 30, 2019 (Unaudited)</u> | 5 |
| | <u>Consolidated Schedule of Portfolio Investments as of December 31, 2018</u> | 13 |
| | <u>Notes to the Consolidated Financial Statements (Unaudited)</u> | 17 |
| Item 2. | <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | 35 |
| Item 3. | <u>Quantitative and Qualitative Disclosures about Market Risk</u> | 44 |
| Item 4. | <u>Controls and Procedures</u> | 44 |
| | <u>PART II. – OTHER INFORMATION</u> | 45 |
| Item 1. | <u>Legal Proceedings</u> | 45 |
| Item 1A. | <u>Risk Factors</u> | 45 |
| Item 2. | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 45 |
| Item 3. | <u>Defaults upon Senior Securities</u> | 45 |
| Item 4. | <u>Mine Safety Disclosures</u> | 45 |
| Item 5. | <u>Other Information</u> | 45 |
| Item 6. | <u>Exhibits</u> | 46 |

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements and Supplementary Data

RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | September 30, 2019 (Unaudited) | December 31, 2018 |
|---|--------------------------------------|----------------------------|
| ASSETS | | |
| Investments at fair value: | | |
| Control investments (cost of \$0 and \$99,500, respectively) | \$ — | \$ 99,500 |
| Affiliate investments (cost of \$20,427,536 and \$20,708,659, respectively) | 15,568,648 | 17,026,091 |
| Non- Control/Non-Affiliate investments (cost of \$14,182,282 and \$17,483,984, respectively) | 11,218,550 | 17,541,213 |
| Total investments, at fair value (cost of \$34,609,818 and \$38,292,143, respectively) | 26,787,198 | 34,666,804 |
| Cash and cash equivalents | 9,288,502 | 4,033,792 |
| Interest receivable (net of allowance of \$166,413 and \$161,000, respectively) | 125,808 | 145,532 |
| Deferred tax asset | 1,653,395 | 525,198 |
| Prepaid income taxes | 488,768 | 1,138,708 |
| Other assets | 317,668 | 11,690 |
| Total assets | <u>\$38,661,339</u> | <u>\$40,521,724</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY (NET ASSETS) | | |
| Liabilities: | | |
| Debtures guaranteed by the SBA (net of debt issuance costs) | \$ 10,777,493 | \$ 8,554,443 |
| Profit sharing and bonus payable | — | 125,000 |
| Accounts payable and accrued expenses | 102,733 | 245,758 |
| Deferred revenue | 27,948 | 72,336 |
| Total liabilities | <u>10,908,174</u> | <u>8,997,537</u> |
| Commitments and contingencies (See Note 5) | | |
| Stockholders' equity (net assets): | | |
| Common stock, \$0.10 par; shares authorized 10,000,000; shares issued 6,863,034; shares outstanding of 6,321,988 as of 9/30/19 and 12/31/18 | 686,304 | 686,304 |
| Capital in excess of par value | 10,581,789 | 10,581,789 |
| Accumulated net investment loss | (1,851,634) | (1,665,552) |
| Undistributed net realized gain on investments | 25,920,065 | 26,221,443 |
| Net unrealized depreciation on investments | (6,114,254) | (2,830,692) |
| Treasury stock, at cost: 541,046 shares | (1,469,105) | (1,469,105) |
| Total stockholders' equity (net assets) (per share- 9/30/19: \$4.39,12/31/18: \$4.99) | <u>27,753,165</u> | <u>31,524,187</u> |
| Total liabilities and stockholders' equity (net assets) | <u>\$38,661,339</u> | <u>\$40,521,724</u> |

See accompanying notes

RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| | Three months ended September 30, 2019 | Three months ended September 30, 2018 | Nine months ended September 30, 2019 | Nine months ended September 30, 2018 |
|---|--|--|---|---|
| Investment income: | | | | |
| Interest from portfolio companies: | | | | |
| Affiliate investments | \$ 217,953 | \$ 192,758 | \$ 632,705 | \$ 515,784 |
| Non-Control/Non-Affiliate investments | 110,150 | 257,531 | 416,852 | 547,553 |
| Total interest from portfolio companies | 328,103 | 450,289 | 1,049,557 | 1,063,337 |
| Interest from other investments: | | | | |
| Non-Control/Non-Affiliate investments | 36,797 | 7,872 | 108,146 | 20,717 |
| Total interest from other investments | 36,797 | 7,872 | 108,146 | 20,717 |
| Dividend and other investment income: | | | | |
| Affiliate investments | 65,996 | 48,856 | 307,681 | 175,905 |
| Non-Control/Non-Affiliate investments | — | — | — | 6,058 |
| Total dividend and other investment income | 65,996 | 48,856 | 307,681 | 181,963 |
| Fee income: | | | | |
| Affiliate investments | 3,607 | 4,042 | 11,460 | 11,625 |
| Non-Control/Non-Affiliate investments | 2,852 | 151,243 | 262,927 | 160,987 |
| Total fee income | 6,459 | 155,285 | 274,387 | 172,612 |
| Total investment income | 437,355 | 662,302 | 1,739,771 | 1,438,629 |
| Expenses: | | | | |
| Salaries | 181,500 | 169,875 | 544,500 | 509,624 |
| Employee benefits | 40,606 | 39,845 | 143,705 | 148,841 |
| Directors' fees | 30,124 | 28,624 | 87,372 | 92,123 |
| Professional fees | 68,931 | 81,745 | 406,859 | 220,773 |
| Stockholders and office operating | 85,782 | 47,839 | 466,543 | 176,877 |
| Insurance | 10,500 | 8,700 | 31,070 | 27,588 |
| Corporate development | 18,301 | 15,028 | 51,627 | 41,470 |
| Other operating | 604 | 4,875 | 3,413 | 9,990 |
| | 436,348 | 396,531 | 1,735,089 | 1,227,286 |
| Interest on SBA obligations | 94,191 | 77,568 | 303,849 | 232,406 |
| Bad debt (recovery) expense | — | (26,299) | 5,413 | 50,342 |
| Total expenses | 530,539 | 447,800 | 2,044,351 | 1,510,034 |
| Net investment (loss) gain before income taxes | (93,184) | 214,502 | (304,580) | (71,405) |
| Income tax (benefit) expense | (27,635) | 50,003 | (118,498) | (24,807) |
| Net investment (loss) gain | (65,549) | 164,499 | (186,082) | (46,598) |
| Net realized (loss) gain on sales and dispositions of investments: | | | | |
| Control investments | — | — | 80,393 | — |
| Affiliate investments | — | (1,125,673) | (472,632) | (1,125,673) |
| Net realized loss on sales and dispositions, before income taxes | — | (1,125,673) | (392,239) | (1,125,673) |
| Income tax (benefit) | — | (406,739) | (90,861) | (406,739) |
| Net realized loss on sales and dispositions of investments | — | (718,934) | (301,378) | (718,934) |
| Net change in unrealized depreciation on investments: | | | | |
| Affiliate investments | (1,847,468) | 725,673 | (1,176,320) | 169,232 |
| Non-Control/Non-Affiliate investments | (1,749,661) | (249,871) | (3,020,961) | (901,360) |
| Change in unrealized depreciation before income tax benefit | (3,597,129) | 475,802 | (4,197,281) | (732,128) |
| Deferred income tax (benefit) expense | (783,790) | 100,669 | (913,719) | (166,651) |
| Net change in unrealized depreciation on investments | (2,813,339) | 375,133 | (3,283,562) | (565,477) |
| Net realized and unrealized loss on investments | (2,813,339) | (343,801) | (3,584,940) | (1,284,411) |
| Net decrease in net assets from operations | (\$ 2,878,888) | (\$ 179,302) | (\$ 3,771,022) | (\$ 1,331,009) |
| Weighted average shares outstanding | 6,321,988 | 6,321,988 | 6,321,988 | 6,321,988 |
| Basic and diluted net decrease in net assets from operations per share | (\$ 0.46) | (\$ 0.03) | (\$ 0.60) | (\$ 0.21) |

See accompanying notes

RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
(Unaudited)

| | Three months ended September 30, 2019 | Three months ended September 30, 2018 | Nine months ended September 30, 2019 | Nine months ended September 30, 2018 |
|--|--|--|---|---|
| Net assets at beginning of period | \$ 30,632,053 | \$ 30,766,978 | \$ 31,524,187 | \$ 31,918,685 |
| Net investment (loss) gain | (65,549) | 164,499 | (186,082) | (46,598) |
| Net realized loss on sales and dispositions of investments | — | (718,934) | (301,378) | (718,934) |
| Net change in unrealized depreciation on investments | (2,813,339) | 375,133 | (3,283,562) | (565,477) |
| Net decrease in net assets from operations | (2,878,888) | (179,302) | (3,771,022) | (1,331,009) |
| Net assets at end of period | \$ 27,753,165 | \$ 30,587,676 | \$ 27,753,165 | \$ 30,587,676 |
| Accumulated net investment loss | (\$ 1,851,634) | (\$ 1,643,744) | (\$ 1,851,634) | (\$ 1,643,744) |

See accompanying notes

RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | Nine months ended September 30, 2019 | Nine months ended September 30, 2018 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net decrease in net assets from operations | (\$ 3,771,022) | (\$ 1,331,009) |
| Adjustments to reconcile net decrease in net assets to net cash provided by (used in) operating activities: | | |
| Investments in portfolio companies | (900,012) | (1,365,000) |
| Proceeds from sale of portfolio investments | 39,893 | — |
| Proceeds from loan repayments | 4,525,000 | 70,131 |
| Net realized loss on portfolio investments | 392,239 | 1,125,673 |
| Change in unrealized depreciation on investments before income taxes | 4,197,281 | 732,128 |
| Deferred tax benefit | (1,128,197) | (220,412) |
| Depreciation and amortization | 27,809 | 22,200 |
| Original issue discount amortization | (30,573) | (29,462) |
| Non-cash conversion of debenture interest | (344,222) | (421,665) |
| Change in interest receivable allowance | 5,413 | 50,342 |
| Changes in operating assets and liabilities: | | |
| Decrease in interest receivable | 14,311 | 32,772 |
| (Increase) decrease in other assets | (306,174) | 2,844 |
| Decrease (increase) in prepaid income taxes | 649,940 | (360,779) |
| Decrease in accounts payable and accrued expenses | (143,025) | (69,462) |
| Decrease in profit sharing and bonus payable | (125,000) | (132,000) |
| (Decrease) increase in deferred revenue | (44,388) | 36,234 |
| Total adjustments | 6,830,295 | (526,456) |
| Net cash provided by (used in) operating activities | 3,059,273 | (1,857,465) |
| Cash flows from financing activities: | | |
| Proceeds from SBA debentures | 2,250,000 | — |
| Origination costs to SBA | (54,563) | — |
| Net cash provided by financing activities | 2,195,437 | — |
| Net increase (decrease) in cash and cash equivalents | 5,254,710 | (1,857,465) |
| Cash and cash equivalents: | | |
| Beginning of period | 4,033,792 | 6,262,039 |
| End of period | <u>\$ 9,288,502</u> | <u>\$ 4,404,574</u> |

See accompanying notes

RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS
September 30, 2019
(Unaudited)

| Company, Geographic Location, Business Description, (Industry) and Website | (a) Type of Investment | (b) Date Acquired | (c) Equity | Cost | (d)(f) Fair Value | Percent of Net Assets |
|--|---|----------------------|---------------|-------------------------------------|-----------------------|-----------------------|
| Non-Control/Non-Affiliate Investments – 40.4% of net assets: (j) | | | | | | |
| ACV Auctions, Inc. (e)(g) Buffalo, NY. Live mobile wholesale auctions for new and used car dealers. (Software) www.acvauctions.com | 1,181,160 Series A Preferred. | 8/12/16 | <1% | \$163,000 | \$2,776,907 | 10.0% |
| Advantage 24/7 LLC (g)(h) Williamsville, NY. Marketing program for wine and spirits dealers. (Marketing Company) www.advantage24-7.com | \$140,000 Term Note at 7% due January 1, 2022 | 12/30/10 | 0% | 115,000 | 115,000 | 0.4% |
| Centivo Corporation (e)(g) New York, NY. Tech-enabled health solutions company that helps self-insured employers and their employees save money and have a better experience. (Health Care) www.centivo.com | 190,967 Series A-1 Preferred. 337,808 Series A-2 Preferred. | 7/5/17 | <1% | 200,000 101,342 | 200,000 101,342 | 1.1% |
| Total Centivo | | | | 301,342 | 301,342 | |
| Empire Genomics, LLC (g)(l) Buffalo, NY. Molecular diagnostics company that offers a comprehensive menu of assay services for diagnosing and guiding patient therapeutic treatments. (Health Care) www.empiregenomics.com | \$1,209,014 Senior Secured Convertible Term Notes at 10% (8% PIK through September 30, 2019) due December 31, 2020. \$444,915 Promissory Note at 9% (4% PIK) due December 31, 2020. | 6/13/14 | 0% | 1,308,675 444,915 | 300,000 302,569 | 2.1% |
| Total Empire | | | | 1,753,590 | 602,569 | |
| GiveGab, Inc. (e)(g) Ithaca, NY. Online fundraising, day of giving supporter engagement software for non-profit organizations. (Software) www.givegab.com | 5,084,329 Series Seed Preferred. | 3/13/13 | 4% | 616,221 | 616,221 | 2.2% |
| GoNoodle, Inc. (g)(l) Nashville, TN. Student engagement education software providing core aligned physical activity breaks. (Software) www.gonoodle.com | \$1,000,000 Secured Note at 12% due January 31, 2020, (1% PIK). Warrant for 47,324 Series C Preferred. | 2/6/15 | <1% | 1,047,481 25 | 1,047,481 25 | 3.8% |
| Total GoNoodle | | | | 1,047,506 | 1,047,506 | |
| Mercantile Adjustment Bureau, LLC (g) Williamsville, NY. Full service accounts receivable management and collections company. (Contact Center) www.mercantilesolutions.com | \$1,199,039 Subordinated Secured Note at 13% (3% for the calendar year 2019) due January 31, 2022. (e) \$150,000 Subordinated Debenture at 8% due January 31, 2022. Warrant for 3.29% Membership Interests. Option for 1.5% Membership Interests. | 10/22/12 | 4% | 1,199,040 150,000 197,625 | 500,000 — — | 1.8% |
| Total Mercantile | | | | 1,446,665 | 500,000 | |
| Outmatch Holdings, LLC (e)(g) (Chequed Holdings, LLC) Dallas, TX. Web based predictive employee selection and reference checking. (Software) www.outmatch.com | 3,022,799 Class P1 Units. 109,788 Class C1 Units. | 11/18/10 | 4% | 2,140,007 5,489 | 2,140,007 5,489 | 7.8% |
| Total Outmatch | | | | 2,145,496 | 2,145,496 | |
| PostProcess Technologies, Inc. (e)(g) Buffalo, NY. Provides innovative solutions for the post-processing of additive manufactured 3D parts. (Manufacturing) www.postprocess.com | \$300,000 Convertible Promissory Note at 5% due July 28, 2020. | 7/25/16 | 0% | 300,000 | 300,000 | 1.1% |

RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS
September 30, 2019 (Continued)
(Unaudited)

| Company, Geographic Location, Business Description, (Industry) and Website | (a) Type of Investment | (b) Date Acquired | (c) Equity | Cost | (d)(f) Fair Value | Percent of Net Assets | |
|---|---|--------------------------|---------------|---------------------|----------------------|-----------------------|--|
| Rheonix, Inc. (e) Ithaca, NY. Developer of fully automated microfluidic based molecular assay and diagnostic testing devices. (Health Care) www.rheonix.com | 9,676 Common. | 10/29/09 | 4% | — | — | 2.5% | |
| | (g) 1,839,422 Series A Preferred. | | | 2,099,999 | — | | |
| | (g) 50,593 Common. | | | — | — | | |
| | (g) 589,420 Series B Preferred. | | | 702,732 | 702,732 | | |
| | Total Rheonix | | | <u>2,802,731</u> | <u>702,732</u> | | |
| SocialFlow, Inc. (e)(g) New York, NY. Provides instant analysis of social networks using a proprietary, predictive analytic algorithm to optimize advertising and publishing. (Software) www.socialflow.com | 1,049,538 Series B Preferred. | 4/5/13 | 4% | 500,000 | 279,156 | 3.6% | |
| | 1,204,819 Series B-1 Preferred. | | | 750,000 | 433,735 | | |
| | 717,772 Series C Preferred. | | | 500,000 | 287,109 | | |
| | | Total Social Flow | | | <u>1,750,000</u> | <u>1,000,000</u> | |
| Somerset Gas Transmission Company, LLC (e) Columbus, OH. Natural gas transportation. (Oil and Gas) www.somersetgas.com | 26.5337 Units. | 7/10/02 | 3% | 719,097 | 500,000 | 1.8% | |
| Tech 2000, Inc. (g) Herrndon, VA. Develops and delivers IT training. (Software) www.t2000inc.com | \$600,000 Term Note at 14% due November 15, 2021. | 11/16/18 | 0% | 610,777 | 610,777 | 2.2% | |
| Other Non-Control/Non-Affiliate Investments: | | | | | | | |
| DataView, LLC (e) (Software) | Membership Interest. | 10/1/98 | 5% | 310,357 | — | 0.0% | |
| UStec/Wi3 (e) (Manufacturing) | Common stock. | 12/17/98 | <1% | 100,500 | — | 0.0% | |
| Subtotal Non-Control/Non-Affiliate Investments | | | | <u>\$14,182,282</u> | <u>\$11,218,550</u> | | |
| Affiliate Investments – 56.1% of net assets (k) | | | | | | | |
| BeetNPath, LLC (Grainful) (e)(g) Ithaca, NY. Frozen entrées made from 100% whole grain steel cut oats under Grainful brand name. (Consumer Product) www.grainful.com | 1,119,024 Series A-2 Preferred Membership Units. | 10/20/14 | 9% | \$ 359,000 | \$ — | 0.0% | |
| | 1,032,918 Series B Preferred Membership Units. | | | 261,277 | — | | |
| | \$262,626.64 Convertible Secured Notes at 8% due December 21, 2019. | | | 262,627 | — | | |
| | | Total BeetNPath | | | <u>882,904</u> | <u>—</u> | |
| | | | | | | | |
| Carolina Skiff LLC (g) Waycross, GA. Manufacturer of ocean fishing and pleasure boats. (Manufacturing) www.carolinaskiff.com | 6.0825% Class A Common Membership Interest. | 1/30/04 | 7% | 15,000 | 1,750,000 | 6.3% | |
| ClearView Social, Inc. (e)(g) Buffalo, NY. Social media publishing tool for law, CPA and professional firms. (Software) www.clearviewsocial.com | 312,500 Series Seed Plus Preferred. | 1/4/16 | 6% | 200,000 | 200,000 | 0.7% | |
| First Wave Technologies, Inc. (e)(g) Batavia, NY. Sells First Crush automated pill crusher that crushes and grinds pills for nursing homes and medical institutions. (Health Care) www.firstwavetechnologies.com | 670,443.2 Class A Common. | 4/19/12 | 5% | 661,563 | 33,000 | 0.1% | |
| Genicon, Inc. (e)(g)(l) Winter Park, FL. Designs, produces and distributes patented surgical instrumentation. (Health Care) www.geniconendo.com | 1,586,902 Series B Preferred. | 4/10/15 | 6% | 1,000,000 | — | 9.9% | |
| | \$3,250,000 Promissory Notes at 10% due June 12, 2022, (10% PIK). | | | 3,654,750 | 2,500,000 | | |
| | \$250,000 Promissory Note at 10% due June 12, 2021 (10% PIK). | | | 257,797 | 250,000 | | |
| | Warrants for Common. | | | 120,000 | — | | |
| | | Total Genicon | | | <u>5,032,547</u> | <u>2,750,000</u> | |

RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS
September 30, 2019 (Continued)
(Unaudited)

| Company, Geographic Location, Business Description, (Industry) and Website | (a) Type of Investment | (b) Date Acquired | (c) Equity | Cost | (d)(f) Fair Value | Percent of Net Assets |
|---|--|----------------------|------------------|------------------|----------------------|-----------------------|
| Knoa Software, Inc. (e)(g) 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. | 11/20/12 | 7% | 750,000 | 750,000 | 4.4% |
| | 1,876,922 Series B Preferred. | | | 479,155 | 479,155 | |
| | Total Knoa | | | <u>1,229,155</u> | <u>1,229,155</u> | |
| KnowledgeVision Systems, Inc. (g) Lincoln, MA. Online presentation and training software. (Software) www.knowledgevision.com | 200,000 Series A-1 Preferred. | 11/13/13 | 7% | 250,000 | — | 3.5% |
| | 214,285 Series A-2 Preferred. | | | 300,000 | — | |
| | 129,033 Series A-3 Preferred. | | | 165,001 | — | |
| | Warrant for 46,743 Series A-3. | | | 35,000 | — | |
| | (e) \$75,000 Subordinated Promissory Notes at 8% payable on demand of majority of holders after August 31, 2019. | | | 75,000 | 75,000 | |
| \$900,000 Term Note at 13% due April 30, 2021. | | | | 900,000 | 900,000 | |
| Total KnowledgeVision | | | | <u>1,725,001</u> | <u>975,000</u> | |
| Mezmeriz, Inc. (e)(g) Ithaca, NY. Technology company developing novel reality capture tools for 3D mapping, reality modeling, object tracking and classification. (Electronics Developer) www.mezmeriz.com | 1,554,565 Series Seed Preferred. | 1/9/08 | 12% | 742,850 | 351,477 | 1.3% |
| Microcision LLC (g)(l) Pennsauken Township, NJ. Manufacturer of precision machined medical implants, components and assemblies. (Manufacturing) www.microcision.com | \$1,500,000 Subordinated Promissory Note at 12% (1% PIK) due December 31, 2024. | 9/24/09 | 15% | | | 9.2% |
| | 15% Class A Common Membership Interest. | | | 1,947,889 | 1,947,889 | |
| | Total Microcision | | | <u>1,947,889</u> | <u>2,557,889</u> | |
| New Monarch Machine Tool, Inc. (g) Cortland, NY. Manufactures and services vertical/horizontal machining centers. (Manufacturing) www.monarchmt.com | 22.84 Common. | 9/24/03 | 15% | 22,841 | 22,841 | 0.1% |
| OnCore Golf Technology, Inc. (e)(g) Buffalo, NY. Patented and proprietary golf balls utilizing technology and innovation. (Consumer Product) www.oncoregolf.com | 300,483 Preferred AA. | 12/31/14 | 8% | 752,712 | 300,000 | 1.1% |
| SciAps, Inc. (e)(g) Woburn, MA. Instrumentation company producing portable analytical devices using XRF, LIBS and RAMAN spectroscopy to identify compounds, minerals, and elements. (Manufacturing) www.sciaps.com | 187,500 Series A Preferred. | 7/12/13 | 6% | 1,500,000 | 223,000 | 5.2% |
| | 274,299 Series A-1 Convertible Preferred. | | | 504,710 | 142,000 | |
| | 117,371 Series B Convertible Preferred. | | | 250,000 | 250,000 | |
| | 113,636 Series C Convertible Preferred. | | | 175,000 | 175,000 | |
| | 369,698 Series C-1 Convertible Preferred. | | | 399,274 | 399,274 | |
| | 147,059 Series D Convertible Preferred. | | | 250,000 | 250,000 | |
| Total SciAps | | | <u>3,078,984</u> | <u>1,439,274</u> | | |
| Teleservices Solutions Holdings, LLC (e) (g)(l) Montvale, NJ. Customer contact center specializing in customer acquisition and retention for selected industries. (Contact Center) www.ipacesetters.com | 250,000 Class B Preferred Units. | 5/30/14 | 6% | 250,000 | — | 0.0% |
| | 1,000,000 Class C Preferred Units. | | | 1,190,680 | — | |
| | 80,000 Class D Preferred Units. | | | 91,200 | — | |
| | 104,198 Class E Preferred Units. | | | 104,198 | — | |
| | PIK dividend for Series C and D at 12% and 14%, respectively. | | | | | |
| Total Teleservices | | | <u>1,636,078</u> | <u>—</u> | | |

[Table of Contents](#)

RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS
September 30, 2019 (Continued)
(Unaudited)

| Company, Geographic Location, Business Description, (Industry) and Website | (a) Type of Investment | (b) Date Acquired | (c) Equity | Cost | (d)(f) Fair Value | Percent of Net Assets |
|--|--|-------------------------|---------------|------------------------------------|---|-----------------------------|
| Tilson Technology Management, Inc. (g)(h) | 120,000 Series B Preferred. | 1/20/15 | 9% | 600,000 | 1,950,000 | 14.3% |
| Portland, ME. Provides network deployment construction and information system services management for cellular, fiber optic and wireless systems providers. Its affiliated entity, SQF, LLC is a CLEC supporting small cell 5G deployment. (Professional Services) www.tilsontech.com | 21,391 Series C Preferred. 70,176 Series D Preferred. 15,385 Series E Preferred. 211,567 SQF Hold Co. Common. | | | 200,000 800,000 500,012 — | 347,604 1,140,360 500,012 22,036 | |
| | Total Tilson | | | <u>2,100,012</u> | <u>3,960,012</u> | |
| Other Affiliate Investments: | | | | | | |
| G-TEC Natural Gas Systems(e) (Manufacturing) | Membership Interest | 8/31/99 | 17% | 400,000 | — | 0.0% |
| Subtotal Affiliate Investments | | | | <u>\$20,427,536</u> | <u>\$15,568,648</u> | |
| TOTAL INVESTMENTS – 96.5% | | | | <u>\$34,609,818</u> | <u>\$26,787,198</u> | |
| OTHER ASSETS IN EXCESS OF LIABILITIES – 3.5% | | | | | 965,967 | |
| NET ASSETS – 100% | | | | | <u><u>\$27,753,165</u></u> | |

RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS
September 30, 2019 (Continued)
(Unaudited)

Notes to the Consolidated Schedule of Portfolio Investments

- (a) At September 30, 2019, restricted securities represented 100% of the fair value of the investment portfolio. Restricted securities are subject to one or more restrictions on resale and are not freely marketable. Type of investment for equity position is in form of shares unless otherwise noted as units or interests, i.e., preferred shares, common shares.
- (b) The Date Acquired column indicates the date in which the Corporation first acquired an investment in the company or a predecessor company.
- (c) Each equity percentage estimates the Corporation's ownership interest in the applicable portfolio investment. The estimated ownership is calculated based on the percent of outstanding voting securities held by the Corporation or the potential percentage of voting securities held by the Corporation upon exercise of warrants or conversion of debentures, or other available data. If applicable, the symbol "<1%" indicates that the Corporation holds an equity interest of less than one percent.
- (d) The Corporation's investments are carried at fair value in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820 "Fair Value Measurements and Disclosures," which defines fair value and establishes guidelines for measuring fair value. At September 30, 2019, ASC 820 designates 100% of the Corporation's investments as "Level 3" assets. Under the valuation policy of the Corporation, unrestricted publicly held securities are valued at the average closing bid price for these securities for the last three trading days of the reporting period. Restricted securities are subject to restrictions on resale, and are valued at fair value as determined by the management of the Corporation and submitted to the Board of Directors for approval. Fair value is considered to be the amount that the Corporation may reasonably expect to receive for portfolio securities when sold on the valuation date. Valuations as of any particular date, however, are not necessarily indicative of amounts which may ultimately be realized as a result of future sales or other dispositions of securities and these favorable or unfavorable differences could be material. Among the factors considered in determining the fair value of restricted securities are the financial condition and operating results, projected operations, and other analytical data relating to the investment. Also considered are the market prices for unrestricted securities of the same class (if applicable) and other matters which may have an impact on the value of the portfolio company (see Note 3. "Investments" to the Consolidated Financial Statements).
- (e) These investments are non-income producing. All other investments are income producing. Non-income producing investments have not generated cash payments of interest or dividends including LLC tax-related distributions within the last twelve months, or are not expected to do so going forward. However, if a debt or a preferred equity fails to make its most recent payment, then the investment will also be classified as non-income producing.
- (f) As of September 30, 2019, the total cost of investment securities was approximately \$34.6 million. Net unrealized depreciation was approximately (\$7.8) million, which was comprised of \$6.8 million of unrealized appreciation of investment securities and (\$14.6) million of unrealized depreciation of investment securities. At September 30, 2019, the aggregate gross unrealized gain for federal income tax purposes was \$6.5 million and the aggregate gross unrealized loss for federal income tax purposes was (\$10.6) million. The net unrealized loss for federal income tax purposes was (\$4.1) million based on a tax cost of \$31.9 million.
- (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) from investments included as interest receivable on the Corporation's Consolidated Statements of Financial Position. (None at September 30, 2019)
- (j) Non-Control/Non-Affiliate Investments are investments that are neither Control Investments nor Affiliate Investments.
- (k) Affiliate Investments are defined by the Investment Company Act of 1940, as amended ("1940 Act"), as those Non-Control investments in companies in which between 5% and 25% of the voting securities are owned by the Corporation.
- (l) Payment in kind (PIK) represents earned interest that is added to the cost basis of the investment.

RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS
September 30, 2019 (Continued)
(Unaudited)

Investments in and Advances to Affiliates

| Company | Type of Investment | December 31, 2018 Fair Value | Gross Additions (1) | Gross Reductions (2) | September 30, 2019 Fair Value | Net Realized Gains (Losses) | Amount of Interest/ Dividend/ Fee Income (3) |
|--------------------------------|--|------------------------------------|------------------------|----------------------------|-------------------------------------|--------------------------------------|--|
| Control Investments: | | | | | | | |
| Advantage 24/7 LLC | \$140,000 Term Note at 7%. | \$ 99,500 | \$ — | (\$ 99,500) | \$ — | \$ 40,500 | \$ — |
| Gemcor II, LLC | | — | — | — | — | 39,893 | — |
| | Total Control Investments | \$ 99,500 | \$ — | (\$ 99,500) | \$ — | \$ 80,393 | \$ — |
| Affiliate Investments: | | | | | | | |
| BeetNPath, LLC | 1,119,024 Series A-2 Preferred Membership Units. | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| | 1,032,918 Series B Preferred Membership Units. | 261,277 | — | (261,277) | — | — | — |
| | \$262,626.64 Convertible Secured Notes at 8%. | 262,627 | — | (262,627) | — | — | — |
| | Total BeetNPath | 523,904 | — | (523,904) | — | — | — |
| Carolina Skiff LLC | 6.0825% Class A Common Membership interest. | 1,750,000 | — | — | 1,750,000 | — | 76,914 |
| ClearView Social, Inc. | 312,500 Series Seed Plus Preferred. | 200,000 | — | — | 200,000 | — | — |
| First Wave Technologies, Inc. | 670,443.2 Class A Common. | 33,000 | — | — | 33,000 | — | — |
| Genicon, Inc. | 1,586,902 Series B Preferred. | 1,000,000 | — | (1,000,000) | — | — | — |
| | \$3,250,000 Promissory Notes at 10%. | 3,385,586 | 269,164 | (1,154,750) | 2,500,000 | — | 305,397 |
| | \$250,000 Promissory Note at 10% | — | 257,797 | (7,797) | 250,000 | — | 7,797 |
| | Warrant for Common. | 37,500 | — | (37,500) | — | — | — |
| | Total Genicon | 4,423,086 | 526,961 | (2,200,047) | 2,750,000 | — | 313,194 |
| G-TEC Natural Gas Systems | 16.639% Class A Membership Interest. 8% cumulative dividend. | — | — | — | — | — | — |
| Knoa Software, Inc. | 973,533 Series A-1 Convertible Preferred. | 750,000 | — | — | 750,000 | — | 193,934 |
| | 1,876,922 Series B Preferred. | 479,155 | — | — | 479,155 | — | — |
| | Total Knoa | 1,229,155 | — | — | 1,229,155 | — | 193,934 |
| KnowledgeVision Systems, Inc. | 200,000 Series A-1 Preferred. | — | — | — | — | — | — |
| | 214,285 Series A-2 Preferred. | — | — | — | — | — | — |
| | 129,033 Series A-3 Preferred. | 165,001 | — | (165,001) | — | — | — |
| | \$75,000 Subordinated Promissory Notes at 8%. | 75,000 | — | — | 75,000 | — | 4,488 |
| | \$900,000 Term Note at 13%. | 750,000 | 150,000 | — | 900,000 | — | 92,879 |
| | Warrant for 46,743 Series A-3. | 35,000 | — | (35,000) | — | — | — |
| | Total KnowledgeVision | 1,025,001 | 150,000 | (200,001) | 975,000 | — | 97,367 |
| Mezmeriz, Inc. | 1,554,565 Series Seed Preferred. | 351,477 | — | — | 351,477 | — | — |
| Microcision LLC | \$1,500,000 Subordinated Promissory Note at 12% (1% PIK). | 1,933,353 | 14,536 | — | 1,947,889 | — | 174,437 |
| | 15% Class A Common Membership Interest. | 610,000 | — | — | 610,000 | — | — |
| | Total Microcision | 2,543,353 | 14,536 | — | 2,557,889 | — | 174,437 |
| New Monarch Machine Tool, Inc. | 22.84 Common. | 22,841 | — | — | 22,841 | — | — |
| OnCore Golf Technology, Inc. | 300,483 Series AA Preferred. | 300,000 | — | — | 300,000 | — | — |

RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS
September 30, 2019 (Continued)
(Unaudited)

Investments in and Advances to Affiliates

| Company | Type of Investment | December 31, 2018 Fair Value | Gross Additions (1) | Gross Reductions (2) | September 30, 2019 Fair Value | Net Realized Gains (Losses) | Amount of Interest/ Dividend/ Fee Income (3) |
|------------------------------------|--|------------------------------------|---------------------------|----------------------------|-------------------------------------|--------------------------------------|--|
| SciAps, Inc. | 187,500 Series A Preferred. | 700,000 | — | (477,000) | 223,000 | — | — |
| | 274,299 Series A-1 Convertible Preferred. | 250,000 | — | (108,000) | 142,000 | — | — |
| | 117,371 Series B Convertible Preferred. | 250,000 | — | — | 250,000 | — | — |
| | 113,636 Series C Convertible Preferred. | 175,000 | — | — | 175,000 | — | — |
| | 369,698 Series C-1 Convertible Preferred. | 399,274 | — | — | 399,274 | — | — |
| | 147,059 Series D Convertible Preferred. | 250,000 | — | — | 250,000 | — | — |
| | Total SciAps | <u>2,024,274</u> | <u>—</u> | <u>(585,000)</u> | <u>1,439,274</u> | <u>—</u> | <u>—</u> |
| SOMS Technologies, LLC | 5,959,490 Series B membership Interests. | — | — | — | — | (472,632) | — |
| Teleservices | 250,000 Class B Preferred Units. | — | — | — | — | — | — |
| Solutions | 1,000,000 Class C Preferred Units. | — | — | — | — | — | — |
| Holdings, LLC | 80,000 Class D Preferred Units. | — | — | — | — | — | — |
| | 104,198 Class E Preferred Units. | — | — | — | — | — | — |
| | Total Teleservices | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| Tilson Technology Management, Inc. | 120,000 Series B Preferred. | 600,000 | 1,350,000 | — | 1,950,000 | — | 36,833 |
| | 21,391 Series C Preferred. | 200,000 | 147,604 | — | 347,604 | — | — |
| | 70,176 Series D Preferred. | 800,000 | 340,360 | — | 1,140,360 | — | — |
| | 15,385 Series E Preferred. | — | 500,012 | — | 500,012 | — | — |
| | 211,567 SQF Hold Co. Common. | — | 22,036 | — | 22,036 | — | — |
| | \$200,000 Subordinated Promissory Note at 8%. | 200,000 | — | (200,000) | — | — | 11,835 |
| | \$800,000 Subordinated Promissory Note at 8%. | 800,000 | — | (800,000) | — | — | 47,332 |
| | Total Tilson | <u>2,600,000</u> | <u>2,360,012</u> | <u>(1,000,000)</u> | <u>3,960,012</u> | <u>—</u> | <u>96,000</u> |
| | Total Affiliate Investments | <u>\$ 17,026,091</u> | <u>\$ 3,051,509</u> | <u>(\$ 4,508,952)</u> | <u>\$ 15,568,648</u> | <u>(\$ 472,632)</u> | <u>\$ 951,846</u> |
| | Total Control and Affiliate Investments | <u>\$ 17,125,591</u> | <u>\$ 3,051,509</u> | <u>(\$ 4,608,452)</u> | <u>\$ 15,568,648</u> | <u>(\$ 392,239)</u> | <u>\$ 951,846</u> |

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

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

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

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

RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS
September 30, 2019 (Continued)
(Unaudited)

| Industry Classification | Percentage of Total Investments (at fair value) as of September 30, 2019 |
|--------------------------------|---|
| Software | 39.6% |
| Manufacturing | 22.6 |
| Healthcare | 16.4 |
| Professional Services | 14.8 |
| Contact Center | 1.9 |
| Oil and Gas | 1.9 |
| Electronics | 1.3 |
| Consumer Product | 1.1 |
| Marketing | 0.4 |
| Total Investments | 100% |

**RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS
December 31, 2018**

| Company, Geographic Location, Business Description, (Industry) and Website | (a) Type of Investment | (b) Date Acquired | (c) Equity | Cost | (d)(f) Fair Value | Percent of Net Assets |
|---|--|----------------------|---------------|----------------------|----------------------|-----------------------|
| Non-Control/Non-Affiliate Investments – 55.7% of net assets: (j) | | | | | | |
| ACV Auctions, Inc. (e)(g) Buffalo, NY. Live mobile wholesale auctions for new and used car dealers. (Software) www.acvauctions.com | 1,181,160 Series A Preferred. | 8/12/16 | <1% | \$ 163,000 | \$2,776,907 | 8.8% |
| Centivo Corporation (e)(g) New York, NY. Tech-enabled health solutions company that helps self-insured employers and their employees save money and have a better experience. (Health Care) www.centivo.com | 190,967 Series A-1 Preferred. 337,808 Series A-2 Preferred. | 7/5/17 | <1% | 200,000 101,342 | 200,000 101,342 | 1.0% |
| Total Centivo | | | | 301,342 | 301,342 | |
| eHealth Global Technologies, Inc. (g) Henrietta, NY. eHealth Connect® improves health care delivery through intelligently aggregated clinical record and images for patient referrals. (Health Care) www.ehealthtechnologies.com | \$3,500,000 Term Note at 13% due December 31, 2020. | 6/28/16 | 0% | | 3,500,000 | 11.1% |
| Empire Genomics, LLC (g)(m) Buffalo, NY. Molecular diagnostics company that offers a comprehensive menu of assay services for diagnosing and guiding patient therapeutic treatments. (Health Care) www.empiregenomics.com | \$1,209,014 Senior Secured Convertible Term Notes at 10% (8% PIK through September 30, 2019) due December 31, 2020. \$444,915 Promissory Note at 9% (4% PIK) due December 31, 2020. | 6/13/14 | 0% | 1,233,195 444,915 | 474,181 302,569 | 2.4% |
| Total Empire | | | | 1,678,110 | 776,750 | |
| GiveGab, Inc. (e)(g) Ithaca, NY. Online fundraising, day of giving supporter engagement software for non-profit organizations. (Software) www.givegab.com | 5,084,329 Series Seed Preferred. | 3/13/13 | 4% | 616,221 | 616,221 | 2.0% |
| GoNoodle, Inc. (g)(m) Nashville, TN. Student engagement education software providing core aligned physical activity breaks. (Software) www.gonoodle.com | \$1,000,000 Secured Note at 12% due January 31, 2020, (1% PIK). Warrant for 47,324 Series C Preferred. | 2/6/15 | <1% | 1,039,663 | 1,039,663 25 | 3.3% |
| Total GoNoodle | | | | 1,039,688 | 1,039,688 | |
| Mercantile Adjustment Bureau, LLC (g) Williamsville, NY. Full service accounts receivable management and collections company. (Contact Center) www.mercantilesolutions.com | \$1,199,039 Subordinated Secured Note at 13% (3% for the calendar year 2018) due January 31, 2019. (e) \$150,000 Subordinated Debenture at 8% due June 30, 2018. Warrant for 3.29% Membership Interests. Option for 1.5% Membership Interests. (i) Interest receivable \$50,254. | 10/22/12 | 4% | 1,199,040 150,000 | 700,000 — | 2.2% |
| Total Mercantile | | | | 1,446,665 | 700,000 | |
| Outmatch Holdings, LLC (e)(g) (Chequed Holdings, LLC) Dallas, TX. Web based predictive employee selection and reference checking. (Software) www.outmatch.com | 2,798,883 Class P1 Units. 109,788 Class C1 Units. | 11/18/10 | 4% | 2,140,007 | 2,140,007 5,489 | 6.8% |
| Total Outmatch | | | | 2,145,496 | 2,145,496 | |
| PostProcess Technologies LLC (e)(g) Buffalo, NY. Provides innovative solutions for the post-processing of additive manufactured 3D parts. (Manufacturing) www.postprocess.com | \$300,000 Convertible Promissory Note at 5% due July 28, 2020. | 7/25/16 | 0% | | 300,000 | 1.0% |

RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS
December 31, 2018 (Continued)

| Company, Geographic Location, Business Description, (Industry) and Website | (a) Type of Investment | (b) Date Acquired | (c) Equity | Cost | (d)(f) Fair Value | Percent of Net Assets |
|---|---|-------------------------|---------------|---|---|-----------------------------|
| Rheonix, Inc. (e) Ithaca, NY. Developer of fully automated microfluidic based molecular assay and diagnostic testing devices. (Health Care) www.rheonix.com | 9,676 Common. (g) 1,839,422 Series A Preferred. (g) 50,593 Common. (g) 589,420 Series B Preferred. Total Rheonix | 10/29/09 | 4% | — 2,099,999 — <u>702,732</u> <u>2,802,731</u> | — 1,500,000 — <u>702,732</u> <u>2,202,732</u> | 7.0% |
| SocialFlow, Inc. (e)(g) New York, NY. Provides instant analysis of social networks using a proprietary, predictive analytic algorithm to optimize advertising and publishing. (Software) www.socialflow.com | 1,049,538 Series B Preferred. 1,204,819 Series B-1 Preferred. 717,772 Series C Preferred. Total Social Flow | 4/5/13 | 4% | 500,000 750,000 500,000 <u>1,750,000</u> | 731,431 839,648 500,221 <u>2,071,300</u> | 6.6% |
| Somerset Gas Transmission Company, LLC (e) Columbus, OH. Natural gas transportation. (Oil and Gas) www.somersetgas.com | 26,5337 Units. | 7/10/02 | 3% | 719,097 | 500,000 | 1.6% |
| Tech 2000, Inc. (g)(m) Herndon, VA. Develops and delivers IT training. (Software) www.t2000inc.com | \$600,000 Term Note at 14% (PIK through December 31, 2018) due November 15, 2021. | 11/16/18 | 0% | 610,777 | 610,777 | 1.9% |
| Other Non-Control/Non-Affiliate Investments: | | | | | | |
| DataView, LLC (e) (Software) | Membership Interest. | 10/1/98 | 5% | 310,357 | — | 0.0% |
| UStec/Wi3 (e) (Manufacturing) | Common stock. | 12/17/98 | <1% | 100,500 | — | 0.0% |
| Subtotal Non-Control/Non-Affiliate Investments | | | | <u>\$17,483,984</u> | <u>\$17,541,213</u> | |
| Affiliate Investments – 54.0% of net assets (k) | | | | | | |
| BeetNPath, LLC (Grainful) (e)(g) Ithaca, NY. Frozen entrées made from 100% whole grain steel cut oats under Grainful brand name. (Consumer Product) www.grainful.com | 1,119,024 Series A-2 Preferred Membership Units. 1,032,918 Series B Preferred Membership Units. \$262,626.64 Convertible Secured Notes at 8% due December 21, 2019. Total BeetNPath | 10/20/14 | 9% | \$ 359,000 261,277 <u>262,627</u> <u>882,904</u> | \$ — 261,277 <u>262,627</u> <u>523,904</u> | 1.7% |
| Carolina Skiff LLC (g) Waycross, GA. Manufacturer of ocean fishing and pleasure boats. (Manufacturing) www.carolinaskiff.com | 6.0825% Class A Common Membership Interest. | 1/30/04 | 7% | 15,000 | 1,750,000 | 5.6% |
| ClearView Social, Inc. (e)(g) Buffalo, NY. Social media publishing tool for law, CPA and professional firms. (Software) www.clearviewsocial.com | 312,500 Series Seed Plus Preferred. | 1/4/16 | 6% | 200,000 | 200,000 | 0.6% |
| First Wave Technologies, Inc. (e)(g) Batavia, NY. Sells First Crush automated pill crusher that crushes and grinds pills for nursing homes and medical institutions. (Health Care) www.firstwaveproducts.com | 670,443.2 Class A Common. | 4/19/12 | 5% | 661,563 | 33,000 | 0.1% |

**RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS
December 31, 2018 (Continued)**

| Company, Geographic Location, Business Description, (Industry) and Website | (a) Type of Investment | (b) Date Acquired | (c) Equity | Cost | (d)(f) Fair Value | Percent of Net Assets |
|---|--|----------------------------------|-----------------------|------------------|----------------------------------|--------------------------------------|
| Genicon, Inc. (g) (m) Winter Park, FL. Designs, produces and distributes patented surgical instrumentation. (Health Care) www.geniconendo.com | 1,586,902 Series B Preferred. \$3,250,000 Promissory Notes at 10% due May 1, 2020, (8% PIK). Warrants for 500,000 Common. | 4/10/15 | 6% | 1,000,000 | 1,000,000 | 14.0% |
| | Total Genicon | | | <u>3,385,586</u> | <u>3,385,586</u> | |
| | | | | <u>120,000</u> | <u>37,500</u> | |
| | | | | <u>4,505,586</u> | <u>4,423,086</u> | |
| Knoa Software, Inc. (e)(g) 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. 1,876,922 Series B Preferred. | 11/20/12 | 7% | 750,000 | 750,000 | 3.9% |
| | Total Knoa | | | <u>479,155</u> | <u>479,155</u> | |
| | | | | <u>1,229,155</u> | <u>1,229,155</u> | |
| KnowledgeVision Systems, Inc. (g) Lincoln, MA. Online presentation and training software. (Software) www.knowledgevision.com | 200,000 Series A-1 Preferred. 214,285 Series A-2 Preferred. 129,033 Series A-3 Preferred. Warrant for 46,743 Series A-3. \$75,000 Subordinated Promissory Notes at 8% payable on demand of majority of holders after August 31, 2019.(e) \$750,000 Term Note at 11% due April 30, 2021. | 11/13/13 | 7% | 250,000 | — | 3.2% |
| | Total KnowledgeVision | | | <u>300,000</u> | <u>—</u> | |
| | | | | <u>165,001</u> | <u>165,001</u> | |
| | | | | <u>35,000</u> | <u>35,000</u> | |
| | | | | <u>75,000</u> | <u>75,000</u> | |
| | | | | <u>750,000</u> | <u>750,000</u> | |
| | | | | <u>1,575,001</u> | <u>1,025,001</u> | |
| Mezmeriz, Inc. (e)(g) Ithaca, NY. Technology company developing novel reality capture tools for 3D mapping, reality modeling, object tracking and classification. (Electronics Developer) www.mezmeriz.com | 1,554,565 Series Seed Preferred. | 1/9/08 | 12% | 742,850 | 351,477 | 1.1% |
| Microcision LLC (g)(m) Pennsauken Township, NJ. Manufacturer of precision machined medical implants, components and assemblies. (Manufacturing) www.microcision.com | \$1,500,000 Subordinated Promissory Note at 12% (1% PIK) due December 31, 2024. 15% Class A Common Membership Interest. | 9/24/09 | 15% | 1,933,353 | 1,933,353 | 8.1% |
| | Total Microcision | | | <u>—</u> | <u>610,000</u> | |
| | | | | <u>1,933,353</u> | <u>2,543,353</u> | |
| New Monarch Machine Tool, Inc. (g) Cortland, NY. Manufactures and services vertical/horizontal machining centers. (Manufacturing) www.monarchmt.com | 22.84 Common. | 9/24/03 | 15% | 22,841 | 22,841 | 0.1% |
| OnCore Golf Technology, Inc. (e)(g) Buffalo, NY. Patented and Proprietary Golf Balls utilizing breakthrough technology and innovation, inspiring golfers at all skill levels and abilities. (Consumer Product) www.oncoregolf.com | 300,483 Preferred AA. | 12/31/14 | 8% | 752,712 | 300,000 | 1.0% |
| SciAps, Inc. (e)(g) Woburn, MA. Instrumentation company producing portable analytical devices using XRF, LIBS and RAMAN spectroscopy to identify compounds, minerals, and elements. (Manufacturing) www.sciaps.com | 187,500 Series A Preferred. 274,299 Series A-1 Convertible Preferred. 117,371 Series B Convertible Preferred. 113,636 Series C Convertible Preferred. 369,698 Series C-1 Convertible Preferred. 147,059 Series D Convertible Preferred. | 7/12/13 | 6% | 1,500,000 | 700,000 | 6.4% |
| | Total SciAps | | | <u>504,710</u> | <u>250,000</u> | |
| | | | | <u>250,000</u> | <u>250,000</u> | |
| | | | | <u>175,000</u> | <u>175,000</u> | |
| | | | | <u>399,274</u> | <u>399,274</u> | |
| | | | | <u>250,000</u> | <u>250,000</u> | |
| | | | | <u>3,078,984</u> | <u>2,024,274</u> | |

**RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS
December 31, 2018 (Continued)**

| <u>Company, Geographic Location, Business Description, (Industry) and Website</u> | <u>(a) Type of Investment</u> | <u>(b) Date Acquired</u> | <u>(c) Equity</u> | <u>Cost</u> | <u>(d)(f) Fair Value</u> | <u>Percent of Net Assets</u> |
|---|---|----------------------------------|-----------------------|---------------------|------------------------------|--------------------------------------|
| Teleservices Solutions Holdings, LLC (e)(g)(m) | 250,000 Class B Preferred Units. | 5/30/14 | 6% | 250,000 | — | 0.0% |
| | 1,000,000 Class C Preferred Units. | | | 1,190,680 | — | |
| Montvale, NJ. Customer contact center specializing in customer acquisition and retention for selected industries. (Contact Center) www.ipacesetters.com | 80,000 Class D Preferred Units. | | | 91,200 | — | |
| | 104,198 Class E Preferred Units. | | | 104,198 | — | |
| | PIK dividend for Series C and D at 12% and 14%, respectively. | | | | | |
| | Total Teleservices | | | <u>1,636,078</u> | <u>—</u> | |
| Tilson Technology Management, Inc. (g) | 120,000 Series B Preferred. | 1/20/15 | 11% | 600,000 | 600,000 | 8.2% |
| Portland, ME. Cellular, fiber optic and wireless information systems, construction, and management. (Professional Services) www.tilsonstech.com | 21,391 Series C Preferred. | | | 200,000 | 200,000 | |
| | 70,176 Series D Preferred. \$800,000 Subordinated Promissory Notes at 8% due December 1, 2022. \$200,000 Subordinated Promissory Note at 8% due September 28, 2021. | | | 800,000 | 800,000 | |
| | | | | 800,000 | 800,000 | |
| | | | | 200,000 | 200,000 | |
| | Total Tilson | | | <u>2,600,000</u> | <u>2,600,000</u> | |
| Other Affiliate Investments: | | | | | | |
| G-TEC Natural Gas Systems(e) (Manufacturing) | Membership Interest | 8/31/99 | 17% | 400,000 | — | 0.0% |
| SOMS Technologies, LLC (e)(g) (Consumer Products) | Membership Interest | 12/2/08 | 9% | 472,632 | — | 0.0% |
| Subtotal Affiliate Investments | | | | <u>\$20,708,659</u> | <u>\$17,026,091</u> | |
| Control Investments – 0.3% of net assets (l) | | | | | | |
| Advantage 24/7 LLC (g) | 45% Membership Interest. | 12/30/10 | 45% | \$ 99,500 | \$ 99,500 | 0.3% |
| Williamsville, NY. Marketing program for wine and spirits dealers. (Marketing Company) www.advantage24-7.com | | | | | | |
| Subtotal Control Investments | | | | <u>\$ 99,500</u> | <u>\$ 99,500</u> | |
| TOTAL INVESTMENTS – 110% | | | | <u>\$38,292,143</u> | <u>\$34,666,804</u> | |
| LIABILITIES IN EXCESS OF OTHER ASSETS – (10%) | | | | | <u>(3,142,617)</u> | |
| NET ASSETS – 100% | | | | | <u><u>\$31,524,187</u></u> | |

**RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS
December 31, 2018 (Continued)**

Notes to the Consolidated Schedule of Portfolio Investments

- (a) At December 31, 2018, restricted securities represented 100% of the fair value of the investment portfolio. Restricted securities are subject to one or more restrictions on resale and are not freely marketable. Type of investment for equity position is in form of shares unless otherwise noted as units or interests, i.e., preferred shares, common shares.
- (b) The Date Acquired column indicates the date in which the Corporation first acquired an investment in the company or a predecessor company.
- (c) Each equity percentage estimates the Corporation's ownership interest in the applicable portfolio investment. The estimated ownership is calculated based on the percent of outstanding voting securities held by the Corporation or the potential percentage of voting securities held by the Corporation upon exercise of warrants or conversion of debentures, or other available data. If applicable, the symbol "<1%" indicates that the Corporation holds an equity interest of less than one percent.
- (d) The Corporation's investments are carried at fair value in accordance with FASB Accounting Standards Codification (ASC) 820 "Fair Value Measurements and Disclosures," which defines fair value and establishes guidelines for measuring fair value. At December 31, 2018, ASC 820 designates 100% of the Corporation's investments as "Level 3" assets. Under the valuation policy of the Corporation, unrestricted publicly held securities are valued at the average closing bid price for these securities for the last three trading days of the reporting period. Restricted securities are subject to restrictions on resale, and are valued at fair value as determined by the management of the Corporation and submitted to the Board of Directors for approval. Fair value is considered to be the amount that the Corporation may reasonably expect to receive for portfolio securities when sold on the valuation date. Valuations as of any particular date, however, are not necessarily indicative of amounts which may ultimately be realized as a result of future sales or other dispositions of securities and these favorable or unfavorable differences could be material. Among the factors considered in determining the fair value of restricted securities are the financial condition and operating results, projected operations, and other analytical data relating to the investment. Also considered are the market prices for unrestricted securities of the same class (if applicable) and other matters which may have an impact on the value of the portfolio company (see Note 3 "Investments" to the Consolidated Financial Statements).
- (e) These investments are non-income producing. All other investments are income producing. Non-income producing investments have not generated cash payments of interest or dividends including LLC tax-related distributions within the last twelve months, or are not expected to do so going forward. However, if a debt or a preferred equity fails to make its most recent payment, then the investment will also be classified as non-income producing.
- (f) As of December 31, 2018, the total cost of investment securities was approximately \$38.3 million. Net unrealized depreciation was approximately (\$3.6) million, which was comprised of \$5.3 million of unrealized appreciation of investment securities and (\$8.9) million of unrealized depreciation of investment securities. At December 31, 2018, the aggregate gross unrealized gain for federal income tax purposes was \$5.2 million and the aggregate gross unrealized loss for federal income tax purposes was (\$5.9) million. The net unrealized loss for federal income tax purposes was (\$0.7) million based on a tax cost of \$35.4 million.
- (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) from investments included as interest receivable on the Corporation's Consolidated Statements of Financial Position.
- (j) Non-Control/Non-Affiliate Investments are investments that are neither Control Investments nor Affiliate Investments.
- (k) Affiliate Investments are defined by the Investment Company Act of 1940, as amended ("1940 Act"), as those Non-Control investments in companies in which between 5% and 25% of the voting securities are owned by the Corporation.
- (l) Control Investments are defined by the 1940 Act as investments in companies in which more than 25% of the voting securities are owned by the Corporation or where greater than 50% of the board representation is maintained.
- (m) Payment in kind (PIK) represents earned interest that is added to the cost basis of the investment.

RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS
December 31, 2018 (Continued)

Investments in and Advances to Affiliates

| Company | Type of Investment | December 31, 2017 Fair Value | Gross Additions (1) | Gross Reductions (2) | December 31, 2018 Fair Value | Net Realized (Losses) | Amount of Interest/ Dividend/ Fee Income (3) |
|--------------------------------|---|------------------------------------|------------------------|----------------------------|------------------------------------|-----------------------------|---|
| Control Investments: | | | | | | | |
| Advantage 24/7 LLC | 45% Membership Interest. | \$ 99,500 | \$ — | \$ — | \$ 99,500 | \$ — | \$ 60,000 |
| | Total Control Investments | \$ 99,500 | \$ — | \$ — | \$ 99,500 | \$ — | \$ 60,000 |
| Affiliate Investments: | | | | | | | |
| BeetNPath, LLC | 1,119,024 Series A-2 Preferred Membership Units. | \$ 359,000 | \$ — | (\$ 359,000) | \$ — | \$ — | \$ — |
| | 1,032,918 Series B Preferred Membership Units. | 291,000 | — | (29,723) | 261,277 | — | — |
| | \$262,626.64 Convertible Secured Note at 8% | — | 262,627 | — | 262,627 | — | 5,413 |
| | Total BeetNPath | 650,000 | 262,627 | (388,723) | 523,904 | — | 5,413 |
| Carolina Skiff LLC | 6.0825% Class A Common Membership interest. | 1,750,000 | — | — | 1,750,000 | — | 251,913 |
| ClearView Social, Inc. | 312,500 Series Seed Plus Preferred. | 200,000 | — | — | 200,000 | — | — |
| First Wave Technologies, Inc. | \$500,000 senior term notes at 10%. | 250,000 | — | (250,000) | — | (316,469) | — |
| | \$280,000 junior term notes at 10%. | — | — | — | — | — | — |
| | Warrant for 41,619 capital securities. | — | — | — | — | (22,000) | — |
| | 670,443.2 Class A Common. | — | 33,000 | — | 33,000 | — | — |
| | Total First Wave | 250,000 | 33,000 | (250,000) | 33,000 | (338,469) | — |
| Genicon, Inc. | 1,586,902 Series B Preferred. | 1,000,000 | — | — | 1,000,000 | — | — |
| | \$3,250,000 Promissory Notes at 8%. | 2,903,779 | 481,807 | — | 3,385,586 | — | 348,512 |
| | Warrant for 250,000 Common. | 120,000 | — | (82,500) | 37,500 | — | — |
| | Total Genicon | 4,023,779 | 481,807 | (82,500) | 4,423,086 | — | 348,512 |
| GiveGab, Inc. | 5,084,329 Series Seed Preferred. | 424,314 | 191,907 | (616,221) | — | — | — |
| G-TEC Natural Gas Systems | 16.639% Class A Membership Interest. 8% cumulative dividend. | 100,000 | — | (100,000) | — | (1,125,673) | — |
| Intrinsiq Materials, Inc. | 4,161,747 Series A Preferred. | 400,000 | — | (400,000) | — | — | — |
| Knoa Software, Inc. | 973,533 Series A-1 Convertible Preferred. | 750,000 | — | — | 750,000 | — | — |
| | 1,876,922 Series B Preferred. | 479,155 | — | — | 479,155 | — | — |
| | \$48,466 Convertible Promissory Note at 8%. | 48,466 | — | (48,466) | — | — | 773 |
| | Total Knoa | 1,277,621 | — | (48,466) | 1,229,155 | — | 773 |
| KnowledgeVision Systems, Inc. | 200,000 Series A-1 Preferred. | — | — | — | — | — | — |
| | 214,285 Series A-2 Preferred. | 300,000 | — | (300,000) | — | — | — |
| | 129,033 Series A-3 Preferred. | 165,001 | — | — | 165,001 | — | — |
| | \$75,000 Subordinated Promissory Notes at 8%. | 50,000 | 25,000 | — | 75,000 | — | 5,408 |
| | \$750,000 term note at 11% | — | 750,000 | — | 750,000 | — | 60,241 |
| | Warrant for 46,743 Series A-3. | 35,000 | — | — | 35,000 | — | — |
| | Total KnowledgeVision | 550,001 | 775,000 | (300,000) | 1,025,001 | — | 65,649 |
| Mezmeriz, Inc. | 1,554,565 Series Seed Preferred. | 351,477 | — | — | 351,477 | — | — |
| Microcision LLC | \$1,500,000 Subordinated Promissory Note at 12% (1% PIK) due December 31, 2024. | 1,914,140 | 19,213 | — | 1,933,353 | — | 230,559 |
| | 15% Class A Common Membership Interest. | — | 610,000 | — | 610,000 | — | — |
| | Total Microcision | 1,914,140 | 629,213 | — | 2,543,353 | — | 230,559 |
| New Monarch Machine Tool, Inc. | 22.84 Common. | 22,841 | — | — | 22,841 | — | 29,409 |

RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS
December 31, 2018 (Continued)

Investments in and Advances to Affiliates

| Company | Type of Investment | December 31, 2017 Fair Value | Gross Additions (1) | Gross Reductions (2) | December 31, 2018 Fair Value | Net Realized (Losses) | Amount of Interest/ Dividend/ Fee Income (3) |
|---|---|------------------------------------|---------------------------|----------------------------|------------------------------------|-----------------------------|--|
| OnCore Golf Technology, Inc. | 150,000 Series AA Preferred. | — | 300,000 | — | 300,000 | — | — |
| | \$300,000 Subordinated Convertible Promissory notes at 6%. | 300,000 | — | (300,000) | — | — | 27,370 |
| | Total OnCore | 300,000 | 300,000 | (300,000) | 300,000 | — | 27,370 |
| SciAps, Inc. | 187,500 Series A Convertible Preferred. | 700,000 | — | — | 700,000 | — | — |
| | 274,299 Series A-1 Convertible Preferred. | 250,000 | — | — | 250,000 | — | — |
| | 117,371 Series B Convertible Preferred. | 250,000 | — | — | 250,000 | — | — |
| | 113,636 Series C Preferred. | 175,000 | — | — | 175,000 | — | — |
| | 369,698 Series C-1 Preferred. | 399,274 | — | — | 399,274 | — | — |
| | 147,059 Series D Convertible Preferred | — | 250,000 | — | 250,000 | — | — |
| | Total SciAps | 1,774,274 | 250,000 | — | 2,024,274 | — | — |
| SOMS Technologies, LLC | 5,959,490 Series B membership Interests. | 528,348 | — | (528,348) | — | — | — |
| Teleservices Solutions Holdings, LLC | 250,000 Class B Preferred Units. | — | — | — | — | — | — |
| | 1,000,000 Class C Preferred Units. | — | — | — | — | — | — |
| | 80,000 Class D Preferred Units. | — | — | — | — | — | — |
| | 104,198 Class E Preferred Units. | — | — | — | — | — | — |
| | Total Teleservices | — | — | — | — | — | — |
| Tilson Technology Management, Inc. | 120,000 Series B Preferred. | 600,000 | — | — | 600,000 | — | 20,000 |
| | 21,391 Series C Convertible Preferred. | 200,000 | — | — | 200,000 | — | — |
| | 70,176 Series D Preferred. | 750,000 | 50,000 | — | 800,000 | — | 19,003 |
| | \$200,000 Subordinated Promissory Note at 8%. | 200,000 | — | — | 200,000 | — | 16,000 |
| | \$800,000 Subordinated Promissory Note at 8%. | 750,000 | 50,000 | — | 800,000 | — | 60,822 |
| | Total Tilson | 2,500,000 | 100,000 | — | 2,600,000 | — | 115,825 |
| | Total Affiliate Investments | \$ 17,016,795 | \$3,023,554 | (\$3,014,258) | \$ 17,026,091 | (\$1,464,142) | \$ 1,075,423 |
| | Total Control and Affiliate Investments | \$ 17,116,295 | \$3,023,554 | (\$3,014,258) | \$ 17,125,591 | (\$1,464,142) | \$ 1,135,423 |

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

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

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

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

RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS
December 31, 2018 (Continued)

| Industry Classification | Percentage of Total Investments (at fair value) as of December 31, 2018 |
|--------------------------------|--|
| Software | 33.8% |
| Healthcare | 32.4 |
| Manufacturing | 19.2 |
| Professional Services | 7.5 |
| Consumer Product | 2.4 |
| Contact Center | 2.0 |
| Oil and Gas | 1.4 |
| Electronics | 1.0 |
| Marketing | 0.3 |
| Total Investments | 100% |

Rand Capital Corporation and Subsidiary
Notes to the Consolidated Financial Statements
(Unaudited)

Note 1. ORGANIZATION

Rand Capital Corporation (“Rand”, “we”, “us” and “our”) was incorporated under the laws of New York in February 1969. We completed our initial public offering in 1971 as an internally managed, closed-end, diversified, investment management company. We have elected to be treated as a business development company (“BDC”) under the Investment Company Act of 1940, as amended (the “1940 Act”). As a BDC, we are required to comply with certain regulatory requirements. For instance, we generally have to invest at least 70% of our total assets in “qualifying assets” and provide managerial assistance to the portfolio companies in which we invest. See Item 1. Business – Regulation, Regulation as a Business Development Company in our Annual Report on Form 10-K for the year ended December 31, 2018.

Throughout our history, our principal business has been to make venture capital investments in early or expansion stage companies, often in upstate New York and regions in close proximity. In accordance with our strategic growth plan, we look for companies with strong leadership that are bringing to market new or unique products, technologies or services and have a high potential for growth. We invest in a mixture of debt and equity instruments. The debt securities typically have an equity component in the form of warrants or options to acquire stock or the right to convert the debt securities into equity securities.

We established our first small business investment company (“SBIC”) in 2002, Rand Capital SBIC, Inc. (“Rand SBIC”), whereby we utilized funds borrowed from the Small Business Administration (“SBA”) combined with our capital to invest in our portfolio companies. We historically made the majority of our venture capital investments through Rand SBIC. Rand SBIC’s predecessor was organized as a Delaware limited partnership and was converted into a New York corporation on December 31, 2008, at which time our operations as a licensed SBIC were continued. Although Rand SBIC was operated as if it were a BDC, it was registered as an investment company under the 1940 Act. In 2012, the SEC granted an Order of Exemption for Rand with respect to the operations of Rand SBIC, and then Rand SBIC filed an election to be regulated as a BDC under the 1940 Act. Rand SBIC’s board of directors is comprised of the directors of Rand, a majority of whom are not “interested persons” of Rand or Rand SBIC.

During 2017 we established a second SBIC subsidiary, Rand Capital SBIC II, L.P. (“Rand SBIC II”), and began making investments through this SBIC subsidiary. During 2018, together with the SBA, we determined that the optimal structure was to revert back to investing in small businesses through our original SBIC, Rand SBIC, and the assets of Rand SBIC II were transferred to Rand SBIC.

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

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

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

Recent Developments

As previously announced, on January 24, 2019, Rand entered into a Stock Purchase Agreement (the “Stock Purchase Agreement”) by and among Rand, East Asset Management, LLC (“East”), and, solely for purposes of being bound by Sections 7.10 and 10.9(a) and (b) thereof, Rand Capital Management LLC (“RCM”). Pursuant to the terms of the Stock Purchase Agreement, at the closing of the transaction (the “Closing”), East will purchase 8,333,333.33 shares (the “Shares”) of Rand’s common stock, par value \$0.10 per share, at a purchase price of \$3.00 per Share for an aggregate purchase price of \$25,000,000 (the “Stock Purchase”), which consideration is to be paid to Rand partially in cash and partially through the contribution of existing loans and other securities (the “Contributed Assets”). As a condition to Closing, Rand will enter into a Shareholder Agreement with East (the “Shareholder Agreement”), which provides East with the right to designate two or three persons, depending upon the size of Rand’s board of directors (the “Board”), but in no case a majority, for nomination for election to Rand’s board of directors.

The Stock Purchase Agreement also contemplates that, at the Closing, Rand will enter into an investment advisory and management agreement (the “Advisory Agreement”) with RCM pursuant to which RCM will serve as Rand’s external investment adviser. Pursuant to the terms of the Advisory Agreement, Rand will pay RCM a base management fee and an incentive fee, provided certain performance measures are met. At the Closing, Rand will also enter into an administration agreement (the “Administration Agreement”) with RCM pursuant to which RCM will serve as Rand’s administrator.

The transactions contemplated by the Stock Purchase Agreement, including the entry into the Advisory Agreement with RCM (which we refer to as the “Transactions”), required receipt of shareholder approval. Rand’s shareholders approved all proposals related to the Transactions at a special meeting of shareholders that was held on May 16, 2019.

In connection with the completion of the Transactions, Rand intends to accelerate its shift to an investment strategy focused on higher yielding debt investments, to elect tax treatment as a regulated investment company (“RIC”), and, in connection with such RIC election, intends to pay a special dividend to shareholders, and intends to adopt a new dividend policy going forward, that may include regular cash dividends to shareholders.

Rand’s wholly-owned subsidiary, Rand Capital SBIC, Inc., received approval from the SBA in October 2019 for Rand to proceed with the pending Transaction with East. Rand expects the Transaction to close during November 2019.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – It is our opinion that the accompanying consolidated financial statements include all adjustments of a normal recurring nature necessary for a fair presentation in accordance with United States generally accepted accounting principles (“GAAP”) of the consolidated financial position, results of operations, cash flows and statement of changes in net assets for the interim periods presented. Certain information and note disclosures normally included in audited annual consolidated financial statements prepared in accordance with GAAP have been omitted; however, we believe that the disclosures made are adequate to make the information presented herein not misleading. Our interim results for the nine months ended September 30, 2019 are not necessarily indicative of the results to be expected for the full year.

These statements should be read in conjunction with the consolidated financial statements and the notes included in our Annual Report on Form 10-K for the year ended December 31, 2018. Information contained in this filing should also be reviewed in conjunction with our related filings with the SEC prior to the date of this report. Those filings include, but are not limited to, the following:

N-54A Election to Adopt Business Development Company status

10-Q Quarterly Report on Form 10-Q for the quarters ended June 30, 2019 and March 31, 2019

Table of Contents

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

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

Fair Value of SBA Debentures - In September 2019, the SBIC Funding Corporation completed a pooling of SBA debentures that have a coupon rate of 2.283%, excluding a mandatory SBA annual charge estimated to be 0.094%, resulting in a total estimated fixed rate for ten years of 2.377%. The carrying value of Rand's SBA debentures is a reasonable estimate of fair value because their stated interest rates approximate current interest rates that are available for debt with similar terms.

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

Investments - Investments are valued at fair value as determined in good faith by the management of the Corporation and approved by the Board of Directors. The Corporation invests in loan instruments, debt instruments, and equity instruments. There is no single standard for determining fair value in good faith. As a result, determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment while employing a consistent valuation process. The Corporation analyzes and values each investment quarterly, and records unrealized depreciation for an investment that it believes has become impaired, including where collection of a loan or debt security or realization of the recorded value of an equity security is doubtful. Conversely, the Corporation will record unrealized appreciation if it believes that an underlying portfolio company has appreciated in value and, therefore, its equity securities have also appreciated in value. These estimated fair values may differ from the values that would have been used had a ready market for the investments existed and these differences could be material if the Corporation's assumptions and judgments differ from results of actual liquidation events.

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

Cash and Cash Equivalents - Temporary cash investments having a maturity of less than a year when purchased are considered to be cash equivalents.

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

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

Table of Contents

The following investments are on non-accrual status: BeetNPath, LLC (Beetnpath), G-TEC Natural Gas Systems (G-Tec) and a portion of the Mercantile Adjustment Bureau, LLC (Mercantile) outstanding loan balance.

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

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

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

Revenue Recognition - Fee Income - Consists of the revenue associated with the amortization of financing fees charged to the portfolio companies upon successful closing of SBIC financings and income associated with portfolio company board attendance fees. The income associated with the amortization of financing fees was \$48,887 and \$28,266 for the nine months ended September 30, 2019 and 2018, respectively. During the nine months ended September 30, 2019, the Corporation recognized a one-time fee of \$225,000 in conjunction with the repayment of the eHealth loan instrument. During the nine months ended September 30, 2018 the Corporation recorded a one-time debt modification fee of approximately \$142,000 in connection with the Empire Genomics debt modification. The board fees were \$500 and \$2,000 for the nine months ended September 30, 2019 and 2018, respectively.

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

Original Issue Discount - Investments may include “original issue discount” or OID income. This occurs when the Corporation purchases a warrant and a note from a portfolio company simultaneously, which requires an allocation of a portion of the purchase price to the warrant and reduces the note or debt instrument by an equal amount in the form of a note discount or OID. The note is reported net of the OID and the OID is accreted into interest income over the life of the loan. The Corporation recognized \$30,573 and \$29,462 in OID income for the nine months ended September 30, 2019 and 2018, respectively. OID income is estimated to be approximately \$10,000 for the remainder of 2019.

Deferred Debenture Costs - SBA debenture origination and commitment costs, which are netted against the debenture obligation (See Note 6 “SBA Debentures”), will be amortized ratably over the terms of the SBA debentures. Amortization expense was \$27,614 and \$20,550 for the nine months ended September 30, 2019 and 2018, respectively. Amortization expense on currently outstanding debentures for the next five years is estimated to average approximately \$30,000 per year.

Table of Contents

SBA Debentures - The Corporation had \$11,000,000 and \$8,750,000 in outstanding SBA debentures at September 30, 2019 and December 31, 2018, respectively, with a weighted average interest rate, including the SBA annual fee, of 3.45% at September 30, 2019. The debentures are presented net of deferred debenture costs (See Note 6 “SBA Debentures”). The \$11,000,000 in outstanding SBA leverage matures from 2022 through 2029.

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

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

Supplemental Cash Flow Information - Income taxes refunded during the nine months ended September 30, 2019 and 2018 were \$644,821 and \$17,006, respectively. Interest paid during each of the nine months ended September 30, 2019 and 2018 was \$339,605 and \$282,875, respectively. The Corporation converted \$344,222 and \$279,319 of interest receivable into investments during the nine months ended September 30, 2019 and 2018, respectively. In addition, a debt modification fee of \$142,346 was capitalized during the nine months ended September 30, 2018.

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

Stockholders’ Equity (Net Assets) - At September 30, 2019 and December 31, 2018, there were 500,000 shares of \$10.00 par value preferred stock authorized and unissued.

On October 24, 2019, the Board of Directors extended the repurchase authorization for up to an aggregate of 1,541,056 shares of the Corporation’s outstanding common stock on the open market through October 25, 2020 at prices no greater than the then current net asset value. No shares were repurchased during the nine months ended September 30, 2019. At September 30, 2019 and 2018, respectively, the total treasury shares held was 541,046 shares with a total cost of \$1,469,105.

Profit Sharing and Stock Option Plan - In 2001, the shareholders of the Corporation authorized the establishment of an Employee Stock Option Plan (the “Option Plan”), that provides for the award of stock options to purchase up to 200,000 common shares to eligible employees. In 2002, the Corporation placed the Option Plan on inactive status as it developed a new profit sharing plan for the Corporation’s employees in connection with the formation of its SBIC subsidiary. As of September 30, 2019, no stock options had been awarded under the Option Plan. Because Section 57(n) of the 1940 Act prohibits maintenance of a profit sharing plan for the officers and employees of a BDC where any option, warrant or right is outstanding under an executive compensation plan, no stock options will be granted under the Option Plan while any profit sharing plan is in effect with respect to the Corporation.

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

Table of Contents

The Corporation did not record any expense pursuant to the Plan for the nine months ended September 30, 2019 and 2018.

Income Taxes - The Corporation reviews the tax positions it has taken to determine if they meet a “more likely than not threshold” for the benefit of the tax position to be recognized in the consolidated financial statements. A tax position that fails to meet the more likely than not recognition threshold will result in either a reduction of a current or deferred tax asset or receivable, or the recording of a current or deferred tax liability. There were no uncertain tax positions recorded at September 30, 2019 or December 31, 2018.

It is the Corporation’s policy to include interest and penalties related to income tax liabilities in income tax expense. There were no amounts recognized for interest or penalties for the nine months ended September 30, 2019 or 2018.

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

The following are the concentrations of the top five portfolio company values to the fair value of the Corporation’s total investment portfolio:

| | As of September 30, 2019 |
|---|-------------------------------------|
| Tilson Technology Management, Inc. (Tilson) | 15% |
| ACV Auctions, Inc. (ACV) | 10% |
| Genicon, Inc. (Genicon) | 10% |
| Microcision, LLC. (Microcision) | 10% |
| Outmatch Holdings, LLC (Outmatch) | 8% |

| | As of December 31, 2018 |
|---|--------------------------------|
| Genicon, Inc. (Genicon) | 13% |
| eHealth Global Technologies, Inc. (eHealth) | 10% |
| ACV Auctions, Inc. (ACV) | 8% |
| Tilson Technology Management, Inc. (Tilson) | 7% |
| Microcision, LLC. (Microcision) | 7% |

Note 3. INVESTMENTS

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

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

Table of Contents

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

- Loan and debt securities are valued at cost when it is representative of the fair value of the investment or sufficient assets or liquidation proceeds are expected to exist from a sale of a portfolio company at its estimated fair value. However, they may be valued at an amount other than cost given the carrying interest rate versus the related inherent portfolio risk of the investment. A loan or debt instrument may be reduced in value if it is judged to be of poor quality, collection is in doubt or insufficient liquidation proceeds exist.
- Equity securities may be valued using the “asset approach”, “market approach” or “income approach.” The asset approach involves estimating the liquidation value of the portfolio company’s assets. To the extent the value exceeds the remaining principal amount of the debt or loan securities of the portfolio company, the fair value of such securities is generally estimated to be their cost. However, where value is less than the remaining principal amount of the loan and debt securities, the Corporation may discount the value of an equity security. The market approach uses observable prices and other relevant information generated by similar market transactions. It may include the use of market multiples derived from a set of comparables to assist in pricing the investment. Additionally, the Corporation adjusts valuations if a subsequent significant equity financing has occurred that includes a meaningful portion of the financing by a sophisticated, unrelated new investor. The income approach employs a cash flow and discounting methodology to value an investment.

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

Level 1: Quoted prices in active markets for identical assets or liabilities, used in the Corporation’s valuation at the measurement date. Under the valuation policy, the Corporation values unrestricted publicly traded companies, categorized as Level 1 investments, at the average closing bid price for the last three trading days of the reporting period.

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.

There were no Level 1 or 2 investments as of September 30, 2019 or December 31, 2018.

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

- Audited and unaudited statements of operations, balance sheets and operating budgets;
- Current and projected financial, operational and technological developments of the portfolio company;
- Current and projected ability of the portfolio company to service its debt obligations;
- The current capital structure of the business and the seniority of the various classes of equity if a deemed liquidation event were to occur;
- Pending debt or capital restructuring of the portfolio company;
- Current information regarding any offers to purchase the investment, or recent fundraising transactions;
- Current ability of the portfolio company to raise additional financing if needed;

Table of Contents

- Changes in the economic environment which may have a material impact on the operating results of the portfolio company;
- Internal circumstances and events that may have an impact (both positive and negative) on the operating performance of the portfolio company;
- Qualitative assessment of key management;
- Contractual rights, obligations or restrictions associated with the investment; and
- Other factors deemed relevant by the Corporation's management to assess valuation.

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

Equity Securities

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

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

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

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

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

Loan and Debt Securities

The significant unobservable inputs used in the fair value measurement of the Corporation's loan and debt securities are the financial and operational performance of the portfolio company, similar debt with similar terms with other portfolio companies, as well as the market acceptance for the portfolio company's products or services. These inputs will likely provide an indicator as to the probability of principal recovery of the investment. The Corporation's loan and debt investments are often junior secured or unsecured securities. Fair value may also be determined based on other criteria where appropriate. Significant changes to the unobservable inputs may result in a change in fair value. For recent investments, the Corporation generally relies on the cost basis, which is deemed to represent the fair value, unless other fair value inputs are identified causing the Corporation to depart from this basis.

Table of Contents

The following table provides a summary of the significant unobservable inputs used to determine the fair value of the Corporation's Level 3 portfolio investments as of September 30, 2019:

| Investment Type | Market Approach EBITDA Multiple | Market Approach Liquidation Seniority | Market Approach Revenue Multiple | Market Approach Transaction Pricing | Asset Value Liquidation Seniority | Totals |
|--|------------------------------------|--|-------------------------------------|--|---|---------------------|
| Non-Control/Non-Affiliate Equity | \$ — | \$ 1,702,757 | \$ 2,645,496 | \$ 3,694,470 | \$ — | \$ 8,042,723 |
| Non-Control/Non-Affiliate Loan and Debt | 500,000 | 1,650,050 | — | 1,025,777 | — | 3,175,827 |
| Total | | | | | | |
| Non-Control/Non-Affiliate | \$ 500,000 | \$ 3,352,807 | \$ 2,645,496 | \$ 4,720,247 | \$ — | \$11,218,550 |
| Affiliate Equity | \$ — | \$ 22,841 | \$ 2,868,429 | \$ 7,004,489 | \$ — | \$ 9,895,759 |
| Affiliate Loan and Debt | — | 975,000 | 2,750,000 | — | 1,947,889 | 5,672,889 |
| Total Affiliate | \$ — | \$ 997,841 | \$ 5,518,429 | \$ 7,004,489 | \$ 1,947,889 | \$15,568,648 |
| Total Level 3 Investments | \$ 500,000 | \$ 4,350,648 | \$ 8,263,925 | \$ 11,724,736 | \$ 1,947,889 | \$26,787,198 |
| Range | 6.0X | 1X | 1X-4X | Not Applicable | Not Applicable | |
| Unobservable Input | EBITDA Multiple | Asset Value | Revenue Multiple | Transaction Price | Asset Value | |
| Weighted Average | 6.0X | 1X | 2.7X | Not Applicable | Not Applicable | |

The following table provides a summary of the components of Level 1, 2 and 3 Assets Measured at Fair Value at September 30, 2019:

| Description | September 30, 2019 | 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 | \$ 2,145,692 | \$ — | \$ — | \$ 2,145,692 |
| Debt investments | 6,703,024 | — | — | 6,703,024 |
| Equity investments | 17,938,482 | — | — | 17,938,482 |
| Total | <u>\$26,787,198</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 26,787,198</u> |

The following table provides a summary of the components of Level 1, 2 and 3 Assets Measured at Fair Value at December 31, 2018:

| Description | December 31, 2018 | 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 | \$ 4,935,777 | \$ — | \$ — | \$ 4,935,777 |
| Debt investments | 9,397,979 | — | — | 9,397,979 |
| Equity investments | 20,330,048 | — | — | 20,330,048 |
| Total | <u>\$34,666,804</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 34,666,804</u> |

[Table of Contents](#)

The following table provides a summary of changes in Assets Measured at Fair Value Using Significant Unobservable Inputs (Level 3) for the nine months ended September 30, 2019:

| Description | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Venture Capital Investments | | | |
|---|---|--------------|--------------|----------------|
| | Loan | Debt | Equity | Total |
| | Investments | Investments | Investments | |
| Ending Balance, December 31, 2018, of Level 3 Assets | \$ 4,935,777 | \$ 9,397,979 | \$20,333,048 | \$ 34,666,804 |
| Realized gain included in net change in net assets from operations: | | | | |
| Advantage 24/7 LLC (Advantage 24/7) | — | — | (40,500) | (40,500) |
| Gemcor II LLC (Gemcor) | — | — | 39,893 | 39,893 |
| SOMS Technologies, LLC (SOMS) | — | — | (472,632) | (472,632) |
| Total Realized Gains and Losses | — | — | (392,239) | (392,239) |
| Unrealized Gains and Losses included in net change in net assets from operations: | | | | |
| BeetNPath, LLC (Beetnpath) | — | (262,627) | (261,277) | (523,904) |
| Empire Genomics, LLC (Empire Genomics) | — | (249,661) | — | (249,661) |
| Genicon, Inc. (Genicon) | — | (1,162,547) | (1,037,500) | (2,200,047) |
| KnowledgeVision Systems, Inc. (Knowledge Vision) | — | — | (200,001) | (200,001) |
| Mercantile Adjustment Bureau, LLC (Mercantile) | — | (200,000) | — | (200,000) |
| Rheonix, Inc. (Rheonix) | — | — | (1,500,000) | (1,500,000) |
| SciAps, Inc. (Sciaps) | — | — | (585,000) | (585,000) |
| SocialFlow, Inc. (Socialflow) | — | — | (1,071,300) | (1,071,300) |
| SOMS | — | — | 472,632 | 472,632 |
| Tilson Technology Management, Inc. (Tilson) | — | — | 1,860,000 | 1,860,000 |
| Total Unrealized Gains and Losses | — | (1,874,835) | (2,322,446) | (4,197,281) |
| Purchases of Securities/Changes to Securities/Non-cash conversions: | | | | |
| Advantage 24/7 | 140,000 | — | — | 140,000 |
| Empire Genomics | — | 75,481 | — | 75,481 |
| Genicon | — | 526,961 | — | 526,961 |
| GoNoodle, Inc. (GoNoodle) | — | 7,817 | — | 7,817 |
| Knowledge Vision | 150,000 | — | — | 150,000 |
| Microcision LLC (Microcision) | — | 14,536 | — | 14,536 |
| Tilson | — | — | 500,012 | 500,012 |
| Total Purchases of Securities/Changes to Securities/Non-cash conversions | 290,000 | 624,795 | 500,012 | 1,414,807 |
| Repayments and Sale of Securities: | | | | |
| Advantage 24/7 | (25,000) | — | (140,000) | (165,000) |
| eHealth Global Technologies, Inc. (eHealth) | (3,500,000) | — | — | (3,500,000) |
| Gemcor | — | — | (39,893) | (39,893) |
| Tilson | — | (1,000,000) | — | (1,000,000) |
| Total Repayments and Sale of Securities | (3,525,000) | (1,000,000) | (179,893) | (4,704,893) |
| Transfers within Level 3 | 444,915 | (444,915) | — | — |
| Ending Balance, September 30, 2019, of Level 3 Assets | \$ 2,145,692 | \$ 6,703,024 | \$17,938,482 | \$ 26,787,198 |
| Change in unrealized depreciation on investments for the period included in changes in net assets | | | | (\$ 4,197,281) |
| Net realized loss on investments for the period included in changes in net assets | | | | (\$ 392,239) |

[Table of Contents](#)

The following table provides a summary of changes in Assets Measured at Fair Value Using Significant Unobservable Inputs (Level 3) for the nine months ended September 30, 2018:

| Description | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Venture Capital Investments | | | |
|---|--|---------------------|---------------------|-----------------------|
| | Loan Investments | Debt Investments | Equity Investments | Total |
| Ending Balance, December 31, 2017, of Level 3 Assets | \$3,550,000 | \$10,096,244 | \$18,637,818 | \$ 32,284,062 |
| Realized loss included in net change in net assets from operations: | | | | |
| Intrinsiq Material, Inc. (Intrinsiq) | — | — | (1,125,673) | (1,125,673) |
| Total Realized Losses | — | — | (1,125,673) | (1,125,673) |
| Unrealized Losses included in net change in net assets from operations: | | | | |
| Empire Genomics, LLC (Empire Genomics) | — | (901,360) | — | (901,360) |
| First Wave Products Group, LLC (First Wave) | — | (250,000) | — | (250,000) |
| GiveGab, Inc. (Givegab) | — | — | 191,907 | 191,907 |
| Intrinsiq | — | — | 725,673 | 725,673 |
| SOMS Technologies, LLC (SOMS) | — | — | (498,348) | (498,348) |
| Total Unrealized Losses | — | (1,151,360) | 419,232 | (732,128) |
| Purchases of Securities/Changes to Securities/Non-cash conversions: | | | | |
| BeetNPath, LLC (Beetnpath) | — | 140,000 | — | 140,000 |
| Centivo Corporation (Centivo) | — | — | 201,342 | 201,342 |
| Empire Genomics | — | 274,106 | — | 274,106 |
| Genicon, Inc. (Genicon) | — | 153,548 | — | 153,548 |
| GoNoodle, Inc. (GoNoodle) | — | 7,739 | — | 7,739 |
| KnowledgeVision Systems, Inc. (KnowledgeVision) | 775,000 | — | — | 775,000 |
| Microcision LLC (Microcision) | — | 14,392 | — | 14,392 |
| SciAps, Inc. (Sciaps) | — | — | 250,000 | 250,000 |
| Total Purchases of Securities/Changes to Securities/Non-cash conversions | 775,000 | 589,785 | 451,342 | 1,816,127 |
| Repayments and Sale of Securities: | | | | |
| Empire Genomics | — | (21,665) | — | (21,665) |
| Knoa Software, Inc. (Knoa) | — | (48,466) | — | (48,466) |
| Total Repayments and Sale of Securities | — | (70,131) | — | (70,131) |
| Transfers within Level 3 | — | (100,000) | 100,000 | — |
| Ending Balance, September 30, 2018, of Level 3 Assets | <u>\$4,325,000</u> | <u>\$ 9,364,538</u> | <u>\$18,482,719</u> | <u>\$ 32,172,257</u> |
| Change in unrealized depreciation on investments for the period included in changes in net assets | | | | <u>(\$ 732,128)</u> |
| Net realized loss on investments for the period included in changes in net assets | | | | <u>(\$ 1,125,673)</u> |

[Table of Contents](#)

Note 4. OTHER ASSETS

At September 30, 2019 and December 31, 2018, other assets was comprised of the following:

| | September 30, 2019 | December 31, 2018 |
|-----------------------|-----------------------|----------------------|
| Prepaid expenses | \$ 311,940 | \$ — |
| Operating receivables | 5,660 | 11,428 |
| Equipment (net) | 68 | 262 |
| Total other assets | <u>\$ 317,668</u> | <u>\$ 11,690</u> |

Included in other assets at September 30, 2019 is \$266,000 in stock issuance costs attributable to the Transactions. These expenses were deferred and will be offset against the equity capital raise when the Transactions close, or expensed if the Transactions are not completed.

Note 5. COMMITMENTS AND CONTINGENCIES

The Corporation had no commitments at September 30, 2019.

In addition, the Corporation analyzed the new Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 842 standard, Leases, and deemed the effect on the Corporation's consolidated financial statements to be immaterial.

Note 6. SBA DEBENTURES

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

| | September 30, 2019 | December 31, 2018 |
|---------------------------------------|----------------------|---------------------|
| Debentures guaranteed by the SBA | \$ 11,000,000 | \$ 8,750,000 |
| Less unamortized issue costs | (222,507) | (195,557) |
| Debentures guaranteed by the SBA, net | <u>\$ 10,777,493</u> | <u>\$ 8,554,443</u> |

Note 7. CHANGES IN STOCKHOLDERS' EQUITY (NET ASSETS)

The following schedule analyzes the changes in stockholders' equity (net assets) section of the Consolidated Statement of Financial Position for the three months and nine months ended September 30, 2019 and 2018, respectively:

| | Common Stock | Capital in excess of par value | Accumulated Net Investment Loss | Undistributed Net Realized Gain on Investments | Net Unrealized Depreciation on Investments | Treasury Stock, at cost | Total Stockholders' Equity (Net Assets) |
|--|------------------|--------------------------------------|--|---|--|-------------------------------|--|
| July 1, 2019 | \$686,304 | \$10,581,789 | (\$1,786,085) | \$25,920,065 | (\$ 3,300,915) | (\$1,469,105) | \$30,632,053 |
| Net investment loss | — | — | (65,549) | — | — | — | (65,549) |
| Net realized loss on sales and dispositions of investments | — | — | — | — | — | — | — |
| Net change in unrealized depreciation on investments | — | — | — | — | (2,813,339) | — | (2,813,339) |
| September 30, 2019 | <u>\$686,304</u> | <u>\$10,581,789</u> | <u>(\$1,851,634)</u> | <u>\$25,920,065</u> | <u>(\$ 6,114,254)</u> | <u>(\$1,469,105)</u> | <u>\$27,753,165</u> |

[Table of Contents](#)

| | Common Stock | Capital in excess of par value | Accumulated Net Investment Loss | Undistributed Net Realized Gain on Investments | Net Unrealized Depreciation on Investments | Treasury Stock, at cost | Total Stockholders' Equity (Net Assets) |
|---|------------------|--------------------------------------|--|---|--|-------------------------------|--|
| July 1, 2018 | \$686,304 | \$10,581,789 | (\$1,808,243) | \$27,215,738 | (\$4,439,505) | (\$1,469,105) | \$30,766,978 |
| Net investment gain | — | — | 164,499 | — | — | — | 164,499 |
| Net realized loss on sales and dispositions of investments | — | — | — | (718,934) | — | — | (718,934) |
| Net change in unrealized depreciation on investments | — | — | — | — | 375,133 | — | 375,133 |
| September 30, 2018 | <u>\$686,304</u> | <u>\$10,581,789</u> | <u>(\$1,643,744)</u> | <u>\$26,496,804</u> | <u>(\$4,064,372)</u> | <u>(\$1,469,105)</u> | <u>\$30,587,676</u> |

| | Common Stock | Capital in excess of par value | Accumulated Net Investment Loss | Undistributed Net Realized Gain on Investments | Net Unrealized Depreciation on Investments | Treasury Stock, at cost | Total Stockholders' Equity (Net Assets) |
|---|------------------|--------------------------------------|--|---|--|-------------------------------|--|
| January 1, 2019 | \$686,304 | \$10,581,789 | (\$1,665,552) | \$26,221,443 | (\$ 2,830,692) | (\$1,469,105) | \$31,524,187 |
| Net investment loss | — | — | (186,082) | — | — | — | (186,082) |
| Net realized loss on sales and dispositions of investments | — | — | — | (301,378) | — | — | (301,378) |
| Net change in unrealized depreciation on investments | — | — | — | — | (3,283,562) | — | (3,283,562) |
| September 30, 2019 | <u>\$686,304</u> | <u>\$10,581,789</u> | <u>(\$1,851,634)</u> | <u>\$25,920,065</u> | <u>(\$ 6,114,254)</u> | <u>(\$1,469,105)</u> | <u>\$27,753,165</u> |

| | Common Stock | Capital in excess of par value | Accumulated Net Investment Loss | Undistributed Net Realized Gain on Investments | Net Unrealized Depreciation on Investments | Treasury Stock, at cost | Total Stockholders' Equity (Net Assets) |
|---|------------------|--------------------------------------|--|---|--|-------------------------------|--|
| January 1, 2018 | \$686,304 | \$10,581,789 | (\$1,597,146) | \$27,215,738 | (\$3,498,895) | (\$1,469,105) | \$31,918,685 |
| Net investment loss | — | — | (46,598) | — | — | — | (46,598) |
| Net realized loss on sales and dispositions of investments | — | — | — | (718,934) | — | — | (718,934) |
| Net change in unrealized depreciation on investments | — | — | — | — | (565,477) | — | (565,477) |
| September 30, 2018 | <u>\$686,304</u> | <u>\$10,581,789</u> | <u>(\$1,643,744)</u> | <u>\$26,496,804</u> | <u>(\$4,064,372)</u> | <u>(\$1,469,105)</u> | <u>\$30,587,676</u> |

Note 8. FINANCIAL HIGHLIGHTS

The following schedule provides the financial highlights, calculated based on weighted average shares outstanding, for the nine months ended September 30, 2019 and 2018:

| | Nine months ended September 30, 2019 (Unaudited) | Nine months ended September 30, 2018 (Unaudited) |
|--|--|--|
| Income from investment operations (1): | | |
| Investment income | \$ 0.27 | \$ 0.23 |
| Operating expenses | 0.32 | 0.24 |
| Investment loss before income taxes | (0.05) | (0.01) |
| Income tax benefit | (0.02) | 0.00 |
| Net investment loss | (0.03) | (0.01) |
| Net realized and unrealized loss on investments | (0.57) | (0.20) |
| Decrease in net asset value | (0.60) | (0.21) |
| Net asset value, beginning of period | 4.99 | 5.05 |
| Net asset value, end of period | \$ 4.39 | \$ 4.84 |
| Per share market price, end of period | \$ 2.50 | \$ 2.40 |
| Total return based on market value | 0.0% | (20.5%) |
| Total return based on net asset value | (12.0%) | (4.2%) |
| Supplemental data: | | |
| Ratio of operating expenses before income taxes to average net assets | 6.9% | 4.8% |
| Ratio of operating expenses including income taxes to average net assets | 3.1% | 2.9% |
| Ratio of net investment loss to average net assets | (0.6%) | (0.2%) |
| Portfolio turnover | 3.4% | 4.2% |
| Net assets, end of period | \$ 27,753,165 | \$ 30,587,676 |
| Weighted shares outstanding, end of period | 6,321,988 | 6,321,988 |

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

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

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

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

FORWARD LOOKING STATEMENTS

Statements included in this Management’s Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this report that do not relate to present or historical conditions are “forward-looking statements” within the meaning of that term in Section 27A of the Securities Act of 1933, as amended, and in Section 21E of the Securities Exchange Act of 1934, as amended. Additional oral or written forward-looking statements may be made by us from time to time, and forward-looking statements may be included in documents that are filed with the Securities and Exchange Commission. Forward-looking statements involve risks and uncertainties that could cause our results or outcomes to differ materially from those expressed in the forward-looking statements. Forward-looking statements may include, without limitation, statements relating to our plans, strategies, objectives, expectations and intentions and are intended to be made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Words such as “believes,” “forecasts,” “intends,” “possible,” “expects,” “estimates,” “anticipates,” or “plans” and similar 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 United States economy and the local markets in which our portfolio companies operate, the state of the securities markets in which the securities of our portfolio companies could be traded, liquidity within the United States financial markets, and inflation. Forward-looking statements are also subject to the risks and uncertainties described under the caption “Risk Factors” contained in Part II, Item 1A of this report and in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018.

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

Overview

We are currently an internally managed investment company that lends to and invests in small companies, often concurrently with other investors. We have elected to be treated as a business development company (“BDC”) under the Investment Company Act of 1940, as amended (the “1940 Act”). As a BDC, we are required to comply with certain regulatory requirements. We have historically made the majority of our investments through our wholly-owned subsidiary, Rand Capital SBIC, Inc. (“Rand SBIC”), which operates as a small business investment company (“SBIC”) and has been licensed by the U.S. Small Business Administration (“SBA”) since 2002. Rand SBIC was approved for an additional \$6.0 million in new SBA leverage commitments during 2018 and has drawn down \$3.0 million of that leverage as of September 30, 2019.

In January 2019, we entered into a stock purchase agreement to sell approximately 8.3 million shares of our common stock to East Asset Management, LLC (“East”) for \$25 million in cash and portfolio assets, which will be income-producing instruments. Additionally, upon closing of the pending Transactions (the “Transactions”), a new entity, Rand Capital Management LLC (“RCM”) will be retained by Rand to be its investment advisor as an external management company. RCM will have the same management team that is currently at Rand. Rand’s shareholders approved all proposals related to the Transactions at a special meeting of shareholders that was held on May 16, 2019. Rand’s wholly-owned subsidiary, Rand Capital SBIC, Inc., received approval from the SBA for Rand to proceed with the pending Transaction with East. Rand expects the Transaction to close during November 2019.

Table of Contents

Following the closing of the above-described Transactions and contingent upon meeting certain tax-related conditions, we intend to elect to become a regulated investment company ("RIC") for U.S. federal tax purposes. This will enable the pass through of capital gains and investment income to shareholders without payment of corporate-level U.S. federal income tax by Rand.

Outlook

At the end of the third quarter of 2019, we had \$9.3 million in cash and cash equivalents available for future investments and expenses, an increase of \$5.3 million as compared to the end of 2018. The increase was primarily due to \$4.5 million in loans repaid by two portfolio companies and \$2.25 million of additional SBA leverage drawn down during the nine months ended September 30, 2019.

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

- We expect that well run businesses will require capital to grow and should be able to compete effectively given eager reception of new technologies and service concepts, regardless of the macroeconomic environment.
- We continue to manage risk by investing with other investors, when possible.
- We are involved with the governance and management of a majority of our portfolio companies, which enables us to support their operating and marketing efforts and facilitate their growth.
- As our portfolio expands, we are able to better leverage our infrastructure.
- We believe the anticipated receipt of cash and portfolio assets from East, as well as the establishment of RCM as an external management company, will broaden our potential pipeline of investment opportunities in order to build our portfolio and grow further. Strategically, we expect to advance our efforts to increase our income-producing investments that can support a regular cash dividend for shareholders and complement our equity investments that drive capital appreciation.
- We have sufficient cash to invest in new opportunities and to repurchase shares. At period end, we had authorization to repurchase an additional 1,000,000 shares of our common stock.

Critical Accounting Policies

We prepare our consolidated financial statements in accordance with United States generally accepted accounting principles (GAAP), which require the use of estimates and assumptions that affect the reported amounts of assets and liabilities. A summary of our critical accounting policies can be found in our Annual Report on Form 10-K for the year ended December 31, 2018 under Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations."

[Table of Contents](#)

Financial Condition

| Overview: | September 30, 2019 | December 31, 2018 | (Decrease) Increase | % (Decrease) Increase |
|-------------------|----------------------|----------------------|------------------------|--------------------------|
| Total assets | \$ 38,661,339 | \$ 40,521,724 | (\$1,860,385) | (4.6%) |
| Total liabilities | 10,908,174 | 8,997,537 | 1,910,637 | 21.2% |
| Net assets | <u>\$ 27,753,165</u> | <u>\$ 31,524,187</u> | <u>(\$3,771,022)</u> | <u>(12.0%)</u> |

Net asset value per share (NAV) was \$4.39 at September 30, 2019 and \$4.99 at December 31, 2018.

Our gross outstanding SBA debentures at September 30, 2019 were \$11,000,000 and will mature from 2022 through 2029. Cash and cash equivalents approximated 33% of net assets at September 30, 2019, as compared to 13% at December 31, 2018.

Composition of Our Investment Portfolio

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

| | September 30, 2019 | December 31, 2018 | (Decrease) | % Decrease |
|------------------------------|----------------------|----------------------|-----------------------|----------------|
| Investments, at cost | \$ 34,609,818 | \$ 38,292,143 | (\$ 3,682,325) | (9.6%) |
| Unrealized depreciation, net | (7,822,620) | (3,625,339) | (4,197,281) | 115.8% |
| Investments at fair value | <u>\$ 26,787,198</u> | <u>\$ 34,666,804</u> | <u>(\$ 7,879,606)</u> | <u>(22.7%)</u> |

Our total investments at fair value, as estimated by management and approved by our Board of Directors, approximated 97% of net assets at September 30, 2019 versus 110% of net assets at December 31, 2018.

The change in investments during the nine months ended September 30, 2019, at cost, is comprised of the following:

| | Cost Increase (Decrease) |
|---|-----------------------------|
| New investments: | |
| Tilson Technology Management, Inc. (Tilson) | \$ 500,012 |
| Genicon Inc. (Genicon) | 250,000 |
| KnowledgeVision Systems, Inc. (Knowledgevision) | 150,000 |
| Advantage 24/7 LLC (Advantage 24/7) | 140,000 |
| Total of new investments | 1,040,012 |
| Other changes to investments: | |
| Genicon interest conversion and OID amortization | 276,961 |
| Empire Genomics, LLC (Empire Genomics) capitalized fee income and interest conversion | 75,481 |
| Microcision LLC (Microcision) interest conversion | 14,536 |
| GoNoodle, Inc. (GoNoodle) interest conversion | 7,817 |
| Total of other changes to investments | 374,795 |
| Investments repaid, sold, liquidated or converted: | |
| eHealth Global Technologies, Inc. (eHealth) loan repayment | (3,500,000) |
| Tilson loan repayment | (1,000,000) |
| SOMS Technologies, LLC (SOMS) realized loss | (472,632) |
| Advantage 24/7 investment conversion and loan repayment | (124,500) |
| Total of investments repaid, sold, liquidated or converted | (5,097,132) |
| Net change in investments, at cost | (\$ 3,682,325) |

Table of Contents

Results of Operations

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

Comparison of the three months ended September 30, 2019 to the three months ended September 30, 2018

Investment Income

| | Three months ended September 30, 2019 | Three months ended September 30, 2018 | (Decrease) Increase | % (Decrease) Increase |
|--------------------------------------|--|--|------------------------|-----------------------------|
| Interest from portfolio companies | \$ 328,103 | \$ 450,289 | (\$ 122,186) | (27.1%) |
| Interest from other investments | 36,797 | 7,872 | 28,925 | 367.4% |
| Dividend and other investment income | 65,996 | 48,856 | 17,140 | 35.1% |
| Fee income | 6,459 | 155,285 | (148,826) | (95.8%) |
| Total investment income | <u>\$ 437,355</u> | <u>\$ 662,302</u> | <u>(\$ 224,947)</u> | <u>(34.0%)</u> |

The total investment income that was received on a current basis for the three months ended September 30, 2019 and 2018 was received from ten portfolio companies.

Interest from portfolio companies – Interest from portfolio companies decreased during the three months ended September 30, 2019 versus the same period in 2018 due to the fact that the debt instrument from eHealth Global Technologies, Inc. (eHealth) was repaid during the first quarter of 2019. In addition, during the third quarter of 2018, loans to Empire Genomics were modified and resulted in the recording of interest that had previously not been accrued of approximately \$91,000. The following investments are on non-accrual status: BeetnPath, LLC (Beetnpath), G-TEC Natural Gas Systems (G-Tec) and a portion of the Mercantile Adjustment Bureau, LLC (Mercantile) outstanding loan balances.

Interest from other investments - The increase in interest from other investments is primarily due to higher interest rates and higher average cash balance during the three months ended September 30, 2019 versus the same period in 2018.

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

| | Three months ended September 30, 2019 | Three months ended September 30, 2018 |
|---|---|---|
| Carolina Skiff LLC (Carolina Skiff) | \$ 52,871 | \$ 39,169 |
| Tilson Technology Management, Inc. (Tilson) | 13,125 | 9,687 |
| Total dividend and other investment income | <u>\$ 65,996</u> | <u>\$ 48,856</u> |

Fee income - Fee income generally consists of the revenue associated with the amortization of financing fees charged to the portfolio companies upon successful closing of SBIC financings, income from portfolio company board attendance fees and other miscellaneous fees. The financing fees are amortized ratably over the life of the instrument associated with the fees. The unamortized fees are carried on the Consolidated Statement of Financial Position in the line item "Deferred revenue."

Table of Contents

The income associated with the amortization of financing fees was \$6,459 and \$12,939 for the three months ended September 30, 2019 and 2018, respectively. In addition, we recorded a one-time debt modification fee of approximately \$142,000 during the three months ended September 30, 2018. We charged the fee to Empire Genomics and the fee was capitalized into the Empire Genomics loan balances as part of the debt modification.

Expenses

| | Three months ended September 30, 2019 | Three months ended September 30, 2018 | Increase | % Increase |
|----------------|--|--|----------|---------------|
| Total expenses | \$ 530,539 | \$ 447,800 | \$82,739 | 18.5% |

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

The increase in expenses during the three months ended September 30, 2019 versus the same period in 2018 was primarily caused by a 79%, or \$37,973, increase in stockholders expense and a 21%, or \$16,623, increase in interest expense. We incurred additional stockholders expense related to the aforementioned Transactions with East Asset Management and the regulatory procedures that are required to effect such Transactions. Our interest expense increased due to higher outstanding SBA debt.

Net Realized Loss on Investments

| | Three months ended September 30, 2019 | Three months ended September 30, 2018 | Change |
|--|--|--|---------------|
| Realized loss on investments before income taxes | \$ — | (\$ 1,125,673) | (\$1,125,673) |

During the three months ended September 30, 2018, we recognized a loss on our investment in Intrinsic Material, Inc. (Intrinsic) when the company was sold and we did not receive any proceeds. There were no realized gains or losses during the three months ended September 30, 2019.

Change in Unrealized Depreciation of Investments

| | Three months ended September 30, 2019 | Three months ended September 30, 2018 | Change |
|--|--|--|---------------|
| Change in unrealized depreciation of investments before income taxes | (\$ 3,597,129) | \$ 475,802 | (\$4,072,931) |

The change in unrealized depreciation, before income taxes, for the three months ended September 30, 2019 was comprised of the following:

| | Three months ended September 30, 2019 |
|--|--|
| Rheonix, Inc. (Rheonix) | (\$ 1,500,000) |
| Genicon, Inc. (Genicon) | (1,447,467) |
| Empire Genomics, LLC (Empire Genomics) | (249,661) |
| KnowledgeVision Systems, Inc. (KnowledgeVision) | (200,001) |
| SciAps, Inc. (Sciaps) | (200,000) |
| Total change in net unrealized depreciation of investments, before income taxes | (\$ 3,597,129) |

Table of Contents

The valuations of our investments in Empire Genomics, Genicon, KnowledgeVision, Rheonix and Sciaps were decreased after we reviewed each of the portfolio company's operations, commercial progress against their business plan, and past and projected financial condition and determined that a valuation adjustment was necessary. Some of these decreases in value may be recoverable following the completion of their respective future financings.

The change in unrealized depreciation, before income taxes, for the three months ended September 30, 2018 was comprised of the following:

| | Three months ended September 30, 2018 |
|--|---|
| Empire Genomics, LLC (Empire Genomics) | (\$ 249,871) |
| Intrinsiq Material, Inc. (Intrinsiq) realized loss | 725,673 |
| Total change in net unrealized depreciation of investments, before income taxes | \$ 475,802 |

The valuation of our investment in Empire Genomics was decreased after we reviewed the portfolio company's operations and current and projected financial condition, after the debt modification, and determined that a valuation adjustment was necessary.

Intrinsiq was sold during the third quarter of 2018 and a realized loss was recorded.

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

Net Increase (Decrease) in Net Assets from Operations

We account for our operations under GAAP for investment companies. The principal measure of our financial performance is "net increase (decrease) in net assets from operations" on our consolidated statements of operations. For the three months ended September 30, 2019 and 2018, the net decrease in net assets from operations was (\$2,878,888) and (\$179,302), respectively.

Comparison of the nine months ended September 30, 2019 to the nine months ended September 30, 2018

Investment Income

| | Nine months ended September 30, 2019 | Nine months ended September 30, 2018 | (Decrease) Increase | % (Decrease) Increase |
|--------------------------------------|---|---|------------------------|-----------------------------|
| Interest from portfolio companies | \$ 1,049,557 | \$ 1,063,337 | (\$ 13,780) | (1.3%) |
| Interest from other investments | 108,146 | 20,717 | 87,429 | 422.0% |
| Dividend and other investment income | 307,681 | 181,963 | 125,718 | 69.1% |
| Fee income | 274,387 | 172,612 | 101,775 | 58.9% |
| Total investment income | <u>\$ 1,739,771</u> | <u>\$ 1,438,629</u> | <u>\$ 301,142</u> | 20.9% |

Interest from portfolio companies – Interest from portfolio companies was approximately the same during the nine months ended September 30, 2019 when compared to the same nine month period in 2018.

Table of Contents

The following investments are on non-accrual status: BeetNPath, LLC (Beetnpath), G-TEC Natural Gas Systems (G-Tec) and a portion of the Mercantile Adjustment Bureau, LLC (Mercantile) outstanding loan balances.

Interest from other investments—The increase in interest from other investments is primarily due to higher interest rates and higher average cash balance during the nine months ended September 30, 2019 versus the same period in 2018.

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

| | Nine months ended September 30, 2019 | Nine months ended September 30, 2018 |
|--|---|---|
| Knoa Software, Inc. (Knoa) | \$ 193,934 | \$ — |
| Carolina Skiff LLC (Carolina Skiff) | 76,914 | 119,433 |
| Tilson Technology Management, Inc. (Tilson) | 36,833 | 29,063 |
| New Monarch Machine Tool, Inc. (New Monarch) | — | 27,409 |
| Empire Genomics LLC (Empire Genomics) | — | 6,058 |
| Total dividend and other investment income | <u>\$ 307,681</u> | <u>\$ 181,963</u> |

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

The income associated with the amortization of financing fees was \$48,887 and \$28,266 for the nine months ended September 30, 2019 and 2018, respectively. During the nine months ended September 30, 2019 we recognized a one-time fee of \$225,000 in conjunction with the repayment of the eHealth loan instrument. During the nine months ended September 30, 2018 we recorded a one-time debt modification fee of approximately \$142,000 that was charged to Empire Genomics and capitalized into the Empire Genomics loan balance. The board fees were \$500 and \$2,000 for the nine months ended September 30, 2019 and 2018, respectively.

Expenses

| | Nine months ended September 30, 2019 | Nine months ended September 30, 2018 | Increase | % Increase |
|----------------|---|---|-----------|------------|
| Total expenses | \$ 2,044,351 | \$ 1,510,034 | \$534,317 | 35.4% |

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

The increase in expenses during the nine months ended September 30, 2019 versus the same period in 2018 was primarily caused by a 164%, or \$289,666, increase in shareholder expense and an 84%, or \$186,086, increase in professional fees. Shareholder expense and professional fees were higher during the nine months ended September 30, 2019 because we incurred expenses in connection with aforementioned Transactions with East Asset Management, the special shareholder meeting held in May 2019 and the regulatory procedures that are required to effect such transactions. These expenses also included external shareholder, legal, tax consulting and other advisory expenses to support the complex regulatory environment in which we operate.

In addition, we deferred \$266,000 in stock issuance costs attributable to the Transactions. These expenses are intended to be offset against the equity capital raise when the Transactions close, or expensed if the Transactions are not completed. The deferred expenses are included on our Consolidated Statement of Financial Position at September 30, 2019 in the line item "Other assets."

Table of Contents

Net Realized Loss on Investments

| | <u>Nine months ended September 30, 2019</u> | <u>Nine months ended September 30, 2018</u> | <u>Change</u> |
|--|---|---|---------------|
| Realized loss on investments before income taxes | (\$ 392,239) | (\$ 1,125,673) | \$733,434 |

During the nine months ended September 30, 2019, we recognized a realized loss on our investment in SOMS Technologies, LLC after the company ceased doing business and a \$40,500 gain on our investment in Advantage 24/7 LLC after the company converted their equity into a debt instrument. In addition, we received a final proceeds distribution of \$39,893 from Gemcor II, LLC, a portfolio company we exited in 2016.

During the nine months ended September 30, 2018, we recognized a loss on our investment in Intrinsic Material, Inc. (Intrinsic) when the company was sold and we did not receive any proceeds.

Change in Unrealized Depreciation of Investments

| | <u>Nine months ended September 30, 2019</u> | <u>Nine months ended September 30, 2018</u> | <u>Change</u> |
|--|---|---|---------------|
| Change in unrealized depreciation of investments before income taxes | (\$ 4,197,281) | (\$ 732,128) | (\$3,465,153) |

The change in unrealized depreciation, before income taxes, for the nine months ended September 30, 2019 was comprised of the following:

| | <u>Nine months ended September 30, 2019</u> |
|---|---|
| Genicon | (\$ 2,200,047) |
| Rheonix | (1,500,000) |
| SocialFlow, Inc. (Socialflow) | (1,071,300) |
| Sciaps | (585,000) |
| BeetNPath, LLC (Beetnpath) | (523,904) |
| Empire Genomics | (249,661) |
| KnowledgeVision | (200,001) |
| Mercantile Adjustment Bureau, LLC (Mercantile) | (200,000) |
| SOMS Technologies, LLC realized loss | 472,632 |
| Tilson Technology Management, Inc. (Tilson) | 1,860,000 |
| Total change in net unrealized depreciation of investments before income taxes | (\$ 4,197,281) |

The valuations of our investments in Beetnpath, Empire Genomics, KnowledgeVision, Mercantile, Rheonix, Sciaps, and Socialflow were decreased after we reviewed each of the portfolio company's operations, commercial progress against their business plan, and past and projected financial condition and determined that a valuation adjustment was necessary.

Our valuation of Genicon was decreased due to a recent round of financing and after a review of their financial condition.

In accordance with our valuation policy, we increased the value of our holdings in Tilson based on a significant equity financing during the first quarter of 2019 with a sophisticated new non-strategic outside investor at a higher valuation than their prior financing round valuation.

Table of Contents

We recognized a realized loss on our investment in SOMS during the nine months ended September 30, 2019.

The change in unrealized depreciation, before income taxes, for the nine months ended September 30, 2018 was comprised of the following:

| | Nine months ended September 30, 2018 |
|---|---|
| Empire Genomics, LLC (Empire Genomics) | (\$ 901,360) |
| SOMS Technologies, LLC (SOMS) | (498,348) |
| First Wave Products Group (First Wave) | (250,000) |
| GiveGab, Inc. (Givegab) | 191,907 |
| Intrinsiq Material, Inc. (Intrinsiq) realized loss | <u>725,673</u> |
| Total change in net unrealized depreciation of investments before income taxes | <u>(\$ 732,128)</u> |

The valuations of our investments in Empire Genomics and SOMS were decreased after we reviewed each of the portfolio company's operations and current and projected financial condition and determined that a valuation adjustment was necessary.

Our valuation of First Wave was decreased to reflect an anticipated round of financing that was completed in the fourth quarter of 2018.

Givegab's value was increased to the cost basis of the investment after a financial analysis of the portfolio company indicating continued improved performance. Intrinsiq was sold during the third quarter of 2018 and a realized loss was recorded.

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

Net Increase (Decrease) in Net Assets from Operations

We account for our operations under GAAP for investment companies. The principal measure of our financial performance is "net increase (decrease) in net assets from operations" on our consolidated statements of operations. For the nine months ended September 30, 2019 and 2018, the net decrease in net assets from operations was (\$3,771,022) and (\$1,331,009), respectively.

Liquidity and Capital Resources

Historically, our principal objective has been to achieve capital appreciation. Therefore, a significant portion of the investment portfolio is structured to maximize the potential for capital appreciation and may provide little or no current yield in the form of dividends or interest payments. As discussed above, on closing of the Transactions contemplated by the stock purchase agreement with East, we expect to receive interest bearing investments and subsequently to position the portfolio to earn a current yield.

As of September 30, 2019, our total liquidity consisted of approximately \$9.3 million in cash and cash equivalents on hand and the availability of \$3.0 million under our SBA leverage commitment.

Net cash used by operating activities has averaged approximately \$1.6 million over the last three years. The average cash used for investment in portfolio companies over the last three years was approximately \$2.1 million. Our cash flow from operations may fluctuate based on the timing of the receipt of dividend income and realized gains and the associated income taxes paid. We will generally use cash to fund our operating expenses and also to invest in companies, as we seek to build our portfolio utilizing our available cash and proceeds from liquidations of portfolio investments. We anticipate that we will continue to exit investments. However, the timing of liquidation events within the portfolio is difficult to project with any certainty. As of September 30, 2019, we had the availability to borrow an additional \$3.0 million from the SBA. Starting in 2022, our SBA debt begins to reach maturity, and this will require us to identify sources of future funding if liquidation of investments is not sufficient to fund operations and repay the SBA debt obligation.

[Table of Contents](#)

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

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

As of September 30, 2019, we did not have any off-balance sheet arrangements or hedging or similar derivative financial instrument investments.

Item 4. Controls and Procedures

Disclosure Controls and Procedures. The Corporation maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms, and that this information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Chief Executive Officer and the Chief Financial Officer carried out an evaluation of the effectiveness of the design and operation of the Corporation’s disclosure controls and procedures as of September 30, 2019. Based on the evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that the Corporation’s controls and procedures were effective as of September 30, 2019.

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, 2018.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

| Period | Total number of shares purchased (1) | Average price paid per share (2) | Total number of shares purchased as part of publicly announced plan (3) | Maximum number of shares that may yet be purchased under the share repurchase program |
|----------------------|--|-------------------------------------|--|--|
| 7/1/2019 – 7/31/2019 | — | — | — | 1,000,000 |
| 8/1/2019 – 8/31/19 | — | — | — | 1,000,000 |
| 9/1/2019 – 9/30/2019 | — | — | — | 1,000,000 |

- (1) There were no shares repurchased during the three months ending September 30, 2019.
(2) The average price paid per share is calculated on a settlement basis and includes commission.
(3) On October 24, 2019, the Board of Directors extended the repurchase authorization of up to 1,541,056 shares of the Corporation’s common stock on the open market at prices no greater than the then current net asset value through October 25, 2020.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

The Corporation intends to hold its 2019 annual meeting of shareholders (the “2019 Annual Meeting”) on Monday, December 30, 2019 at 10:30 a.m., Eastern Standard Time, at the Buffalo Club, the Millard Fillmore Room, 388 Delaware Avenue, Buffalo, NY 14202 (Business Attire Required). Because the 2019 Annual Meeting will be held more than 30 days from the anniversary date of the annual meeting of shareholders for 2018, the Corporation is informing its shareholders of the revised deadlines for proposals and other related matters for consideration at the 2019 Annual Meeting. Shareholder proposals intended to be presented at the 2019 Annual Meeting pursuant to Rule 14a-8 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), must be received by the Corporation not later than 5:00 p.m. Eastern Standard Time on November 16, 2019, in order to be considered for inclusion in the Corporation’s proxy statement for the 2019 Annual Meeting. For a shareholder to bring business before the 2019 Annual Meeting outside of Rule 14a-8 or to nominate a director, it must provide timely written notice to the Corporation in accordance with the advance notice provisions of the Corporation’s by-laws on or prior to November 16, 2019. All shareholder proposals, director nominations and other related matters must comply, as applicable, with New York Business Corporation Law, the rules and regulations under the Exchange Act and the Corporation’s by-laws in order to be considered.

Table of Contents

Item 6. Exhibits

(a) Exhibits

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

- (3.1)(i) [Certificate of Incorporation of the Corporation, incorporated by reference to Exhibit \(a\)\(1\) of FormN-2 filed with the Securities Exchange Commission on April 22, 1997. \(File No. 333-25617\).](#)
- (3.1)(ii) [By-laws of the Corporation, incorporated by reference to Exhibit 3\(ii\) to the Corporation's Quarterly Report on Form 10-Q for the period ended September 30, 2016 filed with the Securities Exchange Commission on November 2, 2016. \(File No. 814-00235\).](#)
- (4) [Specimen certificate of common stock certificate, incorporated by reference to Exhibit \(b\) of FormN-2 filed with the Securities Exchange Commission on April 22, 1997. \(File No. 333-25617\).](#)
- (31.1) [Certification of Principal 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 Principal 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 – filed 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: November 7, 2019

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

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;
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 quarterly report based on such evaluation; and
 - d) Disclosed in this quarterly 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: November 7, 2019

/s/ Allen F. Grum

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

EXHIBIT 31.2

CERTIFICATION

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;
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 quarterly report based on such evaluation; and
 - d) Disclosed in this quarterly 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: November 7, 2019

/s/ Daniel P. Penberthy
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 September 30, 2019 (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: November 7, 2019

/s/ Allen F. Grum

Allen F. Grum, President
(Chief Executive Officer)

Dated: November 7, 2019

/s/ Daniel P. Penberthy

Daniel P. Penberthy, Treasurer
(Chief Financial Officer)