

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
**FORM 10-K**

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

**For the fiscal year ended December 31, 2020**

**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.)*

**1405 Rand Building, Buffalo, NY**  
*(Address of Principal executive offices)*

**14203**  
*(Zip Code)*

**Registrant's telephone number, including area code: (716) 853-0802**

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

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

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 under the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Large accelerated filer                       Accelerated filer                       Non-accelerated filer                       Smaller reporting company   
Emerging growth company

If an emerging growth company, indicated by check mark if the registrant has elected not to use 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the registrant's outstanding common stock held by non-affiliates of the registrant as of June 30, 2020 was approximately \$9,530,000 based upon the closing price as reported on the Nasdaq Capital Market on such date.

As of March 2, 2021, there were 2,582,169 shares of the registrant's common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Corporation's definitive proxy statement for the 2021 Annual Meeting of Shareholders are incorporated by reference into Part III of this report.

[Table of Contents](#)

**RAND CAPITAL CORPORATION**  
**TABLE OF CONTENTS FOR FORM 10-K**

	<b><u>PART I</u></b>	
Item 1.	<a href="#">Business</a>	1
Item 1A.	<a href="#">Risk Factors</a>	16
Item 1B.	<a href="#">Unresolved Staff Comments</a>	29
Item 2.	<a href="#">Properties</a>	29
Item 3.	<a href="#">Legal Proceedings</a>	29
Item 4.	<a href="#">Mine Safety Disclosures</a>	29
	<b><u>PART II</u></b>	
Item 5.	<a href="#">Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</a>	30
Item 6.	<a href="#">Selected Financial Data</a>	31
Item 7.	<a href="#">Management’s Discussion and Analysis of Financial Condition and Results of Operations</a>	32
Item 7A.	<a href="#">Quantitative and Qualitative Disclosures about Market Risk</a>	50
Item 8.	<a href="#">Financial Statements and Supplementary Data</a>	51
Item 9.	<a href="#">Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</a>	97
Item 9A.	<a href="#">Controls and Procedures</a>	97
Item 9B.	<a href="#">Other Information</a>	98
	<b><u>PART III</u></b>	
Item 10.	<a href="#">Directors, Executive Officers and Corporate Governance</a>	99
Item 11.	<a href="#">Executive Compensation</a>	99
Item 12.	<a href="#">Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</a>	99
Item 13.	<a href="#">Certain Relationships and Related Transactions, and Director Independence</a>	99
Item 14.	<a href="#">Principal Accountant Fees and Services</a>	99
	<b><u>PART IV</u></b>	
Item 15.	<a href="#">Exhibits and Financial Statement Schedules</a>	100
Item 16.	<a href="#">Form 10-K Summary</a>	101

**PART I**

**Item 1. Business**

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 and operated as an internally managed, closed-end, diversified, management investment company from that time until November 2019.

In November 2019, Rand completed a stock sale transaction (the “Closing”) with East Asset Management (“East”). The transaction consisted of a \$25 million investment in Rand by East, in exchange for approximately 8.3 million shares of Rand common stock. The consideration paid by East for the shares of Rand common stock was comprised of approximately \$15.5 million of cash and a contribution of \$9.5 million of portfolio assets (the “Contributed Assets”). Concurrent with the Closing, Rand’s management and staff became employees of Rand Capital Management, LLC (“RCM”), a registered investment adviser that has been retained by Rand as its external investment adviser. In connection with retaining RCM as our investment adviser, Rand, on November 8, 2019, entered into an investment advisory and management agreement (the “Prior Investment Management Agreement”) and an administration agreement (the “Prior Administration Agreement”) with RCM pursuant to which RCM serves as Rand’s investment adviser and administrator (the Closing and the retention of RCM as our investment adviser and administrator are collectively referred to herein as the “Transactions”).

In late 2020, Rand’s Board of Directors (the “Board”) was advised by RCM that Callodine Group, LLC (“Callodine”), an entity controlled by James Morrow, intended to acquire a controlling interest in RCM, which was then-currently majority owned by East. Section 15(a) of the Investment Company Act of 1940, as amended (the “1940 Act”) provides that any investment management contract, such as the Prior Investment Management Agreement, terminates automatically upon its “assignment.” Section 2(a)(4) of the 1940 Act provides that the transfer of a controlling interest of an investment adviser, such as was to be caused by East’s transfer of its controlling interest in RCM to Callodine (the “Adviser Change in Control”), constitutes an “assignment.” As a result of the proposed Adviser Change in Control, Rand’s shareholders were asked to approve a new investment advisory and management agreement (the “Investment Management Agreement”) with RCM at a special meeting of shareholders held on December 16, 2020 (the “Special Meeting”). The terms of the Investment Management Agreement are identical to those contained in the Prior Investment Management Agreement, with RCM continuing to provide investment advisory and management services to Rand following the Adviser Change in Control. Following approval by Rand’s shareholders at the Special Meeting, Rand, on December 31, 2020, entered into the Investment Management Agreement and a new administration agreement (the “Administration Agreement”) with RCM and terminated the Prior Administration Agreement. Pursuant to the terms of the Investment Management Agreement, Rand pays RCM a base management fee and may pay an incentive fee, if specified benchmarks are met.

In connection with the Closing, we also entered into a shareholder agreement, by and between Rand and East (the “Shareholder Agreement”). Pursuant to the terms of the Shareholder Agreement, East has the right to designate two or three persons, depending upon the size of the Board, for nomination for election to the Board. East has the right to designate (i) up to two persons if the size of the Board is composed of fewer than seven directors or (ii) up to three persons if the size of the Board is composed of seven or more directors. East’s right to designate persons for nomination for election to the Board under the Shareholder Agreement is the exclusive means by which East may designate or nominate persons for election to the Board. The Board currently consists of five directors, and East has designated Adam S. Gusky and Benjamin E. Godley to the Board.

After the completion of the Transactions, we are an externally managed, closed-end, diversified management investment company that has elected to be treated as a business development company, or “BDC”, under the 1940 Act. As a BDC we are required to comply with certain regulatory requirements as provided for in the 1940 Act and the rules and regulations promulgated thereunder. 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—Regulations, Business Development Company Regulations.”

## Table of Contents

In 2002, we established our small business investment company (“SBIC”), Rand Capital SBIC, Inc. (“Rand SBIC”), whereby we utilized funds borrowed from the Small Business Administration (“SBA”) combined with our capital to invest in portfolio companies. In this Annual Report on Form 10-K, (“Annual Report”), unless the context otherwise requires, “we”, the “Corporation”, “us”, and “our” refer to Rand Capital Corporation and Rand SBIC. Rand SBIC’s predecessor was organized as a Delaware limited partnership and was converted into a New York corporation in 2008, at which time our operations as a licensed SBIC were continued. Although Rand SBIC had operated as if it were a BDC, it was registered as an investment company under the 1940 Act. In 2012, the Securities and Exchange Commission (“SEC”) granted an Order of Exemption for Rand with respect to the operations of Rand SBIC and Rand SBIC then 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 Capital Corporation or Rand SBIC.

Since the completion of the Transactions, we have shifted to an investment strategy focused on higher yielding debt investments and intend to elect U.S. federal tax treatment as a regulated investment company (“RIC”) as of January 1, 2020 on our timely filed Federal tax return for the 2020 tax year. As required for the RIC election, Rand paid a special dividend to shareholders to distribute all of its accumulated earnings and profits. The Board declared a special dividend in the aggregate amount of \$23.7 million, or approximately \$1.62 per share, on March 3, 2020. The cash and shares of Rand’s common stock comprising the special dividend were distributed on May 11, 2020 to shareholders.

In addition, our Board declared a 2020 cash dividend of \$1.33 per share on December 21, 2020. The 2020 cash dividend was paid on January 19, 2021 to shareholders of record as of December 31, 2020. The cash dividend is expected to represent over 90% of Rand’s estimated taxable income for 2020.

In order to qualify to make the RIC election, Rand placed several of its investments in newly formed holding companies that facilitate a tax structure that is advantageous to the RIC election. In December 2019, Rand formed Rand Somerset Holdings Corp., Rand BeetNPath Holdings Corp., Rand Carolina Skiff Holdings Corp., Rand Filterworks Holdings Corp. and Rand GTEC Holdings Corp., (“Blocker Corps”) as wholly owned subsidiaries of Rand to hold certain equity investments. These subsidiaries are consolidated using United States generally accepted accounting principles (“GAAP”) for financial reporting purposes. The following discussion describes the operations of Rand and its wholly owned subsidiaries Rand SBIC, Rand Somerset Holdings Corp., Rand BeetNPath Holdings Corp., Rand Carolina Skiff Holdings Corp., Rand Filterworks Holdings Corp. and Rand GTEC Holdings Corp., (collectively, the “Corporation”).

Rand effected a 1-for-9 reverse stock split of its common stock effective May 21, 2020. The reverse stock split affected all issued and outstanding shares of Rand’s common stock, including shares held in treasury. The reverse stock split reduced the number of issued and outstanding shares of Rand’s common stock from 23,845,470 shares and 23,304,424 shares, respectively, to 2,648,916 shares and 2,588,800 shares, respectively. The reverse stock split affected all shareholders uniformly and did not alter any shareholder’s percentage interest in Rand’s outstanding common stock, except for adjustments for fractional shares.

On October 7, 2020, Rand, RCM and certain of their affiliates received exemptive relief from the SEC to permit Rand to co-invest in portfolio companies with certain other funds, including other BDCs and registered investment companies, managed by RCM and certain of its affiliates in a manner consistent with Rand’s investment objective, positions, policies, strategies and restrictions as well as regulatory requirements, subject to compliance with certain conditions (the “Order”). Pursuant to the Order, Rand is generally permitted to co-invest with affiliated funds if a “required majority” (as defined in Section 57(o) of the 1940 Act) of Rand’s independent directors makes certain conclusions in connection with a co-investment transaction, including that (1) the terms of the transaction, including the consideration to be paid, are reasonable and fair to Rand and its shareholders and do not involve overreaching in respect to Rand or its shareholders on the part of any person concerned and (2) the transaction is consistent with the interests of Rand’s shareholders and is consistent with Rand’s investment objective and strategies.

---

## **Table of Contents**

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

### ***Our Investment Objectives and Strategy***

Effective with the completion of the Transactions, our investment activities are managed by our external investment adviser, RCM. As a result of the Transactions and our intention to elect RIC status, we have changed our investment objectives and strategy. Our investment objective is to generate current income and, when possible, complement this current income with capital appreciation. As a result, the investments made by Rand since the Closing have been, and the investments to be made by Rand in the future are expected to be, made primarily in debt instruments, as well as high yielding publicly traded equity instruments that provide income through dividends and relatively more liquidity than our private company equity investments.

We expect to co-invest in privately-held, lower middle market companies with committed and experienced managements in a broad variety of industries. We seek to invest in early to later stage businesses that have sustainable, differentiated and market-accepted products and have revenue of more than \$2 million and a clear path to free cash flow or are already generating up to \$5 million in EBITDA. We provide funding to companies that need growth or expansion capital or are looking to finance an ownership transition. Geographically, we focus in the eastern and southern United States. We typically are a minority investor and work with other lenders, investment partners and sponsors to source and fund investment opportunities.

Our typical investment going forward is expected to be in the range of \$2 million to \$4 million in any one company. The debt we invest in is not expected to be rated by a rating agency and, if it were, would be below investment grade. Because of the higher risk nature of our investments, we require board observation or informational rights and may require a board seat.

We may engage in various investment strategies to achieve our investment objectives based on the types of opportunities we discover and the competitive landscape. We expect to focus on current cash yields in order to achieve our income producing goals.

### ***Our Investment Process***

The investment process is comprised of the sourcing and qualifying of investment opportunities, evaluating and negotiating the investment vehicle, due diligence of the business plan, operations and prospects of the prospective investee and follow through investment monitoring, follow on investments and portfolio management.

RCM's investment team identifies investment opportunities through a network of investment referral relationships. Investment proposals may come to RCM or us from other sources, including unsolicited proposals from companies and referrals from accountants, bankers, lawyers and other members of the financial community. We believe that RCM's and our reputation and experience in the investment community provide a competitive advantage in originating quality investments.

In a typical private financing, RCM's investment team will review, analyze, and confirm, through due diligence, the business plan and operations of the potential portfolio company. Additionally, they will familiarize themselves with the portfolio company's industry and competition and may conduct reference checks with its customers and suppliers. RCM's investment committee will then review the deal and if approved, the transaction will be funded by Rand.

Following our initial investment, we may make follow-on investments to take advantage of warrants or other preferential rights granted to us to increase or maintain our position in a promising portfolio company, or provide additional funds to allow a portfolio company to fully implement its business plans, develop a new line of business or recover from unexpected business problems. Follow-on investments in a portfolio company are evaluated individually and may be subject to SBA restrictions.

***Disposition of Investments***

We may exit investments through the maturation of a debt security or when a liquidity event takes place, such as the sale, recapitalization, or initial public offering of a portfolio company. The method and timing of the disposition of our portfolio investments can be critical to the realization of maximum total return. We generally expect to dispose of our equity securities through private sales of securities to other investors or through the sale or merger of the portfolio company. We anticipate our debt investments will be repaid with interest and may realize further appreciation from warrants or other equity type instruments received in connection with an investment.

**Current Portfolio Companies**

For a description of our current portfolio company investments, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Composition of the Investment Portfolio.”

**Competition**

We compete for quality investments with other venture capital firms, individual investors, business development companies, and investment funds (including private equity funds and mezzanine funds), as well as traditional financial services companies such as commercial banks. We believe we are able to compete with these entities primarily on the basis of RCM’s and our referral network, RCM’s and our investing reputation and experience, RCM’s responsive, quick, and efficient investment analysis and decision-making process and the investment terms we offer.

For information concerning the competitive risks we face, see “Item 1A. Risk Factors.”

**Employees**

We do not have any employees. Our operations are managed by RCM, our investment adviser and administrator, and each of our officers is an employee of RCM. RCM employed a total of four employees at December 31, 2020. We reimburse our administrator, RCM, for the allocable portion of overhead and other expenses incurred by it in performing its obligations, on behalf of Rand, under the Administration Agreement. For a more detailed discussion of the administration agreement with RCM, see “Administration Agreement.”

**Investment Advisory and Management Agreement**

RCM serves as our investment adviser (the “Adviser”) under the terms of the Investment Management Agreement. The Adviser is a registered investment adviser under the Investment Advisers Act of 1940, as amended. The Adviser manages the investment and reinvestment of our assets and, without limiting the generality of the foregoing:

- (i) determines the composition of Rand’s portfolio, the nature and timing of the changes therein and the manner of implementing such changes;
- (ii) identifies, evaluates and negotiates the structure of the investments;
- (iii) executes, closes, services and monitors the investments;
- (iv) determines the securities and other assets that we will purchase, retain or sell;
- (v) performs due diligence on prospective portfolio companies and investments;
- (vi) provides us with other investment advisory, research and related services that may, from time to time, be required for the investment of our assets, and
- (vii) performs valuation of portfolio investments.

The Adviser’s services under the Investment Management Agreement are not exclusive, and it may furnish similar services to other entities. In addition, subject to compliance with the requirements of the 1940 Act, the

---

## **Table of Contents**

Adviser is authorized to enter into one or more sub-advisory agreements with other investment advisors (each a “Sub-Advisor”), including for purposes of recommending specific securities or other investments based upon our investment objectives and policies, and working, along with the Adviser, in structuring, negotiating, arranging or effecting the acquisition or disposition of our investments and monitoring our investments. Under the terms of the Investment Management Agreement, the Adviser, and not us, will be responsible for any compensation that is payable to any Sub-Advisor.

### **About the Investment Process of the Adviser**

The Adviser’s principal investment portfolio managers are Allen F. Grum and Daniel P. Penberthy, who manage the Corporation’s investment portfolio on a day-to-day basis. All decisions to acquire or dispose of assets on behalf of the Corporation are made by the Adviser’s investment committee (the “Investment Committee”). Each decision must be approved by a majority of Investment Committee members.

The Investment Committee was composed of five individuals during 2020 and increased to six individuals when James Morrow was added to the Investment Committee effective December 31, 2020 in connection with the Adviser Change in Control. As disclosed in our current report on Form 8-K, filed with the SEC on January 4, 2021, Callodine acquired the controlling interest of RCM, from East on December 31, 2020. The Investment Committee currently consists of the following individuals:

- Scott Barfield;
- Brian Collins;
- Allen F. Grum;
- Adam Gusky;
- James Morrow; and
- Daniel P. Penberthy.

All potential investment opportunities undergo an initial informal review by Messrs. Grum and Penberthy, as the Adviser’s investment professionals. Each potential investment opportunity that an investment professional determines merits consideration is presented and evaluated at meetings in which the members of the Investment Committee discuss the merits and risks of each potential investment opportunity and the pricing and structure for the investment.

### **Fees Paid to Adviser**

Under the Investment Management Agreement, we pay the Adviser, as compensation for the investment advisory and management services, fees consisting of two components: (i) the Base Management Fee and (ii) the Incentive Fees.

#### **Base Management Fee**

The “Base Management Fee” is calculated at an annual rate of 1.50% of our total assets (other than cash or cash equivalents but including assets purchased with borrowed funds), determined according to procedures duly adopted by the Board.

The Base Management Fee is calculated based on the average value of our total assets (other than cash or cash equivalents but including assets purchased with borrowed funds) at the end of the two most recently completed calendar quarters.

#### **Incentive Fees**

The “Incentive Fees” are comprised of two parts: (1) the Income Based Fee and (2) the Capital Gains Fee.

***Income Based Fee***

The “Income Based Fee” is calculated and payable quarterly in arrears based on the Pre-Incentive Fee Net Investment Income for the immediately preceding calendar quarter and is payable promptly following the filing of our financial statements for such quarter.

For purposes of the Investment Management Agreement, “Pre-Incentive Fee Net Investment Income” is defined as interest income, dividend income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees or other fees that we receive from portfolio companies) we accrue during the relevant calendar quarter, minus the operating expenses for such calendar quarter (including the Base Management Fee, expenses payable under the Administration Agreement, and any interest expense and dividends paid on any issued and outstanding preferred stock, but excluding any portion of Incentive Fee).

Pre-Incentive Fee Net Investment Income includes any accretion of original issue discount, market discount, payment-in-kind interest, payment-in-kind dividends or other types of deferred or accrued income, including in connection with zero coupon securities, that we have recognized in accordance with United States generally accepted accounting principles, (“GAAP”), but have not yet received in cash (collectively, “Accrued Unpaid Income”). Pre-Incentive Fee Net Investment Income does not include any realized capital gains, realized and unrealized capital losses or unrealized capital appreciation or depreciation.

Pre-Incentive Fee Net Investment Income, expressed as a rate of return on the value of our net assets (defined as total assets less indebtedness) at the end of the immediately preceding calendar quarter, is compared to a “hurdle rate”, expressed as a rate of return on the value of our net assets at the end of the most recently completed calendar quarter, of 1.75% per quarter (7% annualized). We pay the Adviser an Incentive Fee with respect to our Pre-Incentive Fee Net Investment Income in each calendar quarter as follows:

- (i) no Income Based Fee in any quarter in which the Pre-Incentive Fee Net Investment Income for such quarter does not exceed the hurdle rate of 1.75% (7.00% annualized);
- (ii) 100% of the Pre-Incentive Fee Net Investment Income for any calendar quarter with respect to that portion of the Pre-Incentive Fee Net Investment Income for such calendar quarter, if any, that exceeds the hurdle rate of 1.75% (7.00% annualized) but is less than 2.1875% (8.75% annualized); and
- (iii) 20% of the amount of the Pre-Incentive Fee Net Investment Income for any calendar quarter with respect to that portion of the Pre-Incentive Fee Net Investment Income for such calendar quarter, if any, that exceeds 2.1875% (8.75% annualized).

However, the Income Based Fee paid to the Adviser for any calendar quarter that begins more than two years and three months after the effective date of the Prior Investment Management Agreement shall not be in excess of the Incentive Fee Cap. The “Incentive Fee Cap” for any quarter is an amount equal to (1) 20.0% of the Cumulative Net Return (as defined below) during the relevant Income Based Fee Calculation Period (as defined below) minus (2) the aggregate Income Based Fee that was paid in respect of the calendar quarters included in the relevant Income Based Fee Calculation Period.

For purposes of the calculation of the Income Based Fee, “Income Based Fee Calculation Period” is defined as, with reference to a calendar quarter, the period of time consisting of such calendar quarter and the additional quarters that comprise the lesser of (1) the number of quarters immediately preceding such calendar quarter that began more than two years after the effective date of the Prior Investment Management Agreement or (2) the eleven calendar quarters immediately preceding such calendar quarter.

For purposes of the calculation of the Income Based Fee, “Cumulative Net Return” is defined as (1) the aggregate net investment income in respect of the relevant Income Based Fee Calculation Period minus (2) any Net Capital Loss, if any, in respect of the relevant Income Based Fee Calculation Period. If, in any quarter, the Incentive Fee Cap is zero or a negative value, we pay no Income Based Fee to the Adviser for such quarter. If, in



## Table of Contents

any quarter, the Incentive Fee Cap for such quarter is a positive value but is less than the Income Based Fee that is payable to the Adviser for such quarter (before giving effect to the Incentive Fee Cap) calculated as described above, we pay an Income Based Fee to the Adviser equal to the Incentive Fee Cap for such quarter. If, in any quarter, the Incentive Fee Cap for such quarter is equal to or greater than the Income Based Fee that is payable to the Adviser for such quarter (before giving effect to the Incentive Fee Cap) calculated as described above, we pay an Income Based Fee to the Adviser equal to the Income Based Fee calculated as described above for such quarter without regard to the Incentive Fee Cap.

For purposes of the calculation of the Income Based Fee, “Net Capital Loss,” in respect of a particular period, means the difference, if positive, between (1) aggregate capital losses, whether realized or unrealized, in such period and (2) aggregate capital gains, whether realized or unrealized, in such period.

Any Income Based Fee otherwise payable under the Investment Management Agreement with respect to Accrued Unpaid Income (such fees being the “Accrued Unpaid Income Based Fees”) shall be deferred, on a security-by-security basis, and shall become payable to the Adviser only if, as, when and to the extent cash is received by us in respect of any Accrued Unpaid Income. Any Accrued Unpaid Income that is subsequently reversed by us in connection with a write-down, write-off, impairment, or similar treatment of the investment giving rise to such Accrued Unpaid Income will, in the applicable period of reversal, (1) reduce Pre-Incentive Fee Net Investment Income and (2) reduce the amount of Accrued Unpaid Income Based Fees. Subsequent payments of Accrued Unpaid Income Based Fees that are deferred shall not reduce the amounts otherwise payable for any quarter as an Income Based Fee.

### ***Capital Gains Fee***

The “Capital Gains Fee” is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Management Agreement). Under the terms of the Investment Management Agreement, the Capital Gains Fee is calculated at the end of each applicable year by subtracting (1) the sum of our cumulative aggregate realized capital losses and aggregate unrealized capital depreciation from (2) our cumulative aggregate realized capital gains, in each case calculated from the effective date of the Prior Investment Management Agreement. If this amount is positive at the end of any calendar year, then the Capital Gains Fee for such year is equal to 20.0% of such amount, less the cumulative aggregate amount of Capital Gains Fees paid in all prior years. If such amount is negative, then there is no Capital Gains Fee payable for that calendar year. If the Investment Management Agreement is terminated as of a date that is not a calendar year end, the termination date shall be treated as though it were a calendar year end for purposes of calculating and paying the Capital Gains Fee.

For purposes of the Capital Gains Fee:

- The cumulative aggregate realized capital gains are calculated as the sum of the differences, if positive, between (a) the net sales price of each investment in our portfolio when sold and (b) the accreted or amortized cost basis of such investment.
- The cumulative aggregate realized capital losses are calculated as the sum of the amounts by which (a) the net sales price of each investment in our portfolio when sold is less than (b) the accreted or amortized cost basis of such investment.
- The aggregate unrealized capital depreciation is calculated as the sum of the differences, if negative, between (a) the valuation of each investment in our portfolio as of the applicable Capital Gains Fee calculation date and (b) the accreted or amortized cost basis of such investment.

The accreted or amortized cost basis of an investment shall mean, with respect to an investment owned by us as of the effective date of the Prior Investment Management Agreement, the fair value of that investment as set forth in our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2019, as filed with the SEC on November 7, 2019, and, with respect to an investment acquired by us subsequent to the effective date of the Prior Investment Management Agreement or the Investment Management Agreement, the accreted or amortized cost basis of such investment as reflected in the our financial statements.

## Table of Contents

### **Example 1: Income Based Fee Calculations: \***

#### **Alternative 1**

##### *Assumptions:*

Investment income (including interest, dividends, fees, etc.) = 1.25%

Hurdle rate<sup>(1)</sup> = 1.75%

Base Management Fee<sup>(2)</sup> = 0.375%

Other expenses (legal, accounting, transfer agent, etc.) = 0.20%

Pre-Incentive Fee Net Investment Income (investment income – (Base Management Fee + other expenses)) = 0.675%

Pre-Incentive Fee Net Investment Income does not exceed the hurdle rate, therefore there is no Income Based Fee payable for the calendar quarter.

#### **Alternative 2**

##### *Assumptions:*

Investment income (including interest, dividends, fees, etc.) = 2.70%

Hurdle rate<sup>(1)</sup> = 1.75%

Base Management Fee<sup>(2)</sup> = 0.375%

Other expenses (legal, accounting, transfer agent, etc.) = 0.20%

Pre-Incentive Fee Net Investment Income (investment income – (Base Management Fee + other expenses)) = 2.125%

Income Based Fee (subject to “catch up”)<sup>(3)</sup> = 100.00% × (2.125% – 1.75%) = 0.375%

Pre-Incentive Fee Net Investment Income exceeds the hurdle rate, but does not fully satisfy the “catch-up” provision, therefore the Income Based Fee payable for the calendar quarter is 0.375%.

#### **Alternative 3**

##### *Assumptions:*

Investment income (including interest, dividends, fees, etc.) = 3.50%

Hurdle rate<sup>(1)</sup> = 1.75%

Base Management Fee<sup>(2)</sup> = 0.375%

Other expenses (legal, accounting, transfer agent, etc.) = 0.20%

Pre-Incentive Fee Net Investment Income (investment income – (Base Management Fee + other expenses)) = 2.925%

Income Based Fee (subject to “catch up”)<sup>(3)</sup> = 100.00% × “catch-up” + (20.00% × (Pre-Incentive Fee Net Investment Income above 2.1875%))

Catch-up = 2.1875% – 1.75% = 0.4375%

Income Based Fee = (100.00% × .4375%) + (20.00% × (2.925% – 2.1875%))  
= 0.4375% + (20.00% × 0.7375%)  
= 0.4375% + 0.1475%  
= 0.585%

Pre-Incentive Fee Net Investment Income exceeds the hurdle rate, and fully satisfies the “catch-up” provision, therefore the Income Based Fee payable for the calendar quarter is 0.585%.

\* For ease of review, (i) the hypothetical amounts of Pre-Incentive Fee Net Investment Income, investment income, Base Management Fee, other expenses, and Income Based Fee are each expressed

## Table of Contents

as a percentage of total assets, though as described in greater detail above, each of these amounts are calculated as a numerical dollar amount as set forth in the Investment Management Agreement, (ii) the hypothetical amount of the Base Management Fee is assumed to be consistent from quarter to quarter, and (iii) these examples each assume that the Incentive Fee Cap is not yet in effect.

(1) Represents 7.00% annualized hurdle rate.

(2) Represents 1.50% annualized Base Management Fee.

(3) The “catch-up” provision is intended to provide the Adviser with an Income Based Fee of 20.00% on all Pre-Incentive Fee Net Investment Income as if a hurdle rate did not apply when Rand’s Pre-Incentive Net Investment Income exceeds 1.75% in any calendar quarter.

### **Example 2: Capital Gains Fee Calculations:**

#### Alternative 1

##### *Assumptions:*

Year 1: \$20.0 million investment made in Company A (“Investment A”), and \$30.0 million investment made in Company B (“Investment B”)  
Year 2: Investment A sold for \$50.0 million and fair market value (“FMV”) of Investment B determined to be \$32.0 million  
Year 3: FMV of Investment B determined to be \$25.0 million  
Year 4: Investment B sold for \$31.0 million

The Capital Gains Fees, if any, would be calculated as follows:

Year 1: None  
Year 2: Capital Gains Fee of \$6.0 million — (\$30.0 million realized capital gains on sale of Investment A multiplied by 20.0%)  
Year 3: None — \$5.0 million (20.0% multiplied by (\$30.0 million cumulative capital gains less \$5.0 million cumulative capital depreciation)) less \$6.0 million (previous Capital Gains Fee paid in Year 2)  
Year 4: Capital Gains Fee of \$0.2 million — \$6.2 million (\$31.0 million cumulative realized capital gains multiplied by 20.0%) less \$6.0 million (Capital Gains Fee taken in Year 2)

#### Alternative 2

##### *Assumptions:*

Year 1: \$20.0 million investment made in Company A (“Investment A”), \$30.0 million investment made in Company B (“Investment B”) and \$25.0 million investment made in Company C (“Investment C”)  
Year 2: Investment A sold for \$50.0 million, FMV of Investment B determined to be \$25.0 million and FMV of Investment C determined to be \$25.0 million  
Year 3: FMV of Investment B determined to be \$27.0 million and Investment C sold for \$30.0 million  
Year 4: FMV of Investment B determined to be \$35.0 million  
Year 5: Investment B sold for \$20.0 million

The Capital Gains Fees, if any, would be calculated as follows:

Year 1: None  
Year 2: \$5.0 million Capital Gains Fee - 20.0% multiplied by \$25.0 million (\$30.0 million realized capital gains on Investment A less \$5.0 million unrealized capital depreciation on Investment B)  
Year 3: \$1.4 million Capital Gains Fee - \$6.4 million (20.0% multiplied by \$32.0 million (\$35.0 million cumulative realized capital gains less \$3.0 million unrealized capital depreciation)) less \$5.0 million Capital Gains Fee received in Year 2

---

## Table of Contents

Year 4:	\$0.6 million Capital Gains Fee - \$7.0 million (20.0% multiplied by \$35.0 million cumulative realized capital gains) less cumulative \$6.4 million Capital Gains Fee received in Year 2 and Year 3
Year 5:	None - \$5.0 million (20.0% multiplied by \$25.0 million (cumulative realized capital gains of \$35.0 million less realized capital losses of \$10.0 million)) less \$7.0 million cumulative Capital Gains Fee paid in Year 2, Year 3 and Year 4

### **Payment of Expenses**

Under the terms of Investment Management Agreement, all investment professionals of the Adviser and its staff, when and to the extent engaged in providing investment advisory services to us, and the compensation of such personnel and the general office and facilities and overhead expenses incurred by the Adviser in maintaining its place of business allocable to these services, are provided, and paid for by the Adviser and not by us. We will bear all other costs and expenses of its operations and transactions, related to the Corporation, including those relating to:

- (i) organization;
- (ii) calculating our net asset value (including the cost and expenses of any independent valuation firm);
- (iii) expenses incurred by the Adviser payable to third parties, including agents, consultants or other advisors, in monitoring financial and legal affairs and in monitoring our investments and performing due diligence on prospective portfolio companies;
- (iv) interest payable on debt, if any, incurred to finance our investments;
- (v) offerings of our common stock and other securities;
- (vi) investment advisory and management fees payable under the Investment Management Agreement, but excluding any fees payable to any Sub-Adviser;
- (vii) administration fees payable under the Administration Agreement;
- (viii) transfer agent and custodial fees;
- (ix) federal and state registration fees;
- (x) all costs of registration and listing our shares on any securities exchange;
- (xi) federal, state and local taxes;
- (xii) independent directors' fees and expenses;
- (xiii) costs of preparing and filing reports or other documents required by governmental bodies (including the SEC);
- (xiv) costs of any reports, proxy statements or other notices to shareholders, including printing costs;
- (xv) our allocable portion of the fidelity bond, directors and officers/errors and omissions liability insurance, and any other insurance premiums;
- (xvi) direct costs and expenses of administration, including independent auditors and outside legal costs; and
- (xvii) all other expenses incurred by us or the Adviser in connection with administering our business (including payments under the Administration Agreement based upon our allocable portion of the Advisor's overhead in performing its obligations under the Administration Agreement, including rent and the allocable portion of the cost of our chief financial officer and chief compliance officer and their respective staffs (including travel expenses)).

### **Indemnification under the Investment Management Agreement**

The Investment Management Agreement provides that, absent willful misfeasance, bad faith or gross negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, the Adviser, its members and their respective officers, managers, partners, agents, employees, controlling persons, members and any other person affiliated with any of them (collectively, the “Indemnified Parties”), are entitled to indemnification from us for any damages, liabilities, costs and expenses (including reasonable attorneys’ fees and amounts reasonably paid in settlement) incurred by the Indemnified Parties in or by reason of any pending, threatened or completed action, suit, investigation or other proceeding (including an action or suit by or in the right of us or our security holders) arising out of or otherwise based upon the performance of any of the Adviser’s duties or obligations under the Investment Management Agreement or otherwise as an investment adviser.

### **Duration and Termination**

The Investment Management Agreement was executed on December 31, 2020 and will remain in effect for two years after this date. Our Board approved the Investment Management Agreement on October 29, 2020 and it was approved by our shareholders at the Special Meeting held on December 16, 2020. Thereafter, the Investment Management Agreement will continue to renew automatically for successive annual periods so long as such continuance is specifically approved at least annually by:

- (i) the vote of our Board, or by the vote of shareholders holding a majority of the outstanding voting securities of Rand; and
- (ii) the vote of a majority of our independent directors, in either case, in accordance with the requirements of the 1940 Act.

The Investment Management Agreement may be terminated at any time, without the payment of any penalty, upon sixty days’ written notice, by: (a) by vote of a majority of the Board or by vote of a majority of the outstanding voting securities of Rand (as defined in the 1940 Act); or (b) the Adviser. Furthermore, the Investment Management Agreement will automatically terminate in the event of its “assignment” (as such term is defined for purposes of Section 15(a)(4) of the 1940 Act). See Part I, Item 1A. “Risk Factors—Our investment adviser and administrator, RCM, has the right to resign on sixty days’ notice, and we may not be able to find a suitable replacement within that time, resulting in a disruption in our operations that could adversely affect our financial condition, business and results of operations.”

Notwithstanding the termination or expiration of the Investment Management Agreement, the Adviser will be entitled to any amounts owed as payment of the Base Management Fees and the Incentive Fees through the date of termination or expiration.

### **Administration Agreement**

In connection with the Closing, we entered into the Prior Administration Agreement with the Adviser, and on December 31, 2020, concurrent with the execution of the Investment Management Agreement, we entered into the Administration Agreement with the Adviser. Under the terms of the Administration Agreement, the Adviser agreed to perform (or oversee, or arrange for, the performance of) the administrative services necessary for our operations, including, but not limited to, office facilities, equipment, clerical, bookkeeping, finance, accounting, compliance and record keeping services at such office facilities and such other services as the Adviser, subject to review by the Board, will from time to time determine to be necessary or useful to perform its obligations under the Administration Agreement. The Adviser will also, on our behalf, arrange for the services of, and oversee, custodians, depositories, transfer agents, dividend disbursing agents, other shareholder servicing agents, accountants, attorneys, underwriters, brokers and dealers, corporate fiduciaries, insurers, banks, and such other persons in any such other capacity deemed to be necessary or desirable. The Adviser makes reports to our Board regarding the performance of its obligations under the Administration Agreement and furnishes advice and recommendations with respect to such other aspects of our business and affairs as it determines to be desirable.

---

## **Table of Contents**

The Adviser is responsible for our financial and other records that are required to be maintained and prepares all reports and other materials required to be filed with the SEC or any other regulatory authority, including reports to shareholders. In addition, the Adviser assists us in determining and publishing our Net Asset Value (“NAV”), overseeing the preparation and filing of our tax returns, and the printing and dissemination of reports to shareholders, and generally overseeing the payment of our expenses and the performance of administrative and professional services rendered to us by others. The Adviser provides, on our behalf, significant managerial assistance to those portfolio companies to which we are required to provide such assistance.

In full consideration of the provision of the services of the Adviser, we will reimburse the Adviser for the costs and expenses incurred by the Adviser in performing its obligations and providing personnel and facilities. Costs and expenses to be paid by us include those relating to: organization; calculating NAV (including the cost and expenses of any independent valuation firm); expenses incurred by the Adviser payable to third parties, including agents, consultants or other advisors, in monitoring our financial and legal affairs and in monitoring our investments and performing due diligence on its prospective portfolio companies; interest payable on debt, if any, incurred to finance our investments; offerings of our common stock and other securities; investment advisory and management fees (other than fees (if any) payable to a sub-advisor retained by the Adviser under the Investment Management Agreement); administration fees; transfer agent and custodial fees; federal and state registration fees; all costs of registration and listing our common stock on any securities exchange; federal, state, local and other taxes; independent directors’ fees and expenses; costs of preparing and filing reports or other documents required by governmental bodies (including the SEC); costs of any reports, proxy statements or other notices to shareholders, including printing costs; our allocable portion of the fidelity bond, directors and officers/errors and omissions liability insurance, and any other insurance premiums; direct costs and expenses of administration, including independent auditors and outside legal costs; and all other expenses incurred by us or the Adviser in connection with administering our business, including payments under the Administration Agreement based upon our allocable portion of the Adviser’s overhead in performing its obligations under the Administration Agreement, including rent (if office space is provided by the Adviser) and our allocable portion of the cost of the chief financial officer and chief compliance officer and their respective staffs (including travel expenses).

The Administration Agreement was executed on December 31, 2020, the same date as the Investment Management Agreement, and will remain in effect for two years, and thereafter will continue automatically for successive annual periods so long as such continuance is specifically approved at least annually by the Board, including a majority of the independent directors. The Administration Agreement may be terminated at any time, without the payment of any penalty, by vote of our directors, or by the Adviser, upon 60 days’ written notice to the other party. The Administration Agreement may not be assigned by a party without the consent of the other party.

### **Regulations**

The following discussion is a general summary of the material prohibitions and descriptions governing BDCs and SBA-licensed SBICs. It does not purport to be a complete description of all of the laws and regulations affecting BDCs and SBICs.

#### **Business Development Company Regulations**

We have elected to be regulated as a BDC under the 1940 Act. Although the 1940 Act exempts a BDC from registration under the 1940 Act, the 1940 Act contains significant limitations on the operations of BDCs. Among other things, the 1940 Act contains prohibitions and restrictions relating to transactions between a BDC and its affiliates, principal underwriters and affiliates of its affiliates or underwriters. The 1940 Act also prohibits a BDC from changing the nature of its business so as to cease to be, or to withdraw its election as, a BDC unless so authorized by a vote of the holders of a majority of its outstanding voting securities. BDCs are not required to maintain fundamental investment policies relating to diversification and concentration of investments within a single industry. More specifically, in order to qualify as a BDC, a company must:

- (1) be a domestic company;

## Table of Contents

- (2) have registered a class of its equity securities or have filed a registration statement with the SEC pursuant to Section 12 of the Securities Exchange Act of 1934 (the “Exchange Act”);
- (3) operate for the purpose of investing in the securities of certain types of companies, namely immature or emerging companies and businesses suffering or just recovering from financial distress. Generally, a BDC must be primarily engaged in the business of furnishing capital and providing managerial expertise to companies that do not have ready access to capital through conventional financial channels. Such companies are termed “eligible portfolio companies;”
- (4) extend significant managerial assistance to such portfolio companies; and
- (5) have a majority of “disinterested” directors (as defined in the 1940 Act).

### ***Qualifying Assets***

Under the 1940 Act, a BDC may not acquire any asset other than assets of the type listed in Section 55(a) of the 1940 Act, which are referred to as qualifying assets, unless, at the time the acquisition is made, qualifying assets represent at least 70% of their total assets. An eligible portfolio company is, generally, a private domestic operating company, or a public domestic operating company whose securities are not listed on a national securities exchange. In addition, any small business investment company that is licensed by the SBA and is a wholly owned subsidiary of a BDC is an eligible portfolio company.

Qualifying assets include:

- (1) securities of companies that were eligible portfolio companies at the time the BDC acquired their securities;
- (2) securities of bankrupt or insolvent companies that were eligible at the time of the BDC’s initial acquisition of their securities but are no longer eligible, provided that the BDC has maintained a substantial portion of its initial investment in those companies;
- (3) securities received in exchange for or distributed on or with respect to any of the foregoing; and
- (4) cash items, government securities and high-quality short-term debt.

The 1940 Act also places restrictions on the nature of the transactions in which, and the persons from whom, securities can be purchased in order for the securities to be considered qualifying assets.

A BDC is permitted to invest in the securities of public companies and other investments that are not qualifying assets, but those kinds of investments may not exceed 30% of the BDC’s total asset value at the time of the investment. At December 31, 2020, we were in compliance with this rule.

### ***Managerial Assistance to Portfolio Companies***

In order to count portfolio securities as qualifying assets for purposes of the 70% test discussed above, a BDC must either control the issuer of the securities or must offer to make available significant managerial assistance; except that, where the BDC purchases the securities in conjunction with one or more other persons acting together, one of the other persons in the group may make available such managerial assistance. Making available significant managerial assistance means, among other things, any arrangement whereby the BDC, through its directors, officers or employees, offers to provide and, if accepted, does so provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company through monitoring of portfolio company operations, selective participation in board and management meetings, consulting with and advising a portfolio company’s officers or other organizational or financial guidance.

### **Small Business Investment Company Regulations**

#### ***SBA Lending Restrictions***

SBICs are designed to stimulate the flow of private debt and/or equity capital to small businesses. The types and dollar amounts of the loans and other investments we may make are limited by the 1940 Act, the Small

---

## Table of Contents

Business Act (the “SBA Act”) and SBA regulations. Rand SBIC uses funds borrowed from the SBA that can be combined with our own capital to provide loans to, and make equity investments in, businesses that meet the following criteria:

- (a) have a tangible net worth not in excess of \$19.5 million and average net income after U.S. federal income taxes for the preceding two completed fiscal years not in excess of \$6.5 million, or
- (b) meet size standards set by the SBA that are measured by either annual receipts or number of employees, depending on the industry in which the businesses are primarily engaged.

In addition, at the end of each fiscal year, an SBIC must have at least 20% to 25% (depending on what year the investment was made) in total dollars invested in “smaller enterprises.” The SBA defines “smaller enterprises” as businesses that:

- (a) do not have a net worth in excess of \$6 million and have average net income after U.S. federal income taxes for the preceding two years no greater than \$2 million, or
- (b) meet size standards set by the SBA that are measured by either annual receipts or number of employees, depending on the industry in which the concerns are primarily engaged.

We have complied with these requirements since the inception of Rand SBIC.

The SBA prohibits an SBIC from providing funds to small businesses with specific characteristics, such as businesses with the majority of their employees located outside the United States, or from investing in passive or non-operating businesses, real estate, project financing, farmland, or financial lenders. Without prior SBA approval, an SBIC may not invest an amount equal to more than approximately 30% of the SBIC’s regulatory capital in any one company and its affiliates.

The SBA places limitations on the financing terms of investments by SBICs in portfolio companies such as limiting the prepayment options, the financing fees that can be charged to a portfolio company, the allowable interest rate on loan and debt securities that an SBIC can charge a portfolio company, and the maximum term of such financing. An SBIC may exercise control over a small business for a period of up to seven years from the date on which the SBIC initially acquires its control position.

The SBA restricts the ability of an SBIC to lend money to any of its officers, directors, and employees or to invest in associates. The SBA also prohibits, without prior SBA approval, a “change of control” of an SBIC or transfers that would result in any person, or a group of persons acting together, owning 10% or more of a class of capital stock of a licensed SBIC. A “change of control” is any event which would result in the transfer of the power, direct or indirect, to direct the management and policies of an SBIC, whether through ownership, contractual arrangements or otherwise. Rand SBIC received approval from the SBA in October 2019 for purposes of completing the stock sale transaction between Rand Capital Corporation and East.

Rand SBIC may invest directly in a portfolio company’s equity but may not become a general partner of a non-incorporated entity or otherwise become jointly or severally liable for the general obligations of a non-incorporated entity. Rand SBIC may acquire options or warrants in portfolio companies, and the options or warrants may have redemption provisions, subject to certain restrictions. Pursuant to SBA regulations, the maximum cash which may be invested in any one portfolio company by Rand SBIC is currently \$4.8 million.

In addition, the SBA regulations require an examination of a licensed SBIC by an SBA examiner to determine the SBIC’s compliance with the relevant SBA regulations. Our annual report, submitted to the SBA, must be audited by an independent public accounting firm.

### ***SBA Leverage***

The SBA raises capital to enable it to provide funds to SBICs by guaranteeing certificates or bonds that are pooled and sold to purchasers of the government guaranteed securities. The amount of funds that the SBA may lend to SBICs is determined by annual Congressional appropriations.

SBA debentures are issued with ten-year maturities. Interest only is payable semi-annually until maturity. All of our outstanding SBA debentures may be prepaid without penalty. To reserve the approved SBA debenture



## Table of Contents

leverage, we paid an upfront 1% commitment fee to the SBA as a partial prepayment of the SBA's nonrefundable 3% leverage fee. These fees are expensed over the life of the corresponding SBA debenture instruments. The SBA, as a creditor, will have a superior claim to Rand SBIC's assets over our shareholders in the event we liquidate Rand SBIC, or the SBA exercises its remedies under the SBA-guaranteed debentures issued by Rand SBIC upon an event of default.

At December 31, 2020, we had \$11,000,000 in outstanding SBA debenture instruments.

### **Taxation as a Regulated Investment Company**

The Corporation intends to elect U.S. federal tax treatment as a RIC as of January 1, 2020 on our timely filed U.S. Federal tax return for the 2020 tax year. In order to qualify to make the RIC Election, we must, among other things, distribute our previously undistributed "accumulated earnings and profits" to shareholders, which we accomplished through the special dividend paid to shareholders in May 2020. RIC qualification also requires meeting specified source-of-income and asset-diversification requirements. In addition, we must distribute to our shareholders, with respect of each taxable year, dividends for U.S. federal income tax purposes in an amount generally at least equal to 90% of our "investment company taxable income," which is generally equal to the sum of our net ordinary income plus the excess of our realized net short-term capital gains over our realized net long-term capital losses, determined without regard to any deduction for distributions paid (the "Annual Distribution Requirement"). As a RIC, we generally will not have to pay corporate-level U.S. federal income taxes on any ordinary income or capital gains that we distribute to our shareholders. Even if we qualify as a RIC, we generally will be subject to corporate-level U.S. federal income tax on our undistributed taxable income and could be subject to U.S. federal excise, state, local and foreign taxes.

In connection with making the RIC election, we expect that Rand SBIC will also make an election to be taxed as a RIC for U.S. federal tax purposes. In order to be eligible to be taxed as a RIC, Rand SBIC must satisfy the source-of-income, asset-diversification, and minimum distribution requirements discussed above. Because a substantial portion of our assets are held in Rand SBIC, we may not be able to satisfy the asset-diversification requirements unless Rand SBIC also qualifies to be taxed as a RIC for U.S. federal tax purposes.

Assuming that we qualify to be taxed as a RIC and satisfy the Annual Distribution Requirement, we will not be subject to U.S. federal income tax on the portion of our "investment company taxable income" and net capital gain (which is defined as net long-term capital gain in excess of net short-term capital loss) that is timely distributed to shareholders. Similarly, assuming that Rand SBIC qualifies to be taxed as a RIC and satisfies the Annual Distribution Requirement, Rand SBIC will also not be subject to U.S. federal income tax on the portion of its "investment company taxable income" and net capital gain that it timely distributes to Rand Capital Corporation. We will be subject to U.S. federal income tax at the regular corporate rates on any income or capital gain not distributed (or deemed distributed) to our shareholders. Rand SBIC will also be subject to U.S. federal income tax at the regular corporate rates on any income or capital gain not distributed (or deemed distributed) to Rand Capital Corporation. Additionally, we will be subject to U.S. federal income tax at the regular corporate rates on any income earned on certain investments that need to remain in a taxable subsidiary in order to maintain RIC status.

Rand and Rand SBIC, respectively, will be subject to a 4% nondeductible U.S. federal excise tax on certain undistributed income unless each distribute in a timely manner an amount at least equal to the sum of:

- (1) 98% of its ordinary income for each calendar year,
- (2) 98.2% of its capital gain net income for the one-year period ending October 31 in that calendar year, and
- (3) any income recognized, but not distributed, in preceding years and on which it paid no U.S. federal income tax.

In order to maintain qualification as a RIC for U.S. federal income tax purposes going forward, Rand and Rand SBIC must each, among other things:

- (1) meet the Annual Distribution Requirement;

---

## Table of Contents

- (2) qualify to be regulated as a BDC or be registered as a management investment company under the 1940 Act;
- (3) derive in each taxable year at least 90% of its gross income from dividends, interest, payments with respect to certain securities loans, gains from the sale or other disposition of stock or other securities or currencies or other income derived with respect to its business of investing in such stock, securities or currencies and net income derived from an interest in a “qualified publicly-traded partnership” (as defined in the Internal Revenue Code); and
- (4) diversify its holdings so that at the end of each quarter of the taxable year:
  - (a) at least 50% of the value of its assets consists of cash, cash equivalents, U.S. Government securities, securities of other RICs, and other securities if such other securities of any one issuer do not represent more than 5% of the value of its assets or more than 10% of the outstanding voting securities of the issuer (which for these purposes includes the equity securities of a “qualified publicly-traded partnership”); and
  - (b) no more than 25% of the value of its assets is invested in the securities, other than U.S. Government securities or securities of other RICs, (i) of one issuer (ii) of two or more issuers that are controlled, as determined under applicable tax rules, by us and that are engaged in the same or similar or related trades or businesses or (iii) of one or more “qualified publicly-traded partnerships”.

Because a substantial portion of Rand Capital Corporation’s assets consist of its shares in Rand SBIC, we will not be eligible to be taxed as a RIC for U.S. federal income tax purposes unless Rand SBIC is also eligible to be taxed as a RIC for U.S. federal tax purposes.

We may be required to recognize taxable income in circumstances in which we do not receive cash. For example, if we hold debt obligations that have original issue discount (OID) or debt instruments with payment-in-kind (“PIK”) interest, we must include in income, each year, a portion of this non-cash income that accrues over the life of the obligation, regardless of whether cash is received by us in that taxable year. We may also have to include in income other amounts that we have not yet received in cash, such as PIK interest and deferred loan origination fees that are paid after origination of the loan or are paid in non-cash compensation such as warrants or stock. Because any OID income or other amounts accrued will be included in our investment company taxable income for the year of accrual, we may be required to make a distribution to our shareholders in order to satisfy the Annual Distribution Requirement, even though we will not have received any corresponding cash.

Even if Rand and Rand SBIC qualify for taxation as RICs, they will be subject to corporate-level U.S. federal income tax on any unrealized net built-in gains in their respective assets as of the first day they qualify as RICs to the extent that such gains are realized by them during the five-year period following the first day that they qualify as RICs. As of December 31, 2020, neither Rand nor Rand SBIC have unrealized net built-in gains.

If Rand and Rand SBIC qualify for taxation as RICs, distributions out of our earnings and profits to shareholders generally will be taxable to shareholders for U.S. federal income tax purposes, either as ordinary income or capital gains, depending upon the nature of the income giving rise to the distribution. The tax consequences to a shareholder attributable to the acquisition, ownership, and disposition of our common stock, are complex and will depend on the facts of the shareholder’s unique circumstances.

### **Item 1A. Risk Factors**

We have listed below the material risk factors applicable to us grouped into the following categories: Risks related to our Business and Structure, Risks related to our Investments and Risks related to our Common Stock.

**Risks related to our Business and Structure**

**We are dependent upon RCM for our future success.**

Our day-to-day investment operations are managed by our investment adviser and administrator, RCM, subject to oversight and supervision by our Board. We no longer have any employees, and, as a result, RCM's investment team evaluates, negotiates, structures, closes and monitors our investments. We depend on the diligence, skill, investment expertise and network of business contacts of RCM's investment professionals, including Allen F. "Pete" Grum and Daniel P. Penberthy, and the investment committee of RCM (the "Investment Committee") to source appropriate investments for us. We also depend on members of RCM's investment team and the Investment Committee to analyze potential investments for us and on members of the Investment Committee to make investment decisions for us. Our future success depends on the continued availability of the members of RCM's investment team and the Investment Committee and the other investment professionals available to RCM. Although each of the then-current employees of the Corporation entered into employment arrangements with RCM at the closing of the Transactions, the Corporation does not have any employment agreements with these individuals or other key personnel of RCM, including members of the Investment Committee, and we cannot provide any assurance that unforeseen business, medical, personal or other circumstances would not lead any such individual to terminate his or her relationship with RCM. The loss of a material number of investment professionals to which RCM has access or members of the Investment Committee, could have a material adverse effect on our ability to achieve our investment objectives as well as on our financial condition and results of operations. In addition, we cannot assure you that RCM will remain our investment adviser or that we will continue to have access to RCM's investment professionals or the Investment Committee or its information and deal flow.

**RCM has no prior experience managing or acting as an investment adviser for a BDC.**

Prior to its entry into the Investment Management Agreement with Rand, RCM was a newly formed entity that had no prior experience managing or acting as an investment adviser for a BDC. Although the Corporation's existing employees became employees of RCM after the closing of the Transactions, all of RCM's investment decisions are made by its Investment Committee, which consists of six persons, of which Allen F. "Pete" Grum and Daniel P. Penberthy are two of its members. The investment philosophy and techniques used by RCM, and in particular its Investment Committee, to manage the Corporation's investment activities may differ from the investment philosophy and techniques previously employed by RCM's investment team in identifying and managing other investments and that were previously used by the Corporation when it was internally managed. RCM has focused its investing on behalf of the Corporation on interest-yielding debt securities. In addition, RCM is seeking to source potential investments using its relationships and the business networks of the members of the Investment Committee. However, we can offer no assurance that RCM will be successful with respect to its investment decisions in acting as our investment adviser or that RCM or the Investment Committee will be successful in their attempts to source and originate additional potential transactions that are appropriate for Rand's investment strategy through the use of existing business networks, and our investment returns could be substantially lower than the returns we have achieved in the past.

**Our financial results will depend on RCM's skill to manage and deploy capital effectively.**

Our ability to achieve long-term capital appreciation on our existing equity investments and to maintain a current cash flow from our debt investments while shifting our portfolio to contain a greater percentage of interest-yielding securities depends on RCM's capability to effectively identify, invest, and manage our capital.

Accomplishing this investment objective effectively will be based on RCM's handling of the investment process, starting with its ability to find investments that offer favorable terms and meet our investment objective. RCM will also need to monitor our portfolio companies' performance and may be called upon to provide managerial assistance. These competing demands on their time may slow the rate of investment.

Even if RCM is able to grow and build on our investment portfolio, any failure by RCM to manage the growth of our portfolio effectively could have a material adverse effect on our business, financial condition, results of operations and prospects. If RCM cannot successfully manage our investment portfolio or implement our investment objectives, this could negatively impact our stock price.

**RCM, on our behalf, may be unable to invest a significant portion of the net proceeds from the Transactions or other cash on hand on acceptable terms or within a reasonable timeframe.**

In connection with the closing of the Transactions, the purchase price was paid through the contribution to the Corporation by East of existing loans and other securities that had a fair value as of the closing date for the Transactions of approximately \$9.5 million and a cash payment of approximately \$15.5 million. Delays by RCM in investing the net proceeds raised in the Transactions or other cash on hand may cause our performance to be worse than that of other fully invested BDCs or other lenders or investors pursuing comparable investment strategies. We cannot assure you that RCM will be able to identify investments that meet our investment objective or that any investment that we make using these proceeds will produce a positive return. RCM may be unable to invest the net proceeds from the Transactions or other cash on hand on acceptable terms within the time period that we anticipate or at all, which could harm our financial condition and operating results.

We anticipate that, depending on market conditions, including as a result of the COVID-19 pandemic, it may take RCM a substantial period of time to invest substantially all of the net proceeds from the Transactions or other cash on hand in securities meeting our investment objectives. During this period, we will invest the net proceeds from the Transactions primarily in cash, cash equivalents and U.S. Government securities, which may produce returns that are significantly lower than the returns that we expect to achieve when our portfolio is fully invested in securities meeting our investment objectives. Until such time, the market price for our common stock may decline. Thus, the return on an investment in us may be lower than when, if ever, our portfolio is fully invested in securities meeting our investment objective.

**We are subject to risks created by our regulated environment.**

We are regulated by the SEC and the SBA. Changes in the laws or regulations that govern BDCs and SBICs could significantly affect our business. Regulations and laws may be changed periodically, and the interpretations of the relevant regulations and laws are also subject to change. Any change in the regulations and laws governing our business could have a material impact on our financial condition and our results of operations. Moreover, the laws and regulations that govern BDCs and SBICs may place conflicting demands on the manner in which we operate, and the resolution of those conflicts may restrict or otherwise adversely affect our operations.

In particular, Rand SBIC has received a license to operate as an SBIC under the Small Business Investment Act of 1958, as amended (the “1958 Act”), and is regulated by the SBA. The SBA places certain limitations on the financing terms of investments by SBICs in portfolio companies, regulates the types of financing, prohibits investing in small businesses with certain characteristics or in certain industries and requires capitalization thresholds that limit distributions to the Corporation. Compliance with SBIC requirements may cause Rand SBIC to invest at less competitive rates in order to find investments that qualify under the SBA regulations.

The SBA regulations require, among other things, an annual periodic examination of a licensed SBIC by an SBA examiner to determine the SBIC’s compliance with the relevant SBA regulations, and the performance of a financial audit by an independent auditor. If Rand SBIC fails to comply with applicable regulations, the SBA could, depending on the severity of the violation, limit or prohibit Rand SBIC’s use of the debentures, declare outstanding debentures immediately due and payable, or limit Rand SBIC from making new investments. In addition, the SBA could revoke or suspend Rand SBIC’s license for willful or repeated violation of, or willful or repeated failure to observe, any provision of the 1958 Act or any rule or regulation promulgated thereunder. These actions by the SBA would, in turn, negatively affect us because Rand SBIC is our wholly-owned direct and indirect subsidiary.

**We are subject to risks created by borrowing funds from the SBA.**

Our liabilities consist primarily of debt instruments issued through the SBA, which have fixed interest rates. Until and unless we are able to invest substantially all of the proceeds from these SBA debentures at annualized interest or other rates of return that substantially exceed annualized interest rates that Rand SBIC must pay the SBA, our operating results may be adversely affected which may, in turn, depress the market price of our common stock.

In addition, our outstanding \$11.0 million in SBA debentures will reach maturity and become payable between 2022 and 2029. In order to repay our outstanding SBA debentures, we will need to identify sources of additional funding if the proceeds received upon the exits of our investments or other cash on hand are insufficient to fund our operations and repay our SBA obligations. We cannot be assured that the proceeds to be received upon the exits from our investments or other cash on hand will be sufficient to meet our funding needs or, if such proceeds or other cash on hand are insufficient, that we will be able to obtain access to the necessary funding on terms that are acceptable to us.

**We are subject to risks created by the valuation of our portfolio investments.**

At December 31, 2020, 92% of our investments are in private securities that are not publicly traded. There is typically no public market for securities of the small privately held companies in which we typically invest. Investments are valued in accordance with our established valuation policy and are stated at fair value as recommended in good faith by RCM and approved by our Board. The inputs into the determination of fair value of these investments may require significant management judgment or estimation. In the absence of a readily ascertainable market value, the estimated value of our investment portfolio may differ significantly, favorably or unfavorably, from the values that would be placed on the portfolio if a ready market for the securities existed. Any changes in estimated value are recorded in the consolidated statement of operations as “Net change in unrealized depreciation or appreciation on investments.” In addition, the participation of RCM’s investment professionals in our valuation process may result in a conflict of interest as RCM’s Base Management Fee under the Investment Management Agreement is based, in part, on the value of our gross assets, and the Incentive Fees payable under the Investment Management Agreement are based, in part, on realized gains and realized and unrealized losses.

**RCM, acting as our investment adviser, operates in a competitive market for investment opportunities.**

RCM, acting as our investment adviser, operates in a competitive market for investment opportunities. RCM faces competition in our investing activities from many entities including other SBICs, private venture capital funds, investment affiliates of large companies, wealthy individuals and other domestic or foreign investors. The competition is not limited to entities that operate in the same general geographical areas as we do. Some of our competitors have higher risk tolerances or different risk assessments than we do. These characteristics could allow our competitors to consider a wider variety of investments, establish more relationships and offer better pricing and more flexible structuring than we are able to offer. We may lose investment opportunities if we do not match our competitors’ pricing, terms and structure. If we are forced to match our competitors’ pricing, terms and structure, we may not be able to achieve acceptable returns on our investments or may bear substantial risk of capital loss. As a regulated BDC, we are also required to disclose quarterly and annually the name and business description of our portfolio companies and the value of their portfolio securities. Most of our competitors are not subject to this disclosure requirement or similar types of disclosure requirements. This obligation to disclose this information could hinder RCM’s ability to invest in potential portfolio companies on our behalf. Additionally, other regulations, current and future, may make us less attractive as a potential investor to a given portfolio company than a private fund that is not subject to these regulations.

**The COVID-19 pandemic has, and may continue to, negatively affect the operating results, financial conditions or liquidity of our portfolio companies, which may negatively affect our operating results and financial condition. In addition, the pandemic may also negatively affect RCM’s ability, on our behalf, to invest a significant portion of the net proceeds from the Transaction and other cash on hand on acceptable terms or within a reasonable timeframe.**

The global outbreak of COVID-19 (“coronavirus”) has led to severe disruptions in general economic activities as businesses and federal, state, and local governments take and have taken broad actions to mitigate this public health crisis, including restrictions on travel and the temporary closures of corporate offices, retail stores, and manufacturing facilities and factories across the United States and the wider global community.

As a result, the business, operating results, financial condition and liquidity of our portfolio companies have been, and may continue to be, materially and adversely affected. The cumulative impact to our portfolio

---

## Table of Contents

companies' results from coronavirus will depend to a large extent on the duration and severity of coronavirus and the actions taken by authorities and other entities to contain coronavirus or treat its impact, all of which are beyond our control. Certain of our portfolio companies have had, and may continue to have, their operations temporarily shut down or significantly curtailed, which we believe will further exacerbate the impact of these events on those portfolio companies. In addition, even if our portfolio companies have availed themselves of loans from the SBA under the Paycheck Protection Program or the other assistance provided by U.S. federal or state governmental entities to mitigate the impacts of coronavirus, certain of our portfolio companies have experienced, and may continue to experience, significant liquidity issues, which, in turn, may negatively affect their ability to repay principal and interests on outstanding loans and other debt instruments owed to the Corporation, including resulting in the Corporation having large outstanding interest receivable balances owed to it. In addition, certain portfolio companies may not be able to continue as going concerns. In connection with the coronavirus pandemic, we may be required to restructure certain of our investments on terms that are less favorable to us to avoid potential bankruptcies and other insolvency issues for our portfolio companies. A substantial negative impact to one or more of our portfolio companies resulting from the coronavirus pandemic could have a material adverse effect on our business, financial condition and results of operations.

Furthermore, severe disruptions in general economic activities due to coronavirus may negatively affect RCM's ability to invest a significant portion of the net proceeds from the Transaction or other cash on hand on acceptable terms or within a reasonable timeframe. Delays by RCM in investing the net proceeds raised in the Transaction or other cash on hand due to coronavirus may cause our performance to be worse than that of other fully invested BDCs or other lenders or investors pursuing comparable investment strategies. We anticipate that, depending on market conditions, it may take RCM a substantial period of time to invest substantially all of the net proceeds from the Transaction and other cash on hand in securities meeting our investment objectives. This period may be further lengthened due to the impact of the coronavirus.

**There are potential conflicts of interest, including the management of other investment funds and accounts by the principals and certain members of the Investment Committee of RCM, which could impact our investment returns.**

The principals and certain members of the Investment Committee of RCM manage other funds and accounts, including for entities affiliated with members of the Investment Committee. Accordingly, they have obligations to those investors, the fulfillment of which may not be in the best interests of, or may be adverse to the interests of, us or our shareholders. Although the principals, members of the Investment Committee and other professional staff of RCM are expected to devote as much time to our management as appropriate to enable RCM to perform its duties in accordance with the Investment Management Agreement, the members of the Investment Committee and investment professionals of RCM may have conflicts in allocating their time and services among RCM, on the one hand, and the other managed investment vehicles, on the other hand.

RCM, including members of its Investment Committee, may face conflicts in allocating investment opportunities between us and other investment vehicles affiliated with members of the Investment Committee that have overlapping investment objectives with ours. Although RCM, including members of the Investment Committee, will endeavor to allocate investment opportunities in a fair and equitable manner in accordance with its allocation policies and procedures, it is possible that, in the future, we may not be given the opportunity to participate in investments made by investment funds managed by RCM or members of the Investment Committee if such investment is prohibited by law.

**Our ability to enter into transactions with our affiliates is restricted.**

We are prohibited under the 1940 Act from participating in certain transactions with certain of our affiliates without the prior approval of the "required majority" of our directors as defined in Section 57(o) of the 1940 Act and, in some cases, the SEC. Any person that owns, directly or indirectly, 5% or more of our outstanding voting securities will be our affiliate for purposes of the 1940 Act, and we will generally be prohibited from buying from, or selling to, such affiliate any securities, absent the prior approval of the "required majority" of our directors as defined in Section 57(o) of the 1940 Act. The 1940 Act also prohibits certain "joint" transactions with certain of our affiliates, including other funds or clients advised by RCM or its affiliates, which in certain

## Table of Contents

circumstances could include investments in the same portfolio company (whether at the same or different times to the extent the transaction involves a joint investment), without prior approval of our Board and, in some cases, the SEC. If a person acquires more than 25% of our voting securities, or is otherwise deemed to control, be controlled by, or be under common control with us, we will be prohibited from buying from, or selling to, such person or certain of that person's affiliates any securities, or entering into prohibited joint transactions with such persons, absent the prior approval of the SEC. For example, given East's approximately 64% ownership position in our common stock, this prohibition impacts our ability to participate in certain transactions or investments where East is involved, including with respect to certain of the loans and other securities that were contributed to us by East as part of the consideration for East's purchase of our common stock. To the extent such loans and other securities are also held by East or another one of our affiliates. Similar restrictions limit our ability to transact business with our officers or directors or their affiliates or anyone who is under common control with us. As a result of these restrictions, we may also be prohibited from buying securities from, or selling securities to, any portfolio company that is controlled by a fund managed by either RCM or its affiliates without the prior approval of the SEC, which may limit the scope of investment or disposition opportunities that would otherwise be available to us. The analysis of whether a particular transaction constitutes a joint transaction requires a review of the relevant facts and circumstances then existing.

On October 7, 2020, we, RCM and certain of our affiliates received exemptive relief from the SEC to permit us to co-invest with certain other funds managed by RCM or its affiliates in a manner consistent with the conditions of our exemptive relief. Pursuant to such exemptive relief, we generally are permitted to co-invest with certain of our affiliates if a "required majority" (as defined in Section 57(o) of the 1940 Act) of our independent directors make certain conclusions in connection with a co-investment transaction, including that (1) the terms of the transaction, including the consideration to be paid, are reasonable and fair to us and our shareholders and do not involve overreaching of us or our shareholders on the part of any person concerned, (2) the transaction is consistent with the interests of our shareholders and is consistent with our investment objective and strategies, and (3) the investment by our affiliates would not disadvantage us, and our participation would not be on a basis different from or less advantageous than that on which our affiliates are investing. We have applied for a new exemptive relief order, which, if granted, would supersede our current exemptive relief and include certain of our new affiliates resulting from the change in control of RCM from East to Callodine. There can be no assurance that we will obtain such new exemptive relief from the SEC.

In situations when co-investment with funds managed by RCM or its affiliates is not permitted under the 1940 Act and related rules, existing or future staff guidance, or the terms and conditions of the exemptive relief granted to us by the SEC, RCM will need to decide which client or clients will proceed with the investment. Generally, we will not be entitled to make a co-investment in these circumstances and, to the extent that another client elects to proceed with the investment, we will not be permitted to participate in the investment we otherwise would have made.

### **The fee structure under the Investment Management Agreement may induce RCM to pursue speculative investments and incur leverage, which may not be in the best interests of the shareholders.**

Under the terms of the Investment Management Agreement, the Base Management Fee is payable even if the value of your investment declines. The Base Management Fee is calculated based on the total assets (other than cash or cash equivalents but including assets purchased with borrowed funds), as determined according to procedures duly adopted by the Board. Accordingly, the Base Management Fee is payable regardless of whether the value of Rand's total assets or your investment has decreased during the then-current quarter and creates an incentive for RCM to incur leverage, which may not be consistent with our shareholders' interests.

The Incentive Fee payable to RCM is calculated based on a percentage of our return on invested capital. The terms of the Incentive Fee calculation may create an incentive for RCM to make investments on our behalf that are risky or more speculative than would be the case in the absence of such compensation arrangement. Unlike the Base Management Fee, the Income Based Fee is payable only if the hurdle rate is achieved. Because the portfolio earns investment income on gross assets while the hurdle rate is based on net assets, and because the use of leverage increases gross assets without any corresponding increase in net assets, RCM may be incentivized

---

## Table of Contents

to incur leverage to grow the portfolio, which will tend to enhance returns where our portfolio has positive returns and increase the chances that the hurdle rate is achieved. Conversely, the use of leverage may increase losses where our portfolio has negative returns, which would impair the value of our common stock.

In addition, RCM receives the Incentive Fees based, in part, upon net capital gains realized on our investments under the Capital Gains Fee. Unlike the Income Based Fee, there is no hurdle rate applicable to the Capital Gains Fee. As a result, RCM may have an incentive to invest more capital in investments that are likely to result in capital gains as compared to income producing securities. Such a practice could result in our investing in more speculative equity securities than would otherwise be the case, which could result in higher investment losses, particularly during economic downturns.

**RCM may be paid incentive compensation even if we incur a net loss, and we cannot recover any portion of the incentive fee previously paid.**

RCM is entitled to incentive compensation under our Investment Management Agreement for each fiscal quarter under the Income Based Fee in an amount equal to a percentage of our pre-incentive fee net investment income, subject to a hurdle rate, a catch-up provision, a cap and a deferral mechanism. For purposes of calculating the Income Based Fee, our pre-incentive fee net investment income excludes realized and unrealized capital losses that we may incur in the fiscal quarter, even if such capital losses result in a net loss for that quarter. Thus, we may be required to pay RCM incentive compensation under the Income Based Fee for a fiscal quarter even if we incur a net loss for that quarter. In addition, if we pay the Capital Gains Fee and thereafter experience additional realized capital losses or unrealized capital losses, we will not be able to recover any portion of the incentive fee previously paid.

**RCM's liability will be limited under the Investment Management Agreement and the Administration Agreement, and we will be required to indemnify RCM against certain liabilities, which may lead RCM to act in a riskier manner on our behalf than it would when acting for its own account.**

Under the Investment Management Agreement and the Administration Agreement, RCM does not assume any responsibility to us other than to render the services described in the Investment Management Agreement and Administration Agreement, as applicable, and it is not responsible for any action of our Board in declining to follow RCM's advice or recommendations. Pursuant to the Investment Management Agreement and the Administration Agreement, RCM, its members and their respective officers, managers, partners, agents, employees, controlling persons, members and any other person affiliated with any of them are not liable to us for their acts under the Investment Management Agreement and Administration Agreement, as applicable, absent willful misfeasance, bad faith, gross negligence or reckless disregard in the performance of their duties. We have agreed to indemnify, defend and protect RCM its members and their respective officers, managers, partners, agents, employees, controlling persons, members and any other person affiliated with any of them with respect to all damages, liabilities, costs and expenses arising out of or otherwise based upon the performance of any of RCM's duties or obligations under the Investment Management Agreement or Administration Agreement, as applicable, or otherwise as investment adviser or administrator, as applicable, for us, and not arising out of willful misfeasance, bad faith, gross negligence or reckless disregard in the performance of their duties under the Investment Management Agreement or the Administration Agreement. These protections may lead RCM to act in a riskier manner when acting on our behalf than it would when acting for its own account.

**Our investment adviser and administrator, RCM, has the right to resign on 60 days' notice, and we may not be able to find a suitable replacement within that time, resulting in a disruption in our operations that could adversely affect our financial condition, business and results of operations.**

Our investment adviser and administrator, RCM, has the right, under both the Investment Management Agreement and the Administration Agreement, to resign at any time upon not less than 60 days' written notice, whether we have found a replacement or not. If RCM resigns, we may not be able to find a new investment adviser or administrator or hire internal management with similar expertise and ability to provide the same or equivalent services on acceptable terms within 60 days, or at all. If we are unable to do so quickly, our operations are likely to experience a disruption, our financial condition, business and results of operations are likely to be



adversely affected and the market price of our common stock may decline. Even if we are able to retain comparable management, whether internal or external, the integration of such management and their lack of familiarity with our investment objectives may result in additional costs and time delays that may adversely affect our financial condition, business and results of operations.

**In connection with our anticipated RIC election, we may not be able to pay distributions to our shareholders, our distributions may not grow over time and a portion of our distributions may be a return of capital.**

In connection with our anticipated RIC election, which is anticipated to commence with our tax year ended December 31, 2020, after our timely filed 2020 tax return, we intend to pay distributions in the form of cash dividends to our shareholders out of assets legally available for distribution. However, we cannot assure shareholders that we will achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions. Our ability to pay distributions might be adversely affected by, among other things, the impact of one or more of the risk factors described herein. In addition, the inability to satisfy the asset coverage test applicable to us as a BDC can limit our ability to pay distributions. All distributions will be paid at the discretion of our Board and will depend on our earnings, our financial condition, maintenance of our RIC status, compliance with applicable BDC regulations and state corporate law requirements and such other factors as our Board may deem relevant from time to time. We cannot assure shareholders that we will pay distributions on our common stock in the future.

When we make distributions, we are required to determine the extent to which such distributions are paid out of current or accumulated earnings and profits. Distributions in excess of current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of an investor's basis in our stock and, assuming that an investor holds our stock as a capital asset, thereafter as a capital gain. Generally, a non-taxable return of capital will reduce an investor's basis in our stock for federal tax purposes, which will result in higher tax liability when the stock is sold. Shareholders should read any written disclosure accompanying a distribution carefully and should not assume that the source of any distribution is our ordinary income or gains.

**In connection with our anticipated RIC Election, we will be subject to corporate-level income tax if we are unable to satisfy certain RIC qualification requirements under Subchapter M of the Code or do not satisfy the annual distribution requirement.**

Although we anticipate to be treated as a RIC commencing with our tax year ended December 31, 2020, no assurance can be given that we will be able to qualify for and maintain our qualification as a RIC. In order to satisfy the requirements for RIC tax treatment, we must meet the following annual distribution, income source and asset diversification requirements to be relieved of federal taxes on income and gains distributed to our shareholders.

- The annual distribution requirement for a RIC will be satisfied if we distribute to our shareholders on an annual basis at least 90% of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. If we are unable to obtain cash from sources in order to make these distributions, we could fail to qualify for RIC tax treatment and thus become subject to corporate-level income tax.
- The income source requirement will only be satisfied if we obtain at least 90% of our income for each year from dividends, interest, gains from the sale of stock or securities or similar sources.
- The asset diversification requirement will only be satisfied if we meet certain asset diversification requirements at the end of each quarter of our taxable year. To satisfy this requirement, at least 50% of the value of our assets must consist of cash, cash equivalents, U.S. Government securities, securities of other regulated investment companies, and other acceptable securities; and no more than 25% of the value of our assets can be invested in the securities, other than U.S. Government securities or securities of other regulated investment companies, of one issuer, of two or more issuers that are controlled, as determined under applicable Code rules, by us and that are engaged in the same or similar or related trades or businesses or of certain "qualified publicly traded partnerships." Failure to meet these requirements may

result in our having to dispose of certain investments quickly in order to prevent the loss of regulated investment company status. Because most of our investments will be in private companies, and therefore will be relatively illiquid, any such dispositions could be made at disadvantageous prices and could result in substantial losses.

If we fail to satisfy certain RIC qualification requirements under Subchapter M of the Code or to meet the annual distribution requirement for any reason and are subject to corporate income tax, the resulting corporate taxes could substantially reduce our net assets, the amount of income available for distribution and the amount of our distributions, if any. Such a failure would have a material adverse effect on us and our shareholders.

**In connection with our anticipated RIC Election, we may have difficulty paying required distributions to shareholders if we recognize income before or without receiving cash representing such income.**

In connection with our anticipated RIC Election commencing with our tax year ended December 31, 2020, we will be required to distribute annually at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses to maintain our eligibility for RIC tax treatment. For U.S. federal income tax purposes, we will include in taxable income certain amounts that we have not yet received in cash, such as contracted payment-in-kind (“PIK”) interest, which represents contractual interest added to the loan balance and due at the end of the loan term. The increases in loan balances as a result of contracted PIK arrangements will be included in income in advance of receiving cash payment and will be separately identified on our consolidated statements of cash flows. We also may be required to include in income certain other amounts that we will not receive in cash.

Any warrants that we receive in connection with our debt investments will generally be valued as part of the negotiation process with the particular portfolio company. As a result, a portion of the aggregate purchase price for the debt investments and warrants will be allocated to the warrants that we receive. This will generally result in our debt instruments having original issue discount (“OID”) for tax purposes, which we must recognize as ordinary income as such original issue discount accrues regardless of whether we have received any corresponding payment of such interest. Other features of debt instruments that we hold may also cause such instruments to generate original issue discount.

Since in certain cases we may recognize income before or without receiving cash representing such income, we could have difficulty meeting the requirement to distribute at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses to maintain our eligibility for RIC tax treatment. Accordingly, we may have to use cash on hand or sell some of our assets, raise additional equity capital or reduce new investment originations to meet these distribution requirements. If we do not have sufficient cash on hand or are unable to obtain cash from other sources to satisfy such distribution requirements, we may fail to qualify for RIC tax treatment and thus may become subject to corporate-level income tax.

**If we do not invest a sufficient portion of our assets in qualifying assets, we could fail to maintain our qualification as a BDC or be precluded from investing according to our current business strategy.**

As a BDC, we may not acquire any assets other than “qualifying assets” unless, at the time of and after giving effect to such acquisition, at least 70% of our total assets are qualifying assets.

We believe that most of the investments that we may acquire in the future will constitute qualifying assets. However, we may be precluded from investing in what we believe to be attractive investments if such investments are not qualifying assets for purposes of the 1940 Act. If we do not invest a sufficient portion of our assets in qualifying assets, we could violate the 1940 Act provisions applicable to BDCs. As a result of such violation, specific rules under the 1940 Act could prevent us, for example, from making follow-on investments in existing portfolio companies (which could result in the dilution of our position) or could require us to dispose of investments at inappropriate times in order to come into compliance with the 1940 Act. If we need to dispose of such investments quickly, it could be difficult to dispose of such investments on favorable terms. We may not be able to find a buyer for such investments and, even if we do find a buyer, we may have to sell the investments at a substantial loss. Any such outcomes would have a material adverse effect on our business, financial condition, results of operations and cash flows.

---

## Table of Contents

If we do not maintain our status as a BDC, we would be subject to regulation as a registered closed-end investment company under the 1940 Act. As a registered closed-end investment company, we would be subject to substantially more regulatory restrictions under the 1940 Act, which would significantly decrease our operating flexibility.

### **Rand SBIC may be unable to make distributions to the Corporation that will allow us to meet or maintain the requirement for our anticipated RIC Election.**

In order for us to qualify for tax benefits available to RICs and to minimize corporate-level U.S. federal income tax, we must distribute to our shareholders, for each taxable year, at least 90% of our “investment company taxable income,” which is generally our ordinary income plus the excess of realized net short-term capital gains over realized net long-term capital losses, including investment company taxable income from Rand SBIC. We will be partially dependent on Rand SBIC for distributions from Rand SBIC to the Corporation, including through “deemed dividends” in which no actual cash distribution is made from Rand SBIC to the Corporation, to enable us to meet the RIC distribution requirements. Rand SBIC may be limited by SBA regulations governing SBICs from making distributions to the Corporation, including “deemed dividends”, which may be necessary to maintain our tax treatment as a RIC. We have in the past had to, and may in the future have to, request a waiver or consent from the SBA in order for Rand SBIC to make certain distributions to maintain our RIC tax treatment. We cannot assure you that the SBA will grant such waiver or consent and if Rand SBIC is unable to obtain a waiver or consent, compliance with the SBA regulations may result in corporate-level U.S. federal income tax.

### **We may need to raise additional capital to grow.**

We may need additional capital to fund new investments and grow. We may access the capital markets periodically to issue equity securities. In addition, we may also issue debt securities or borrow from financial institutions, including from the SBA, in order to obtain such additional capital. Unfavorable economic conditions could increase our funding costs and limit our access to the capital markets or result in a decision by lenders not to extend credit to us. A reduction in the availability of new capital could limit our ability to grow. In addition, we are required to distribute at least 90% of our net ordinary income and net short-term capital gains in excess of net long-term capital losses, if any, to our shareholders to maintain our anticipated RIC Election. As a result, these earnings will not be available to fund new investments. If we are unable to access the capital markets or if we are unable to borrow from financial institutions, including from the SBA, we may be unable to grow our business and execute our business strategy fully, and our earnings, if any, could decrease, which could have an adverse effect on the value of our common stock.

### **We are subject to cybersecurity risks and incidents that may adversely affect our operations, the operations of RCM or the companies in which we invest. A failure in our cybersecurity systems could impair our ability to conduct business and damage our business relationships, compromise or corrupt our confidential information and ultimately negatively impact business, financial condition and operating results.**

Ours and RCM’s operations are dependent on secure information technology systems for data processing, storage and reporting. Increased cybersecurity vulnerabilities, threats and more sophisticated and targeted cyber-attacks pose a risk to the security of our and RCM’s information and the information of our portfolio companies. Like other companies, we may experience threats to our data and systems, including malware and computer virus attacks, unauthorized access, system failures and disruptions. If one or more of these events occurs, it could potentially jeopardize the confidential, proprietary and other information stored in, or transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our or RCM’s operations, which could result in damage to our or RCM’s reputation, financial losses, litigation, increased costs or regulatory penalties. In addition, these cyber-attacks could affect our and RCM’s computer network, our website or our other service providers (such as, but not limited to, accountants, lawyers, and transfer agents) and could result in operating disruptions or information misappropriation, which could have a material adverse effect on our business operations and the integrity and availability of our financial information. We have attempted to mitigate these cybersecurity risks by employing a number of processes, procedures and internal controls within the Corporation, but we remain potentially vulnerable to additional known and unknown threats.

**We may experience fluctuations in our annual and quarterly results.**

We could experience fluctuations in our annual and quarterly operating results due to a number of factors, some of which are beyond our control, including RCM's ability or inability to make investments in companies that meet our investment criteria, RCM's plans to transition over time Rand's portfolio to include more interest-yielding securities, the interest rate payable on the debt securities acquired and the default rate on such securities, the level of our expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in the markets in which we operate and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future quarters or any future fiscal years.

**Risks related to our Investments**

**We have a limited number of companies in our portfolio of investments, and may be subjected to greater risk if any of these companies default.**

Our portfolio investment values are concentrated in a small number of companies and as such, we may experience a significant loss in our net asset value if one or more of these companies performs poorly or goes out of business. The unrealized or realized depreciation in the value of the securities of any one of these companies would negatively impact our net asset value.

**The lack of liquidity in our investments may adversely affect our business.**

RCM, on our behalf, invests, and we expect that RCM will continue, on our behalf, to invest, in portfolio companies whose securities are not publicly traded and may be subject to restrictions on resale, and as a result will be less liquid than publicly traded securities. Most of our investments are or will be either equity securities or debt securities acquired directly from small, private companies. The illiquidity of most of our portfolio may adversely affect our ability to dispose of the securities at times when it may be advantageous for us to liquidate investments. In addition, we may not realize the full value of these private investments if we have to liquidate all or a part of our portfolio investment quickly, given the lack of available markets for their sale.

**Economic downturns or recessions may adversely affect our portfolio companies' financial performance and therefore harm our operating results.**

The United States economy has periodically experienced periods of instability and recessions, including as a result of the COVID-19 pandemic, and the financial results of the small companies in which we invest could be more acutely affected negatively by this instability and suffer deterioration in operational or financial results. This deterioration may have a negative effect on our financial performance.

**Investing in private companies involves a high degree of risk.**

We typically invest a substantial portion of our assets in small private companies. These private businesses may be thinly capitalized, unproven companies with risky technologies, products or services, may lack management depth, and may not have attained profitability. Because of the speculative nature and the lack of a public market for these investments, there is significantly greater risk of loss than is the case with securities traded on a public exchange. We expect that some of our investments will become worthless and that some will appear likely to become successful but will never realize their potential. We have historically been risk seeking rather than risk averse in our approach to our investments. Given the incentive compensation components of our arrangement with RCM under the Investment Management Agreement, RCM may have similar incentives to be risk seeking rather than risk averse in making its investment decisions.

Even if our portfolio companies are able to develop commercially viable technologies, products or services, the market for those new technologies, products and services is likely to be highly competitive and rapidly changing. Commercial success is difficult to predict and the marketing efforts of the portfolio companies may not be successful.

**We may be subject to risks associated with our origination of, or investment in, covenant-lite loans to our portfolio companies.**

We have originated or invested in, and may in the future originate or invest in, covenant-lite loans to our portfolio companies, which means the loan agreement or other debt instrument governing these debt obligations contains fewer maintenance covenants than other loan agreements or debt obligations, or no maintenance covenants, and may not include covenants that the Corporation could use to monitor the financial performance of the portfolio company borrower, including covenants based upon compliance with financial ratios, and declare a default under the loan agreement or other debt instrument if the specified covenants are breached. While these loans or other debt obligations to portfolio company borrowers may still contain other collateral protections, a covenant-lite loan may carry more risk than a covenant-heavy loan made by the same portfolio company borrower as it does not require this borrower to provide affirmation that certain specific financial tests have been satisfied on a routine basis, as is generally required under a covenant-heavy loan agreement or other debt instrument. Generally, covenant-lite loans or other debt instruments provide borrowers more freedom, which may negatively impact lenders because these covenants, if any, tend to be incurrence-based, meaning they are only tested and can only be breached following an affirmative action of the borrower, rather than by deterioration in the borrower's financial condition. Should the financial condition of a portfolio company borrower begin to deteriorate, our investment in or origination of covenant-lite loans or other debt instruments to such portfolio company borrower may potentially reduce our ability to restructure such problematic loan and mitigate potential loss. As a result of our investment in or origination of covenant-lite loans, our exposure to losses may be increased, which could result in an adverse impact on the Corporation's revenues, net income and NAV per share.

**We provide debt and equity capital primarily to small companies, which may present a greater risk of loss than providing debt and equity capital to larger companies.**

Our portfolio consists primarily of debt and equity investments in small companies. Compared to larger companies, small companies generally have more limited access to capital and higher funding costs, may be in a weaker financial position and may need more capital to expand, compete and operate their business. They also typically have fewer administrative resources, which can lead to greater uncertainty in their ability to generate accurate and reliable financial data, including their ability to deliver audited financial statements. In addition, many small companies may be unable to obtain financing from the public capital markets or other traditional sources, such as commercial banks, in part because loans made to these types of companies entail higher risks than loans made to companies that have larger businesses, greater financial resources or are otherwise able to access traditional credit sources on more attractive terms.

A variety of factors may affect the ability of borrowers to make scheduled payments on debt securities or loans, including failure to satisfy financial targets and covenants, a downturn in a borrower's industry or changes in the economy in general. In addition, investing in small companies in general involves a number of significant risks, including that small companies:

- may have limited financial resources and may be unable to meet their obligations under their debt securities that we hold, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of us realizing any guarantees we may have obtained in connection with our investment;
- typically have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render small companies more vulnerable to competitors' actions and market conditions, as well as general economic downturns;
- are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on our portfolio company and, in turn, on us;
- generally have less predictable operating results, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position;

---

## Table of Contents

- may from time to time be parties to litigation, and our executive officers, directors and our investment adviser may, in the ordinary course of business, be named as defendants in litigation arising from our investments in the portfolio companies;
- may have difficulty accessing the capital markets to meet future capital needs, which may limit their ability to grow or to repay their outstanding indebtedness upon maturity; and
- may be particularly vulnerable to changes in customer preferences and market conditions, depend on a limited number of customers, and face intense competition, including from companies with greater financial, technical, managerial and marketing resources.

Any of these factors or changes thereto could impair a small company's financial condition, results of operation, cash flow or result in other adverse events, such as bankruptcy, any of which could limit a borrower's ability to make scheduled payments on our debt securities. This, in turn, could result in losses in our investments and a decrease in our net interest income and net asset value.

### **Prepayments of our debt investments by our portfolio companies could adversely impact our results of operations and reduce our returns on equity.**

We are subject to the risk that investments intended to be held over long periods are, instead, repaid prior to maturity. When this occurs, we will generally reinvest these proceeds in temporary investments that will typically have substantially lower yields than the debt being prepaid, and we could experience significant delays in reinvesting these amounts. Any future investment may also be at lower yields than the debt that was repaid. As a result, our results of operations could be materially adversely affected if one or more of our portfolio companies elects to prepay amounts owed by them. Additionally, prepayments could negatively impact our return on equity, which could result in a decline in the market price of our common stock.

### **We generally do not control our portfolio companies.**

We do not have an expectation to control the decision making in our portfolio companies, even though we may have a board seat or board observation rights. Because of this, we are subject to the risk that our portfolio companies will make business decisions with which we disagree or will incur risks or otherwise act in ways that do not maximize their value and serve our interests as minority debt and equity holders. Due to the lack of liquidity in our investments in these private companies, we may not be able to dispose of our investment in these portfolio companies as freely as we would like or at a valuation that is appropriate. As a result, a portfolio company may make decisions that would decrease the value of our portfolio holdings.

### **We typically are a minority shareholder in our portfolio companies.**

We typically invest as a minority shareholder in our portfolio companies. As a minority shareholder, we are unable to require the company to seek or entertain liquidity events as a way to exit our investments. This may cause us to hold investments longer than planned or to seek a sale that may not reflect the full value of our investment.

### **We may not have the funds or ability to make follow-on investments in our portfolio companies.**

We may not have the funds or ability to make additional investments in our portfolio companies. After our initial investment in a company, we may be asked to participate in another round of financing by the company. There is no assurance that we will make, or have sufficient funds to make, these follow-on investments. Any decision to not make an additional investment in a portfolio company may have a negative impact on the portfolio company in need of the capital and have a negative impact on our ownership in the company.

### **Risks related to our Common Stock**

#### **East exercises significant influence over us in connection with its ownership of our common stock.**

East beneficially owns approximately 64% of Rand's outstanding common stock. As a result, East is able to direct the outcome of any matters submitted for shareholder action, including approval of significant corporate

---

## Table of Contents

transactions, such as amendments to our governing documents, business combinations, consolidations, and mergers. East has substantial influence on us and could exercise its influence in a manner that conflicts with the interests of other shareholders. The presence of a significant shareholder may also have the effect of making it more difficult for a third party to acquire us or for the Board to discourage a third party from seeking to acquire us.

In addition, pursuant to the terms of the Shareholder Agreement, East has the right to designate two or three persons, depending upon the size of the Board, for nomination for election to the Board. East has the right to designate (i) up to two persons if the size of the Board is composed of fewer than seven directors or (ii) up to three persons if the size of the Board is composed of seven or more directors. Under the terms of the Shareholder Agreement, East has designated Adam S. Gusky and Benjamin E. Godley for nomination for election to the Board. The designation right provided to East under the terms of the Shareholder Agreement provides East with a significant presence on the Board and direct influence on matters presented to the Board, although all directors, whether or not nominated by East, owe fiduciary duties to all shareholders.

### **Investing in our shares may be inappropriate for an investor's risk tolerance.**

Our investments, in accordance with our investment objective and principal strategies, result in a greater than average amount of risk and volatility and may result in loss of principal. Our investments in portfolio companies are highly speculative and aggressive and, therefore, an investment in our shares may not be suitable for investors for whom such risk is inappropriate. Neither our investments nor an investment in our shares constitutes a balanced investment program.

### **Sales of substantial amounts of our common stock may have an adverse effect on the market price of our securities.**

Sales of substantial amounts of our common stock, or the availability of such securities for sale, could adversely affect the prevailing market prices for our common stock.

### **Our shares often trade at a discount to our net asset value.**

Shares of business development companies may trade at a market price that is less than the net asset value that is attributable to those shares and our shares have often traded at such a discount. This characteristic of closed-end investment companies is separate and distinct from the risk that our net asset value per share may decline. It is not possible to predict if, or when, our shares will trade at, above, or below net asset value.

### **Item 1B. *Unresolved Staff Comments***

Not applicable.

### **Item 2. *Properties***

We do not own any real estate or other physical properties. Our corporate headquarters is located at 14 Lafayette Square, Suite 1405, Buffalo NY.

### **Item 3. *Legal Proceedings***

None.

### **Item 4. *Mine Safety Disclosures***

Not applicable.

**Part II**

**Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common stock (“Common Stock”) is traded on the Nasdaq Capital Market (“Nasdaq”) under the symbol “RAND.”

Rand’s Board declared a special dividend of \$23.7 million, or approximately \$1.62 per share, on March 3, 2020. The cash and shares of Rand’s common stock comprising the special dividend were distributed on May 11, 2020 to shareholders.

In addition, our Board declared a 2020 cash dividend of \$1.33 per share on December 21, 2020. The 2020 cash dividend was paid on January 19, 2021 to shareholders of record as of December 31, 2020. The cash dividend is expected to represent over 90% of estimated taxable income for 2020.

**Issuer Purchases of Equity Securities**

<u>Period</u>	<u>Total number of shares purchased (1)</u>	<u>Average price paid per share (2)</u>	<u>Total number of shares purchased as part of publicly announced plan (3)</u>	<u>Maximum dollar amount of shares that may yet be purchased under the share repurchase program (3)</u>
10/1/2020 – 10/31/2020	1,631	\$ 11.38	1,631	\$ 1,443,451
11/1/2020 – 11/30/2020	583	\$ 12.59	583	\$ 1,436,113
12/1/2020 – 12/31/2020	1,020	\$ 12.59	1,020	\$ 1,423,271
<b>Total</b>	<b>3,234</b>	<b>\$ 11.98</b>	<b>3,234</b>	

- (1) There were 3,234 shares repurchased, in open market transactions, during the fourth quarter of 2020.
- (2) The average price paid per share is calculated on a settlement basis and includes commission.
- (3) On April 22, 2020, the Board of Directors approved a new share repurchase plan, which authorizes the Corporation to repurchase shares of the Corporation’s outstanding Common Stock with an aggregate cost of up to \$1,500,000 at prices per share of Common Stock of no greater than the then current net asset value. This new share repurchase authorization lasts for a period of 12 months from the authorization date, until April 22, 2021 and was publicly announced on May 11, 2020. This new share repurchase plan supplanted and replaced the share repurchase authorization that was previously approved by the Board in October 2019.

**Shareholders of Record**

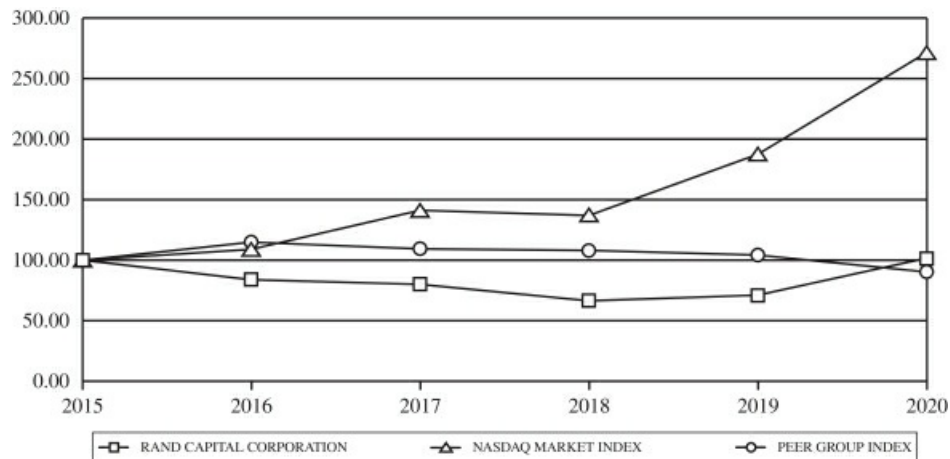
On March 1, 2021, we had a total of approximately 1,250 shareholders, which included 63 record holders of our Common Stock, and an estimated 1,187 holders with shares beneficially owned in nominee name or under clearinghouse positions of brokerage firms or banks.

**Corporation Performance Graph**

The following graph shows a five-year comparison of cumulative total shareholder returns for our Common Stock, the Nasdaq Market Index, and our peer group, assuming a base index of \$100 at the end of 2014. The cumulative total return for each annual period within the five years presented is measured by dividing (1) the sum of (A) the cumulative amount of dividends for the measurement period, assuming dividend reinvestment, and (B) the difference between share prices at the end and at the beginning of the measurement period by (2) the share price at the beginning of the measurement period.



Comparison of 5 Year Cumulative Total Return  
Assumes Initial Investment of \$100  
December 2020



Comparison of cumulative total return of one or more companies, peer groups, industry indexes and/or broad markets

**YEAR ENDED DECEMBER 31,**

Company/Index/Market	2015	2016	2017	2018	2019	2020
Rand Capital Corporation	\$ 100.00	\$ 83.82	\$ 80.11	\$ 66.34	\$ 71.19	\$ 101.71
NASDAQ Market Index	\$ 100.00	\$ 108.87	\$ 141.13	\$ 137.12	\$ 187.44	\$ 271.64
Peer Group Index	\$ 100.00	\$ 114.93	\$ 109.31	\$ 108.14	\$ 104.13	\$ 90.20

Our peer group is comprised of the following companies:

- Harvest Capital Credit Corporation (NasdaqGM: HCAP)
- Great Elm Capital Corp. (NasdaqGM: GECC)
- Portman Ridge Financial Corp (NasdaqGS: PTMN)
- Investcorp Credit Management BDC Inc. (NasdaqGS: ICMB)

We selected the peer group because we believe that the issuers included in this group are organized and have investment objectives that are similar to ours, as they are each an externally managed BDC that pays a regular cash dividend, and among the publicly traded companies, they are relatively similar in size to us.

The performance graph information provided above will not be deemed to be “soliciting material” or “filed” with the SEC or subject to Regulations 14A or 14C, or to the liabilities of section 18 of the Securities Exchange Act, unless in the future we specifically request that the information be treated as soliciting material or specifically incorporate it by reference into any filing under the Securities Act of 1933, as amended or the Exchange Act.

**Item 6. Selected Financial Data**

The following table provides selected consolidated financial data for the periods indicated. You should read the selected financial data set forth below in conjunction with Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and with the consolidated financial statements and related notes appearing within Item 8 of this Annual Report.

## Table of Contents

### Balance Sheet Data as of December 31:

	2020	2019	2018	2017	2016
Total assets	\$ 60,966,942	\$ 64,791,449	\$ 40,521,724	\$ 40,133,913	\$ 42,418,530
Total liabilities	\$ 14,862,112	\$ 11,162,933	\$ 8,997,537	\$ 8,215,228	\$ 9,789,167
Net assets	\$ 46,104,830	\$ 53,628,516	\$ 31,524,187	\$ 31,918,685	\$ 32,629,363
Net asset value per outstanding share*	\$ 17.86	\$ 32.93	\$ 44.88	\$ 45.44	\$ 46.45
Shares of common stock outstanding	2,582,169	1,628,369	702,443	702,443	702,443

### Operating Data for the Years Ended December 31:

	2020	2019	2018	2017	2016
Investment income	\$ 3,102,919	\$ 2,724,696	\$ 2,106,954	\$ 1,454,782	\$ 1,031,858
Total expenses	\$ 1,974,978	\$ 2,770,716	\$ 2,193,672	\$ 2,010,977	\$ 3,401,037
Net investment income (loss), net of tax	\$ 1,756,128	(\$ 85,697)	(\$ 68,406)	(\$ 19,298)	(\$1,553,268)
Net realized (loss) gain on sales and dispositions of investments, net of tax	(\$5,983,279)	\$ 861,838	(\$ 994,295)	\$ 88,684	\$ 8,864,653
Net change in unrealized depreciation or appreciation on investments, net of tax	\$ 4,970,917	(\$3,065,811)	\$ 668,203	(\$ 780,064)	(\$8,514,068)
Net increase (decrease) in net assets from operations	\$ 743,766	(\$2,289,670)	(\$ 394,498)	(\$ 710,678)	(\$1,202,683)

\* Restated for 1-for-9 stock split that occurred in May 2020

### Item 7. 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 within Item 8 of this Annual Report.

#### 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 SEC. 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, including statements related to our investment strategies, the impact of COVID-19 on our portfolio companies, our intention to elect U.S. federal tax treatment as a RIC for the 2020 tax year and the associated impact of such election on payment of corporate level taxes by Rand, statements regarding our liquidity and financial resources; and statements regarding future dividend payments, 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

## Table of Contents

statements are based on assumptions concerning the scope of the impact of the COVID-19 pandemic and its specific impact on our portfolio companies, 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 I, Item 1A of this Annual Report.

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

### **Overview**

We are an externally managed, diversified investment company that lends to and invests in lower middle market companies. Our investment objective is to generate current income and when also possible, complement this current income with capital appreciation, by targeting investment opportunities with favorable risk-adjusted returns.

We have elected to be regulated 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 specified in the 1940 Act. Historically, we 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. With the capital raised in 2019, we now also have liquidity at Rand Capital Corporation, the parent company, with which to make investments.

In November 2019, Rand completed a stock sale transaction (the “Transaction”) with East Asset Management (“East”). The Transaction consisted of a \$25 million investment in Rand by East, in exchange for approximately 8.3 million shares of Rand common stock. The consideration paid by East for the shares of Rand common stock was comprised of \$15.5 million of cash and \$9.5 million of portfolio assets. Concurrent with the closing of the transaction with East on November 8, 2019, Rand entered into an investment advisory and management agreement (the “Prior Investment Management Agreement”) and an administration agreement (the “Prior Administration Agreement”) with RCM.

In late 2020, Rand Capital Corporation’s (the “Company” or “Rand”) Board of Directors (the “Board”) was advised by RCM that Callodine Group, LLC (“Callodine”), an entity controlled by James Morrow, intended to acquire a controlling interest in RCM, which was then-currently majority owned by East Asset Management (“East”). Section 15(a) of the 1940 Act provides that any investment management contract, such as the Prior Investment Management Agreement, terminates automatically upon its “assignment.” Section 2(a)(4) of the 1940 Act provides that the transfer of a controlling interest of an investment adviser, such as was to be caused by East’s transfer of its controlling interest in RCM to Callodine (the “Adviser Change in Control”), constitutes an “assignment.” As a result of the proposed Adviser Change in Control, Rand’s shareholders were asked to approve a new investment advisory and management agreement (the “Investment Management Agreement”) with RCM at a special meeting of shareholders held on December 16, 2020 (the “Special Meeting”). The terms of the Investment Management Agreement are identical to those contained in the Prior Investment Management Agreement, with RCM continuing to provide investment advisory and management services to Rand following the Adviser Change in Control. Following approval by Rand’s shareholders at the Special Meeting, Rand, on December 31, 2020, entered into the Investment Management Agreement and a new administration agreement (the “Administration Agreement”) with RCM and terminated the Prior Administration Agreement.

Pursuant to the terms of the Investment Management Agreement, Rand pays RCM a base management fee and may pay an incentive fee if specified benchmarks are met. In connection with retaining RCM as our

---

## Table of Contents

investment adviser and administrator, Rand's management and staff became employees of Rand Capital Management, LLC ("RCM"), a registered investment adviser that has been retained by Rand as its external investment adviser.

We intend to elect U.S. federal tax treatment as a regulated investment company ("RIC") as of January 1, 2020, under subchapter M of the Internal Revenue Code of 1986, as amended, on our timely filed U.S. Federal tax return for the 2020 tax year. With the election, we generally will not be subject to corporate-level U.S. federal income taxes on any net ordinary income or capital gains that we timely distribute to our shareholders as dividends.

In connection with the preparation for our RIC election, we paid a special dividend of \$23.7 million, or approximately \$1.62 per share on the Corporation's common stock, par value \$0.10 per shares (the "Common Stock"), in cash and stock to shareholders on May 11, 2020, which distributed all of our accumulated earnings and profits since our inception through 2019. The total amount of cash distributed to all shareholders, as part of the special dividend, was limited to \$4.8 million, or 20% of the total special dividend that was paid. The remaining 80% of the special dividend was paid using approximately 8.6 million shares of Common Stock.

In addition, our Board of Directors declared a 2020 cash dividend of \$1.33 per share on December 21, 2020. The 2020 cash dividend was paid on January 19, 2021 to shareholders of record as of December 31, 2020. The cash dividend is expected to represent over 90% of our estimated taxable income for 2020.

To maintain our RIC status, we will need to meet specified source-of-income and asset diversification requirements and distribute annually to our shareholders at least 90% of our ordinary net income and realized net short-term capital gains in excess of realized net long-term capital losses, if any.

We intend to co-invest, subject to the conditions included in the exemptive relief order we received from the SEC, with certain of our affiliates. See "SEC Exemptive Order" below. We believe that such co-investments may afford us additional investment opportunities and an ability to achieve greater diversification.

### **Outlook**

At the end of the 2020, we had \$20.4 million in cash and cash equivalents available for future investments and expenses, a decrease of \$5.4 million from the end of 2019. The decrease was primarily due to approximately \$11.3 million in additional portfolio investments and approximately \$4.8 million in cash distributed to our shareholders as part of the special dividend. This was partially offset by approximately \$9.7 million of cash proceeds received during the year ended December 31, 2020 from portfolio exits.

Since the outbreak of the COVID-19 pandemic, our investment adviser, RCM, continues to engage in active discussions with the management teams of the companies within our portfolio regarding actions taken by them for the safety and welfare of their employees and their processes for phasing back to pre-COVID work environments. We also have been informed by RCM on the impact of the COVID-19 induced recession on the businesses of the portfolio companies and the actions the portfolio companies have taken, and are taking, to adapt to changes in demand, both increased and decreased, depending upon the portfolio company. Most of our portfolio companies that qualified, have applied for, and received federal loans under the Paycheck Protection Program and, where applicable, are also applying for other federal support programs. While we do not know what the ultimate impact of the COVID-19 pandemic and the economic downturn will be on our portfolio companies, RCM is actively monitoring our portfolio companies, their liquidity and operational status.

### **Trends and Opportunities**

We believe the combination of cash on hand, proceeds from portfolio exits, SBA leverage, and prospective investment income provide us the liquidity that enables us to add new investments to our portfolio and reinvest in existing portfolio companies that demonstrate continued growth potential. We are actively building a pipeline of investment opportunities in order to put our capital to work.

---

## Table of Contents

The following short and long-term trends provide us confidence in our ability to grow the Corporation:

- We have sufficient cash to both invest in new opportunities and to repurchase shares. On April 22, 2020, our Board of Directors approved a new share repurchase plan, which authorizes the purchase of up to \$1.5 million of our Common Stock through April 22, 2021 at prices per share of common stock no greater than the then current net asset value. During the year ended December 31, 2020, we purchased 6,631 shares at an average price of \$11.57 per share.
- 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.
- RCM, on our behalf, is 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 externalized management structure.
- We believe that the establishment of RCM as our external investment adviser and its ownership by Callodine, as well as our relationship with East, broadens our potential pipeline of investment opportunities to build our portfolio, facilitate growth and reduce operating expenses as a percentage of portfolio assets. Strategically, we expect to advance our efforts to increase our income-producing investments to support a regular cash dividend for shareholders and complement these securities with equity investments that drive capital appreciation.
- We believe an opportunity for lending to lower middle market companies exists because of the consolidation among commercial banks that has reduced their focus on the lower middle market business. Heightened regulatory requirements for commercial banks has also resulted in less participation by banks in the lower middle market lending arena, opening up opportunities for alternative lenders such as us.
- Lower middle market companies are increasingly seeking lenders with long-term capital to provide flexible solutions for their debt and equity financing needs. We believe that many lower middle market companies prefer to execute transactions with alternative lenders such as us because we can address their capital requirements quickly and in the “check size” that is best suited for their businesses.

### **SEC Exemptive Order**

On October 7, 2020, the Corporation, RCM and certain of their affiliates received exemptive relief from the SEC to permit the Corporation to co-invest in portfolio companies with certain other funds, including other BDCs and registered investment companies, managed by RCM and certain of its affiliates in a manner consistent with the Corporation’s investment objective, positions, policies, strategies and restrictions as well as regulatory requirements, subject to compliance with certain conditions (the “Order”). Pursuant to the Order, the Corporation is generally permitted to co-invest with affiliated funds if a “required majority” (as defined in Section 57(o) of the 1940 Act) of the Corporation’s independent directors makes certain conclusions in connection with a co-investment transaction, including that (1) the terms of the transaction, including the consideration to be paid, are reasonable and fair to the Corporation and its shareholders and do not involve overreaching in respect of the Corporation or its shareholders on the part of any person concerned and (2) the transaction is consistent with the interests of the Corporation’s shareholders and is consistent with the Corporation’s investment objective and strategies.

In addition, Callodine and the Adviser are seeking a new exemptive relief order from the SEC that would supersede the Order and would permit the Corporation to co-invest with affiliates of Callodine (the “New Order”). Under the Order, the Corporation is permitted to co-invest with funds managed by the Adviser and its affiliates under the Adviser’s current ownership structure. The New Order, if and when granted by the SEC, would replace East with Callodine. There can be no assurance that the Corporation will be able to obtain such new exemptive relief from the SEC.

### **Critical Accounting Policies**

We prepare our consolidated financial statements in accordance with United States generally accepted accounting principles, or GAAP, which require the use of estimates and assumptions that affect the reported amounts of assets and liabilities. For a summary of all significant accounting policies, including critical accounting policies, see Note 1 to the consolidated financial statements in Item 8 of this Annual Report.

The increasing complexity of the business environment and applicable authoritative accounting guidance requires us to monitor our accounting policies and procedures. We have two critical accounting policies that require the use of significant judgment. The following summary of critical accounting policies is intended to enhance a reader's ability to assess our financial condition and results of operations and the potential volatility due to changes in estimates.

#### **Valuation of Investments**

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

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

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

We utilize 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. This approach values the equity at the value remaining after the portfolio company pays of its debt and loan balances and its outstanding liabilities. 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, we adjust 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 our valuation at the measurement date.

---

## Table of Contents

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 appreciation or depreciation in value that result in estimating fair value are recorded net on the Statement of Operations as “Net change in unrealized (depreciation) on investments.”

Under the valuation policy, we value 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. At December 31, 2020, 92% of the Corporation’s investments were Level 3 investments and 8% was held in Level 1 investments.

In the valuation process, we value 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;
- 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 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 our equity investments are earnings before interest, taxes and depreciation and amortization (EBITDA) and revenue multiples, where applicable, the financial and operational performance of the business, and the senior equity preferences that may exist in a deemed liquidation event. Standard industry multiples may be used when available; however, our 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

---

## **Table of Contents**

third party appraisals. Significant changes to the unobservable inputs, such as variances in financial performance from expectations, may result in a significantly higher or lower fair value measurement. Significant changes in any of these unobservable inputs may result in a significantly higher or lower fair value estimate.

Another key factor used in valuing equity investments is a significant recent arms-length equity transaction with a sophisticated non-strategic unrelated new investor entered into by the portfolio company. The terms of these equity transactions may not be identical to the equity transactions between the portfolio company and us, 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, we generally rely on the cost basis, which is deemed to represent fair value, unless other fair market value inputs are identified causing us to depart from this basis.

### ***Loans and Debt Securities***

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

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

### ***Revenue Recognition***

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

Our 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 the loan is in default more than 120 days. RCM also uses other qualitative and quantitative measures to determine the value of a portfolio investment and the collectability of any accrued interest.

We hold debt securities in our 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.

We may receive distributions from portfolio companies that are limited liability companies or corporations. 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.

We hold preferred equity securities that may contain cumulative dividend provisions. Cumulative dividends are recorded as dividend income when they are declared and deemed a contractual obligation. Any dividends in arrears are added to the balance of the preferred equity investment. The actual collection of these dividends in arrears may be deferred until such time as the preferred security is redeemed.



## [Table of Contents](#)

### Financial Condition

#### Overview:

	<u>12/31/20</u>	<u>12/31/19</u>	<u>(Decrease) Increase</u>	<u>% (Decrease) Increase</u>
Total assets	\$60,966,942	\$64,791,449	(\$3,824,507)	(5.9%)
Total liabilities	14,862,112	11,162,933	3,699,179	33.1%
Net assets	<u>\$46,104,830</u>	<u>\$53,628,516</u>	<u>(\$7,523,686)</u>	<u>(14.0%)</u>

Net asset value (NAV) was \$17.86 per share at December 31, 2020 versus \$32.93 per share at December 31, 2019. The NAV at December 31, 2019 was retroactively adjusted for the 1-for-9 reverse stock split effected in May 2020.

Our gross outstanding SBA debentures at December 31, 2020 and 2019 were each \$11,000,000. These debentures mature at various dates between 2022 through 2029. Cash approximated 44% of net assets at December 31, 2020 compared to 48% at December 31, 2019.

#### Composition of the Investment Portfolio

Our financial condition is dependent on the success of our portfolio holdings, which are investments in small companies. The following summarizes our investment portfolio at the year ends indicated.

	<u>12/31/20</u>	<u>12/31/19</u>	<u>Change</u>	<u>% Change</u>
Investments, at cost	\$40,720,313	\$44,619,463	(\$3,899,150)	(8.7%)
Unrealized depreciation, net	(671,812)	(7,598,671)	6,926,859	(91.2%)
Investments, at fair value	<u>\$40,048,501</u>	<u>\$37,020,792</u>	<u>\$ 3,027,709</u>	<u>8.2%</u>
Number of Active Portfolio Companies	36	32		

Our total investments at fair value, as estimated by RCM, and approved by the Board of Directors, approximated 87% of net assets at December 31, 2020 and 69% of net assets at December 31, 2019.

With the completion of the Transaction, we changed our investment objectives and strategy. Our new investment objective is to generate current income and, when possible, complement this current income with capital appreciation. As a result, the investments made by Rand since the closing of the Transaction have been, and the investments to be made by Rand in the future are expected to be primarily in higher yielding debt investments and may include public equity in other business development companies that provide income through dividends and relatively more liquidity than our private company investments.

[Table of Contents](#)

The change in investments, at cost, during the year ended December 31, 2020, is comprised of the following:

	Cost Increase (Decrease)
<b>New investments:</b>	
Caitec Acquisition, Inc. (Caitec)	\$ 3,800,000
Science and Medicine Group, Inc. (SMG)	1,900,000
SciAps Inc. (Sciaps)	1,500,000
Tilson Technology Management, Inc. (Tilson)	750,003
Centivo Corporation (Centivo)	500,000
Golub Capital BDC, Inc. (Golub)	403,910
TCG BDC, Inc. (TCG)	376,996
PennantPark Investment Corporation (Pennantpark)	370,130
Apollo Investment Corporation (Apollo)	364,084
Owl Rock Capital Corporation (Owl Rock)	347,067
Ares Capital Corporation (Ares)	343,460
FS KKR Capital Corp. (FS KKR)	338,980
Barings BDC, Inc. (Barings)	333,352
Total of new investments	11,327,982
<b>Other changes to investments:</b>	
AIKG LLC (Andretti) interest conversion	177,574
Mattison Avenue Holdings LLC (Mattison) interest conversion	85,526
Filterworks Acquisition USA, LLC (Filterworks) interest conversion	47,178
HDI Acquisition LLC (Hilton Displays) interest conversion	25,601
Microcision LLC (Microcision) OID amortization	21,997
Genicon Inc. (Genicon) OID amortization	15,804
GoNoodle, Inc. (GoNoodle) interest conversion	15,082
Caitec interest conversion	10,701
Sciaps OID amortization	10,000
Total of other changes to investments	409,463
<b>Investments repaid, sold, liquidated or converted:</b>	
Genicon liquidation	(5,125,561)
Andretti loan repayment	(4,575,699)
Outmatch Holdings, LLC (Outmatch) stock sale	(2,145,496)
Teleservices Solutions Holdings, LLC (Teleservices) liquidation	(1,636,078)
BeetNPath LLC (Beetnpath) liquidation	(882,904)
Open Exchange Inc. (Open Exchange) loan repayment	(450,000)
G-TEC Natural Gas Systems (G-Tec) liquidation	(400,000)
Dataview, LLC (Dataview) liquidation	(310,357)
UStec liquidation	(100,500)
Advantage 24/7 LLC (Advantage 24/7) loan repayment	(10,000)
Total of investments repaid, sold, liquidated, or converted	(15,636,595)
<b>Net change in investments, at cost</b>	<b><u><u>(\$ 3,899,150)</u></u></b>

## Table of Contents

Our top five portfolio companies represented 33% of total assets at December 31, 2020:

Company	Industry	Fair Value at December 31, 2020	% of Total Assets at December 31, 2020
ACV Auctions, Inc.	Software	\$ 6,531,815	11%
Tilson	Professional Services	\$ 4,710,015	8%
Caitec	Consumer Product	\$ 3,810,702	6%
Filterworks	Automotive	\$ 2,912,331	5%
SMG	Health Care	\$ 1,900,000	3%

Our top five portfolio companies represented 31% of total assets at December 31, 2019:

Company	Industry	Fair Value at December 31, 2019	% of Total Assets at December 31, 2019
ACV Auctions, Inc.	Software	\$ 6,531,815	10%
Andretti	Entertainment	\$ 4,398,125	7%
Tilson	Professional Services	\$ 3,960,012	6%
Filterworks	Automotive	\$ 2,865,153	5%
Outmatch	Software	\$ 2,145,498	3%

Below is the geographic breakdown of our investments using fair value as of December 31, 2020 and 2019:

Geographic Region	% of Net Asset Value at December 31, 2020	% of Net Asset Value at December 31, 2019
USA – East	69%	41%
USA – South	18%	28%
Total investments as a % of net asset value	87%	69%

As of December 31, 2020, and 2019, the investment portfolio consisted of the following types of investments:

	Cost	Percentage of Total Portfolio	Fair Value	Percentage of Total Portfolio
<b>December 31, 2020:</b>				
Subordinated Debt and Promissory Notes	\$17,262,145	42%	\$16,413,105	41%
Convertible Debt	1,308,675	3	157,654	1
Equity and Membership Interests	19,018,826	47	20,086,342	50
Equity Warrants	252,688	1	95,063	0
Public BDC stock	2,877,979	7	3,296,337	8
Total	<u>\$40,720,313</u>	<u>100%</u>	<u>\$40,048,501</u>	<u>100%</u>
<b>December 31, 2019:</b>				
Subordinated Debt and Promissory Notes	\$19,148,942	43%	\$15,060,145	41%
Convertible Debt	1,571,302	3	157,654	0
Equity and Membership Interests	23,119,031	52	21,802,930	59
Equity Warrants	780,188	2	63	0
Total	<u>\$44,619,463</u>	<u>100%</u>	<u>\$37,020,792</u>	<u>100%</u>

## [Table of Contents](#)

### Results of Operations

#### Investment Income

##### *Comparison of the years ended December 31, 2020 and 2019*

	December 31, 2020	December 31, 2019	Increase (Decrease)	% Increase (Decrease)
Interest from portfolio companies	\$2,461,943	\$1,520,540	\$ 941,403	61.9%
Interest from other investments	87,784	166,556	(78,772)	(47.3%)
Dividend and other investment income	428,081	579,848	(151,767)	(26.2%)
Fee income	125,111	457,752	(332,641)	(72.7%)
Total investment income	<u>\$3,102,919</u>	<u>\$2,724,696</u>	<u>\$ 378,223</u>	13.9%

Investment income was received, on a current basis, during the year ended December 31, 2020 from 23 portfolio companies. This is an increase from the 17 portfolio companies generating current investment income for the year ended December 31, 2019.

Interest from portfolio companies — Interest from portfolio companies was approximately 62% higher during the year ended December 31, 2020 versus the same period in 2019 due to the fact that we have more income-producing debt investments in the current year. As part of the contributed assets received from East at the completion of the Transaction in November 2019, we received debt instruments from Andretti, Filterworks, Hilton Displays and Mattison. In addition, during the current year we originated three loan instruments totaling \$7.2 million from Caitec, Sciaps, and SMG.

A portion of the Mercantile Adjustment Bureau, LLC (Mercantile) outstanding loan balance is on non-accrual status.

Interest from other investments — The decrease in interest from other investments is due to lower interest rates during the year ended December 31, 2020 versus the same period in 2019. This was partially offset by higher average cash balances during the year ended December 31, 2020 versus the same period in 2019.

[Table of Contents](#)

**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 year-ends were:

	December 31, 2020	December 31, 2019
Carolina Skiff LLC (Carolina Skiff)	\$ 66,230	\$ 76,914
FSKKR	64,000	—
Apollo	56,700	—
Tilson Technology Management, Inc. (Tilson)	52,500	49,958
Owl Rock	46,800	—
Ares	32,400	—
TCB	29,200	—
Golub	27,189	—
Pennant Park	24,000	—
Somerset Gas Transmission Company, LLC (Somerset)	15,862	256,542
Barings	13,200	—
Knoa Software, Inc. (Knoa)	—	193,934
Advantage 24/7 LLC (Advantage 24/7)	—	2,500
Total dividend and other investment income	<u>\$ 428,081</u>	<u>\$ 579,848</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 \$29,188 and \$69,252 for the years ended December 31, 2020 and 2019, respectively. During the year ended December 31, 2020, we recognized a one-time pre-payment fee of \$91,423 on the repayment of the Andretti debt instrument and a one-time pre-payment fee of \$4,500 on the repayment of the Open Exchange debt instrument. During the year ended December 31, 2019, we recognized a one-time fee of \$225,000 in conjunction with the repayment of the eHealth Global Technologies, Inc. (eHealth) loan instrument, a one-time \$112,500 change of control fee from Open Exchange and a one-time loan modification fee of \$50,000 from GoNoodle, Inc. (GoNoodle).

The board fees were \$0 and \$1,000 for the years ended December 31, 2020 and 2019 respectively.

**Comparison of the years ended December 31, 2019 and 2018**

	December 31, 2019	December 31, 2018	Increase	% Increase
Interest from portfolio companies	\$1,520,540	\$1,498,740	\$ 21,800	1.5%
Interest from other investments	166,556	37,614	128,942	342.8%
Dividend and other investment income	579,848	384,382	195,466	50.9%
Fee income	457,752	186,218	271,534	145.8%
Total investment income	<u>\$2,724,696</u>	<u>\$2,106,954</u>	<u>\$617,742</u>	29.3%

## Table of Contents

Investment income was received, on a current basis, during the year ended December 31, 2019 from 17 portfolio companies. This is an increase from the 9 portfolio companies generating current investment income for the year ended December 31, 2018.

**Interest from portfolio companies** — Interest from portfolio companies was substantially unchanged during the year ended December 31, 2019 compared to the year ended December 31, 2018.

The following investments were on non-accrual status at December 31, 2019: 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 year ended December 31, 2019 versus the year ended December 31, 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:

	December 31, 2019	December 31, 2018
Somerset Gas Transmission Company, LLC (Somerset)	\$ 256,542	\$ —
Knoa Software, Inc. (Knoa)	193,934	—
Carolina Skiff LLC (Carolina Skiff)	76,914	251,913
Tilson Technology Management, Inc. (Tilson)	49,958	39,002
Advantage 24/7 LLC (Advantage 24/7)	2,500	60,000
New Monarch Machine Tool, Inc. (New Monarch)	—	27,409
Empire Genomics LLC (Empire Genomics)	—	6,058
Total dividend and other investment income	<u>\$ 579,848</u>	<u>\$ 384,382</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 \$69,252 and \$41,872 for the years ended December 31, 2019 and 2018, respectively. During the year ended December 31, 2019, we recognized a one-time fee of \$225,000 in conjunction with the repayment of the eHealth Global Technologies, Inc. (eHealth) loan instrument, a one-time \$112,500 change of control fee from Open Exchange, Inc. (Open Exchange) and a one-time loan modification fee of \$50,000 from GoNoodle, Inc. (GoNoodle). During the year ended December 31, 2018, we recorded a one-time debt modification fee approximately \$142,000 from Empire Genomics, which was capitalized into the Empire Genomics loan balance as part of the debt modification.

The board fees were \$1,000 and \$2,000 for the years ended December 31, 2019 and 2018, respectively.

## Expenses

### Comparison of the years ended December 31, 2020 and 2019

	December 31, 2020	December 31, 2019	Decrease	% Decrease
Total expenses	\$1,974,978	\$2,770,716	(\$795,738)	(28.7%)

## Table of Contents

Expenses decreased approximately \$796,000 or 29% during the year ended December 31, 2020 compared to the year ended December 31, 2019. The decrease in operating expenses was primarily due to an approximately \$299,000 or 54% decrease in shareholders and office operating expenses. Shareholders and office operating expenses were higher during the year ended December 31, 2019 due to the fact that we held a special meeting of shareholders to approve all proposals related to the Transaction during this period. The decrease in expense can also be attributed to the absence of salary, bonus and benefits expense during the year ended December 31, 2020. The salary, bonus and benefit expense for the year ended December 31, 2019 was approximately \$925,000. These decreases were offset by the \$504,000 increase in the base management fee payable to RCM, under the Investment Management Agreement, during the year ended December 31, 2020 compared to the year ended December 31, 2019. There were no incentive fees earned by RCM during the year ended December 31, 2020.

Because of our intention to elect RIC status as of January 1, 2020, a net deferred tax asset of \$1,451,658 was eliminated in accordance with GAAP, resulting in deferred tax expense for the year ended December 31, 2020. In addition, certain portfolio investments, that generate non-qualifying income for a RIC, and their related deferred tax liabilities of \$247,460, were contributed to blocker corporations in December 2019. These blocker corporations will be subject to federal and state income taxes.

### Comparison of the years ended December 31, 2019 and 2018

	December 31, 2019	December 31, 2018	Increase	% Increase
Total expenses	\$2,770,716	\$2,193,672	\$577,044	26.3%

The increase in expenses during the year ended December 31, 2019 versus the same period in 2018 was primarily caused by the additional shareholder and professional fees required to close the Transaction in November 2019. Shareholder expense was \$557,546 and \$230,050 for the years ended December 31, 2019 and 2018, respectively, a 142% increase. Professional fees were \$548,041 and \$407,159 for the years ended December 31, 2019 and 2018, respectively, a 35% increase.

Base management fees payable to RCM, under the Prior Investment Management Agreement, for the year ended December 31, 2019 was \$85,483. This represents base management fees for the period November 8, 2019 through December 31, 2019. There were no base management fees earned for the year ended December 31, 2018. There were no incentive fees earned, under the Prior Investment Management Agreement, for the years ended December 31, 2019 or 2018, respectively, by RCM.

### Net Realized Gains and Losses on Investments

	December 31, 2020	December 31, 2019	December 31, 2018
Net realized (loss) gain on sales and dispositions, before income taxes	(\$5,983,279)	\$1,117,761	(\$1,464,142)

During year ended December 31, 2020, we realized a \$2.3 million gain when we exited our investment in Outmatch as part of a strategic majority investment from Rubicon Technology Partners. We also received additional proceeds of approximately \$117,000 from Microcision LLC (Microcision) related to the 2019 sale of our equity interest in Microcision and approximately \$37,000 in additional gain from Advantage 24/7. We recognized a realized loss of \$5.1 million on Genicon, Inc. following its senior creditor liquidation. In addition, we recognized a \$1.6 million loss in Teleservices Solutions Holdings, LLC, a \$0.9 million loss in BeetNPath, LLC, a \$0.4 million loss in G-TEC Natural Gas Systems, and a \$0.3 million loss in Dataview, Inc. following the sale and/or liquidation of the investment securities.

During the year ended December 31, 2019, we sold our equity interest in Microcision LLC (Microcision) and recognized a gain of \$1,510,000. In addition, we realized a loss of \$472,632 on our investment in SOMS Technologies, LLC after the company ceased doing business. We also recognized a \$40,500 gain on our investment in Advantage 24/7 LLC after the Corporation converted its equity into a debt instrument, and we received a final distribution of proceeds of \$39,893 from Gemcor II, LLC, a portfolio company we exited in 2016.

## [Table of Contents](#)

During the year ended December 31, 2018, we recognized a realized loss of \$1,125,673 on our investment in Intrinsic Material, Inc. (Intrinsic) when the company was sold, and we did not receive any proceeds. In addition, we restructured our notes in First Wave Technologies, Inc. (First Wave) and converted the notes into equity. As part of that restructuring, we recognized a realized loss of \$338,469 on the junior note and the warrants.

### Net Change in Unrealized Depreciation on Investments

The change in net unrealized depreciation, before income taxes, for the year ended December 31, 2020 was comprised of the following:

	Year ended December 31, 2020
SciAps, Inc. (Sciaps)	(\$ 869,274)
SocialFlow, Inc. (Socialflow)	(426,513)
Carolina Skiff, LLC (Carolina Skiff)	(250,000)
Knoa Software, Inc. (Knoa)	(205,140)
Microcision LLC (Microcision) realized gain	(15,000)
Apollo	7,616
Golub	31,610
Barings	33,581
Owl Rock	33,833
TCG BDC	41,404
FS KKR	73,437
Pennant Park	88,537
USTec realized loss	100,500
Ares	108,340
Dataview, LLC (Dataview) realized loss	310,357
G-Tec Natural Gas Systems (G-tec) realized loss	400,000
Centivo Corporation (Centivo)	584,832
BeetNPath, LLC (Beetnpath) realized loss	882,904
Teleservices Solutions Holdings, LLC (Teleservices) realized loss	1,636,078
Genicon, Inc. (Genicon) realized loss	4,359,757
<b>Total net change in unrealized depreciation on investments before income taxes</b>	<b><u>\$ 6,926,859</u></b>

The valuations of our investments in Carolina Skiff, Knoa, Sciaps, and Socialflow were decreased after we reviewed each portfolio company and its current and projected financial condition and determined that a valuation adjustment was appropriate.

In accordance with our valuation policy, we increased the value of our investment in Centivo based on a significant equity financing during 2020 with sophisticated new non-strategic outside investors at a higher valuation than their prior financing round valuation.

Beetnpath, Dataview, G-tec, Teleservices and USTec investments, previously deemed to have a zero value, were sold and we did not receive any proceeds.

Apollo, Ares, Barings, FS KKR, Golub, Owl Rock, Pennant Park and TCG are all publicly traded stocks, and as such, are marked to market at the end of each quarter.



## [Table of Contents](#)

The change in net unrealized depreciation, before income taxes, for the year ended December 31, 2019 was comprised of the following:

	<b>Year ended December 31, 2019</b>
Genicon, Inc. (Genicon)	(\$ 4,277,257)
Rheonix, Inc. (Rheonix)	(1,500,000)
SocialFlow, Inc. (Socialflow)	(1,321,300)
SciAps, Inc. (Sciaps)	(950,000)
Microcision LLC (Microcision) realized gain	(610,000)
BeetNPath, LLC (Beetnpath)	(523,904)
Mezmeriz, Inc. (Mezmeriz)	(351,477)
Empire Genomics, LLC (Empire Genomics)	(249,661)
Open Exchange, Inc. (Open Exchange) (formerly KnowledgeVision)	(200,001)
Mercantile Adjustment Bureau, LLC (Mercantile)	(200,000)
PostProcess Technologies, Inc. (PostProcess)	122,728
SOMS Technologies, LLC (SOMS) realized loss	472,632
Tilson Technology Management, Inc. (Tilson)	1,860,000
ACV Auctions, Inc. (ACV)	3,754,908
<b>Total net change in unrealized depreciation on investments before income taxes</b>	<b><u>(\$ 3,973,332)</u></b>

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

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 ACV, Post Process and Tilson based on significant equity financings for each of these companies, during 2019 with sophisticated new non-strategic outside investors at a higher valuation than their prior financing round valuation.

We recognized a realized gain on the sale of the Microcision equity during 2019 and reversed the previously recorded unrealized appreciation. We recognized a realized loss on our investment in SOMS during the year ended December 31, 2019.

## [Table of Contents](#)

The change in unrealized depreciation, before income taxes, for the year ended December 31, 2018 was comprised of the following:

	<b>Year ended December 31, 2018</b>
Empire Genomics, LLC (Empire Genomics)	(\$ 901,360)
Rheonix, Inc. (Rheonix)	(735,999)
SOMS Technologies, LLC (SOMS)	(528,348)
BeetNPath, LLC (Beetnpath)	(388,723)
KnowledgeVision Systems, Inc. (Knowledgevision)	(300,000)
Mercantile Adjustment Bureau, LLC (Mercantile)	(249,040)
G-Tec Natural Gas Systems (Gtec)	(100,000)
Genicon, Inc. (Genicon)	(82,500)
OnCore Golf Technology, Inc. (Oncore)	(77,712)
First Wave Products Group (First Wave)	121,469
GiveGab, Inc. (Givegab)	191,907
Microcision LLC (Microcision)	610,000
Intrinsiq Material, Inc. (Intrinsiq) reclassified to a realized loss	725,673
ACV Auctions, Inc. (ACV)	2,494,551
<b>Total net change in unrealized depreciation on investments before income taxes</b>	<b>\$ 779,918</b>

The valuations of our investments in Beetnpath, Empire Genomics, Gtec, Mercantile, Oncore, Rheonix, and SOMS 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 appropriate.

Our valuation of First Wave was changed to reflect a conversion from debt instruments to equity holdings. As part of this restructure we recognized a realized loss on the junior note and the warrants.

Givegab's value was increased to the cost basis of the investment after a financial analysis of the portfolio company indicating continued improved performance.

Our valuation of Knowledgevision and Genicon were decreased during the year ended December 31, 2018 to revalue our holdings based upon liquidation preferences of our securities and on a recent round of financing.

In accordance with our valuation policy, we increased the value of our holdings in ACV and Microcision. ACV was increased based on a significant equity financing during 2018 with sophisticated new non-strategic outside investors at a higher valuation than their prior financing round valuation. Microcision was increased based on a financial analysis of the company indicating positive cash flow from operations for the past two years.

The Intrinsiq investment was written off after the company was sold during 2018 and we did not receive any proceeds.

All of the valuation adjustments resulted from a review by RCM at December 31, 2020 and 2019, respectively, and management for the year ending December 31, 2018, 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. During the year ended December 31, 2020, the net increase in net assets from operations was \$743,766 as compared with net decreases of \$2,289,670 in 2019 and \$394,498 in 2018.

**Liquidity and Capital Resources**

With the completion of the Transaction with East we changed our investment objectives and strategy. Previously, our principal investment objective was to achieve long-term capital appreciation on our equity investments while maintaining a current cash flow from debenture and pass-through equity instruments to fund expenses. With our plan to elect U.S. federal tax treatment as a RIC, our new investment objective is to generate current income and, when possible, complement this current income with capital appreciation. As a result, our recent and future investments will be made primarily in yield generating investments and may include related equity options, such as warrants or preferred equity.

As of December 31, 2020, our total liquidity consisted of approximately \$20,365,000 in cash and cash equivalents. In addition, we had an outstanding SBA leverage commitment of \$3,000,000 at December 31, 2020.

Net cash provided by operating activities has averaged approximately \$408,000 over the last three years. The cash used for investments in portfolio companies has averaged approximately \$5,500,000 over the last three years. Our cash flow will fluctuate based on the timing of the receipt of dividend income, realized exits and the associated income taxes paid. We will generally use cash to fund our operating expenses and to invest in companies as we build our portfolio. We anticipate that we will continue to exit investments. However, the timing of liquidation events within the portfolio is difficult to project. Starting in 2022 (See Note 5 in the Notes to the Consolidated Financial Statements), our outstanding SBA debt begins to mature 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.

The following table summarizes the SBA leverage at the year ends indicated:

	December 31, 2020	December 31, 2019
Outstanding SBA leverage	\$ 11,000,000	\$ 11,000,000
Undrawn SBA commitment	\$ 3,000,000	\$ 3,000,000

The following table summarizes the cash estimated to be received over the next five years from existing portfolio companies based on contractual obligations as of December 31, 2020. These payments represent scheduled principal and interest payments that are due under the terms of the investment securities we own in each portfolio company and are subject to change based on factors such as conversions and restructurings. It does not include any equity investments, which may provide additional proceeds upon exit of the investment.

	Cash Receipts due by year				
	2021	2022	2023	2024	2025 and beyond
Scheduled cash receipts from portfolio companies	\$ 4,802,000	\$ 4,502,000	\$ 8,925,000	\$ 1,135,000	\$ 6,101,000
Number of companies contributing to the scheduled cash receipts	12	9	7	3	2

We believe that the cash and cash equivalents on hand at December 31, 2020, the undrawn SBA leverage commitment and the scheduled interest payments on our portfolio investments will be sufficient to meet our cash needs throughout 2021. We continue to pursue current income and distributions from portfolio companies to increase the liquidity available for new investments, operating expenses, dividends and future SBA debenture obligations.

Our ongoing liquidity is tied to the performance of our portfolio companies and, as such, it may be affected going forward based on the impact of the COVID-19 pandemic and its lasting impact on the capital markets, our portfolio companies, and the U.S. economy in general.

## [Table of Contents](#)

### Contractual Obligations

The following table shows our specified contractual obligations at December 31, 2020. We do not have any capital lease obligations or other long-term liabilities reflected on our consolidated statement of financial position.

	Payments due by period				
	Total	Less than 1 year	1-3 years	4-5 years	More than 5 yrs
SBA debentures	\$ 11,000,000	\$ 0	\$ 7,000,000	\$ 1,000,000	\$ 3,000,000
SBA interest expense	\$ 1,638,000	\$ 379,000	\$ 810,000	\$ 209,000	\$ 240,000
<b>Total</b>	<b>\$ 12,638,000</b>	<b>\$ 379,000</b>	<b>\$ 7,810,000</b>	<b>\$ 1,209,000</b>	<b>\$ 3,240,000</b>

### Item 7A. *Quantitative and Qualitative Disclosures about Market Risk*

Our investment activities contain elements of risk. The portion of our investment portfolio consisting of debt and equity securities in private companies is subject to valuation risk. Because there is typically no public market for the debt and equity securities in which we invest, the valuations of the debt and equity interests in the portfolio are stated at “fair value” as determined in good faith by RCM and approved by our Board. This is in accordance with our investment valuation policy. (The discussion of valuation policy contained in “Note 1- Summary of Significant Accounting Policies— Investments” in the consolidated financial statements contained in Item 8 of this report is 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 or on a stock exchange. 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 December 31, 2020, we did not have any off-balance sheet arrangements or hedging or similar derivative financial instrument investments.

---

## Table of Contents

### **Item 8. *Financial Statements and Supplementary Data***

The following consolidated financial statements and consolidated supplemental schedule of the Corporation and report of Independent Registered Public Accounting Firm thereon are set forth below:

<a href="#"><u>Consolidated Statements of Financial Position as of December 31, 2020 and 2019</u></a>	52
<a href="#"><u>Consolidated Statements of Operations for the three years in the period ended December 31, 2020</u></a>	53
<a href="#"><u>Consolidated Statements of Changes in Net Assets for the three years in the period ended December 31, 2020</u></a>	54
<a href="#"><u>Consolidated Statements of Cash Flows for the three years in the period ended December 31, 2020</u></a>	55
<a href="#"><u>Consolidated Schedule of Portfolio Investments as of December 31, 2020</u></a>	56
<a href="#"><u>Consolidated Schedule of Portfolio Investments as of December 31, 2019</u></a>	64
<a href="#"><u>Financial Highlights Schedule for the five years in the period ended December 31, 2020</u></a>	72
<a href="#"><u>Notes to the Consolidated Financial Statements</u></a>	73
<a href="#"><u>Supplemental Schedule of Consolidated Changes in Investments at Cost and Realized Loss for the year ended December 31, 2020</u></a>	95
<a href="#"><u>Report of Independent Registered Public Accounting Firm</u></a>	96

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**December 31,**

	2020	2019
<b>ASSETS</b>		
Investments at fair value:		
Affiliate investments (cost of \$14,835,885 and \$19,035,446, respectively)	\$ 13,891,199	\$ 12,151,435
Non- Control/Non-Affiliate investments (cost of \$25,884,428 and \$25,584,017, respectively)	26,157,302	24,869,357
Total investments, at fair value (cost of \$40,720,313 and \$44,619,463, respectively)	40,048,501	37,020,792
Cash and cash equivalents	20,365,415	25,815,720
Interest receivable (net of allowance of \$15,000 and \$166,413, respectively)	258,186	142,265
Deferred tax asset	—	1,204,198
Prepaid income taxes	220,740	343,096
Other assets	74,100	265,378
<b>Total assets</b>	<b>\$ 60,966,942</b>	<b>\$ 64,791,449</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (NET ASSETS)</b>		
<b>Liabilities:</b>		
Debentures guaranteed by the SBA (net of debt issuance costs)	\$ 10,824,587	\$ 10,786,913
Dividend payable	3,434,117	—
Accounts payable and accrued expenses	171,373	207,873
Due to investment adviser	156,999	50,564
Deferred revenue	153,895	37,583
Deferred tax payable	121,141	—
Bonus payable	—	80,000
Total liabilities	14,862,112	11,162,933
Commitments and contingencies (See Note 8)		
<b>Stockholders' equity (net assets):</b>		
Common stock, \$0.10 par; shares authorized 100,000,000; shares issued: 2,648,916 at 12/31/20 and 1,688,485 at 12/31/19; shares outstanding: 2,582,169 at 12/31/20 and 1,628,369 at 12/31/19	2,384,547	1,519,637
Capital in excess of par value	49,883,890	34,142,455
Treasury stock, at cost: 66,747 shares at 12/31/20 and 60,116 shares at 12/31/19	(1,545,834)	(1,469,105)
Total distributable earnings	(4,617,773)	19,435,529
Total stockholders' equity (net assets) (per share - 2020: \$17.86, 2019: \$32.93)	46,104,830	53,628,516
<b>Total liabilities and stockholders' equity (net assets)</b>	<b>\$ 60,966,942</b>	<b>\$ 64,791,449</b>

See accompanying notes

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**For The Years Ended December 31, 2020, 2019 and 2018**

	2020	2019	2018
<b>Investment income:</b>			
Interest from portfolio companies:			
Affiliate investments	\$ 666,969	\$ 823,565	\$ 741,432
Non-Control/Non-Affiliate investments	1,794,974	696,975	757,308
Total interest from portfolio companies	2,461,943	1,520,540	1,498,740
Interest from other investments:			
Non-Control/Non-Affiliate investments	87,784	166,556	37,614
Total interest from other investments	87,784	166,556	37,614
Dividend and other investment income:			
Control investments	—	—	60,000
Affiliate investments	118,730	320,806	318,324
Non-Control/Non-Affiliate investments	309,351	259,042	6,058
Total dividend and other investment income	428,081	579,848	384,382
Fee income:			
Affiliate investments	15,417	27,639	15,667
Non-Control/Non-Affiliate investments	109,694	430,113	170,551
Total fee income	125,111	457,752	186,218
<b>Total investment income</b>	<b>3,102,919</b>	<b>2,724,696</b>	<b>2,106,954</b>
<b>Expenses:</b>			
Base management fee (see Note 11)	589,519	85,483	—
Interest on SBA obligations	416,760	408,039	311,000
Professional fees	568,857	548,041	407,159
Shareholders and office operating	258,266	557,546	230,050
Directors' fees	116,500	117,500	128,750
Insurance	33,868	38,302	34,187
Corporate development	14,546	67,441	62,117
Other operating	662	17,504	21,092
Salaries	—	621,290	679,499
Bonuses	—	115,000	125,000
Employee benefits	—	189,157	194,818
Bad debt (recovery) expense	(24,000)	5,413	—
Total expenses	1,974,978	2,770,716	2,193,672
<b>Net investment income (loss) before income taxes</b>	<b>1,127,941</b>	<b>(46,020)</b>	<b>(86,718)</b>
Income tax (benefit) expense	(628,187)	39,677	(18,312)
<b>Net investment income (loss)</b>	<b>1,756,128</b>	<b>(85,697)</b>	<b>(68,406)</b>
<b>Net realized (loss) gain on sales and dispositions of investments:</b>			
Control investments	—	80,393	—
Affiliate investments	(7,927,552)	(472,632)	(1,464,142)
Non-Control/Non-Affiliate investments	1,944,273	1,510,000	—
Net realized (loss) gain on sales and dispositions, before income taxes	(5,983,279)	1,117,761	(1,464,142)
Income tax expense (benefit)	—	255,923	(469,847)
Net realized (loss) gain on sales and dispositions of investments	(5,983,279)	861,838	(994,295)
<b>Net change in unrealized depreciation on investments:</b>			
Affiliate investments	5,939,325	(3,970,007)	608,207
Non-Control/Non-Affiliate investments	987,534	(3,325)	171,711
Change in unrealized depreciation before income taxes	6,926,859	(3,973,332)	779,918
Deferred income tax expense (benefit)	1,955,942	(907,521)	111,715
Net change in unrealized depreciation on investments	4,970,917	(3,065,811)	668,203
<b>Net realized and unrealized (loss) on investments</b>	<b>(1,012,362)</b>	<b>(2,203,973)</b>	<b>(326,092)</b>
<b>Net increase (decrease) in net assets from operations</b>	<b>\$ 743,766</b>	<b>(\$ 2,289,670)</b>	<b>(\$ 394,498)</b>
<b>Weighted average shares outstanding</b>	<b>2,268,356</b>	<b>836,893</b>	<b>702,443</b>
<b>Basic and diluted net increase (decrease) in net assets from operations per share</b>	<b>0.33</b>	<b>(2.74)</b>	<b>(0.56)</b>

See accompanying notes

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**  
**For The Years Ended December 31, 2020, 2019 and 2018**

	2020	2019	2018
<b>Net assets at beginning of year</b>	<b>\$ 53,628,516</b>	<b>\$ 31,524,187</b>	<b>\$ 31,918,685</b>
Net investment income (loss)	1,756,128	(85,697)	(68,406)
Net realized (loss) gain on sales and dispositions of investments	(5,983,279)	861,838	(994,295)
Net change in unrealized depreciation on investments	4,970,917	(3,065,811)	668,203
Net increase (decrease) in net assets from operations	743,766	(2,289,670)	(394,498)
Declaration of dividends	(8,190,723)	—	—
Issuance of capital stock, net	—	24,393,999	—
Purchase of treasury shares	(76,729)	—	—
<b>Net assets at end of year</b>	<b>\$ 46,104,830</b>	<b>\$ 53,628,516</b>	<b>\$ 31,524,187</b>

See accompanying notes.



**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For The Years Ended December 31, 2020, 2019 and 2018**

	2020	2019	2018
<b>Cash flows from operating activities:</b>			
Net increase (decrease) in net assets from operations	\$ 743,766	(\$ 2,289,670)	(\$ 394,498)
Adjustments to reconcile net increase (decrease) in net assets to net cash (used in) provided by operating activities:			
Investments originated	(11,327,982)	(2,650,049)	(2,487,627)
Proceeds from sale of portfolio investments	4,617,617	1,549,893	—
Proceeds from loan repayments	5,035,699	6,076,142	70,131
Net realized loss (gain) on portfolio investments	5,983,279	(1,117,761)	1,464,142
Change in unrealized depreciation on investments	(6,926,859)	3,973,332	(779,918)
Deferred tax expense (benefit)	1,325,339	(679,000)	26,665
Depreciation and amortization	37,675	37,295	29,686
Original issue discount accretion	(47,801)	(40,767)	(39,653)
Change in interest receivable allowance	(151,413)	5,413	—
Non-cash conversion of debenture interest	(361,662)	(595,286)	(609,817)
Changes in operating assets and liabilities:			
Decrease (increase) in interest receivable	35,492	(2,146)	85,516
Decrease (increase) in other assets	191,276	(253,949)	28,936
Decrease (increase) in prepaid income taxes	122,356	795,612	(376,661)
Decrease in bonus payable	(80,000)	(45,000)	(19,000)
(Decrease) increase in accounts payable and accrued liabilities	(36,500)	(37,885)	67,410
Increase in due to investment adviser	106,435	50,564	—
Increase (decrease) in deferred revenue	116,313	(34,751)	34,629
Total adjustments	(1,360,736)	7,031,657	(2,505,561)
<b>Net cash (used in) provided by operating activities</b>	<b>(616,970)</b>	<b>4,741,987</b>	<b>(2,900,059)</b>
<b>Cash flows from financing activities:</b>			
Payment of cash dividend	(4,756,606)	—	—
Purchase of treasury shares	(76,729)	—	—
Issue capital stock (net)	—	14,844,504	—
Proceeds from SBA debentures	—	2,250,000	750,000
Origination costs to SBA	—	(54,563)	(78,188)
<b>Net cash (used in) provided by financing activities</b>	<b>(4,833,335)</b>	<b>17,039,941</b>	<b>671,812</b>
Net (decrease) increase in cash and cash equivalents	(5,450,305)	21,781,928	(2,228,247)
Cash and cash equivalents:			
Beginning of year	25,815,720	4,033,792	6,262,039
End of year	\$ 20,365,415	\$ 25,815,720	\$ 4,033,792
<b>Supplemental disclosure of non-cash financing activities</b>			
Fair value of common stock dividend paid	\$ 19,028,027	\$ —	\$ —
Receipt of contributed assets in exchange for issuance of common stock (see Note 1)	\$ —	\$ 9,549,543	\$ —

See accompanying notes

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**  
**December 31, 2020**

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
<b>Non-Control/Non-Affiliate Investments — 56.7% of net assets: (j)</b>						
<b>ACV Auctions, Inc.(e)(g)</b> 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	\$6,531,815	14.2%
<b>Advantage 24/7 LLC(g)</b> 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.	1/1/19	0%	55,000	55,000	0.1%
<b>Apollo Investment Corporation NASDAQ: AINV (n) Public BDC</b> New York, NY.	35,000 shares.	3/16/20	<1%	364,084	371,700	0.8%
<b>Ares Capital Corporation NASDAQ: ARCC (n) Public BDC</b> New York, NY.	27,000 shares.	3/16/20	<1%	343,460	451,800	1.0%
<b>Barings BDC, Inc. NYSE: BBDC (n) Public BDC</b> New York, NY.	40,000 shares.	8/13/20	<1%	333,352	366,933	0.8%
<b>Caitec Acquisition, Inc.</b> Halethorpe, MD. Pet product manufacturer. (Manufacturing) www.caitec.com	\$1,750,000 Subordinated Secured Promissory Note at 12% (+2% PIK) due June 1, 2026.	11/6/20	2%	1,755,351	1,755,351	8.3%
	150 Class A Units	11/6/20		150,000	150,000	
	(g) \$1,750,000 Subordinated Secured Promissory Note at 12% (+2% PIK) due June 1, 2026	11/6/20	2%	1,755,351	1,755,351	
	(g) 150 Class A Units	11/6/20		150,000	150,000	
<b>Total Caitec</b>				<u>3,810,702</u>	<u>3,810,702</u>	
<b>Centivo Corporation(e)(g)</b> 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.	3/19/18	<1%	200,000	320,042	3.0%
	337,808 Series A-2 Preferred.	3/19/18		101,342	566,132	
	298,347 Series B Preferred.	11/9/20		500,000	500,000	
	<b>Total Centivo</b>				<u>801,342</u>	
<b>Empire Genomics, LLC(g)</b> 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% due February 28, 2021.	6/13/14	0%	1,308,675	157,654	1.3%
	\$444,915 Promissory Note at 9% due February 28, 2021.	10/1/18		444,915	444,915	
	<b>Total Empire</b>				<u>1,753,590</u>	
<b>First Wave Technologies, Inc.(e)(g)</b> 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	2%	661,563	33,000	0.1%
<b>FS KKR Capital Corp. NYSE: FSK (n) Public BDC</b> Philadelphia, PA.	25,000 shares.	3/16/20	<1%	338,980	412,417	0.9%
<b>GiveGab, Inc.(e)(g)</b> Ithaca, NY. Nonprofit giving platform that provides an easy and effective way for fundraising professionals to raise money online. (Software) www.givegab.com	5,084,329 Series Seed Preferred.	1/14/15	4%	616,221	616,221	1.3%

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**  
**December 31, 2020 (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
<b>Golub Capital BDC, Inc. NASDAQ: GBDC (n) Public BDC</b> New York, NY.	31,250 shares.	3/16/20	<1%	403,910	435,520	0.9%
<b>GoNoodle, Inc.(g)(l)</b> Nashville, TN. Student engagement education software providing core aligned physical activity breaks. (Software) www.gonoodle.com	\$1,500,000 Secured Note at 12% (1% PIK) due September 30, 2024. Warrant for 47,324 Series C Preferred. Warrant for 21,948 Series D Preferred.	11/1/19 3/1/15 11/1/19	<1%	1,517,539 25 38	1,517,539 25 38	3.3%
<b>Total GoNoodle</b>				<u>1,517,602</u>	<u>1,517,602</u>	
<b>HDI Acquisition LLC (Hilton Displays)(l)</b> Greenville, NC. HDI is engaged in manufacturing, installation and maintenance of signage and brands. (Manufacturing) www.hiltondisplays.com	\$1,245,119 Term Loan at 12% (+2% PIK) due June 20, 2023.	11/8/19	0%	1,275,140	1,275,140	2.8%
<b>Lumious (Tech 2000, Inc.)(g)</b> Herndon, VA. Develops and delivers IT training. (Software) www.t2000inc.com	\$850,000 Replacement Term Note at 14% due November 15, 2021.	11/16/18	0%	860,777	860,777	1.9%
<b>Mattison Avenue Holdings LLC(l)</b> Dallas, TX. Provider of upscale salon spaces for lease. (Professional Services) www.mattissionsalonsuites.com	\$1,031,406 Second Amended, Restated and Consolidated Promissory Note at 14% (2% PIK) due June 9, 2022.	11/8/19	0%	1,122,204	1,122,204	2.5%
<b>Mercantile Adjustment Bureau, LLC(g)</b> Williamsville, NY. Full-service accounts receivable management and collections company. (Contact Center) www.mercantilesolutions.com	\$1,199,039 Subordinated Secured Note at 13% (8% effective August 2020) 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 6/30/14 10/22/12	4%	1,199,040 150,000 97,625	500,000 — —	1.1%
<b>Total Mercantile</b>				<u>1,446,665</u>	<u>500,000</u>	
<b>Open Exchange, Inc.(e)(g)</b> <b>(Formerly KnowledgeVision Systems, Inc.)</b> Lincoln, MA. Online presentation and training software. (Software) www.openexc.com	397,899 Series C Preferred. 397,899 Common.	11/13/13 10/22/19	4%	1,193,697 208,243	543,283 108,656	1.4%
<b>Total Open Exchange</b>				<u>1,401,940</u>	<u>651,939</u>	
<b>Owl Rock Capital Corporation NYSE: ORRC (n) Public BDC</b> New York, NY.	30,000 shares.	3/16/20	<1%	347,067	380,900	0.8%
<b>PennantPark Investment Corporation NASDAQ: PNNT (n) Public BDC</b> New York, NY.	100,000 shares.	8/13/20	<1%	370,130	458,667	1.0%
<b>PostProcess Technologies, Inc.(e)(g)</b> Buffalo, NY. Provides innovative solutions for the post-processing of additive manufactured 3D parts. (Manufacturing) www.postprocess.com	360,002 Series A1 Preferred.	11/1/19	<1%	348,875	471,603	1.0%
<b>Rheonix, Inc.(e)</b> 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.	10/29/09 12/12/13 10/24/09 9/29/15	4%	— 2,099,999 — 702,732	— — — 702,732	1.5%
<b>Total Rheonix</b>				<u>2,802,731</u>	<u>702,732</u>	

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**  
**December 31, 2020 (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
<b>Science and Medicine Group, Inc. (SMG)(g)</b> Arlington, VA. Research and advisory firm serving the life science, analytical instrument, diagnostic, healthcare, radiology, and dental industries. (Health Care) www.scienceandmedicinegroup.com	\$1,900,000 Participation Agreement of \$5,000,000 Promissory Note at 12% due March 5, 2023.	7/31/20	0%	1,900,000	1,900,000	4.1%
<b>SocialFlow, Inc.(e)(g)</b> 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.	4/5/13 4/8/14 6/26/15	4%	500,000 750,000 500,000	92,425 138,637 92,425	0.7%
<b>Total SocialFlow</b>				<u>1,750,000</u>	<u>323,487</u>	
<b>Somerset Gas Transmission Company, LLC(e)(m)</b> Columbus, OH. Natural gas transportation. (Oil and Gas) www.somersetgas.com	26,5337 Units.	4/1/05	3%	719,097	500,000	1.1%
<b>TCG BDC, Inc. NASDAQ: CGBD (n) Public BDC</b> New York, NY.	40,000 shares.	8/13/20	<1%	376,996	418,400	0.9%
<b>Subtotal Non-Control/Non-Affiliate Investments</b>				<u>\$25,884,428</u>	<u>\$26,157,302</u>	
<b>Affiliate Investments – 30.1% of net assets (k)</b> <b>Carolina Skiff LLC(g)(m)</b> 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	\$ 1,500,000	3.2%
<b>ClearView Social, Inc.(e)(g)</b> 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	0.4%
<b>Filterworks Acquisition USA, LLC(l)(m)</b> Deerfield Beach, FL. Provides spray booth equipment, frame repair machines and paint booth filter services for collision shops. (Automotive) www.filterworksusa.com	\$2,283,702 Term Note at 12% (+2% PIK) due December 4, 2023. 562.5 Class A Units.	11/8/19	9%	2,349,831 562,500	2,349,831 562,500	6.3%
<b>Total Filterworks</b>				<u>2,912,331</u>	<u>2,912,331</u>	
<b>Knoa Software, Inc.(e)(g)</b> New York, NY. End user experience management and performance (EMP) solutions utilizing enterprise applications. (Software) www.knoa.com	973,533 Series A-1 Convertible Preferred. 1,876,922 Series B Preferred.	11/20/12 6/9/14	7%	750,000 479,155	544,860 479,155	2.2%
<b>Total Knoa</b>				<u>1,229,155</u>	<u>1,024,015</u>	
<b>Mezmeriz, Inc.(e)(g)</b> 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.	5/14/15	12%	742,850	—	0.0%

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**  
**December 31, 2020 (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
<b>Microcision LLC (g)</b> Pennsauken Township, NJ. Manufacturer of precision machined medical implants, components and assemblies. (Manufacturing) www.microcision.com	\$1,500,000 Subordinated Promissory Note at 11% due January 10, 2025.	1/10/20	5%	1,411,997	1,411,997	3.3%
	Membership Interest Purchase Warrant for 5%.	1/10/20		110,000	95,000	
	<b>Total Microcision</b>			<u>1,521,997</u>	<u>1,506,997</u>	
<b>New Monarch Machine Tool, Inc. (e)(g)</b> Cortland, NY. Manufactures and services vertical/horizontal machining centers. (Manufacturing) www.monarchmt.com	22.84 Common.	1/17/08	15%	22,841	22,841	0.1%
<b>OnCore Golf Technology, Inc. (e)(g)</b> Buffalo, NY. Patented and proprietary golf balls utilizing technology and innovation. (Consumer Product) www.oncoregolf.com	300,483 Preferred AA.	11/30/18	5%	752,712	300,000	0.7%
<b>SciAps, Inc. (e)(g)</b> 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	—	3.7%
	274,299 Series A1 Convertible Preferred.	4/4/14		504,710	—	
	117,371 Series B Convertible Preferred.	8/31/15		250,000	—	
	113,636 Series C Convertible Preferred.	4/7/16		175,000	—	
	369,698 Series C1 Convertible Preferred.	4/7/16		399,274	—	
	147,059 Series D Convertible Preferred.	5/9/17		250,000	250,000	
	Warrant to purchase Series D-1 Preferred.	5/9/17		45,000	—	
\$1,500,000 Secured Subordinated Promissory Note at 12% due April 23, 2023.	4/23/20			1,465,000	1,465,000	
<b>Total SciAps</b>				<u>4,588,984</u>	<u>1,715,000</u>	
	(i) Interest receivable \$123,500.					
<b>Tilson Technology Management, Inc. (g)</b> 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	*120,000 Series B Preferred.	1/20/15	9%	600,000	1,950,000	10.2%
	*21,391 Series C Preferred.	9/28/16		200,000	347,604	
	*70,176 Series D Preferred.	9/29/17		800,000	1,140,360	
	*15,385 Series E Preferred.	3/15/19		500,012	500,012	
	211,567 SQF Hold Co. Common.	3/15/19		—	22,036	
	23,077 Series F Preferred.	6/15/20		750,003	750,003	
<b>Total Tilson</b>				<u>2,850,015</u>	<u>4,710,015</u>	
	*2.5% dividend payable quarterly.					
<b>Subtotal Affiliate Investments</b>				<u>\$14,835,885</u>	<u>\$13,891,199</u>	
<b>TOTAL INVESTMENTS – 86.9%</b>				<u>\$40,720,313</u>	<u>\$40,048,501</u>	
<b>OTHER ASSETS IN EXCESS OF LIABILITIES – 13.1%</b>					<u>\$ 6,056,329</u>	
<b>NET ASSETS – 100%</b>					<u><u>\$46,104,830</u></u>	

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**  
**December 31, 2020 (Continued)**

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

- (a) At December 31, 2020, restricted securities represented 92% 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 the form of shares unless otherwise noted as units or interests, i.e., preferred shares, common shares.
- (b) The Date Acquired column indicates the date on which the Corporation first acquired an investment.
- (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 December 31, 2020, ASC 820 designates 92% of the Corporation's investments as "Level 3" assets. Under the valuation policy of the Corporation, unrestricted publicly traded securities are valued at the average closing 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 our external investment advisor Rand Capital Management, LLC ("RCM") 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 investment fails to make its most recent payment, then the investment will also be classified as non-income producing.
- (f) As of December 31, 2020, the total cost of investment securities was approximately \$40.7 million. Net unrealized depreciation was approximately (\$672) thousand, which was comprised of \$10.6 million of unrealized appreciation of investment securities and (\$11.3) million of unrealized depreciation of investment securities. At December 31, 2020, the aggregate gross unrealized gain for federal income tax purposes was \$10.1 million and the aggregate gross unrealized loss for federal income tax purposes was (\$11.3) million. The net unrealized loss for federal income tax purposes was (\$1.2) million based on a tax cost of \$40.9 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.
- (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 and due at maturity. The amount of PIK earned is included in the interest rate detailed in the "Type of Investment" column, unless it has been noted with a (+), in which case the PIK is in addition to the face amount of interest due on the security.
- (m) Equity holdings are held in a wholly owned (100%) "blocker corporation" of Rand Capital Corporation or Rand Capital SBIC, Inc. for federal income tax and Regulated Investment Company (RIC) compliance.
- (n) Publicly traded company.

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**  
**December 31, 2020 (Continued)**

**Investments in and Advances to Affiliates**

Company	Type of Investment	December 31, 2019 Fair Value	Net Change in Unrealized Appreciation (Depreciation)	Gross Additions (1)	Gross Reductions (2)	December 31, 2020 Fair Value	Net Realized (Losses) Gains	Amount of Interest/ Dividend/ Fee Income (3)
<b>Control Investments:</b>								
	<b>Total Control Investments</b>	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
<b>Affiliate Investments:</b>								
<b>BeetNPath, LLC</b>	1,119,024 Series A-2 Preferred Membership Units.	\$ —	\$ —	\$ —	\$ —	\$ —	(\$ 359,000)	\$ —
	1,032,918 Series B Preferred Membership Units.	—	—	—	—	—	(261,277)	—
	\$262,626.64 Convertible Secured Notes at 8%.	—	—	—	—	—	(262,627)	—
	<b>Total BeetNPath</b>	—	—	—	—	—	(882,904)	—
<b>Carolina Skiff LLC</b>	6.0825% Class A Common Membership interest.	1,750,000	(250,000)	—	—	1,500,000	—	66,230
<b>ClearView Social, Inc.</b>	312,500 Series Seed Plus Preferred.	200,000	—	—	—	200,000	—	—
<b>Filterworks</b>	\$2,283,702 Term Note at 12%.	2,302,653	—	47,178	—	2,349,831	—	330,251
<b>Acquisition USA, LLC</b>	562.5 Class A Units.	562,500	—	—	—	562,500	—	—
	<b>Total Filterworks</b>	2,865,153	—	47,178	—	2,912,331	—	330,251
<b>Genicon, Inc.</b>	1,586,902 Series B Preferred.	—	—	—	—	—	(1,000,000)	—
	\$3,250,000 Promissory Notes at 10%.	500,000	(500,000)	—	—	—	(3,743,377)	17,054
	\$250,000 Promissory Note at 10%	250,000	(250,000)	—	—	—	(262,184)	—
	Warrant for Common.	—	—	—	—	—	(120,000)	—
	<b>Total Genicon</b>	750,000	(750,000)	—	—	—	(5,125,561)	17,054
<b>G-TEC Natural Gas Systems</b>	16.639% Class A Membership Interest. 8% cumulative dividend.	—	—	—	—	—	(400,000)	—
<b>Knoa Software, Inc.</b>	973,533 Series A-1 Convertible Preferred.	750,000	(205,140)	—	—	544,860	—	—
	1,876,922 Series B Preferred.	479,155	—	—	—	479,155	—	—
	<b>Total Knoa</b>	1,229,155	(205,140)	—	—	1,024,015	—	—
<b>Mezmeriz, Inc.</b>	1,554,565 Series Seed Preferred.	—	—	—	—	—	—	—
<b>Microcision</b>	\$1,500,000 Subordinated Promissory Note at 10%.	—	—	1,500,000	(88,003)	1,411,997	—	187,414
	Membership Interest Purchase Warrant for 5%	—	(15,000)	110,000	—	95,000	116,991	—
	<b>Total Microcision</b>	—	(15,000)	1,610,000	(88,003)	1,506,997	116,991	187,414
<b>New Monarch Machine Tool, Inc.</b>	22.84 Common.	22,841	—	—	—	22,841	—	—
<b>OnCore Golf Technology, Inc.</b>	300,483 Series AA Preferred.	300,000	—	—	—	300,000	—	—
<b>SciAps, Inc.</b>	187,500 Series A Preferred.	—	—	—	—	—	—	—
	274,299 Series A-1 Convertible Preferred.	—	—	—	—	—	—	—
	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	—	—
	Warrant to Purchase Series D-1 Preferred.	—	(45,000)	45,000	—	—	—	—
	\$1,500,000 Subordinated Promissory Note at 12%.	—	—	1,500,000	(35,000)	1,465,000	—	147,667
	<b>Total SciAps</b>	1,074,274	(869,274)	1,545,000	(35,000)	1,715,000	—	147,667
<b>Teleservices</b>	250,000 Class B Preferred Units.	—	—	—	—	—	(250,000)	—
<b>Solutions Holdings, LLC</b>	1,000,000 Class C Preferred Units.	—	—	—	—	—	(1,190,680)	—
	80,000 Class D Preferred Units.	—	—	—	—	—	(91,200)	—
	PIK Dividend for Series C and D at 12% and 14%, respectively.	—	—	—	—	—	(104,198)	—
	<b>Total Teleservices</b>	—	—	—	—	—	(1,636,078)	—

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**  
**December 31, 2020 (Continued)**

<u>Company</u>	<u>Type of Investment</u>	<u>December 31, 2019 Fair Value</u>	<u>Net Change in Unrealized Appreciation (Depreciation)</u>	<u>Gross Additions (1)</u>	<u>Gross Reductions (2)</u>	<u>December 31, 2020 Fair Value</u>	<u>Net Realized (Losses) Gains</u>	<u>Amount of Interest/ Dividend/ Fee Income (3)</u>
<b>Tilson Technology</b>	120,000 Series B Preferred.	1,950,000	—	—	—	1,950,000	—	52,500
<b>Management, Inc.</b>	21,391 Series C Preferred.	347,604	—	—	—	347,604	—	—
	70,176 Series D Preferred.	1,140,360	—	—	—	1,140,360	—	—
	15,385 Series E Preferred.	500,012	—	—	—	500,012	—	—
	23,077 Series F Preferred.	—	—	750,003	—	750,003	—	—
	211,567 SQF Hold Co. Common.	22,036	—	—	—	22,036	—	—
	<b>Total Tilson</b>	3,960,012	—	750,003	—	4,710,015	—	52,500
	<b>Total Affiliate Investments</b>	<u>\$ 12,151,435</u>	<u>(\$ 2,089,414)</u>	<u>\$3,952,181</u>	<u>(\$ 123,003)</u>	<u>\$ 13,891,199</u>	<u>(\$7,927,552)</u>	<u>\$ 801,116</u>
	<b>Total Control and Affiliate Investments</b>	<u>\$ 12,151,435</u>	<u>(\$ 2,089,414)</u>	<u>\$3,952,181</u>	<u>(\$ 123,003)</u>	<u>\$ 13,891,199</u>	<u>(\$7,927,552)</u>	<u>\$ 801,116</u>

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

- (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 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, 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, 2020 (Continued)**

<u>Industry Classification</u>	<u>Percentage of Total Investments (at fair value) as of December 31, 2020</u>
Software	29.3%
Manufacturing	16.2
Professional Services	14.6
Healthcare	11.6
Consumer Product	10.3
BDC Investment Funds	8.2
Automotive	7.3
Oil and Gas	1.2
Contact Center	1.2
Marketing	0.1
<b>Total Investments</b>	<b>100%</b>

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**  
**December 31, 2019**

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
<b>Non-Control/Non-Affiliate Investments — 46.3% of net assets:(j)</b>						
<b>ACV Auctions, Inc.(e)(g)</b> 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	\$6,531,815	12.2%
<b>Advantage 24/7 LLC(g)(h)</b> 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%	65,000	65,000	0.1%
<b>AIKG LLC (Andretti)(l)</b> Marietta, GA. Entertainment company engaged in indoor karting, games and food. (Entertainment) www.andrettikarting.com	\$4,250,000 Term Notes at 12% (+4% PIK) due December 28, 2023.	11/8/19	0%	4,398,125	4,398,125	8.2%
<b>Centivo Corporation(e)(g)</b> 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	0.6%
	<b>Total Centivo</b>			301,342	301,342	
<b>Empire Genomics, LLC(g)</b> 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% due December 31, 2020. \$444,915 Promissory Note at 9% (5% deferred) due December 31, 2020.	6/13/14	0%	1,308,675	157,654	1.1%
	<b>Total Empire</b>			444,915 1,753,590	444,915 602,569	
<b>First Wave Technologies, Inc.(e)(g)</b> 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	4%	661,563	33,000	0.1%
<b>GiveGab, Inc.(e)(g)</b> Ithaca, NY. Nonprofit giving platform that provides an easy and effective way for fundraising professionals to raise money online. (Software) www.givegab.com	5,084,329 Series Seed Preferred.	3/13/13	4%	616,221	616,221	1.1%
<b>GoNoodle, Inc.(g)(l)</b> Nashville, TN. Student engagement education software providing core aligned physical activity breaks. (Software) www.gonoodle.com	\$1,500,000 Secured Note at 12% (1% PIK) due September 30, 2024. Warrant for 47,324 Series C Preferred. Warrant for 21,948 Series D Preferred.	2/6/15	<1%	1,502,458 25 38	1,502,458 25 38	2.8%
	<b>Total GoNoodle</b>			1,502,521	1,502,521	
<b>HDI Acquisition LLC (Hilton Displays)(l)</b> Greenville, NC. HDI is engaged in manufacturing, installation and maintenance of signage and brands. (Manufacturing) www.hiltondisplays.com	\$1,245,119 Term Loan at 12% (+2% PIK) due June 20, 2023.	11/8/19	0%	1,249,539	1,249,539	2.3%
<b>Mattison Avenue Holdings LLC(l)</b> Dallas, TX. Provider of upscale salon spaces for lease. (Professional Services) www.mattissionsalonsuites.com	\$1,031,406 Second Amended, Restated and Consolidated Promissory Note at 14% (2% PIK) due June 9, 2022.	11/8/19	0%	1,036,678	1,036,678	1.9%

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**  
**December 31, 2019 (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
<b>Mercantile Adjustment Bureau, LLC(g)</b> 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.	10/22/12	4%	1,199,040	500,000	0.9%
	(e) \$150,000 Subordinated Debenture at 8% due January 31, 2022.			150,000	—	
	Warrant for 3.29% Membership Interests. Option for 1.5% Membership Interests.			97,625	—	
	<b>Total Mercantile</b>			<u>1,446,665</u>	<u>500,000</u>	
<b>Microcision LLC(g)(l)</b> 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	0%	1,500,000	1,500,000	2.8%
<b>Open Exchange, Inc.(g)</b> (Formerly KnowledgeVision Systems, Inc.) Lincoln, MA. Online presentation and training software. (Software) www.openexc.com	397,899 Series C Preferred.	11/13/13	4%	1,193,697	543,283	2.1%
	397,899 Common.			208,243	108,656	
	\$450,000 Replacement Term Note at 9% due September 30, 2022.			450,000	450,000	
<b>Total Open Exchange</b>				<u>1,851,940</u>	<u>1,101,939</u>	
<b>Outmatch Holdings, LLC(e)(g)</b> Dallas, TX. Web based predictive employee selection and reference checking. (Software) www.outmatch.com	3,081,522 Class P1 Units.	11/18/10	4%	2,140,007	2,140,007	4.0%
	109,788 Class C1 Units.			5,489	5,489	
<b>Total Outmatch</b>				<u>2,145,496</u>	<u>2,145,496</u>	
<b>PostProcess Technologies, Inc.(e)(g)</b> Buffalo, NY. Provides innovative solutions for the post-processing of additive manufactured 3D parts. (Manufacturing) www.postprocess.com	360,002 Series A1 Preferred.	7/25/16	<1%	348,875	471,603	0.9%
<b>Rheonix, Inc.(e)</b> 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%	—	—	1.3%
	(g) 1,839,422 Series A Preferred.			2,099,999	—	
	(g) 50,593 Common.			—	—	
	(g) 589,420 Series B Preferred.			702,732	702,732	
<b>Total Rheonix</b>				<u>2,802,731</u>	<u>702,732</u>	
<b>SocialFlow, Inc.(e)(g)</b> 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	209,908	1.4%
	1,204,819 Series B-1 Preferred.			750,000	324,760	
	717,772 Series C Preferred.			500,000	215,332	
<b>Total Social Flow</b>				<u>1,750,000</u>	<u>750,000</u>	
<b>Somerset Gas Transmission Company, LLC(e)(m)</b> Columbus, OH. Natural gas transportation. (Oil and Gas) www.somersetsgas.com	26.5337 Units.	7/10/02	3%	719,097	500,000	0.9%
<b>Tech 2000, Inc. (Lumious) (g)</b> Herndon, VA. Develops and delivers IT training. (Software) www.t2000inc.com	\$850,000 Replacement Term Note at 14% due November 15, 2021.	11/16/18	0%	860,777	860,777	1.6%

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**  
**December 31, 2019 (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
<b>Other Non-Control/Non-Affiliate Investments:</b>						
<b>DataView, LLC (e)</b> (Software)	Membership Interest.	10/1/98	5%	310,357	—	0.0%
<b>UStec/Wi3 (e)</b> (Manufacturing)	Common stock.	12/17/98	<1%	100,500	—	0.0%
<b>Subtotal Non-Control/Non-Affiliate Investments</b>				<u>\$25,584,017</u>	<u>\$24,869,357</u>	
<b>Affiliate Investments – 22.7% of net assets(k)</b>						
<b>BeetNPath, LLC (Grainful)(e)(g)(m)</b> 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.	10/20/14	9%	\$ 359,000 261,277	\$ — —	0.0%
<b>Total BeetNPath</b>				<u>882,904</u>	<u>—</u>	
<b>Carolina Skiff LLC(g)(m)</b> 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	3.3%
<b>ClearView Social, Inc.(e)(g)</b> 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	0.4%
<b>Filterworks Acquisition USA, LLC(l)(m)</b> Deerfield Beach, FL. Provides spray booth equipment, frame repair machines and paint booth filter services for collision shops. (Automotive) www.filterworksusa.com	\$2,283,702 Term Note at 12% (+2% PIK) due December 4, 2023. 562.5 Class A Units.	11/8/19	9%	2,302,653 562,500	2,302,653 562,500	5.3%
<b>Total Filterworks</b>				<u>2,865,153</u>	<u>2,865,153</u>	
<b>Genicon, Inc.(e)(g)(l)</b> 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 June 12, 2022, (10% PIK). \$250,000 Promissory Note at 10% due June 12, 2021 (10% PIK). Warrants for Common.	4/10/15	6%	1,000,000 3,727,573 262,184 120,000	— 500,000 250,000 —	1.4%
<b>Total Genicon</b>				<u>5,109,757</u>	<u>750,000</u>	
<b>Knoa Software, Inc.(e)(g)</b> New York, NY. End user experience management and performance (EMP) solutions utilizing enterprise applications. (Software) www.knoa.com	973,533 Series A-1 Convertible Preferred. 1,876,922 Series B Preferred.	11/20/12	7%	750,000 479,155	750,000 479,155	2.3%
<b>Total Knoa</b>				<u>1,229,155</u>	<u>1,229,155</u>	
<b>Mezmeriz, Inc.(e)(g)</b> 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	—	0.0%

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**  
**December 31, 2019 (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
<b>New Monarch Machine Tool, Inc.(g)</b> Cortland, NY. Manufactures and services vertical/horizontal machining centers. (Manufacturing) www.monarchmt.com	22.84 Common.	9/24/03	15%	22,841	22,841	0.0%
<b>OnCore Golf Technology, Inc.(e)(g)</b> 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	0.6%
<b>SciAps, Inc.(e)(g)</b> 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%	1,500,000 504,710 250,000 175,000 399,274 250,000	— — 250,000 175,000 399,274 250,000	2.0%
<b>Total SciAps</b>				<u>3,078,984</u>	<u>1,074,274</u>	
<b>Teleservices Solutions Holdings, LLC(e) (g)(l)</b> Montvale, NJ. Customer contact center specializing in customer acquisition and retention for selected industries. (Contact Center) www.ipacesetters.com	250,000 Class B Preferred Units. 1,000,000 Class C Preferred Units. 80,000 Class D Preferred Units. 104,198 Class E Preferred Units. PIK dividend for Series C and D at 12% and 14%, respectively.	5/30/14	6%	250,000 1,190,680 91,200 104,198	— — — —	0.0%
<b>Total Teleservices</b>				<u>1,636,078</u>	<u>—</u>	
<b>Tilson Technology Management, Inc.(g)(h)</b> 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	120,000 Series B Preferred. 21,391 Series C Preferred. 70,176 Series D Preferred. 15,385 Series E Preferred. 211,567 SQF Hold Co. Common.	1/20/15	9%	600,000 200,000 800,000 500,012 —	1,950,000 347,604 1,140,360 500,012 22,036	7.4%
<b>Total Tilson</b>				<u>2,100,012</u>	<u>3,960,012</u>	
<b>Other Affiliate Investments:</b>						
<b>G-TEC Natural Gas Systems(e)(m)</b> (Manufacturing)	Membership Interest.	8/31/99	17%	400,000	—	0.0%
<b>Subtotal Affiliate Investments</b>				<u>\$19,035,446</u>	<u>\$12,151,435</u>	
<b>TOTAL INVESTMENTS — 69%</b>				<u>\$44,619,463</u>	<u>\$37,020,792</u>	
<b>OTHER ASSETS IN EXCESS OF LIABILITIES — 31%</b>					16,607,724	
<b>NET ASSETS — 100%</b>					<u><b>\$53,628,516</b></u>	

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**  
**December 31, 2019 (Continued)**

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

- (a) At December 31, 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 on 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 December 31, 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 RCM 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, 2019, the total cost of investment securities was approximately \$44.6 million. Net unrealized depreciation was approximately (\$7.6) million, which was comprised of \$10.1 million of unrealized appreciation of investment securities and (\$17.7) million of unrealized depreciation of investment securities. At December 31, 2019, the aggregate gross unrealized gain for federal income tax purposes was \$10.2 million and the aggregate gross unrealized loss for federal income tax purposes was (\$14.7) million. The net unrealized loss for federal income tax purposes was (\$4.5) million based on a tax cost of \$41.4 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. (None at December 31, 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.
- (m) Equity holdings are held in a wholly owned (100%) "blocker corporation" of Rand Capital Corporation or Rand Capital SBIC, Inc. for federal income tax and Regulated Investment Company (RIC) compliance.

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**  
**December 31, 2019 (Continued)**

**Investments in and Advances to Affiliates**

Company	Type of Investment	December 31, 2018 Fair Value	Gross Additions (1)	Gross Reductions (2)	December 31, 2019 Fair Value	Net Realized Gains (Losses)	Amount of Interest/ Dividend/ Fee Income (3)
<b>Control Investments:</b>							
Advantage 24/7 LLC	\$140,000 Term Note at 7%.	\$ 99,500	\$ —	(\$ 99,500)	\$ —	\$ 40,500	\$ —
Gemcor II, LLC		—	—	—	—	39,893	—
	<b>Total Control Investments</b>	<b>\$ 99,500</b>	<b>\$ —</b>	<b>(\$ 99,500)</b>	<b>\$ —</b>	<b>\$ 80,393</b>	<b>\$ —</b>
<b>Affiliate Investments:</b>							
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)	—	—	—
	<b>Total BeetNPath</b>	<b>523,904</b>	<b>—</b>	<b>(523,904)</b>	<b>—</b>	<b>—</b>	<b>—</b>
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	—	—
Filterworks Acquisition USA, LLC	\$2,283,702 Term Note at 12%.	—	2,302,653	—	2,302,653	—	47,368
	562.5 Class A Units.	—	562,500	—	562,500	—	—
	<b>Total Filterworks</b>	<b>—</b>	<b>2,865,153</b>	<b>—</b>	<b>2,865,153</b>	<b>—</b>	<b>47,368</b>
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	(3,154,750)	500,000	—	379,469
	\$250,000 Promissory Note at 10%	—	257,797	(7,797)	250,000	—	12,184
	Warrant for Common.	37,500	—	(37,500)	—	—	—
	<b>Total Genicon</b>	<b>4,423,086</b>	<b>526,961</b>	<b>(4,200,047)</b>	<b>750,000</b>	<b>—</b>	<b>391,653</b>
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	—	—
	<b>Total Knoa</b>	<b>1,229,155</b>	<b>—</b>	<b>—</b>	<b>1,229,155</b>	<b>—</b>	<b>193,934</b>
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)	—	—	22,000
	\$900,000 Term Note at 13%.	750,000	150,000	(900,000)	—	—	98,142
	Warrant for 46,743 Series A-3.	35,000	—	(35,000)	—	—	—
	<b>Total KnowledgeVision</b>	<b>1,025,001</b>	<b>150,000</b>	<b>(1,175,001)</b>	<b>—</b>	<b>—</b>	<b>120,142</b>
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)	—	—	232,874
	15% Class A Common Membership Interest.	610,000	—	(610,000)	—	1,510,000	—
	<b>Total Microcision</b>	<b>2,543,353</b>	<b>14,536</b>	<b>(2,557,889)</b>	<b>—</b>	<b>1,510,000</b>	<b>232,874</b>
New Monarch Machine Tool, Inc.	22.84 Common.	22,841	—	—	22,841	—	—

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**  
**December 31, 2019 (Continued)**

<u>Company</u>	<u>Type of Investment</u>	<u>December 31, 2018 Fair Value</u>	<u>Gross Additions (1)</u>	<u>Gross Reductions (2)</u>	<u>December 31, 2019 Fair Value</u>	<u>Net Realized Gains (Losses)</u>	<u>Amount of Interest/ Dividend/ Fee Income (3)</u>
<b>OnCore Golf Technology, Inc.</b>	300,483 Series AA Preferred.	300,000	—	—	300,000	—	—
<b>SciAps, Inc.</b>	187,500 Series A 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 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	—	—
	<b>Total SciAps</b>	<u>2,024,274</u>	<u>—</u>	<u>(950,000)</u>	<u>1,074,274</u>	<u>—</u>	<u>—</u>
<b>SOMS Technologies, LLC</b>	5,959,490 Series B membership Interests.	—	—	—	—	(472,632)	—
<b>Teleservices Solutions Holdings, LLC</b>	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.	—	—	—	—	—	—
	<b>Total Teleservices</b>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Tilson Technology Management, Inc.</b>	120,000 Series B Preferred.	600,000	1,350,000	—	1,950,000	—	49,958
	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	—	47,332
	\$200,000 Subordinated Promissory Note at 8%.	200,000	—	(200,000)	—	—	11,835
	\$800,000 Subordinated Promissory Note at 8%.	800,000	—	(800,000)	—	—	—
	<b>Total Tilson</b>	<u>2,600,000</u>	<u>2,360,012</u>	<u>(1,000,000)</u>	<u>3,960,012</u>	<u>—</u>	<u>109,125</u>
	<b>Total Affiliate Investments</b>	<u>\$ 17,026,091</u>	<u>\$ 5,916,662</u>	<u>(\$ 10,791,318)</u>	<u>\$ 12,151,435</u>	<u>\$ 1,037,368</u>	<u>\$ 1,172,010</u>
	<b>Total Control and Affiliate Investments</b>	<u>\$ 17,125,591</u>	<u>\$ 5,916,662</u>	<u>(\$ 10,890,818)</u>	<u>\$ 12,151,435</u>	<u>\$ 1,117,761</u>	<u>\$ 1,172,010</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**  
**December 31, 2019 (Continued)**

<u>Industry Classification</u>	<u>Percentage of Total Investments (at fair value) as of December 31, 2019</u>
Software	40.4%
Manufacturing	16.4
Professional Services	13.6
Entertainment	11.9
Automotive	7.7
Healthcare	6.4
Contact Center	1.3
Oil and Gas	1.3
Consumer Product	0.8
Marketing	0.2
<b>Total Investments</b>	<b>100%</b>

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**FINANCIAL HIGHLIGHTS SCHEDULE**  
**For the Five Years Ended December 31, 2020, 2019, 2018, 2017 and 2016**

The following is a schedule of financial highlights for the years ended:

	2020	2019	2018	2017	2016
<b>Per Share Data:</b>					
Income from investment operations (1):					
Investment income	\$ 1.20	\$ 1.67	\$ 3.00	\$ 2.07	\$ 1.47
Expenses	0.76	1.70	3.12	2.86	4.84
Investment income (loss) before income taxes	0.44	(0.03)	(0.12)	(0.79)	(3.37)
Income tax (benefit) expense	(0.24)	0.03	(0.02)	(0.76)	(1.16)
Net investment income (loss)	0.68	(0.06)	(0.10)	(0.03)	(2.21)
Net realized and unrealized (loss) gain on investments	(0.39)	(1.35)	(0.46)	(0.98)	0.50
Increase (decrease) in net assets from operations	0.29	(1.41)	(0.56)	(1.01)	(1.71)
Purchase of treasury shares	(0.03)	0.00	0.00	0.00	0.03
Payment of cash dividend	(3.17)	0.00	0.00	0.00	0.00
Effect of the stock dividend	(12.16)	0.00	0.00	0.00	0.00
Dilutive effect of issuance of common stock	0.00	(10.54)	0.00	0.00	0.00
(Decrease) increase in net assets	(15.07)	(11.95)	(0.56)	(1.01)	(1.74)
Net asset value, beginning of year	32.93	44.88	45.44	46.45	48.19
Net asset value, end of year	\$ 17.86	\$ 32.93	\$ 44.88	\$ 45.44	\$ 46.45
Per share market value, end of year	\$ 17.60	\$ 24.12	\$ 22.50	\$ 27.18	\$ 28.44
Total return based on market value	(27.03%)	7.20%	(17.22%)	(4.43%)	(16.18%)
Total return based on net asset value	(14.03%)	(14.11%)	(1.24%)	(2.18%)	(3.62%)
<b>Supplemental Data:</b>					
Ratio of expenses before income taxes to average net assets	3.96%	7.70%	6.92%	6.23%	10.23%
Ratio of expenses including taxes to average net assets	7.89%	6.00%	5.73%	6.29%	8.48%
Ratio of net investment income (loss) to average net assets	3.52%	(0.24%)	(0.22%)	(0.06%)	(3.62%)
Portfolio turnover	29.4%	8.8%	7.4%	18.1%	18.4%
Net assets end of year	\$46,104,830	\$53,628,516	\$31,524,187	\$31,918,685	\$32,629,363

(1) Per share data are based on shares outstanding and results are rounded.

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1. – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Business** – Rand Capital Corporation (“Rand”) was incorporated under the laws of New York in 1969. Beginning in 1971, Rand operated as a publicly traded, closed-end, diversified management company that was registered under Section 8 of the Investment Company Act of 1940 (the “1940 Act”). In 2001, Rand elected to be treated as a business development company (“BDC”) under the 1940 Act. In 2002, Rand formed a wholly owned subsidiary for the purpose of operating it as a small business investment company (“SBIC”) licensed by the U.S. Small Business Administration (“SBA”). The subsidiary received an SBA license to operate as an SBIC in 2002. The subsidiary, which had been organized as a Delaware limited partnership, was converted into a New York corporation on December 31, 2008, at which time its operations as a licensed SBIC were continued by the newly formed corporation under the name of Rand Capital SBIC, Inc. (“Rand SBIC”). In 2012, the SEC granted an Order of Exemption for Rand with respect to the operations of Rand SBIC. At that time, although Rand SBIC was operated as if it were a BDC, it was registered as an investment company under the 1940 Act. Upon Rand’s receipt of the order granting the exemptions, Rand SBIC filed an election to be regulated as a BDC under the 1940 Act.

In November 2019, Rand completed (the “Closing”) a stock sale transaction with East Asset Management (“East”). The transaction consisted of a \$25 million investment in Rand by East, in exchange for approximately 8.3 million shares of Rand common stock. The consideration paid by East for the shares of Rand common stock was comprised of approximately \$15.5 million of cash and a contribution of \$9.5 million of portfolio assets (the “Contributed Assets”). Concurrent with the Closing, Rand’s management and staff became employees of Rand Capital Management, LLC (“RCM”), a registered investment adviser that has been retained by Rand as its external investment adviser. In connection with retaining RCM as our investment adviser on November 8, 2019, Rand entered into an investment advisory and management agreement (the “Prior Investment Management Agreement”) and an administration agreement (the “Prior Administration Agreement”) with RCM pursuant to which RCM serves as Rand’s investment adviser and administrator (the Closing and the retention of RCM as our investment adviser and administrator are collectively referred to herein as the “Transaction”). In connection with a change of control of RCM, Rand’s shareholders were asked to approve a new investment advisory and management agreement (the “Investment Management Agreement”) with RCM at a special meeting of shareholders held on December 16, 2020 (the “Special Meeting”). The terms of the Investment Management Agreement are identical to those contained in the Prior Investment Management Agreement, with RCM continuing to provide investment advisory and management services to Rand. Following approval by Rand’s shareholders at the Special Meeting, Rand, on December 31, 2020, entered into the Investment Management Agreement and a new administration agreement (the “Administration Agreement”) with RCM and terminated the Prior Administration Agreement. Pursuant to the terms of the Investment Management Agreement, Rand pays RCM a base management fee and may pay an incentive fee, if specified benchmarks are met.

In connection with the completion of the Transaction, Rand is shifting to an investment strategy focused on higher yielding debt investments and intends to elect U.S. Federal tax treatment as a regulated investment company (“RIC”) as of January 1, 2020 on its timely filed U.S. Federal tax return for the 2020 tax year. As required for the RIC election, Rand paid a special dividend to shareholders to distribute all of its accumulated earnings and profits since inception to 2019. Rand’s Board of Directors declared a special dividend of \$23.7 million, or approximately \$1.62 per share, on March 3, 2020. The cash and shares of Rand’s common stock comprising the special dividend were distributed on May 11, 2020 to shareholders. In addition, Rand’s Board of Directors declared a 2020 cash dividend of \$1.33 per share on December 21, 2020. This cash dividend was paid on January 19, 2021 to shareholders of record as of December 31, 2020. The cash dividend is expected to represent over 90% of estimated taxable income for 2020.

In order to qualify to make the RIC election, Rand placed several of its investments in newly formed holding companies that facilitate a tax structure that is advantageous to the RIC election. In December 2019, Rand formed Rand Somerset Holdings Corp., Rand BeetNPath Holdings Corp., Rand Carolina Skiff Holdings

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Corp., Rand Filterworks Holdings Corp. and Rand GTEC Holdings Corp., (“Blocker Corps”) as wholly owned subsidiaries of Rand to hold certain equity investments. These subsidiaries are consolidated using United States generally accepted accounting principles (“GAAP”) for financial reporting purposes.

Rand effected a 1-for-9 reverse stock split of its common stock effective May 21, 2020. The reverse stock split affected all issued and outstanding shares of Rand’s common stock, including shares held in treasury. The reverse stock split reduced the number of issued and outstanding shares of Rand’s common stock from 23,845,470 shares and 23,304,424 shares, respectively, to 2,648,916 shares and 2,588,800 shares, respectively. The reverse stock split affected all shareholders uniformly and did not alter any shareholder’s percentage interest in Rand’s outstanding common stock, except for adjustments for fractional shares.

On October 7, 2020, Rand, RCM and certain of their affiliates received exemptive relief from the Securities and Exchange Commission (“SEC”) to permit Rand to co-invest in portfolio companies with certain other funds, including other BDCs and registered investment companies, managed by RCM and certain of its affiliates in a manner consistent with Rand’s investment objective, positions, policies, strategies and restrictions as well as regulatory requirements, subject to compliance with certain conditions (the “Order”). Pursuant to the Order, Rand is generally permitted to co-invest with affiliated funds if a “required majority” (as defined in Section 57(o) of the 1940 Act) of Rand’s independent directors make certain conclusions in connection with a co-investment transaction, including that (1) the terms of the transaction, including the consideration to be paid, are reasonable and fair to Rand and its shareholders and do not involve overreaching in respect to Rand or its shareholders on the part of any person concerned and (2) the transaction is consistent with the interests of Rand’s shareholders and is consistent with Rand’s investment objective and strategies.

The following discussion describes the operations of Rand and its wholly owned subsidiaries Rand SBIC, Rand Somerset Holdings Corp., Rand BeetNPath Holdings Corp., Rand Carolina Skiff Holdings Corp., Rand Filterworks Holdings Corp. and Rand GTEC Holdings Corp., (collectively, the “Corporation”).

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

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

**Fair Value of SBA Debentures** – In September 2020, the SBIC Funding Corporation completed a pooling of SBA debentures that have a coupon rate of 1.034%, excluding a mandatory SBA annual charge estimated to be 0.275%, resulting in a total estimated ten-year fixed rate of 1.309%. 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” if it owns more than 25% of the voting securities of the company or has greater than 50% representation on the company’s board. “Affiliate Investments” are companies in which the Corporation owns between 5% and 25% of the voting securities. “Non-Control/Non-Affiliate Investments” are those companies that are neither Control Investments nor Affiliate Investments.

**Investments** – Investments are valued at fair value as determined in good faith by RCM and approved by Rand’s 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

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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 RCM's assumptions and judgments differ from results of actual liquidation events. (See Note 2 "Investments.")

**Qualifying Assets** – The Corporation's portfolio of investments includes both qualifying and non-qualifying assets. A majority of the Corporation's investments represent qualifying investments in privately held businesses, principally based in the United States, and represent qualifying assets as defined by section 55(a) of the 1940 Act. The non-qualifying assets generally include investments in other publicly held BDC investment companies.

**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. RCM also uses other qualitative and quantitative measures to determine the value of a portfolio investment and the collectability of any accrued interest.

The following investment is on non-accrual status: 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 a financing and income associated with portfolio company board attendance fees. The income associated with the amortization of financing fees was \$29,188, \$69,252, and \$41,872 for the years ended December 31, 2020, 2019 and 2018, respectively, and is estimated to be approximately \$44,000 in 2021, \$41,000 in 2022 and \$27,000 in 2023. The board fees were \$0, \$1,000, and \$2,000 for the years ended December 31, 2020, 2019 and 2018, respectively. During the year ended December 31, 2020, the Corporation recorded non-recurring fees of approximately \$96,000 that represented prepayment fees. During the year ended December 31, 2019, the Corporation recorded non-recurring fees in the amount of \$387,500 that represented closing and incentive fees and a change of control fee. During the year ended December 31, 2018, the Corporation recorded a debt modification fee of approximately \$142,000.

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**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. Proceeds held in escrow are reported in other assets. 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 valuation of the investments and the cost basis of the investments.

**Original Issue Discount** – Investments may include “original issue discount”, or OID, income. This occurs, for example, 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 purchase price allocated to the note 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 \$47,801, \$40,767, and \$39,653 in OID income for the years ended December 31, 2020, 2019 and 2018, respectively. OID income is estimated to be approximately \$37,000 for 2021.

**Deferred Debenture Costs** – SBA debenture origination and commitment costs, which are netted against the debenture obligation (See Note 5 “SBA Debenture Obligations”), will be amortized ratably over the terms of the SBA debentures. Amortization expense was approximately \$37,700, \$37,000, and \$27,400 for the years ended December 31, 2020, 2019 and 2018, respectively. Amortization expense on currently outstanding debentures for the next five years is estimated to average \$23,000 per year.

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

**Supplemental Cash Flow Information** – Income taxes refunded during the years ended December 31, 2020, 2019 and 2018 amounted to \$121,277, \$728,523, and \$26,448, respectively. Interest paid during the years ended December 31, 2020, 2019 and 2018 was \$380,124, \$339,605, and \$282,875, respectively. During 2020, 2019 and 2018, the Corporation converted \$361,662, \$595,286, and \$609,817, respectively, of interest receivable and payment-in-kind (PIK) interest into debt investments.

**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 insured limits. Management does not anticipate non-performance by the banks.

As of December 31, 2020, 50% of the Corporation’s total investment value was held in debt and equity securities of five portfolio companies. As of December 31, 2019, 54% of the Corporation’s total investment value was held in debt and equity securities in five portfolio companies.

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

	December 31, 2020
ACV Auctions, Inc. (ACV)	16%
Tilson Technology Management, Inc. (Tilson)	12%
Caitec Acquisition, Inc. (Caitec)	10%
Filterworks Acquisition USA, LLC (Filterworks)	7%
Science and Medicine Group, Inc. (SMG Group)	5%

	December 31, 2019
ACV Auctions, Inc. (ACV)	18%
AIKG, LLC (Andretti)	12%
Tilson Technology Management, Inc. (Tilson)	11%
Filterworks Acquisition USA, LLC (Filterworks)	7%
Outmatch (Outmatch)	6%

**Income Taxes** – The Corporation reviews the tax positions it has taken to determine if they meet the “more likely than not threshold” for the benefit of the tax position to be recognized in the 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. (See Note 4 “Income Taxes.”)

**Accounting Estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (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.

**SBA Debenture** – The Corporation had \$11,000,000 in outstanding SBA debentures at both December 31, 2020 and December 31, 2019, respectively, with a weighted average interest rate of 3.45% as of December 31, 2020. The \$11,000,000 in outstanding SBA debentures matures from 2022 through 2029.

As a requirement of being licensed the SBA, Rand SBIC has accepted the SBA’s standard default language which states that Rand SBIC has consented to the exercise by the SBA of all rights of the SBA under 13 C.F.R. 107.1810(i) “SBA remedies for automatic events of default” and has agreed to take all actions that the SBA may so require, which may include 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.

**NOTE 2. – 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 Payment in Kind (“PIK”) feature, 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.

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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.

At December 31, 2020, 8% of the Corporation’s investments were Level 1 investments and 92% were Level 3 investments. There were no Level 2 investments at December 31, 2020. There were no Level 1 or 2 investments as of December 31, 2019.

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;



**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

- Current ability of the portfolio company to raise additional financing if needed;
- Changes in the economic environment which may have a material impact on the operating results of the portfolio company;
- Internal circumstances and events that may have an impact (both positive and negative) on the operating performance of the portfolio company;
- Qualitative assessment of key management;
- Contractual rights, obligations or restrictions associated with the investment; and
- Other factors deemed relevant 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 investments made within the last year, 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

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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.

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 December 31, 2020:

Investment Type	Market Approach EBITDA Multiple	Market Approach Liquidation Seniority	Market Approach Revenue Multiple	Market Approach Transaction Pricing	Totals
Non-Control/Non-Affiliate Equity	\$ —	\$ 500,000	\$ 1,026,219-	\$ 9,990,815	\$ 11,517,034
Non-Control/Non-Affiliate Loan and Debt	2,897,344	2,378,316	602,569	5,465,702	11,343,931
<b>Total Non-Control/Non-Affiliate</b>	<b>\$ 2,897,344</b>	<b>\$ 2,878,316</b>	<b>\$ 1,628,788</b>	<b>\$ 15,456,517</b>	<b>\$ 22,860,965</b>
Affiliate Equity	\$ 2,062,500	\$ 22,841	\$ 1,474,015	\$ 5,105,015	\$ 8,664,371
Affiliate Loan and Debt	2,349,831	—	—	2,876,997	5,226,828
<b>Total Affiliate</b>	<b>\$ 4,412,331</b>	<b>\$ 22,841</b>	<b>\$ 1,474,015</b>	<b>\$ 7,982,012</b>	<b>\$ 13,891,199</b>
<b>Total Level 3 Investments</b>	<b>\$ 7,309,675</b>	<b>\$ 2,901,157</b>	<b>\$ 3,102,803</b>	<b>\$ 23,438,529</b>	<b>\$ 36,752,164</b>
Range	5 -5.5X	1X	1X-4X	Not Applicable	
Unobservable Input	EBITDA Multiple	Asset Value	Revenue Multiple	Transaction Price	
Weighted Average	5.3X	1X	2.6X	Not Applicable	

The following table provides a summary of the components of Level 1, 2 and 3 Assets Measured at Fair Value at December 31, 2020:

Description	December 31, 2020	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	\$ 6,771,394	\$ —	\$ —	\$ 6,771,394
Debt investments	9,799,365	—	—	9,799,365
Equity investments	23,477,742	3,296,337	—	20,181,405
Total	<u>\$40,048,501</u>	<u>\$ 3,296,337</u>	<u>\$ —</u>	<u>\$ 36,752,164</u>

The following table provides a summary of changes in Assets Measured at Fair Value Using Significant Unobservable Inputs (Level 3) for the year ended December 31, 2020:

Description	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Venture Capital Investments			
	Loan Investments	Debt Investments	Equity Investments	Total
Ending Balance, December 31, 2019, of Level 3 Assets	\$ 1,570,692	\$ 13,647,107	\$ 21,802,993	\$ 37,020,792

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Description	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Venture Capital Investments			
	Loan	Debt	Equity	Total
	Investments	Investments	Investments	
<b>Realized gains (losses) included in net change in net assets from operations:</b>				
Advantage 24/7 LLC (Advantage 24/7)	36,877	—	—	36,877
BeetNPath, LLC (Beetnpath)	—	(262,627)	(620,277)	(882,904)
DataView, LLC (Dataview)	—	—	(310,357)	(310,357)
Genicon, Inc. (Genicon)	—	(4,005,561)	(1,120,000)	(5,125,561)
G-TEC Natural Gas Systems (G-tec)	—	—	(400,000)	(400,000)
Microcision LLC (Microcision)	—	116,991	—	116,991
Outmatch Holdings, LLC (Outmatch)	—	—	2,318,253	2,318,253
Teleservices Solutions Holdings, LLC (Teleservices)	—	—	(1,636,078)	(1,636,078)
USTec/Wi3 (Ustec)	—	—	(100,500)	(100,500)
<b>Total Realized Gains (Losses)</b>	<b>36,877</b>	<b>(4,151,197)</b>	<b>(1,868,959)</b>	<b>(5,983,279)</b>
<b>Unrealized gains (losses) included in net change in net assets from operations:</b>				
Beetnpath	—	262,627	620,277	882,904
Carolina Skiff LLC (Carolina Skiff)	—	—	(250,000)	(250,000)
Centivo Corporation (Centivo)	—	—	584,832	584,832
Dataview	—	—	310,357	310,357
Genicon	—	3,239,757	1,120,000	4,359,757
G-tec	—	—	400,000	400,000
Knoa Software, Inc. (Knoa)	—	—	(205,140)	(205,140)
Microcision	—	—	(15,000)	(15,000)
SciAps, Inc. (Sciaps)	—	—	(869,274)	(869,274)
SocialFlow, Inc. (Socialflow)	—	—	(426,513)	(426,513)
Teleservices	—	—	1,636,078	1,636,078
Ustec	—	—	100,500	100,500
<b>Total Unrealized Gains (Losses)</b>	<b>—</b>	<b>3,502,384</b>	<b>3,006,117</b>	<b>6,508,501</b>
<b>Purchases of Securities/Changes to Securities/Non-cash conversions:</b>				
AIKG LLC (Andretti)	—	177,574	—	177,574
Caitec Acquisition, Inc.	3,510,702	—	300,000	3,810,702
Centivo	—	—	500,000	500,000
Filterworks Acquisition USA, LLC	—	47,178	—	47,178
Genicon	—	15,804	—	15,804
GoNoodle, Inc. (GoNoodle)	—	15,081	—	15,081
HDI Acquisition LLC (Hilton Displays)	—	25,601	—	25,601
Mattison Avenue Holdings LLC (Mattison)	—	85,526	—	85,526
Microcision	—	(88,003)	110,000	21,997
SciAps, Inc. (Sciaps)	—	1,465,000	45,000	1,510,000
Science and Medicine Group, Inc. (SMG)	1,900,000	—	—	1,900,000
Tilson Technology Management, Inc. (Tilson)	—	—	750,003	750,003

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Description	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Venture Capital Investments			
	Loan	Debt	Equity	Total
	Investments	Investments	Investments	
<b>Total Purchases of Securities/Changes to Securities/Non-cash conversions</b>	5,410,702	1,743,761	1,705,003	8,859,466
<b>Repayments and Sale of Securities:</b>				
Advantage 24/7	(46,877)	—	—	(46,877)
Andretti	—	(4,575,699)	—	(4,575,699)
Microcision LLC (Microcision)	—	(116,991)	—	(116,991)
Open Exchange, Inc. (Open Exchange)	(450,000)	—	—	(450,000)
Outmatch Holdings, LLC (Outmatch)	—	—	(4,463,749)	(4,463,749)
<b>Total Repayments and Sale of Securities</b>	(496,877)	(4,692,690)	(4,463,749)	(9,653,316)
<b>Transfers within Level 3</b>	250,000	(250,000)	—	—
<b>Ending Balance December 31, 2020, of Level 3 Assets</b>	<u>\$ 6,771,394</u>	<u>\$ 9,799,365</u>	<u>\$ 20,181,405</u>	<u>\$ 36,752,164</u>
Change in unrealized depreciation on investments for the period included in changes in net assets				\$ 6,926,859
Net realized (loss) on investments for the period included in changes in net assets				(\$ 5,983,279)

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 December 31, 2019:

Investment Type	Market Approach EBITDA Multiple	Market Approach Liquidation Seniority	Market Approach Revenue Multiple	Market Approach Transaction Pricing	Totals
Non-Control/Non-Affiliate Equity	\$ —	\$ 1,452,732	\$ 2,645,496	\$ 8,605,983	\$ 12,704,211
Non-Control/Non-Affiliate Loan and Debt	500,000	2,363,235	602,569	8,699,342	12,165,146
<b>Total Non-Control/ Non-Affiliate</b>	<b>\$ 500,000</b>	<b>\$ 3,815,967</b>	<b>\$ 3,248,065</b>	<b>\$ 17,305,325</b>	<b>\$ 24,869,357</b>
Affiliate Equity	\$ 1,750,000	\$ 22,841	\$ 2,503,429	\$ 4,822,512	\$ 9,098,782
Affiliate Loan and Debt	—	750,000	—	2,302,653	3,052,653
<b>Total Affiliate</b>	<b>\$ 1,750,000</b>	<b>\$ 772,841</b>	<b>\$ 2,503,429</b>	<b>\$ 7,125,165</b>	<b>\$ 12,151,435</b>
<b>Total Level 3 Investments</b>	<b>\$ 2,250,000</b>	<b>\$ 4,588,808</b>	<b>\$ 5,751,494</b>	<b>\$ 24,430,490</b>	<b>\$ 37,020,792</b>
Range	4.5X-5.0XX	1X	1X-4X	Not Applicable	
Unobservable Input	EBITDA Multiple	Asset Value	Revenue Multiple	Transaction Price	
Weighted Average	4.6X	1X	3.1X	Not Applicable	

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table provides a summary of the components of Level 1, 2 and 3 Assets Measured at Fair Value at December 31, 2019:

Description	December 31, 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	\$ 1,570,692	\$ —	\$ —	\$ 1,570,692
Debt investments	13,647,107	—	—	13,647,107
Equity investments	21,802,993	—	—	21,802,993
Total	<u>\$37,020,792</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$37,020,792</u>

The following table provides a summary of changes in Assets Measured at Fair Value Using Significant Unobservable Inputs (Level 3) for the year ended December 31, 2019:

Description	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Venture Capital Investments			
	Loan Investments	Debt Investments	Equity Investments	Total
<b>Ending Balance, December 31, 2018, of Level 3 Assets</b>	\$ 4,935,777	\$ 9,397,979	\$ 20,333,048	\$ 34,666,804
<b>Realized gain included in net change in net assets from operations:</b>				
Advantage 24/7 LLC (Advantage 24/7)	—	—	40,500	40,500
Gemcor II LLC (Gemcor)	—	—	39,893	39,893
Microcision LLC (Microcision)	—	—	1,510,000	1,510,000
SOMS Technologies, LLC (SOMS)	—	—	(472,632)	(472,632)
<b>Total Realized Gains</b>	—	—	1,117,761	1,117,761
<b>Total Change in Unrealized Depreciation included in net change in net assets from operations :</b>				
ACV Auctions, Inc. (ACV)	—	—	3,754,908	3,754,908
BeetNPath, LLC (Beetnpath)	—	(262,627)	(261,277)	(523,904)
Empire Genomics, LLC (Empire Genomics)	—	(249,661)	—	(249,661)
Genicon, Inc. (Genicon)	—	(3,239,757)	(1,037,500)	(4,277,257)
Mercantile Adjustment Bureau, LLC (Mercantile)	—	(200,000)	—	(200,000)
Mezmeriz, Inc. (Mezmeriz)	—	—	(351,477)	(351,477)
Microcision	—	—	(610,000)	(610,000)
Open Exchange, Inc. (formerly KnowledgeVision Systems, Inc. (Open Exchange)	—	—	(200,001)	(200,001)
PostProcess Technologies, Inc. (Post Process)	—	—	122,728	122,728
Rheonix, Inc. (Rheonix)	—	—	(1,500,000)	(1,500,000)
SciAps, Inc. (Sciaps)	—	—	(950,000)	(950,000)
SocialFlow, Inc. (Socialflow)	—	—	(1,321,300)	(1,321,300)
SOMS	—	—	472,632	472,632
Tilson Technology Management, Inc. (Tilson)	—	—	1,860,000	1,860,000
<b>Total Change in Unrealized Depreciation</b>	—	(3,952,045)	(21,287)	(3,973,332)
<b>Purchases and additions of Securities/Changes to Securities/Non-cash conversions:</b>				
Advantage 24/7	140,000	—	—	140,000
AIKG LLC (Andretti) *	—	4,398,125	—	4,398,125
Empire Genomics	—	75,481	—	75,481
Filterworks Acquisition USA, LLC *	—	2,302,653	562,500	2,865,153
Genicon	—	604,172	—	604,172

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Description	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Venture Capital Investments			
	Loan	Debt	Equity	Total
	Investments	Investments	Investments	
GoNoodle, Inc. (GoNoodle)	—	1,511,177	38	1,511,215
HDI Acquisition LLC (Hilton Displays) *	—	1,249,539	—	1,249,539
Mattison Avenue Holdings LLC (Mattison) *	—	1,036,678	—	1,036,678
Microcision LLC (Microcision)	—	19,405	—	19,405
Open Exchange	150,000	—	126,939	276,939
Post Process	—	—	48,875	48,875
Tech 2000, Inc. (Lumious)	—	250,000	—	250,000
Tilson	—	—	500,012	500,012
<b>Total Purchases and additions of Securities/Changes to Securities/Non-cash conversions</b>	<b>290,000</b>	<b>11,447,230</b>	<b>1,238,364</b>	<b>12,975,594</b>
<b>Repayments and Sale of Securities:</b>				
Advantage 24/7	(75,000)	—	(140,000)	(215,000)
eHealth Global Technologies, Inc. (eHealth)	(3,500,000)	—	—	(3,500,000)
Gemcor	—	—	(39,893)	(39,893)
GoNoodle	—	(1,048,382)	—	(1,048,382)
Microcision	—	(452,760)	(1,510,000)	(1,962,760)
Tilson	—	(1,000,000)	—	(1,000,000)
<b>Total Repayments and Sale of Securities</b>	<b>(3,575,000)</b>	<b>(2,501,142)</b>	<b>(1,689,893)</b>	<b>(7,766,035)</b>
<b>Transfers within Level 3</b>	<b>(80,085)</b>	<b>(744,915)</b>	<b>825,000</b>	<b>—</b>
<b>Ending Balance, December 31, 2019, of Level 3 Assets</b>	<b>\$ 1,570,692</b>	<b>\$ 13,647,107</b>	<b>\$ 21,802,993</b>	<b>\$ 37,020,792</b>

\* The investment in these portfolio companies was acquired as part of the East purchase of the Corporation's common shares in November 2019.

Change in unrealized depreciation on investments for the period included in changes in net assets	<u>(\$3,973,332)</u>
Net realized gain on investments for the period included in changes in net assets	<u>\$ 1,117,761</u>

**NOTE 3. – OTHER ASSETS**

Other assets was comprised of the following at December 31:

	2020	2019
Dividend receivable	\$ 65,700	\$ 256,542
Prepaid expenses	8,400	8,290
Operating receivables	—	546
Total other assets	<u>\$ 74,100</u>	<u>\$ 265,378</u>

**NOTE 4. – INCOME TAXES**

The Corporation intends to elect to be treated for income tax purposes as a RIC for the 2020 tax year under Subchapter M of the Code. As a result, the Corporation will not pay corporate-level federal income taxes on any net ordinary income or capital gains that the Corporation distributes to its stockholders as dividends. The Corporation must distribute substantially all of its respective investment company taxable income each tax year as dividends to its stockholders to maintain its RIC status. Accordingly, no provision for federal income tax has been made in the financial statements for the year ended December 31, 2020.

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Distributions from net investment income and distributions from net realized capital gains are determined in accordance with U.S. federal tax regulations, which may differ from amounts determined in accordance with GAAP and those differences could be material. These book-to-tax differences are either temporary or permanent in nature. Reclassifications due to permanent book-tax differences, including the offset of net operating losses against short-term gains and nondeductible meals and entertainment, have no impact on net assets.

The following differences were reclassified for tax purposes for the year ended December 31, 2020:

Increase (decrease) in capital in excess of par value	(\$2,421,682)
Increase (decrease) in total distributable earnings (losses)	\$ 2,421,682

Taxable income generally differs from net increase (decrease) in net assets for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses and generally excludes unrealized appreciation (depreciation) on investments, as investment gains and losses are not included in taxable income until they are realized.

The following table reconciles net increase in net assets resulting from operations to taxable income for the year ended December 31, 2020:

Net increase in net assets resulting from operations	\$ 743,766
Net change in unrealized depreciation on investments	(4,970,917)
Net change in deferred tax liability	(60,620)
GAAP versus tax basis consolidation of subsidiaries	4,864,442
Distribution from Rand SBIC subsidiary	2,547,500
Other permanent book income and tax income differences	(13,833)
Temporary book income and tax income differences	402,042
Taxable income <sup>2</sup>	<u>\$ 3,512,380</u>

For tax purposes, distributions paid to stockholders are reported as ordinary income, long term capital gains and return of capital, or a combination thereof. The tax character of distributions paid and deemed paid during the year ended December 31, 2020 was as follows:

Ordinary income	\$ 24,806,704
Long-term capital gains	2,412,046
Total	<u>\$ 27,218,750</u>

The determination of the tax attributes of the Corporation's distributions is made annually as of the end of the Corporation's fiscal year based upon the Corporation's taxable income for the full year and distributions paid for the full year. The actual tax characteristics of distributions to shareholders are reported to shareholders annually on Form 1099-DIV.

- <sup>1</sup> The Corporation's permanent book-to-tax reclassifications for 2020 are an estimate and will not be finalized until the Corporation files its 2020 federal income tax returns in 2021. Therefore, the Corporation's actual permanent book-to tax reclassifications may be different than this estimate.
- <sup>2</sup> The Corporation's taxable income for 2020 is an estimate and will not be finalized until the Corporation files its 2020 federal income tax returns in 2021. Therefore, the Corporation's actual taxable income and the Corporation's actual taxable income that was earned in 2020 and carried forward for distribution in 2021 may be different than this estimate.

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The tax basis components of distributable earnings/(accumulated losses) and reconciliation to accumulated earnings/(deficit) on a book basis for the year ended December 31, 2020 were as follows:

Undistributed ordinary income – tax basis	\$ 78,263
Undistributed realized gains – tax basis	0
Net change in unrealized appreciation on investments	570,448
GAAP vs tax basis consolidation of subsidiaries	(4,864,442)
Other temporary differences	<u>(402,042)</u>
Total accumulated earnings – book basis	<u>(\$ 4,617,773)</u>

The differences between components of distributable earnings on a tax basis and the amounts reflected in the consolidated statement of changes in net assets are primarily due to temporary book-tax differences that will reverse in subsequent periods.

As of December 31, 2020, the Corporation had a deferred tax liability of \$121,141 pertaining to the unrealized appreciation on investments held by Taxable Subsidiaries.

***Income Taxes on Blocker Corporations***

Deferred tax assets and liabilities are recorded for temporary differences between the financial statement and tax bases of assets and liabilities using the tax rate expected to be in effect when the taxes are actually paid or recovered.

The tax effect of the major temporary differences and carryforwards that give rise to the Corporation's net deferred tax asset (liability) at December 31, 2020 and 2019 are approximately as follows:

	<u>2020</u>	<u>2019</u>
Operations	\$ 0	(\$ 175,383)
Investments	(140,789)	1,340,693
NOL & tax credit carryforwards	31,789	112,843
Valuation allowance	(12,141)	(73,955)
Deferred tax (liability)asset, net	<u>(\$ 121,141)</u>	<u>\$ 1,204,198</u>

The major temporary differences cited above include differences in the book and tax bases of the Corporation's portfolio company investments, as well as unrealized gains and losses on corporate investments that will be taxed when realized in future years. The Corporation assesses the recoverability of its deferred tax assets annually to determine if a valuation allowance is necessary. In performing this assessment, it considers estimated future taxable income and ongoing tax planning strategies. Based on this assessment, it was determined that a valuation allowance was necessary against the deferred tax asset relating to federal and state net operating loss carryforwards (NOL) in one of the blocker corporations.



**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

31: The components of income tax expense (benefit) reported in the consolidated statements of operations are as follows for the years ended December

	2020	2019	2018
<b>Current:</b>			
Federal	(\$ 2,743)	\$ 55,677	(\$ 411,509)
State	5,159	11,402	8,400
	<u>2,416</u>	<u>67,079</u>	<u>(403,109)</u>
<b>Deferred:</b>			
Federal	1,234,069	(633,735)	110,426
State	91,270	(45,265)	(83,761)
	<u>1,325,339</u>	<u>(679,000)</u>	<u>26,665</u>
<b>Total</b>	<u><u>1,327,755</u></u>	<u><u>(\$ 611,921)</u></u>	<u><u>(\$ 376,444)</u></u>

A reconciliation of the (benefit) expense for income taxes at the federal statutory rate to the expense reported is as follows:

	2020	2019	2018
Net investment gain (loss) gain, realized (loss) gain and unrealized gain (loss) before income taxes	<u>\$2,071,521</u>	<u>(\$2,901,591)</u>	<u>(\$ 770,942)</u>
Expected tax benefit at statutory rate	\$ 435,019	(\$ 609,334)	(\$ 161,898)
State - net of federal effect	76,179	(27,920)	(57,110)
Pass-through expense (benefit) from portfolio investment	—	20,251	24,075
Dividend received deduction	—	(10,491)	(13,946)
Tax Effect of change to RIC	1,335,251	—	—
Valuation allowance	12,141	—	—
Tax benefit of RIC status	(417,780)	—	—
Carryback benefit from tax law change	(90,141)	—	—
Federal Act Rate Change	—	—	(164,395)
Other	<u>(22,914)</u>	<u>15,573</u>	<u>(3,170)</u>
<b>Total</b>	<u><u>\$1,327,755</u></u>	<u><u>(\$ 611,921)</u></u>	<u><u>(\$ 376,444)</u></u>

At December 31, 2020 and 2019, the Corporation had \$133,519 and \$0, respectively, of federal net operating loss carryforwards and no capital loss carryforwards. For state tax purposes, there were various state net operating loss carryforwards totaling \$133,519 and \$995,747 at December 31, 2020 and 2019, respectively. The related deferred tax asset has a valuation allowance of \$12,141 at December 31, 2020 for federal and state purposes which is more likely than not to be realized and \$74,000 at December 31, 2019 on certain state net operating loss carryforwards, which is more likely than not to be realized. Other than the \$133,519 reported for December 31, 2020, all state net operating losses were forfeited with the change to a RIC. For state tax purposes the Corporation has a Georgia Employer's Jobs Tax Credit carryforward of \$0 and \$45,411 at December 31, 2020 and 2019, respectively. This credit carryforward was forfeited with the change to a RIC.

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Under the provisions of Section 382 of the Internal Revenue Code (“IRC”), net operating loss and credit carryforwards and other tax attributes may be subject to limitations if there has been a significant change in ownership in the Corporation, as defined by the IRC. Prior to the completion of the transaction with East in November 2019, the Corporation was able to utilize the remaining federal net operating losses. However, state net operating losses may be subject to similar limitations.

The Corporation is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended December 31, 2017 through 2020. In general, the Corporation’s state income tax returns are open to audit under the statute of limitations for the years ended December 31, 2016 through 2020.

It is the Corporation’s policy to include interest and penalties related to income tax liabilities in income tax expense on the Statement of Operations. In addition, the Corporation records uncertain tax positions in accordance with ASC 740, “Income Taxes”, (“ASC 740”). ASC 740 provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the financial statements. The uncertain tax benefits for the years ended December 31, 2020, 2019 and 2018 were de minimis and no amounts were recorded for interest and penalties related to unrecognized tax positions for the years ended December 31, 2020, 2019, and 2018.

**NOTE 5. – SBA DEBENTURE OBLIGATIONS**

At December 31, 2020 and 2019, Rand SBIC had debentures payable to and guaranteed by the SBA totaling \$11,000,000. The weighted average interest rate, including the SBA annual fee, at December 31, 2020 was 3.45%.

The debenture terms require semiannual payments of interest at annual interest rates ranging from 2.245% to 3.644%, plus an annual charge ranging from 0.804% to 0.94%. The debentures have fixed interest rates and a 10-year maturity date. As of December 31, 2020, the Corporation had \$3,000,000 in additional leverage available from the SBA.

The debentures outstanding at December 31, 2020 will mature as follows:

<u>Maturity Date</u>	<u>Leverage</u>
2022	\$ 3,000,000
2023	2,500,000
2024	1,500,000
2025	1,000,000
2029	3,000,000
<b>Total Outstanding</b>	<b>\$ 11,000,000</b>

The Corporation is required to prepay a SBA commitment fee equal to 1% of the face amount of the SBA leverage reserved as a partial prepayment of the SBA’s nonrefundable 3% leverage draw fees. The Corporation paid \$54,562 in leverage fees to the SBA during the year ended December 31, 2019 related to the drawdown of \$2,250,000 in SBA leverage. There was no leverage, or leverage fees paid to the SBA during the year ended December 31, 2020.

Rand SBIC has consented to the exercise by the SBA of all rights of the SBA under 13 C.F.R. 107.1810(i) “SBA remedies for automatic events of default” and has agreed to take all actions that the SBA may so require, which may include an automatic consent to the appointment of SBA or its designee as receiver under section 311(c) of the Act.

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

	December 31, 2020	December 31, 2019
Debentures guaranteed by the SBA	\$ 11,000,000	\$ 11,000,000
Less unamortized issue costs	(175,413)	(213,087)
Debentures guaranteed by the SBA, net	<u>\$ 10,824,587</u>	<u>\$ 10,786,913</u>

**NOTE 6. – STOCKHOLDERS' EQUITY (NET ASSETS)**

At December 31, 2020 and 2019, there were 500,000 shares of \$10.00 par value preferred stock authorized and unissued.

On April 22, 2020, the Board of Directors approved a new share repurchase plan, which authorizes the Corporation to repurchase shares of the Corporation's outstanding common stock with an aggregate cost of up to \$1,500,000 at prices per share of common stock no greater than the then current net asset value. This new share repurchase authorization lasts for a period of 12 months from the authorization date, until April 22, 2021. This new share repurchase plan supplanted and replaced the share repurchase authorization that was previously approved by the Board of Directors in October 2019. Prior to the April 22, 2020 new share repurchase plan, in October 2019 the Board of Directors extended the repurchase authorization of up to 1,541,046 shares of the Common Stock on the open market at prices no greater than the then current net asset value. The Corporation purchased 6,631 shares of common stock for the treasury at a total cost of \$76,729 during the year ended December 31, 2020. No shares of common stock were repurchased during the year ended December 31, 2019.

The Corporation paid a special dividend to shareholders, as a means to distribute all of the Corporation's accumulated earnings and profits from inception to 2019, in May 2020, in preparation for the Corporation's intended RIC election. The Corporation's Board of Directors declared a special dividend of \$23.7 million, or approximately \$1.62 per share, on March 3, 2020. The cash and shares of Rand's common stock representing the special dividend were distributed on May 11, 2020 to shareholders.

In addition, the Corporation's Board of Directors declared a 2020 cash dividend of \$1.33 per share on December 21, 2020. The 2020 cash dividend was paid on January 19, 2021 to shareholders of record as of December 31, 2020. The cash dividend is expected to represent over 90% of Rand's estimated taxable income for 2020.

On May 21, 2020, the Corporation effected a 1-for-9 reverse stock split of its common stock (the "Reverse Stock Split"). The Reverse Stock Split affected all issued and outstanding shares of its common stock, including shares held in treasury. The Reverse Stock Split reduced the number of issued and outstanding shares of the Corporation's common stock from 23,845,470 shares and 23,304,424 shares, respectively, to 2,648,916 shares and 2,588,800 shares, respectively. The Reverse Stock Split did not change the authorized number of shares or the par value of the common stock. Share and per share data included herein has been retroactively restated to reflect the effect of the Reverse Stock Split, as applicable. The Reverse Stock Split affected all shareholders uniformly and did not alter any shareholder's percentage interest in the Corporation's outstanding common stock, except for minor adjustments resulting from the cash payment received for any fractional shares that would have been received as a result of the Reverse Stock Split.

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Summary of changes in equity accounts:

	Common Stock	Capital in excess of par value	Treasury Stock, at cost	Total distributable (losses) earnings	Total Stockholders' Equity (Net Assets)
<b>January 1, 2019</b>	\$ 686,304	\$ 10,581,789	(\$ 1,469,105)	\$ 21,726,199	\$ 31,524,187
Issuance of common stock, net	833,333	23,560,666	—	—	24,393,999
Net decrease in net assets from operations	—	—	—	(2,289,670)	(2,289,670)
<b>December 31, 2019</b>	<u>\$ 1,519,637</u>	<u>\$ 34,142,455</u>	<u>(\$ 1,469,105)</u>	<u>\$ 19,435,529</u>	<u>\$ 53,628,516</u>
<b>January 1, 2020</b>	\$ 1,519,637	\$ 34,142,455	(\$ 1,469,105)	\$ 19,435,529	\$ 53,628,516
Dividend declaration	864,910	18,163,117	—	(27,218,750)	(8,190,723)
Tax reclassification of stockholders' equity in accordance with generally accepted accounting principles	—	(2,421,682)	—	2,421,682	—
Purchase of treasury shares	—	—	(76,729)	—	(76,729)
Net increase in net assets from operations	—	—	—	743,766	743,766
<b>December 31, 2020</b>	<u>\$ 2,384,547</u>	<u>\$ 49,883,890</u>	<u>(\$ 1,545,834)</u>	<u>(\$ 4,617,773)</u>	<u>\$ 46,104,830</u>

**NOTE 7. – EMPLOYEE BENEFIT PLANS**

Prior to the completion of the transaction, the Corporation had a defined contribution 401(k) Plan (the "401K Plan"). The 401K Plan provided a base contribution of 1% for eligible employees and also provided up to 5% matching contributions. The Corporation's contributions to the 401K Plan amounted to \$45,077 and \$45,990 for the years ended December 31, 2019 and 2018, respectively. Effective November 8, 2019, the Corporation entered into the Prior Investment Management Agreement and the Prior Administration Agreement with Rand Capital Management, LLC ("RCM") and, all employees transferred to RCM as of this date. As a result, RCM assumed the obligations for the 401K Plan expenses on a going forward basis as all employees are now employees of RCM.

**NOTE 8. – COMMITMENTS AND CONTINGENCIES**

The Corporation had no commitments at December 31, 2020 or 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.

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 9. – QUARTERLY OPERATIONS AND EARNINGS DATA – UNAUDITED**

	4 <sup>th</sup> Quarter	3 <sup>rd</sup> Quarter	2 <sup>nd</sup> Quarter	1 <sup>st</sup> Quarter
<b>2020</b>				
Investment income	\$ 1,055,680	\$ 736,868	\$ 674,545	\$635,826
Net (decrease) increase in net assets from operations	(\$ 372,465)	\$ 262,523	\$ 423,571	\$430,137
Basic and diluted net (decrease) increase in net assets from operations per weighted share outstanding	(\$ 0.14)	\$ 0.10	\$ 0.20	\$ 0.26
<b>2019</b>				
Investment income	\$ 984,925	\$ 437,355	\$ 583,046	\$719,370
Net increase (decrease) in net assets from operations	\$ 1,481,352	(\$2,878,888)	(\$1,347,549)	\$455,415
Basic and diluted net increase (decrease) in net assets from operations per weighted share outstanding **	\$ 1.19	(\$ 4.10)	(\$ 1.92)	\$ 0.65

\*\* Prior year weighted average shares outstanding adjusted for the 1 for 9 stock reverse split in May 2020

**NOTE 10. – ALLOWANCE FOR DOUBTFUL ACCOUNTS**

The Corporation maintains an allowance for doubtful accounts for estimated uncollectible interest payments due from portfolio investments. The allowance for doubtful accounts is based on a review of the overall condition of the receivable balances and a review of past due amounts. Changes in the allowance for doubtful accounts consist of the following:

	2020	2019	2018
Balance at beginning of year	(\$166,413)	(\$161,000)	(\$161,000)
Provision for losses	—	(5,413)	—
Write offs/Recoveries	151,413	—	—
Balance at end of year	<u>(\$ 15,000)</u>	<u>(\$166,413)</u>	<u>(\$161,000)</u>

**NOTE 11. – RELATED PARTY TRANSACTIONS**

**Investment Management Agreement**

Effective with the Closing, RCM, a registered investment adviser, has been retained by the Corporation as its external investment adviser and administrator. Under the terms of the Investment Management Agreement, the Corporation pays RCM, as compensation for the investment advisory and management services, fees consisting of two components: (i) the Base Management Fee and (ii) the Incentive Fee.

The “Base Management Fee” is calculated at an annual rate of 1.50% of the Corporation’s total assets (other than cash or cash equivalents but including assets purchased with borrowed funds). For the years ended December 31, 2020 and 2019, the Base Management Fees earned by RCM were \$589,519 and \$85,483, respectively. As of December 31, 2020, and 2019, the Corporation had \$155,318 and \$49,359, respectively, payable for the Base Management Fees on its Consolidated Statements of Financial Position. In addition, at December 31, 2020 and 2019, the Corporation had \$1,681 and \$1,205, respectively, payable to RCM for the expenses associated with the Administration Agreement.

The “Incentive Fee” is comprised of two parts: (1) the “Income Based Fee” and (2) the “Capital Gains Fee”. The Income Based Fee is calculated and payable quarterly in arrears based on the “Pre-Incentive Fee Net

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Investment Income” (as defined in the agreement) for the immediately preceding calendar quarter, subject to a hurdle rate of 1.75% per quarter (7% annualized) and is payable promptly following the filing of the Corporation’s financial statements for such quarter.

The Corporation pays RCM an Incentive Fee with respect to their Pre-Incentive Fee Net Investment Income in each calendar quarter as follows:

- (i) no Income Based Fee in any quarter in which the Pre-Incentive Fee Net Investment Income for such quarter does not exceed the hurdle rate of 1.75% (7.00% annualized);
- (ii) 100% of the Pre-Incentive Fee Net Investment Income for any calendar quarter with respect to that portion of the Pre-Incentive Fee Net Investment Income for such calendar quarter, if any, that exceeds the hurdle rate of 1.75% (7.00% annualized) but is less than 2.1875% (8.75% annualized); and
- (iii) 20% of the amount of the Pre-Incentive Fee Net Investment Income for any calendar quarter with respect to that portion of the Pre-Incentive Fee Net Investment Income for such calendar quarter, if any, that exceeds 2.1875% (8.75% annualized).

The Income Based Fee paid to RCM for any calendar quarter that begins more than two years and three months after the effective date of the Prior Investment Management Agreement shall not be in excess of the Incentive Fee Cap. The “Incentive Fee Cap” for any quarter is an amount equal to (1) 20.0% of the Cumulative Net Return (as defined below) during the relevant Income Based Fee Calculation Period (as defined below) minus (2) the aggregate Income Based Fee that was paid in respect of the calendar quarters included in the relevant Income Based Fee Calculation Period.

For purposes of the calculation of the Income Based Fee, “Income Based Fee Calculation Period” is defined as, with reference to a calendar quarter, the period of time consisting of such calendar quarter and the additional quarters that comprise the lesser of (1) the number of quarters immediately preceding such calendar quarter that began more than two years after the effective date of the Prior Investment Management Agreement or (2) the eleven calendar quarters immediately preceding such calendar quarter.

For purposes of the calculation of the Income Based Fee, “Cumulative Net Return” is defined as (1) the aggregate net investment income in respect of the relevant Income Based Fee Calculation Period minus (2) any Net Capital Loss, if any, in respect of the relevant Income Based Fee Calculation Period. If, in any quarter, the Incentive Fee Cap is zero or a negative value, we pay no Income Based Fee to RCM for such quarter. If, in any quarter, the Incentive Fee Cap for such quarter is a positive value but is less than the Income Based Fee that is payable to RCM for such quarter (before giving effect to the Incentive Fee Cap) calculated as described above, we pay an Income Based Fee to RCM equal to the Incentive Fee Cap for such quarter. If, in any quarter, the Incentive Fee Cap for such quarter is equal to or greater than the Income Based Fee that is payable to RCM for such quarter (before giving effect to the Incentive Fee Cap) calculated as described above, we pay an Income Based Fee to the Adviser equal to the Income Based Fee calculated as described above for such quarter without regard to the Incentive Fee Cap.

For purposes of the calculation of the Income Based Fee, “Net Capital Loss,” in respect of a particular period, means the difference, if positive, between (1) aggregate capital losses, whether realized or unrealized, in such period and (2) aggregate capital gains, whether realized or unrealized, in such period.

Any Income Based Fee otherwise payable under the Investment Management Agreement with respect to Accrued Unpaid Income (such fees being the “Accrued Unpaid Income Based Fees”) shall be deferred, on a security-by-security basis, and shall become payable to the Adviser only if, as, when and to the extent cash is received by us in respect of any Accrued Unpaid Income. Any Accrued Unpaid Income that is subsequently reversed by us in connection with a write-down, write-off, impairment, or similar treatment of the investment giving rise to such Accrued Unpaid Income will, in the applicable period of reversal, (1) reduce Pre-Incentive

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Fee Net Investment Income and (2) reduce the amount of Accrued Unpaid Income Based Fees. Subsequent payments of Accrued Unpaid Income Based Fees that are deferred shall not reduce the amounts otherwise payable for any quarter as an Income Based Fee.

For the years ended December 31, 2020 and 2019, there were no Income Based Fees earned under the Investment Management Agreement.

The second part of the Incentive Fee is the "Capital Gains Fee". This fee will be determined and payable in arrears as of the end of each calendar year, commencing with the calendar year ended on December 31, 2019. Under the terms of the Investment Management Agreement, the Capital Gains Fee is calculated at the end of each applicable year by subtracting (1) the sum of the cumulative aggregate realized capital losses and aggregate unrealized capital depreciation from (2) the cumulative aggregate realized capital gains, in each case calculated from the effective date of the Prior Investment Management Agreement. If this amount is positive at the end of any calendar year, then the Capital Gains Fee for such year is equal to 20.0% of such amount, less the cumulative aggregate amount of Capital Gains Fees paid in all prior years. If such amount is negative, then there is no Capital Gains Fee payable for that calendar year. If the Investment Management Agreement is terminated as of a date that is not a calendar year end, the termination date shall be treated as though it were a calendar year end for purposes of calculating and paying the Capital Gains Fee.

For purposes of the Capital Gains Fee:

- The cumulative aggregate realized capital gains are calculated as the sum of the differences, if positive, between (a) the net sales price of each investment in the Corporations portfolio when sold and (b) the accreted or amortized cost basis of such investment.
- The cumulative aggregate realized capital losses are calculated as the sum of the amounts by which (a) the net sales price of each investment in the portfolio when sold is less than (b) the accreted or amortized cost basis of such investment.
- The aggregate unrealized capital depreciation is calculated as the sum of the differences, if negative, between (a) the valuation of each investment in the portfolio as of the applicable Capital Gains Fee calculation date and (b) the accreted or amortized cost basis of such investment.

As of December 31, 2020, and 2019, there were no Capital Gains Fees earned or payable to RCM under the Investment Management Agreement because unrealized losses on the portfolio exceed realized gains. If the entire portfolio were to be liquidated as of December 31, 2020, there would be a capital gain incentive fee liability of approximately \$566,000 based on those values. However, given the unlikely and remote nature of such a transaction, the amount has not been recorded.

**Administration Agreement**

Under the terms of the Administration Agreement, RCM agreed to perform (or oversee, or arrange for, the performance of) the administrative services necessary for the Corporation's operations, including, but not limited to, office facilities, equipment, clerical, bookkeeping, finance, accounting, compliance and record keeping services at such office facilities and such other services as RCM, subject to review by the Corporation's Board of Directors, will from time to time determine to be necessary or useful to perform its obligations under the Administration Agreement. RCM shall also, arrange for the services of, and oversee, custodians, depositories, transfer agents, dividend disbursing agents, other shareholder servicing agents, accountants, attorneys, underwriters, brokers and dealers, corporate fiduciaries, insurers, banks and such other persons in any such other capacity deemed to be necessary or desirable.

RCM is responsible for our financial and other records that are required to be maintained and prepares all reports and other materials required to be filed with the SEC or any other regulatory authority, including reports

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

to shareholders. In addition, RCM assists us in determining and publishing the Corporation's net asset value (NAV), overseeing the preparation and filing of our tax returns, and the printing and dissemination of reports to shareholders, and generally overseeing the payment of our expenses and the performance of administrative and professional services rendered by others. RCM provides, on the Corporation's behalf, managerial assistance to those portfolio companies that have accepted its offer to provide such assistance.

As of December 31, 2020, and 2019, the Corporation recorded \$1,681 and \$1,205, respectively, in accrued expenses and other liabilities on its Consolidated Statement of Financial Position for reimbursement of expenses owed to RCM under the Administration Agreement.

**NOTE 12. – SUBSEQUENT EVENT**

Subsequent to year end, on February 25, 2021, Rand's Board of Directors declared a quarterly cash dividend of \$0.10 per share. The cash dividend will be paid on or about March 29, 2021 to shareholders of record as of March 15, 2021.



**RAND CAPITAL CORPORATION AND SUBSIDIARY**  
**SCHEDULE OF CONSOLIDATED CHANGES IN INVESTMENTS AT**  
**COST AND REALIZED LOSS**  
**For the Year Ended December 31, 2020**

	Cost Increase (Decrease)	Realized (Loss) Gain
<b>New investments:</b>		
Caitec Acquisition, Inc.	\$ 3,800,000	\$ —
Science and Medicine Group, Inc.	1,900,000	—
SciAps, Inc.	1,500,000	—
Tilson Technology Management, Inc.	750,003	—
Centivo Corporation	500,000	—
Golub Capital BDC, Inc.	403,910	—
TCG BDC, Inc.	376,996	—
PennantPark Investment Corporation	370,130	—
Apollo Investment Corporation	364,084	—
Owl Rock Capital Corporation	347,067	—
Ares Capital Corporation	343,460	—
FS KKR Capital Corp.	338,980	—
Barings BDC, Inc.	333,352	—
Total of new investments	11,327,982	—
<b>Other changes to investments:</b>		
AIKG LLC (Andretti) interest conversion	177,574	—
Mattison Avenue Holdings LLC interest conversion	85,526	—
Filterworks Acquisition USA LLC interest conversion	47,178	—
HDI Acquisition LLC (Hilton Displays) interest conversion	25,601	—
Microcision LLC (Microcision) OID amortization	21,997	—
Genicon, Inc. OID amortization	15,804	—
GoNoodle, Inc. interest conversion	15,082	—
Caitec Acquisition, Inc. interest conversion	10,701	—
SciAps, Inc. OID amortization	10,000	—
Total of other changes to investments	409,463	—
<b>Investments repaid, sold or liquidated:</b>		
AIKG LLC (Andretti) loan repayment	(4,575,699)	—
Genicon, Inc. liquidation	(5,125,561)	(5,125,561)
OutMatch Holdings, LLC investment sold	(2,145,496)	2,318,253
Teleservices Solutions Holdings, LLC portfolio liquidation	(1,636,078)	(1,636,078)
Open Exchange, Inc. loan repayment	(450,000)	—
G-TEC Natural Gas Systems portfolio liquidation	(400,000)	(400,000)
DataView, LLC portfolio liquidation	(310,357)	(310,357)
BeetNPath, LLC liquidation	(882,904)	(882,904)
UStec/Wi3 portfolio liquidation	(100,500)	(100,500)
Advantage 24/7 LLC loan repayment & realized gain	(10,000)	36,877
Microcision LLC realized gain	—	116,991
Total of investments repaid, sold or liquidated	(15,636,595)	(5,983,279)
<b>Net change in investments, at cost</b>	<b><u>(\$ 3,899,150)</u></b>	<b><u>(\$ 5,983,279)</u></b>

**Report of Independent Registered Public Accounting Firm**

To the Stockholders and the Board of Directors of  
Rand Capital Corporation and Subsidiaries

**Opinion on the Financial Statements**

We have audited the accompanying consolidated statements of financial position, including the consolidated schedules of portfolio investments, of Rand Capital Corporation and Subsidiaries (the Corporation) as of December 31, 2020 and 2019, and the related consolidated statements of operations, changes in net assets and cash flows for each of the three years in the period ended December 31, 2020, and the related notes to the consolidated financial statements, and the financial highlights schedule for each of the five years in the period ended December 31, 2020 (collectively, the financial statements). In our opinion, the financial statements and financial highlights schedule present fairly, in all material respects, the financial position of Rand Capital Corporation and Subsidiaries as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, and the financial highlights for each of the five years in the period ended December 31, 2020 in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

These financial statements and the financial highlights schedule are the responsibility of the Corporation's management. Our responsibility is to express an opinion on the Corporation's financial statements and financial highlights schedule based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Corporation in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights schedule are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements and financial highlights schedule, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements and financial highlights schedule. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and financial highlights schedule. Our procedures included confirmation of investments as of December 31, 2020 and 2019, by correspondence with portfolio companies and custodian(s); or by other appropriate audit procedures when replies were not received. We believe that our audits provide a reasonable basis for our opinion.

The supplemental schedule of consolidated changes in investments at cost and realized loss for the year ended December 31, 2020 has been subjected to audit procedures performed in conjunction with the audit of the Corporation's financial statements. The supplemental schedule is the responsibility of the Corporation's management. Our audit procedures included determining whether the supplemental schedule reconciles to the financial statements or the underlying accounting and other records, as applicable and performing procedures to test the completeness and accuracy of the information presented in the supplemental schedule. In forming our opinion on the supplemental schedule, we evaluated whether the supplemental schedule, including its form and content, is presented in conformity with accounting principles generally accepted in the United States of America. In our opinion, the supplemental schedule of consolidated changes in investments at cost and realized gain for the year ended December 31, 2020 is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Critical Audit Matters**

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgements. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

**Fair-Value – Level 3 Investments**

**Critical Audit Matter Description**

At December 31, 2020, the fair value of the Corporation’s investments categorized as Level 3 investments within the fair value hierarchy (Level 3 investments) totaled \$36,752,164. Management determines the fair value of the Corporation’s Level 3 investments by applying the methodologies outlined in Note 2 to the consolidated financial statements and using significant unobservable inputs and assumptions. Determining the fair value of the Level 3 investments requires management to make judgments about the valuation methodologies and significant unobservable inputs and assumptions including, among others, EBITDA multiples and revenue multiples, used in determining the fair value measurements.

**How the Critical Audit Matter Was Addressed in the Audit**

Auditing the fair value of the Corporation’s Level 3 investments was complex, as the unobservable inputs and assumptions used by the Corporation are highly judgmental, are sensitive to economic factors, and could have a significant effect on the fair value measurement of such investments.

Our audit procedures included, among others, obtaining an understanding and evaluated the design of controls over the Corporation’s investment valuation process, evaluating the Corporation’s valuation methodologies, testing the significant unobservable inputs and assumptions used by the Corporation in determining the fair value of the Corporation’s Level 3 investments, and testing the mathematical accuracy of the Corporation’s valuation calculations. For Level 3 investment, we reviewed the information considered by the Board of Directors relating to the Corporation’s determination of fair value. For a selection of the Corporation’s Level 3 investments, we independently developed fair value estimates and compared them to the Corporation’s estimates. We developed our independent fair value estimates by using the respective investments financial information, which we compared to underlying source documents provided to the Corporation by the investment, and available market information from third-party sources, such as market multiples. We also evaluated subsequent events and other available information and considered whether they corroborated or contradicted the Corporation’s year-end valuations.

/s/ FREED MAXICK CPAs, P.C.

We have served as the Corporation’s auditor since 2003.

Buffalo, New York  
March 8, 2021

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None

**Item 9A. 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, as amended, 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 our Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Our 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 December 31, 2020. 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 December 31, 2020.

*Management Report on Internal Control Over Financial Reporting.* The executive officers of the Corporation are responsible for establishing and maintaining adequate internal control over financial reporting. The Corporation’s internal control system is a process designed to provide reasonable assurance to the Corporation’s executive officers and Board of Directors regarding the preparation and fair presentation of published financial statements.

---

## Table of Contents

Our Chief Executive Officer and the Chief Financial Officer assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2020. In making this assessment, our Chief Executive Officer and the Chief Financial Officer used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework (2013). Based on their assessment, our Chief Executive Officer and the Chief Financial Officer believes that, as of December 31, 2020, the Corporation's internal control over financial reporting is effective.

This annual report does not include an attestation report of the Corporation's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Corporation's independent registered public accounting firm pursuant to rules of the SEC that permit the Corporation to provide only management's report in this Annual Report on Form 10-K.

### *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 quarter ended December 31, 2020 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

### **Item 9B. Other Information**

None

**Part III**

**Item 10. *Directors, Executive Officers and Corporate Governance***

Information in response to this Item is incorporated herein by reference to the information under the headings “PROPOSAL1-ELECTION OF DIRECTORS”, “COMMITTEES AND MEETING DATA,” provided in the Corporation’s definitive Proxy Statement for its 2021 Annual Meeting of Shareholders, to be filed under Regulation 14A (the “2021 Proxy Statement”).

**Item 11. *Executive Compensation***

Information in response to this Item is incorporated herein by reference to the information provided in the Corporation’s 2021 Proxy Statement under the heading “DIRECTOR COMPENSATION.”

**Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

Information in response to this Item is incorporated herein by reference to the information provided in the Corporation’s 2021 Proxy Statement under the heading “BENEFICIAL OWNERSHIP OF SHARES.”

**Item 13. *Certain Relationships and Related Transactions, and Director Independence***

Information in response to this Item is incorporated herein by reference to the information in the Corporation’s 2021 Proxy Statement under the heading “DIRECTOR INDEPENDENCE” and “RELATED PERSON TRANSACTIONS”.

**Item 14. *Principal Accountant Fees and Services***

Information concerning the Corporation’s independent auditors, the audit committee’s pre-approval policy for audit services and our principal accountant fees and services is contained in the Corporation’s 2021 Proxy Statement under the heading “INDEPENDENT REGISTERED PUBLIC ACCOUNTANT FEES”.

**Part IV**

**Item 15. Exhibits and Financial Statement Schedules**

- (a) The following documents are filed as part of this report and included in Item 8:
- (1) CONSOLIDATED FINANCIAL STATEMENTS
    - Consolidated Statements of Financial Position as of December 31, 2020 and 2019
    - Consolidated Statements of Operations for the three years in the period ended December 31, 2020
    - Consolidated Statements of Changes in Net Assets for the three years in the period ended December 31, 2020
    - Consolidated Statements of Cash Flows for the three years in the period ended December 31, 2020
    - Consolidated Schedule of Portfolio Investments as of December 31, 2020
    - Consolidated Schedule of Portfolio Investments as of December 31, 2019
    - Financial Highlights Schedule for the five years in the period ended December 31, 2020
    - Notes to the Consolidated Financial Statements
    - Supplemental Schedule of Consolidated Changes in Investments at Cost and Realized Gain for the year ended December 31, 2020
    - Report of Independent Registered Public Accounting Firm
  - (2) FINANCIAL STATEMENT SCHEDULES
    - The required financial statement Schedule II – Valuation and Qualifying Accounts has been omitted because the information required is included in the Notes to the consolidated financial statements.
- b) The following exhibits are filed with this report or are incorporated herein by reference to a prior filing, in accordance with Rule 2b-32 under the Securities Exchange Act of 1934, as amended.
- (3.1)(i) [Certificate of Incorporation of the Corporation, incorporated by reference to Exhibit \(a\)\(1\) of Form N-2 filed with the SEC on April 22, 1997. \(File No. 333-25617\).](#)
  - (3.1)(ii) [Certificate of Amendment to the Certificate of Incorporation, as amended, incorporated by reference to Exhibit 3.1 to the Corporation's Current Report on Form 8-K filed with the SEC on November 12, 2019.](#)
  - (3.1)(iii) [Certificate of Amendment to the Certificate of Incorporation, as amended, incorporated by reference to Exhibit 3.1 to the Corporation's Current Report on Form 8-K filed with the SEC on May 21, 2020.](#)
  - (3.1)(iv) [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 SEC on November 2, 2016. \(File No. 814-00235\).](#)
  - (3.2)(i) [Certificate of Incorporation of Rand Merger Corporation as filed with the New York Department of State on December 18, 2008, incorporated by reference to Exhibit 1\(a\) to Registration Statement No. 811-22276 on Form N-5 of Rand Capital SBIC, Inc. filed with the SEC on February 6, 2009. \(File No. 811-22276\).](#)
  - (3.2)(ii) [By-laws of Rand Capital SBIC, Inc., incorporated by reference to Exhibit 2 to Registration Statement No. 811-22276 on Form N-5 of Rand Capital SBIC, Inc. filed with the SEC on February 6, 2009. \(File No. 811-22276\).](#)

## Table of Contents

- (4.1) [Specimen certificate of common stock certificate, incorporated by reference to Exhibit \(b\) of Form N-2 filed with the SEC on April 22, 1997. \(File No. 333-25617\).](#)
- (4.2) [Description of Securities of Rand Capital Corporation registered under Section 12 of the Securities Exchange Act of 1934, as amended, incorporated by reference to Exhibit 4.2 to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2019, as filed with the SEC on March 9, 2020.](#)
- (10.1) [Certificate of Merger of Rand Capital SBIC, L.P. and Rand Capital Management, LLC into Rand Merger Corporation, as filed with the New York Department of State on December 18, 2008, incorporated by reference to Exhibit 1\(b\) to Registration Statement No. 811-22276 on Form N-5 of Rand Capital SBIC, Inc. filed with the SEC on February 6, 2009. \(File No. 811-22276\).](#)
- (10.2) [Stock Purchase Agreement, dated as of January 24, 2019, by and among East Asset Management LLC, Rand Capital Corporation and, solely for purposes of being bound by Sections 7.10 and 10.9\(a\) and \(b\) thereof, Rand Capital Management, LLC, incorporated by reference to Exhibit 10.1 to the Corporation's Current Report on Form 8-K filed with the SEC on January 25, 2019.](#)
- (10.3) [Investment Advisory and Management Agreement, dated as of December 31, 2020, between Rand Capital Corporation and Rand Capital Management LLC, incorporated by reference to Exhibit 10.1 to the Corporation's Current Report on Form 8-K filed with the SEC on January 4, 2021.](#)
- (10.4) [Administration Agreement, dated as of December 31, 2020, between Rand Capital Corporation and Rand Capital Management LLC, incorporated by reference to Exhibit 10.2 to the Corporation's Current Report on Form 8-K filed with the SEC on January 4, 2021.](#)
- (10.5) [Shareholder Agreement, dated as of November 8, 2019, by and between Rand Capital Corporation and East Asset Management, LLC, incorporated by reference to Exhibit 10.3 to the Corporation's Current Report on Form 8-K filed with the SEC on November 12, 2019.](#)
- (21.1) [Subsidiaries of Rand Capital Corporation, incorporated by reference to Exhibit 21.1 to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2019, as filed with the SEC on March 9, 2020.](#)
- (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.](#)
- (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.](#)
- (32.1)# [Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – Rand Capital Corporation.](#)

# Filed herewith.

### **Item 16. Form 10-K Summary**

None

**Signatures**

Pursuant to the requirements of Section 13 or 15(d) of Securities Exchange Act of 1934, the registrant has duly caused this Report on Form 10-K to be signed on its behalf by the undersigned thereunto duly authorized.

Date: March 8, 2021

RAND CAPITAL CORPORATION

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the Corporation in the capacities and on the dates indicated.

	<u>Signature/Title</u>	
<b>(i) Principal Executive Officer:</b>		
<u>/s/ Allen F. Grum</u> Allen F. Grum / President		March 8, 2021
<b>(ii) Principal Accounting &amp; Financial Officer:</b>		
<u>/s/ Daniel P. Penberthy</u> Daniel P. Penberthy / Treasurer		March 8, 2021
<b>(iii) Directors:</b>		
<u>/s/ Benjamin E. Godley</u> Benjamin E. Godley / Director		March 8, 2021
<u>/s/ Allen F. Grum</u> Allen F. Grum / Director		March 8, 2021
<u>/s/ Adam S. Gusky</u> Adam S. Gusky / Director		March 8, 2021
<u>/s/ Erland E. Kailbourne</u> Erland E. Kailbourne / Director		March 8, 2021
<u>/s/ Robert M. Zak</u> Robert M. Zak / Director		March 8, 2021

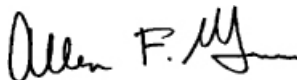


**CERTIFICATION**  
**of**  
**Principal Executive Officer Pursuant to Rules 13a-14(a)/15d-14(a) under the**  
**Securities Exchange Act of 1934, as amended**

I, Allen F. Grum, certify that:

1. I have reviewed this annual report on Form 10-K of Rand Capital Corporation and subsidiaries;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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 annual 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 annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 8, 2021



---

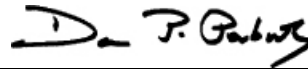
Allen F. Grum, President  
(Principal Executive Officer of Rand Capital Corporation and Principal  
Executive Officer of  
Rand Capital SBIC, Inc.)

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

I, Daniel P. Penberthy, certify that:

1. I have reviewed this annual report on Form 10-K of Rand Capital Corporation and subsidiaries;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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 annual 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 annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 8, 2021



---

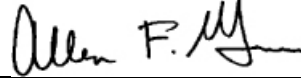
Daniel P. Penberthy, Treasurer  
(Principal Financial Officer of Rand Capital Corporation and Principal  
Financial Officer of  
Rand Capital SBIC, Inc.)

**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 Annual Report on Form 10-K for the year ended December 31, 2020 (the "Form 10-K") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 8, 2021



---

Allen F. Grum, President  
(Chief Executive Officer)

Dated: March 8, 2021



---

Daniel P. Penberthy, Treasurer  
(Chief Financial Officer)