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

FORM 10-Q

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

For the quarterly period ended June 30, 2019

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

For the Transition Period from _____ to _____

Commission File Number: 814-00235

Rand Capital Corporation

(Exact Name of Registrant as specified in its Charter)

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

16-0961359
(IRS Employer
Identification No.)

2200 Rand Building,
Buffalo, NY
(Address of Principal executive offices)

14203
(Zip Code)

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

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

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

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

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

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

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

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

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

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements and Supplementary Data

RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30, 2019 (Unaudited)	December 31, 2018
ASSETS		
Investments at fair value:		
Control investments (cost of \$0 and \$99,500, respectively)	\$ —	\$ 99,500
Affiliate investments (cost of \$21,313,526 and \$20,708,659, respectively)	18,302,106	17,026,091
Non- Control/Non-Affiliate investments (cost of \$14,154,010 and \$17,483,984, respectively)	12,939,939	17,541,213
Total investments, at fair value (cost of \$35,467,536 and \$38,292,143, respectively)	31,242,045	34,666,804
Cash and cash equivalents	8,646,007	4,033,792
Interest receivable (net of allowance of \$166,413 and \$161,000, respectively)	119,717	145,532
Deferred tax asset	842,218	525,198
Prepaid income taxes	503,067	1,138,708
Other assets	346,010	11,690
Total assets	<u>\$41,699,064</u>	<u>\$40,521,724</u>
LIABILITIES AND STOCKHOLDERS' EQUITY (NET ASSETS)		
Liabilities:		
Debentures guaranteed by the SBA (net of debt issuance costs)	\$10,768,075	\$ 8,554,443
Profit sharing and bonus payable	—	125,000
Accounts payable and accrued expenses	264,529	245,758
Deferred revenue	34,407	72,336
Total liabilities	11,067,011	8,997,537
Commitments and contingencies (See Note 5)		
Stockholders' equity (net assets):		
Common stock, \$0.10 par; shares authorized 10,000,000; shares issued 6,863,034; shares outstanding of 6,321,988 as of 6/30/19 and 12/31/18	686,304	686,304
Capital in excess of par value	10,581,789	10,581,789
Accumulated net investment loss	(1,786,085)	(1,665,552)
Undistributed net realized gain on investments	25,920,065	26,221,443
Net unrealized depreciation on investments	(3,300,915)	(2,830,692)
Treasury stock, at cost: 541,046 shares	(1,469,105)	(1,469,105)
Total stockholders' equity (net assets) (per share- 6/30/19: \$4.85,12/31/18: \$4.99)	30,632,053	31,524,187
Total liabilities and stockholders' equity (net assets)	<u>\$41,699,064</u>	<u>\$40,521,724</u>

See accompanying notes

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

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Investment income:				
Interest from portfolio companies:				
Affiliate investments	\$ 206,036	\$ 175,990	\$ 414,751	\$ 323,026
Non-Control/Non-Affiliate investments	109,453	139,710	306,703	290,022
Total interest from portfolio companies	315,489	315,700	721,454	613,048
Interest from other investments:				
Non-Control/Non-Affiliate investments	53,538	7,735	71,349	12,845
Total interest from other investments	53,538	7,735	71,349	12,845
Dividend and other investment income:				
Affiliate investments	207,060	76,266	241,685	127,049
Non-Control/Non-Affiliate investments	—	2,676	—	6,058
Total dividend and other investment income	207,060	78,942	241,685	133,107
Fee income:				
Affiliate investments	3,606	4,416	7,853	7,583
Non-Control/Non-Affiliate investments	3,353	6,725	260,075	9,744
Total fee income	6,959	11,141	267,928	17,327
Total investment income	583,046	413,518	1,302,416	776,327
Expenses:				
Salaries	181,500	169,875	363,000	339,749
Employee benefits	40,167	45,251	103,099	108,996
Directors' fees	28,624	28,624	57,248	63,499
Professional fees	111,273	37,341	337,928	139,028
Stockholders and office operating	319,506	64,599	380,761	129,038
Insurance	10,969	6,900	20,570	18,888
Corporate development	14,866	10,646	33,326	26,442
Other operating	1,225	2,424	2,809	5,115
	708,130	365,660	1,298,741	830,755
Interest on SBA obligations	110,534	77,269	209,658	154,838
Bad debt expense	5,413	30,741	5,413	76,641
Total expenses	824,077	473,670	1,513,812	1,062,234
Net investment loss before income taxes	(241,031)	(60,152)	(211,396)	(285,907)
Income tax benefit	(97,731)	(22,384)	(90,863)	(74,810)
Net investment loss	(143,300)	(37,768)	(120,533)	(211,097)
Net realized gain (loss) on sales and dispositions of investments:				
Control investments	39,893	—	80,393	—
Affiliate investments	(472,632)	—	(472,632)	—
Net realized gain (loss) on sales and dispositions, before income taxes	(432,739)	—	(392,239)	—
Income tax benefit	(100,230)	—	(90,861)	—
Net realized loss on sales and dispositions of investments	(332,509)	—	(301,378)	—
Net change in unrealized depreciation on investments:				
Affiliate investments	(372,448)	(306,441)	671,148	(556,441)
Non-Control/Non-Affiliate investments	(750,000)	(450,000)	(1,271,300)	(651,489)
Change in unrealized depreciation before income tax benefit	(1,122,448)	(756,441)	(600,152)	(1,207,930)
Deferred income tax benefit	(250,708)	(162,915)	(129,929)	(267,320)
Net change in unrealized depreciation on investments	(871,740)	(593,526)	(470,223)	(940,610)
Net realized and unrealized loss on investments	(1,204,249)	(593,526)	(771,601)	(940,610)
Net decrease in net assets from operations	(\$ 1,347,549)	(\$ 631,294)	(\$ 892,134)	(\$ 1,151,707)
Weighted average shares outstanding	6,321,988	6,321,988	6,321,988	6,321,988
Basic and diluted net decrease in net assets from operations per share	(\$ 0.21)	(\$ 0.10)	(\$ 0.14)	(\$ 0.18)

See accompanying notes

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

	Three months ended <u>June 30, 2019</u>	Three months ended <u>June 30, 2018</u>	Six months ended <u>June 30, 2019</u>	Six months ended <u>June 30, 2018</u>
Net assets at beginning of period	\$ 31,979,602	\$ 31,398,272	\$ 31,524,187	\$ 31,918,685
Net investment loss	(143,300)	(37,768)	(120,533)	(211,097)
Net realized loss on sales and dispositions of investments	(332,509)	—	(301,378)	—
Net change in unrealized depreciation on investments	(871,740)	(593,526)	(470,223)	(940,610)
Net decrease in net assets from operations	(1,347,549)	(631,294)	(892,134)	(1,151,707)
Net assets at end of period	<u>\$ 30,632,053</u>	<u>\$ 30,766,978</u>	<u>\$ 30,632,053</u>	<u>\$ 30,766,978</u>
Accumulated net investment loss	<u>(\$ 1,786,085)</u>	<u>(\$ 1,808,243)</u>	<u>(\$ 1,786,085)</u>	<u>(\$ 1,808,243)</u>

See accompanying notes

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

	Six months ended June 30, 2019	Six months ended June 30, 2018
Cash flows from operating activities:		
Net decrease in net assets from operations	(\$ 892,134)	(\$ 1,151,707)
Adjustments to reconcile net decrease in net assets to net cash provided by (used in) operating activities:		
Investments in portfolio companies	(900,012)	(1,225,000)
Proceeds from sale of portfolio investments	39,893	—
Proceeds from loan repayments	3,525,000	70,131
Net realized loss on portfolio investments	392,239	—
Change in unrealized depreciation on investments before income taxes	600,152	1,207,930
Deferred tax benefit	(317,020)	(347,040)
Depreciation and amortization	18,325	14,800
Original issue discount amortization	(20,382)	(19,271)
Non-cash conversion of debenture interest	(212,131)	(77,154)
Change in interest receivable allowance	5,413	76,641
Changes in operating assets and liabilities:		
Decrease in interest receivable	20,402	26,510
Increase in other assets	(334,451)	(14,202)
Decrease in prepaid income taxes	635,641	21,961
Increase (decrease) in accounts payable and accrued expenses	18,771	(21,430)
Decrease in profit sharing and bonus payable	(125,000)	(132,000)
(Decrease) increase in deferred revenue	(37,928)	28,173
Total adjustments	3,308,912	(389,951)
Net cash provided by (used in) operating activities	2,416,778	(1,541,658)
Cash flows from financing activities:		
Proceeds from SBA debentures	2,250,000	—
Origination costs to SBA	(54,563)	—
Net cash provided by financing activities	2,195,437	—
Net increase (decrease) in cash and cash equivalents	4,612,215	(1,541,658)
Cash and cash equivalents:		
Beginning of period	4,033,792	6,262,039
End of period	<u>\$ 8,646,007</u>	<u>\$ 4,720,381</u>

See accompanying notes

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

Company, Geographic Location, Business Description, (Industry) and Website	(a) Type of Investment	(b) Date Acquired	(c) Equity	Cost	(d)(f) Fair Value	Percent of Net Assets
Non-Control/Non-Affiliate Investments – 42.3% of net assets: (j)						
ACV Auctions, Inc. (e)(g) Buffalo, NY. Live mobile wholesale auctions for new and used car dealers. (Software) www.acvauctions.com	1,181,160 Series A Preferred.	8/12/16	<1%	\$ 163,000	\$ 2,776,907	9.1%
Advantage 24/7 LLC (g)(h) Williamsville, NY. Marketing program for wine and spirits dealers. (Marketing Company) www.advantage24-7.com	\$140,000 Term Note at 7% due January 1, 2022.	12/30/10	0%	115,000	115,000	0.4%
Centivo Corporation (e)(g) New York, NY. Tech-enabled health solutions company that helps self-insured employers and their employees save money and have a better experience. (Health Care) www.centivo.com	190,967 Series A-1 Preferred. 337,808 Series A-2 Preferred. Total Centivo	7/5/17	<1%	200,000 <u>101,342</u> <u>301,342</u>	200,000 <u>101,342</u> <u>301,342</u>	1.0%
Empire Genomics, LLC (g)(l) Buffalo, NY. Molecular diagnostics company that offers a comprehensive menu of assay services for diagnosing and guiding patient therapeutic treatments. (Health Care) www.empiregenomics.com	\$1,209,014 Senior Secured Convertible Term Notes at 10% (8% PIK through September 30, 2019) due December 31, 2020. \$444,915 Promissory Note at 9% (4% PIK) due December 31, 2020. Total Empire	6/13/14	0%	1,283,016 <u>444,915</u> <u>1,727,931</u>	524,002 <u>302,569</u> <u>826,571</u>	2.7%
GiveGab, Inc. (e)(g) Ithaca, NY. Online fundraising, day of giving supporter engagement software for non-profit organizations. (Software) www.givegab.com	5,084,329 Series Seed Preferred.	3/13/13	4%	616,221	616,221	2.0%
GoNoodle, Inc. (g)(l) Nashville, TN. Student engagement education software providing core aligned physical activity breaks. (Software) www.gonoodle.com	\$1,000,000 Secured Note at 12% due January 31, 2020, (1% PIK). Warrant for 47,324 Series C Preferred. Total GoNoodle	2/6/15	<1%	1,044,868 <u>25</u> <u>1,044,893</u>	1,044,868 <u>25</u> <u>1,044,893</u>	3.4%
Mercantile Adjustment Bureau, LLC (g) Williamsville, NY. Full service accounts receivable management and collections company. (Contact Center) www.mercantilesolutions.com	\$1,199,039 Subordinated Secured Note at 13% (3% for the calendar year 2019) due January 31, 2020. (e) \$150,000 Subordinated Debenture at 8% due June 30, 2018. Warrant for 3.29% Membership Interests. Option for 1.5% Membership Interests. Total Mercantile	10/22/12	4%	1,199,040 150,000 <u>97,625</u> <u>1,446,665</u>	500,000 - <u>-</u> <u>500,000</u>	1.7%
Outmatch Holdings, LLC (e)(g) (Chequed Holdings, LLC) Dallas, TX. Web based predictive employee selection and reference checking. (Software) www.outmatch.com	2,908,686.55 Class P1 Units. 109,788 Class C1 Units. Total Outmatch	11/18/10	4%	2,140,007 <u>5,489</u> <u>2,145,496</u>	2,140,007 <u>5,489</u> <u>2,145,496</u>	7.0%
PostProcess Technologies LLC (e)(g) Buffalo, NY. Provides innovative solutions for the post-processing of additive manufactured 3D parts. (Manufacturing) www.postprocess.com	\$300,000 Convertible Promissory Note at 5% due July 28, 2020.	7/25/16	0%	300,000	300,000	1.0%

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

Company, Geographic Location, Business Description, (Industry) and Website	(a) Type of Investment	(b) Date Acquired	(c) Equity	Cost	(d)(f) Fair Value	Percent of Net Assets
Rheonix, Inc. (e) Ithaca, NY. Developer of fully automated microfluidic based molecular assay and diagnostic testing devices. (Health Care) www.rheonix.com	9,676 Common. (g) 1,839,422 Series A Preferred. (g) 50,593 Common. (g) 589,420 Series B Preferred.	10/29/09	4%	-	-	7.1%
	Total Rheonix			<u>2,099,999</u> <u>702,732</u> <u>2,802,731</u>	<u>1,500,000</u> <u>702,732</u> <u>2,202,732</u>	
SocialFlow, Inc. (e)(g) New York, NY. Provides instant analysis of social networks using a proprietary, predictive analytic algorithm to optimize advertising and publishing. (Software) www.socialflow.com	1,049,538 Series B Preferred. 1,204,819 Series B-1 Preferred. 717,772 Series C Preferred.	4/5/13	4%	500,000 750,000 <u>500,000</u>	279,156 433,735 <u>287,109</u>	3.3%
	Total Social Flow			<u>1,750,000</u>	<u>1,000,000</u>	
Somerset Gas Transmission Company, LLC (e) Columbus, OH. Natural gas transportation. (Oil and Gas) www.somersetgas.com	26.5337 Units.	7/10/02	3%	719,097	500,000	1.6%
Tech 2000, Inc. (g) Herdndon, VA. Develops and delivers IT training. (Software) www.t2000inc.com	\$600,000 Term Note at 14% due November 15, 2021.	11/16/18	0%	610,777	610,777	2.0%
Other Non-Control/Non-Affiliate Investments:						
DataView, LLC (e) (Software)	Membership Interest.	10/1/98	5%	310,357	-	0.0%
USTec/Wi3 (e) (Manufacturing)	Common stock.	12/17/98	<1%	100,500	-	0.0%
Subtotal Non-Control/Non-Affiliate Investments				<u>\$14,154,010</u>	<u>\$12,939,939</u>	
Affiliate Investments – 59.7% of net assets (k)						
BeetNPath, LLC (Grainful) (e)(g) Ithaca, NY. Frozen entrées made from 100% whole grain steel cut oats under Grainful brand name. (Consumer Product) www.grainful.com	1,119,024 Series A-2 Preferred Membership Units. 1,032,918 Series B Preferred Membership Units. \$262,626.64 Convertible Secured Notes at 8% due December 21, 2019.	10/20/14	9%	\$359,000 261,277 <u>262,627</u>	\$- - <u>-</u>	0.0%
	Total BeetNPath			<u>882,904</u>	<u>-</u>	
Carolina Skiff LLC (g) Waycross, GA. Manufacturer of ocean fishing and pleasure boats. (Manufacturing) www.carolinaskiff.com	6.0825% Class A Common Membership Interest.	1/30/04	7%	15,000	1,750,000	5.7%
ClearView Social, Inc. (e)(g) Buffalo, NY. Social media publishing tool for law, CPA and professional firms. (Software) www.clearviewsocial.com	312,500 Series Seed Plus Preferred.	1/4/16	6%	200,000	200,000	0.7%
First Wave Technologies, Inc. (e)(g) Batavia, NY. Sells First Crush automated pill crusher that crushes and grinds pills for nursing homes and medical institutions. (Health Care) www.firstwavetechnologies.com	670,443.2 Class A Common.	4/19/12	5%	661,563	33,000	0.1%
Genicon, Inc. (e)(g)(l) Winter Park, FL. Designs, produces and distributes patented surgical instrumentation. (Health Care) www.geniconendo.com	1,586,902 Series B Preferred. \$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 3,552,076 251,319 <u>120,000</u> <u>4,923,395</u>	500,000 3,336,996 251,319 <u>-</u> <u>4,088,315</u>	13.4%
	Total Genicon					

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

Company, Geographic Location, Business Description, (Industry) and Website	(a) Type of Investment	(b) Date Acquired	(c) Equity	Cost	(d)(f) Fair Value	Percent of Net Assets
Knoa Software, Inc. (e)(g) New York, NY. End user experience management and performance (EMP) solutions utilizing enterprise applications. (Software) www.knoa.com	973,533 Series A-1 Convertible Preferred. 1,876,922 Series B Preferred. Total Knoa	11/20/12	7%	750,000 <u>479,155</u> <u>1,229,155</u>	750,000 <u>479,155</u> <u>1,229,155</u>	4.0%
KnowledgeVision Systems, Inc. (g) Lincoln, MA. Online presentation and training software. (Software) www.knowledgevision.com	200,000 Series A-1 Preferred. 214,285 Series A-2 Preferred. 129,033 Series A-3 Preferred. Warrant for 46,743 Series A-3. (e) \$75,000 Subordinated Promissory Notes at 8% payable on demand of majority of holders after August 31, 2019. \$900,000 Term Note at 13% due April 30, 2021. Total KnowledgeVision	11/13/13	7%	250,000 300,000 165,001 35,000 75,000 <u>900,000</u> <u>1,725,001</u>	- - 165,001 35,000 75,000 <u>900,000</u> <u>1,175,001</u>	3.8%
Mezmeriz, Inc. (e)(g) Ithaca, NY. Technology company developing novel reality capture tools for 3D mapping, reality modeling, object tracking and classification. (Electronics Developer) www.mezmeriz.com	1,554,565 Series Seed Preferred.	1/9/08	12%	742,850	351,477	1.1%
Microcision LLC (g)(l) Pennsauken Township, NJ. Manufacturer of precision machined medical implants, components and assemblies. (Manufacturing) www.microcision.com	\$1,500,000 Subordinated Promissory Note at 12% (1% PIK) due December 31, 2024. 15% Class A Common Membership Interest. Total Microcision	9/24/09	15%	1,943,031 - <u>1,943,031</u>	1,943,031 - <u>610,000</u> <u>2,553,031</u>	8.3%
New Monarch Machine Tool, Inc. (g) Cortland, NY. Manufactures and services vertical/horizontal machining centers. (Manufacturing) www.monarchmt.com	22.84 Common.	9/24/03	15%	22,841	22,841	0.1%
OnCore Golf Technology, Inc. (e)(g) Buffalo, NY. Patented and Proprietary Golf Balls utilizing breakthrough technology and innovation, inspiring golfers at all skill levels and abilities. (Consumer Product) www.oncoregolf.com	300,483 Preferred AA.	12/31/14	8%	752,712	300,000	1.0%
SciAps, Inc. (e)(g) Woburn, MA. Instrumentation company producing portable analytical devices using XRF, LIBS and RAMAN spectroscopy to identify compounds, minerals, and elements. (Manufacturing) www.sciaps.com	187,500 Series A Preferred. 274,299 Series A-1 Convertible Preferred. 117,371 Series B Convertible Preferred. 113,636 Series C Convertible Preferred. 369,698 Series C-1 Convertible Preferred. 147,059 Series D Convertible Preferred. Total SciAps	7/12/13	6%	1,500,000 504,710 250,000 175,000 399,274 250,000 <u>3,078,984</u>	423,000 142,000 250,000 175,000 399,274 250,000 <u>1,639,274</u>	5.4%
Teleservices Solutions Holdings, LLC (e) (g)(l) Montvale, NJ. Customer contact center specializing in customer acquisition and retention for selected industries. (Contact Center) www.ipacesetters.com	250,000 Class B Preferred Units. 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. Total Teleservices	5/30/14	6%	250,000 1,190,680 91,200 <u>104,198</u> <u>1,636,078</u>	- - - - -	0.0%

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

Company, Geographic Location, Business Description, (Industry) and Website	(a) Type of Investment	(b) Date Acquired	(c) Equity	Cost	(d)(f) Fair Value	Percent of Net Assets
Tilson Technology Management, Inc. (g) 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.tilsonotech.com	120,000 Series B Preferred.	1/20/15	9%	600,000	1,950,000	16.1%
	21,391 Series C Preferred.			200,000	347,604	
	70,176 Series D Preferred.			800,000	1,140,360	
	15,385 Series E Preferred.			500,012	500,012	
	211,567 SQF Hold Co. Common.			-	22,036	
	\$800,000 Subordinated Promissory Notes at 8% due December 1, 2022.			800,000	800,000	
	\$200,000 Subordinated Promissory Note at 8% due September 28, 2021.			<u>200,000</u>	<u>200,000</u>	
	Total Tilson			<u>3,100,012</u>	<u>4,960,012</u>	
Other Affiliate Investments:						
G-TEC Natural Gas Systems(e) (Manufacturing)	Membership Interest	8/31/99	17%	400,000	-	0.0%
Subtotal Affiliate Investments				<u>\$21,313,526</u>	<u>\$18,302,106</u>	
TOTAL INVESTMENTS – 102%				<u>\$35,467,536</u>	<u>\$31,242,045</u>	
LIABILITIES IN EXCESS OF OTHER ASSETS – (2%)					<u>(609,992)</u>	
NET ASSETS – 100%					<u><u>\$30,632,053</u></u>	

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

Notes to the Consolidated Schedule of Portfolio Investments

(a) At June 30, 2019, restricted securities represented 100% of the fair value of the investment portfolio. Restricted securities are subject to one or more restrictions on resale and are not freely marketable. Type of investment for equity position is in form of shares unless otherwise noted as units or interests, i.e., preferred shares, common shares.

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

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

(d) The Corporation's investments are carried at fair value in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820 "Fair Value Measurements and Disclosures," which defines fair value and establishes guidelines for measuring fair value. At June 30, 2019, ASC 820 designates 100% of the Corporation's investments as "Level 3" assets. Under the valuation policy of the Corporation, unrestricted publicly held securities are valued at the average closing bid price for these securities for the last three trading days of the reporting period. Restricted securities are subject to restrictions on resale, and are valued at fair value as determined by the management of the Corporation and submitted to the Board of Directors for approval. Fair value is considered to be the amount that the Corporation may reasonably expect to receive for portfolio securities when sold on the valuation date. Valuations as of any particular date, however, are not necessarily indicative of amounts which may ultimately be realized as a result of future sales or other dispositions of securities and these favorable or unfavorable differences could be material. Among the factors considered in determining the fair value of restricted securities are the financial condition and operating results, projected operations, and other analytical data relating to the investment. Also considered are the market prices for unrestricted securities of the same class (if applicable) and other matters which may have an impact on the value of the portfolio company (see Note 3. "Investments" to the Consolidated Financial Statements).

(e) These investments are non-income producing. All other investments are income producing. Non-income producing investments have not generated cash payments of interest or dividends including LLC tax-related distributions within the last twelve months, or are not expected to do so going forward. However, if a debt or a preferred equity fails to make its most recent payment, then the investment will also be classified as non-income producing.

(f) As of June 30, 2019, the total cost of investment securities was approximately \$35.5 million. Net unrealized depreciation was approximately (\$4.2) million, which was comprised of \$6.8 million of unrealized appreciation of investment securities and (\$11.0) million of unrealized depreciation of investment securities. At June 30, 2019, the aggregate gross unrealized gain for federal income tax purposes was \$6.4 million and the aggregate gross unrealized loss for federal income tax purposes was (\$7.6) million. The net unrealized loss for federal income tax purposes was (\$1.2) million based on a tax cost of \$32.9 million.

(g) Rand Capital SBIC, Inc. investment.

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

(i) Represents interest due (amounts over \$50,000) from investments included as interest receivable on the Corporation's Consolidated Statements of Financial Position. (None at June 30, 2019)

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

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

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

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

Investments in and Advances to Affiliates

Company	Type of Investment	December 31, 2018 Fair Value	Gross Additions (1)	Gross Reductions (2)	June 30, 2019 Fair Value	Net Realized Gains (Losses)	Amount of Interest/ Dividend/ Fee Income (3)
Control Investments:							
Advantage 24/7 LLC	\$140,000 Term Note at 7%.	\$99,500	\$-	(\$99,500)	\$-	\$40,500	\$-
Gemcor II, LLC		-	-	-	-	39,893	-
Total Control Investments		\$99,500	\$-	(\$99,500)	\$-	\$80,393	\$-
Affiliate Investments:							
BeetNPath, LLC	1,119,024 Series A-2 Preferred Membership Units.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	1,032,918 Series B Preferred Membership Units.	261,277	-	(261,277)	-	-	-
	\$262,626.64 Convertible Secured Notes at 8%.	<u>262,627</u>	-	<u>(262,627)</u>	-	-	-
	Total BeetNPath	<u>523,904</u>	<u>-</u>	<u>(523,904)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Carolina Skiff LLC	6.0825% Class A Common Membership interest.	1,750,000	-	-	1,750,000	-	24,043
ClearView Social, Inc.	312,500 Series Seed Plus Preferred.	200,000	-	-	200,000	-	-
First Wave Technologies, Inc.	670,443.2 Class A Common.	33,000	-	-	33,000	-	-
Genicon, Inc.	1,586,902 Series B Preferred.	1,000,000	-	(500,000)	500,000	-	-
	\$3,250,000 Promissory Notes at 10%.	3,385,586	166,490	(215,080)	3,336,996	-	201,472
	\$250,000 Promissory Note at 10%.	-	251,319	-	251,319	-	1,319
	Warrant for Common.	<u>37,500</u>	<u>-</u>	<u>(37,500)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Total Genicon	<u>4,423,086</u>	<u>417,809</u>	<u>(752,580)</u>	<u>4,088,315</u>	<u>-</u>	<u>202,791</u>
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.	<u>479,155</u>	<u>-</u>	<u>-</u>	<u>479,155</u>	<u>-</u>	<u>-</u>
	Total Knoa	<u>1,229,155</u>	<u>-</u>	<u>-</u>	<u>1,229,155</u>	<u>-</u>	<u>193,934</u>
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	-	2,975
	\$900,000 Term Note at 13%.	750,000	150,000	-	900,000	-	61,032
	Warrant for 46,743 Series A-3.	<u>35,000</u>	<u>-</u>	<u>-</u>	<u>35,000</u>	<u>-</u>	<u>-</u>
	Total KnowledgeVision	<u>1,025,001</u>	<u>150,000</u>	<u>-</u>	<u>1,175,001</u>	<u>-</u>	<u>64,007</u>
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	9,678	-	1,943,031	-	116,146
	15% Class A Common Membership Interest.	<u>610,000</u>	<u>-</u>	<u>-</u>	<u>610,000</u>	<u>-</u>	<u>-</u>
	Total Microcision	<u>2,543,353</u>	<u>9,678</u>	<u>-</u>	<u>2,553,031</u>	<u>-</u>	<u>116,146</u>
New Monarch Machine Tool, Inc.	22.84 Common.	22,841	-	-	22,841	-	-
OnCore Golf Technology, Inc.	300,483 Series AA Preferred.	300,000	-	-	300,000	-	-

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

Investments in and Advances to Affiliates

Company	Type of Investment	December 31, 2018 Fair Value	Gross Additions (1)	Gross Reductions (2)	June 30, 2019 Fair Value	Net Realized Gains (Losses)	Amount of Interest/ Dividend/ Fee Income (3)
SciAps, Inc.	187,500 Series A Preferred.	700,000	-	(277,000)	423,000	-	-
	274,299 Series A-1 Convertible Preferred.	250,000	-	(108,000)	142,000	-	-
	117,371 Series B Convertible Preferred.	250,000	-	-	250,000	-	-
	113,636 Series C Convertible Preferred.	175,000	-	-	175,000	-	-
	369,698 Series C-1 Convertible Preferred.	399,274	-	-	399,274	-	-
	147,059 Series D Convertible Preferred.	<u>250,000</u>	-	-	<u>250,000</u>	-	-
	Total SciAps		<u>2,024,274</u>	-	<u>(385,000)</u>	<u>1,639,274</u>	-
SOMS Technologies, LLC	5,959,490 Series B membership Interests.	-	-	-	-	(472,632)	-
Teleservices Solutions Holdings, LLC	250,000 Class B Preferred Units.	-	-	-	-	-	-
	1,000,000 Class C Preferred Units.	-	-	-	-	-	-
	80,000 Class D Preferred Units.	-	-	-	-	-	-
	104,198 Class E Preferred Units.	-	-	-	-	-	-
Total Teleservices		-	-	-	-	-	-
Tilson Technology Management, Inc.	120,000 Series B Preferred.	600,000	1,350,000	-	1,950,000	-	23,708
	21,391 Series C Preferred.	200,000	147,604	-	347,604	-	-
	70,176 Series D Preferred.	800,000	340,360	-	1,140,360	-	-
	15,385 Series E Preferred.	-	500,012	-	500,012	-	-
	211,567 SQF Hold Co. Common.	-	22,036	-	22,036	-	-
	\$200,000 Subordinated Promissory Note at 8%.	200,000	-	-	200,000	-	7,934
	\$800,000 Subordinated Promissory Note at 8%.	-	-	-	-	-	-
	Total Tilson	<u>800,000</u>	<u>2,360,012</u>	-	<u>800,000</u>	-	<u>31,726</u>
Total Affiliate Investments	<u>\$17,026,091</u>	<u>\$2,937,499</u>	<u>(\$1,661,484)</u>	<u>\$18,302,106</u>	<u>(\$472,632)</u>	<u>\$664,289</u>	
Total Control and Affiliate Investments	<u>\$17,125,591</u>	<u>\$2,937,499</u>	<u>(\$1,760,984)</u>	<u>\$18,302,106</u>	<u>(\$392,239)</u>	<u>\$664,289</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
June 30, 2019 (Continued)
(Unaudited)

<u>Industry Classification</u>	Percentage of Total Investments (at fair value) as of June 30, 2019
Software	34.6%
Healthcare	23.8
Manufacturing	20.0
Professional Services	15.9
Contact Center	1.6
Oil and Gas	1.6
Electronics	1.1
Consumer Product Electronics	1.0
Marketing	0.4
Total Investments	100%

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

Company, Geographic Location, Business Description, (Industry) and Website	(a) Type of Investment	(b) Date Acquired	(c) Equity	Cost	(d)(f) Fair Value	Percent of Net Assets
Non-Control/Non-Affiliate Investments – 55.7% of net assets: (j)						
ACV Auctions, Inc. (e)(g) Buffalo, NY. Live mobile wholesale auctions for new and used car dealers. (Software) www.acvauctions.com	1,181,160 Series A Preferred.	8/12/16	<1%	\$163,000	\$2,776,907	8.8%
Centivo Corporation (e)(g) New York, NY. Tech-enabled health solutions company that helps self-insured employers and their employees save money and have a better experience. (Health Care) www.centivo.com	190,967 Series A-1 Preferred. 337,808 Series A-2 Preferred. Total Centivo	7/5/17	<1%	200,000 <u>101,342</u> <u>301,342</u>	200,000 <u>101,342</u> <u>301,342</u>	1.0%
eHealth Global Technologies, Inc. (g) Henrietta, NY. eHealth Connect® improves health care delivery through intelligently aggregated clinical record and images for patient referrals. (Health Care) www.ehealthtechnologies.com	\$3,500,000 Term Note at 13% due December 31, 2020.	6/28/16	0%	3,500,000	3,500,000	11.1%
Empire Genomics, LLC (g)(m) Buffalo, NY. Molecular diagnostics company that offers a comprehensive menu of assay services for diagnosing and guiding patient therapeutic treatments. (Health Care) www.empiregenomics.com	\$1,209,014 Senior Secured Convertible Term Notes at 10% (8% PIK through September 30, 2019) due December 31, 2020. \$444,915 Promissory Note at 9% (4% PIK) due December 31, 2020. Total Empire	6/13/14	0%	1,233,195 <u>444,915</u> <u>1,678,110</u>	474,181 <u>302,569</u> <u>776,750</u>	2.4%
GiveGab, Inc. (e)(g) Ithaca, NY. Online fundraising, day of giving supporter engagement software for non-profit organizations. (Software) www.givegab.com	5,084,329 Series Seed Preferred.	3/13/13	4%	616,221	616,221	2.0%
GoNoodle, Inc. (g)(m) Nashville, TN. Student engagement education software providing core aligned physical activity breaks. (Software) www.gonoodle.com	\$1,000,000 Secured Note at 12% due January 31, 2020, (1% PIK). Warrant for 47,324 Series C Preferred. Total GoNoodle	2/6/15	<1%	1,039,663 <u>25</u> <u>1,039,688</u>	1,039,663 <u>25</u> <u>1,039,688</u>	3.3%
Mercantile Adjustment Bureau, LLC (g) Williamsville, NY. Full service accounts receivable management and collections company. (Contact Center) www.mercantilesolutions.com	\$1,199,039 Subordinated Secured Note at 13% (3% for the calendar year 2018) due January 31, 2019. (e) \$150,000 Subordinated Debenture at 8% due June 30, 2018. Warrant for 3.29% Membership Interests. Option for 1.5% Membership Interests. (i) Interest receivable \$50,254. Total Mercantile	10/22/12	4%	1,199,040 150,000 <u>97,625</u> <u>1,446,665</u>	700,000 - - <u>700,000</u>	2.2%
Outmatch Holdings, LLC (e)(g) (Chequed Holdings, LLC) Dallas, TX. Web based predictive employee selection and reference checking. (Software) www.outmatch.com	2,798,883 Class P1 Units. 109,788 Class C1 Units. Total Outmatch	11/18/10	4%	2,140,007 <u>5,489</u> <u>2,145,496</u>	2,140,007 <u>5,489</u> <u>2,145,496</u>	6.8%
PostProcess Technologies LLC (e)(g) Buffalo, NY. Provides innovative solutions for the post-processing of additive manufactured 3D parts. (Manufacturing) www.postprocess.com	\$300,000 Convertible Promissory Note at 5% due July 28, 2020.	7/25/16	0%	300,000	300,000	1.0%

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

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

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

Company, Geographic Location, Business Description, (Industry) and Website	(a) Type of Investment	(b) Date Acquired	(c) Equity	Cost	(d)(f) Fair Value	Percent of Net Assets
Genicon, Inc. (g) (m) Winter Park, FL. Designs, produces and distributes patented surgical instrumentation. (Health Care) www.geniconendo.com	1,586,902 Series B Preferred.	4/10/15	6%	1,000,000	1,000,000	14.0%
	\$3,250,000 Promissory Notes at 10% due May 1, 2020, (8% PIK).			3,385,586	3,385,586	
	Warrants for 500,000 Common.			120,000	37,500	
	Total Genicon			<u>4,505,586</u>	<u>4,423,086</u>	
Knoa Software, Inc. (e)(g) New York, NY. End user experience management and performance (EMP) solutions utilizing enterprise applications. (Software) www.knoa.com	973,533 Series A-1 Convertible Preferred.	11/20/12	7%	750,000	750,000	3.9%
	1,876,922 Series B Preferred.			479,155	479,155	
	Total Knoa			<u>1,229,155</u>	<u>1,229,155</u>	
KnowledgeVision Systems, Inc. (g) Lincoln, MA. Online presentation and training software. (Software) www.knowledgevision.com	200,000 Series A-1 Preferred.	11/13/13	7%	250,000	-	3.2%
	214,285 Series A-2 Preferred.			300,000	-	
	129,033 Series A-3 Preferred.			165,001	165,001	
	Warrant for 46,743 Series A-3.			35,000	35,000	
	\$75,000 Subordinated Promissory Notes at 8% payable on demand of majority of holders after August 31, 2019. (e)			75,000	75,000	
	\$750,000 Term Note at 11% due April 30, 2021.			750,000	750,000	
	Total KnowledgeVision			<u>1,575,001</u>	<u>1,025,001</u>	
Mezmeriz, Inc. (e)(g) Ithaca, NY. Technology company developing novel reality capture tools for 3D mapping, reality modeling, object tracking and classification. (Electronics Developer) www.mezmeriz.com	1,554,565 Series Seed Preferred.	1/9/08	12%	742,850	351,477	1.1%
Microcision LLC (g)(m) Pennsauken Township, NJ. Manufacturer of precision machined medical implants, components and assemblies. (Manufacturing) www.microcision.com	\$1,500,000 Subordinated Promissory Note at 12% (1% PIK) due December 31, 2024.	9/24/09	15%	1,933,353	1,933,353	8.1%
	15% Class A Common Membership Interest.			-	610,000	
	Total Microcision			<u>1,933,353</u>	<u>2,543,353</u>	
New Monarch Machine Tool, Inc. (g) Cortland, NY. Manufactures and services vertical/horizontal machining centers. (Manufacturing) www.monarchmt.com	22.84 Common.	9/24/03	15%	22,841	22,841	0.1%
OnCore Golf Technology, Inc. (e)(g) Buffalo, NY. Patented and Proprietary Golf Balls utilizing breakthrough technology and innovation, inspiring golfers at all skill levels and abilities. (Consumer Product) www.oncoregolf.com	300,483 Preferred AA.	12/31/14	8%	752,712	300,000	1.0%
SciAps, Inc. (e)(g) Woburn, MA. Instrumentation company producing portable analytical devices using XRF, LIBS and RAMAN spectroscopy to identify compounds, minerals, and elements. (Manufacturing) www.sciaps.com	187,500 Series A Preferred.	7/12/13	6%	1,500,000	700,000	6.4%
	274,299 Series A-1 Convertible Preferred.			504,710	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	
Total SciAps			<u>3,078,984</u>	<u>2,024,274</u>		

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

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

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

Notes to the Consolidated Schedule of Portfolio Investments

(a) At December 31, 2018, restricted securities represented 100% of the fair value of the investment portfolio. Restricted securities are subject to one or more restrictions on resale and are not freely marketable. Type of investment for equity position is in form of shares unless otherwise noted as units or interests, i.e., preferred shares, common shares.

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

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

(d) The Corporation's investments are carried at fair value in accordance with FASB Accounting Standards Codification (ASC) 820 "Fair Value Measurements and Disclosures," which defines fair value and establishes guidelines for measuring fair value. At December 31, 2018, ASC 820 designates 100% of the Corporation's investments as "Level 3" assets. Under the valuation policy of the Corporation, unrestricted publicly held securities are valued at the average closing bid price for these securities for the last three trading days of the reporting period. Restricted securities are subject to restrictions on resale, and are valued at fair value as determined by the management of the Corporation and submitted to the Board of Directors for approval. Fair value is considered to be the amount that the Corporation may reasonably expect to receive for portfolio securities when sold on the valuation date. Valuations as of any particular date, however, are not necessarily indicative of amounts which may ultimately be realized as a result of future sales or other dispositions of securities and these favorable or unfavorable differences could be material. Among the factors considered in determining the fair value of restricted securities are the financial condition and operating results, projected operations, and other analytical data relating to the investment. Also considered are the market prices for unrestricted securities of the same class (if applicable) and other matters which may have an impact on the value of the portfolio company (see Note 3 "Investments" to the Consolidated Financial Statements).

(e) These investments are non-income producing. All other investments are income producing. Non-income producing investments have not generated cash payments of interest or dividends including LLC tax-related distributions within the last twelve months, or are not expected to do so going forward. However, if a debt or a preferred equity fails to make its most recent payment, then the investment will also be classified as non-income producing.

(f) As of December 31, 2018, the total cost of investment securities was approximately \$38.3 million. Net unrealized depreciation was approximately (\$3.6) million, which was comprised of \$5.3 million of unrealized appreciation of investment securities and (\$8.9) million of unrealized depreciation of investment securities. At December 31, 2018, the aggregate gross unrealized gain for federal income tax purposes was \$5.2 million and the aggregate gross unrealized loss for federal income tax purposes was (\$5.9) million. The net unrealized loss for federal income tax purposes was (\$0.7) million based on a tax cost of \$35.4 million.

(g) Rand Capital SBIC, Inc. investment.

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

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

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

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

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

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

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

Investments in and Advances to Affiliates

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

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

Investments in and Advances to Affiliates

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

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

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

Note 1. ORGANIZATION

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

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

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

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

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

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

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

Recent Developments

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

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

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

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

Rand expects the Transactions to close in the second half of 2019, subject to receipt of required regulatory approvals.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

- N-54A Election to Adopt Business Development Company status
- 10-Q Quarterly Report on Form 10-Q for the quarter ended March 31, 2019

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

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

Fair Value of SBA Debentures – In March 2019, the SBIC Funding Corporation completed a pooling of SBA debentures that have a coupon rate of 3.113%, excluding a mandatory SBA annual charge estimated to be 0.094%, resulting in a total estimated fixed rate for ten years of 3.207%. The carrying value of Rand’s SBA debentures is a reasonable estimate of fair value because their stated interest rates approximate current interest rates that are available for debt with similar terms.

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

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

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

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

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

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

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

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

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

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

Revenue Recognition – Fee Income – Consists of the revenue associated with the amortization of financing fees charged to the portfolio companies upon successful closing of SBIC financings and income associated with portfolio company board attendance fees. The income associated with the amortization of financing fees was \$42,428 and \$15,327 for the six months ended June 30, 2019 and 2018, respectively. In addition, the Corporation recognized a one-time fee of \$225,000 in conjunction with the repayment of the eHealth loan instrument. The board fees were \$500 and \$2,000 for the six months ended June 30, 2019 and 2018, respectively.

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

Original Issue Discount – Investments may include “original issue discount” or OID income. This occurs when the Corporation purchases a warrant and a note from a portfolio company simultaneously, which requires an allocation of a portion of the purchase price to the warrant and reduces the note or debt instrument by an equal amount in the form of a note discount or OID. The note is reported net of the OID and the OID is accreted into interest income over the life of the loan. The Corporation recognized \$20,382 and \$19,271 in OID income for the six months ended June 30, 2019 and 2018, respectively. OID income is estimated to be approximately \$20,000 for the remainder of 2019.

Deferred Debenture Costs – SBA debenture origination and commitment costs, which are netted against the debenture obligation (See Note 6 “SBA Debentures”), will be amortized ratably over the terms of the SBA debentures. Amortization expense was \$18,195 and \$13,700 for the six months ended June 30, 2019 and 2018, respectively. Amortization expense on currently outstanding debentures for the next five years is estimated to average approximately \$31,000 per year.

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

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

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

Supplemental Cash Flow Information – Income taxes refunded during the six months ended June 30, 2019 and 2018 were \$630,274 and \$17,051, respectively. Interest paid during each of the six months ended June 30, 2019 and 2018 was \$153,513 and \$140,275, respectively. The Corporation converted \$232,513 and \$77,154 of interest receivable into investments during the six months ended June 30, 2019 and 2018, respectively.

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

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

On October 25, 2018, the Board of Directors extended the repurchase authorization for up to 1,000,000 shares of the Corporation's outstanding common stock on the open market through October 25, 2019 at prices no greater than the then current net asset value. No shares were repurchased during the six months ended June 30, 2019. At June 30, 2019, the total treasury shares held was 541,046 shares with a total cost of \$1,469,105.

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

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

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

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

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

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

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

	As of June 30, 2019
Tilson Technology Management, Inc. (Tilson)	16%
Genicon, Inc. (Genicon)	13%
ACV Auctions, Inc. (ACV)	9%
Microcision, LLC. (Microcision)	8%
Rheonix, Inc. (Rheonix)	7%

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

Note 3. INVESTMENTS

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

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

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.

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

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

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

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

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

Financial assets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Any changes in estimated fair value are recorded in the statement of operations.

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

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

- Audited and unaudited statements of operations, balance sheets and operating budgets;
- Current and projected financial, operational and technological developments of the portfolio company;
- Current and projected ability of the portfolio company to service its debt obligations;
- The current capital structure of the business and the seniority of the various classes of equity if a deemed liquidation event were to occur;
- Pending debt or capital restructuring of the portfolio company;
- Current information regarding any offers to purchase the investment, or recent fundraising transactions;
- Current ability of the portfolio company to raise additional financing if needed;
- Changes in the economic environment which may have a material impact on the operating results of the portfolio company;
- Internal circumstances and events that may have an impact (both positive and negative) on the operating performance of the portfolio company;
- Qualitative assessment of key management;
- Contractual rights, obligations or restrictions associated with the investment; and
- Other factors deemed relevant by the Corporation’s management to assess valuation.

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

Equity Securities

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

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

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

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

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

Loan and Debt Securities

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

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

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Investment Type	Market Approach EBITDA Multiple	Market Approach Liquidation Seniority	Market Approach Revenue Multiple	Market Approach Transaction Pricing	Asset Value Liquidation Seniority	Totals
Non-Control/Non-Affiliate Equity	\$ —	\$ 3,202,757	\$ 2,645,496	\$ 3,694,470	\$ —	\$ 9,542,723
Non-Control/Non-Affiliate Loan and Debt	500,000	1,871,439	—	1,025,777	—	3,339,216
Total Non-Control/Non-Affiliate	\$ 500,000	\$ 5,074,196	\$ 2,645,496	\$ 4,720,247	\$ —	\$12,939,939
Affiliate Equity	\$ —	\$ 22,841	\$ 3,768,430	\$ 7,004,489	\$ 1,943,031	\$10,795,760
Affiliate Loan and Debt	—	—	3,588,315	1,975,000	—	7,506,346
Total Affiliate	\$ —	\$ 22,841	\$ 7,356,745	\$ 8,979,489	\$ 1,943,031	\$18,302,106
Total Level 3 Investments	\$ 500,000	\$ 5,097,037	\$ 10,002,241	\$ 13,699,736	\$ 1,943,031	\$31,242,045
Range	6.0X	1X	1X-4X	Not Applicable	Not Applicable	
Unobservable Input	EBITDA Multiple	Asset Value	Revenue Multiple	Transaction Price	Asset Value	
Weighted Average	6.0X	1X	2.6X	Not Applicable	Not Applicable	

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

Description	June 30, 2019	Fair Value Measurements at Reported Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Significant Unobservable Inputs (Level 3)
Loan investments	\$ 2,145,692	\$ —	\$ —	\$ 2,145,692
Debt investments	8,757,870	—	—	8,757,870
Equity investments	20,338,483	—	—	20,338,483
Total	<u>\$31,242,045</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 31,242,045</u>

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

Description	December 31, 2018	Fair Value Measurements at Reported Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Significant Unobservable Inputs (Level 3)
Loan investments	\$ 4,935,777	\$ —	\$ —	\$ 4,935,777
Debt investments	9,397,979	—	—	9,397,979
Equity investments	20,330,048	—	—	20,330,048
Total	<u>\$34,666,804</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 34,666,804</u>

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

Description	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Venture Capital Investments			
	Loan	Debt	Equity	Total
	Investments	Investments	Investments	
Ending Balance, December 31, 2018, of Level 3 Assets	\$ 4,935,777	\$9,397,979	\$20,333,048	\$34,666,804
Realized gain included in net change in net assets from operations:				
Advantage 24/7 LLC (Advantage 24/7)	—	—	(40,500)	(40,500)
Gemcor II LLC (Gemcor)	—	—	39,893	39,893
SOMS Technologies, LLC (SOMS)	—	—	(472,632)	(472,632)
Total Realized Gains and Losses	—	—	(392,239)	(392,239)
Unrealized Gains and Losses included in net change in net assets from operations:				
BeetNPath, LLC (Beetnpath)	—	(262,627)	(261,277)	(523,904)
Genicon, Inc. (Genicon)	—	(215,080)	(537,500)	(752,580)
Mercantile Adjustment Bureau, LLC (Mercantile)	—	(200,000)	—	(200,000)
SciAps, Inc. (Sciaps)	—	—	(385,000)	(385,000)
SocialFlow, Inc. (Socialflow)	—	—	(1,071,300)	(1,071,300)
SOMS	—	—	472,632	472,632
Tilson Technology Management, Inc. (Tilson)	—	—	1,860,000	1,860,000
Total Unrealized Gains and Losses	—	(677,707)	77,555	(600,152)
Purchases of Securities/Changes to Securities/Non-cash conversions:				
Advantage 24/7	140,000	—	—	140,000
Empire Genomics, LLC (Empire Genomics)	—	49,821	—	49,821
Genicon	—	417,809	—	417,809
GoNoodle, Inc. (GoNoodle)	—	5,205	—	5,205
KnowledgeVision Systems, Inc. (Knowledge Vision)	150,000	—	—	150,000
Microcision LLC (Microcision)	—	9,678	—	9,678
Tilson	—	—	500,012	500,012
Total Purchases of Securities/Changes to Securities/Non-cash conversions	290,000	482,513	500,012	1,272,525
Repayments and Sale of Securities:				
Advantage 24/7	(25,000)	—	(140,000)	(165,000)
eHealth Global Technologies, Inc. (eHealth)	(3,500,000)	—	—	(3,500,000)
Gemcor	—	—	(39,893)	(39,893)
Total Repayments and Sale of Securities	(3,525,000)	—	(39,893)	(3,704,893)
Transfers within Level 3	444,915	(444,915)	—	—
Ending Balance, June 30, 2019, of Level 3 Assets	<u>\$ 2,145,692</u>	<u>\$8,757,870</u>	<u>\$20,338,483</u>	<u>\$31,242,045</u>
Change in unrealized depreciation on investments for the period included in changes in net assets				<u>(\$600,152)</u>
Net realized loss on investments for the period included in changes in net assets				<u>(\$301,378)</u>

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

Description	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Venture Capital Investments			Total
	Loan Investments	Debt Investments	Equity Investments	
Ending Balance, December 31, 2017, of Level 3 Assets	\$3,550,000	\$10,096,244	\$18,637,818	\$32,284,062
Unrealized Losses included in net change in net assets from operations:				
Empire Genomics, LLC (Empire Genomics)	—	(651,489)	—	(651,489)
First Wave Products Group, LLC (First Wave)	—	(250,000)	—	(250,000)
GiveGab, Inc. (Givegab)	—	—	191,907	191,907
SOMS Technologies, LLC (SOMS)	—	—	(498,348)	(498,348)
Total Unrealized Losses	—	(901,489)	(306,441)	(1,207,930)
Purchases of Securities/Changes to Securities/Non-cash conversions:				
Centivo Corporation (Centivo)	—	—	201,342	201,342
Genicon, Inc. (Genicon)	—	80,348	—	80,348
GoNoodle, Inc. (GoNoodle)	—	5,153	—	5,153
KnowledgeVision Systems, Inc. (Knowledgevision)	—	775,000	—	775,000
Microcision LLC (Microcision)	—	9,582	—	9,582
SciAps, Inc. (Sciaps)	—	—	250,000	250,000
Total Purchases of Securities/Changes to Securities/Non-cash conversions	—	870,083	451,342	1,321,425
Repayments and Sale of Securities:				
Empire Genomics	—	(21,665)	—	(21,665)
Knoa Software, Inc. (Knoa)	—	(48,466)	—	(48,466)
Total Repayments and Sale of Securities	—	(70,131)	—	(70,131)
Transfers within Level 3	—	(100,000)	100,000	—
Ending Balance, June 30, 2018, of Level 3 Assets	<u>\$3,550,000</u>	<u>\$ 9,894,707</u>	<u>\$18,882,719</u>	<u>\$32,327,426</u>

Change in unrealized depreciation on investments for the period included in changes in net assets (\$1,207,930)

NOTE 4. OTHER ASSETS

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

	June 30, 2019	December 31, 2018
Prepaid expenses	\$334,359	\$ —
Operating receivables	11,519	11,428
Equipment (net)	132	262
Total other assets	<u>\$346,010</u>	<u>\$11,690</u>

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Note 5. COMMITMENTS AND CONTINGENCIES

The Corporation had no commitments at June 30, 2019.

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

Note 6. SBA DEBENTURES

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

	June 30, 2019	December 31, 2018
Debentures guaranteed by the SBA	\$11,000,000	\$ 8,750,000
Less unamortized issue costs	(231,925)	(195,557)
Debentures guaranteed by the SBA, net	<u>\$10,768,075</u>	<u>\$ 8,554,443</u>

Note 7. CHANGES IN STOCKHOLDERS' EQUITY

The following schedule analyzes the changes in stockholders' equity section of the Consolidated Statement of Financial Position for the three months and six months ended June 30, 2019 and June 30, 2018:

	Common Stock	Capital in excess of par value	Accumulated Net Investment Loss	Undistributed Net Realized Gain on Investments	Net Unrealized Depreciation on Investments	Treasury Stock, at cost	Total Stockholders' Equity
April 1, 2019	\$686,304	\$10,581,789	(\$1,642,785)	\$26,252,574	(\$2,429,175)	(\$1,469,105)	\$31,979,602
Net investment loss	—	—	(143,300)	—	—	—	(143,300)
Net realized loss on sales and dispositions of investments	—	—	—	(332,509)	—	—	(332,509)
Change in unrealized depreciation on investments	—	—	—	—	(871,740)	—	(871,740)
June 30, 2019	<u>\$686,304</u>	<u>\$10,581,789</u>	<u>(\$1,786,085)</u>	<u>\$25,920,065</u>	<u>(\$3,300,915)</u>	<u>(\$1,469,105)</u>	<u>\$30,632,053</u>

	Common Stock	Capital in excess of par value	Accumulated Net Investment Loss	Undistributed Net Realized Gain on Investments	Net Unrealized Depreciation on Investments	Treasury Stock, at cost	Total Stockholders' Equity
April 1, 2018	\$686,304	\$10,581,789	(\$1,770,475)	\$27,215,738	(\$3,845,979)	(\$1,469,105)	\$31,398,272
Net investment loss	—	—	(37,768)	—	—	—	(37,768)
Change in unrealized depreciation on investments	—	—	—	—	(593,526)	—	(593,526)
June 30, 2018	<u>\$686,304</u>	<u>\$10,581,789</u>	<u>(\$1,808,243)</u>	<u>\$27,215,738</u>	<u>(\$4,439,505)</u>	<u>(\$1,469,105)</u>	<u>\$30,766,978</u>

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	Common Stock	Capital in excess of par value	Accumulated Net Investment Loss	Undistributed Net Realized Gain on Investments	Net Unrealized Depreciation on Investments	Treasury Stock, at cost	Total Stockholders' Equity
January 1, 2019	\$686,304	\$10,581,789	(\$1,665,552)	\$26,221,443	(\$2,830,692)	(\$1,469,105)	\$31,524,187
Net investment loss	—	—	(120,533)	—	—	—	(120,533)
Net realized loss on sales and dispositions of investments	—	—	—	(301,378)	—	—	(301,378)
Change in unrealized depreciation on investments	—	—	—	—	(470,223)	—	(470,223)
June 30, 2019	<u>\$686,304</u>	<u>\$10,581,789</u>	<u>(\$1,786,085)</u>	<u>\$25,920,065</u>	<u>(\$3,300,915)</u>	<u>(\$1,469,105)</u>	<u>\$30,632,053</u>
	Common Stock	Capital in excess of par value	Accumulated Net Investment Loss	Undistributed Net Realized Gain on Investments	Net Unrealized Depreciation on Investments	Treasury Stock, at cost	Total Stockholders' Equity
January 1, 2018	\$686,304	\$10,581,789	(\$1,597,146)	\$27,215,738	(\$3,498,895)	(\$1,469,105)	\$31,918,685
Net investment loss	—	—	(211,097)	—	—	—	(211,097)
Change in unrealized depreciation on investments	—	—	—	—	(940,610)	—	(940,610)
June 30, 2018	<u>\$686,304</u>	<u>\$10,581,789</u>	<u>(\$1,808,243)</u>	<u>\$27,215,738</u>	<u>(\$4,439,505)</u>	<u>(\$1,469,105)</u>	<u>\$30,766,978</u>

Note 8. FINANCIAL HIGHLIGHTS

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

	Six months ended June 30, 2019 (Unaudited)	Six months ended June 30, 2018 (Unaudited)
Income from investment operations (1):		
Investment income	\$ 0.21	\$ 0.12
Operating expenses	0.24	0.16
Investment loss before income taxes	(0.03)	(0.04)
Income tax benefit	(0.01)	(0.01)
Net investment loss	(0.02)	(0.03)
Net realized and unrealized loss on investments	(0.12)	(0.15)
Decrease in net asset value	(0.14)	(0.18)
Net asset value, beginning of period	4.99	5.05
Net asset value, end of period	\$ 4.85	\$ 4.87
Per share market price, end of period	\$ 2.62	\$ 2.69
Total return based on market value	4.80%	(10.93%)
Total return based on net asset value	(2.83%)	(3.61%)
Supplemental data:		
Ratio of operating expenses before income taxes to average net assets	4.87%	3.39%
Ratio of operating expenses including income taxes to average net assets	3.87%	2.30%
Ratio of net investment loss to average net assets	(0.39%)	(0.67%)
Portfolio turnover	3.2%	3.8%
Net assets, end of period	\$ 30,632,053	\$ 30,766,978
Weighted shares outstanding, end of period	6,321,988	6,321,988

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

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

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

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

FORWARD LOOKING STATEMENTS

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

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

Overview

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

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

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The closing of the sale and issuance of common stock pursuant to the stock purchase agreement, as well as the externalization of the management structure, remains conditioned upon receipt of required regulatory approvals. Rand expects the Transactions to close in the second half of 2019, subject to receipt of required regulatory approval.

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

Outlook

At the end of the second quarter of 2019, we had \$8.6 million in cash and cash equivalents available for future investments and expenses, an increase of \$4.6 million as compared to the end of 2018. The increase was primarily due to proceeds from a \$3.5 million loan payoff by a portfolio company and \$2.25 million of additional SBA leverage drawn down during the six months ended June 30, 2019.

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

- We expect that well run businesses will require capital to grow and should be able to compete effectively given the strong macroeconomic environment and eager reception of new technologies and service concepts.
- We continue to manage risk by investing with other investors, when possible.
- We are involved with the governance and management of a majority of our portfolio companies, which enables us to support their operating and marketing efforts and facilitate their growth.
- As our portfolio expands, we are able to better leverage our infrastructure.
- We believe the anticipated receipt of cash and portfolio assets from East, as well as the establishment of RCM as an external management company, will broaden our potential pipeline of investment opportunities in order to build our portfolio and grow further. Strategically, we expect to advance our efforts to increase our income-producing investments that can support a regular cash dividend for shareholders and complement our equity investments that drive capital appreciation.
- We have sufficient cash to invest in new opportunities and to repurchase shares. At period end, we had authorization to repurchase an additional 458,954 shares of our Common Stock. However, our prioritized use of cash continues to be growing our portfolio.

Critical Accounting Policies

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

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Financial Condition

Overview:	June 30, 2019	December 31, 2018	Increase (Decrease)	% Increase (Decrease)
Total assets	\$41,699,064	\$40,521,724	\$ 1,177,340	2.9%
Total liabilities	11,067,011	8,997,537	2,069,474	23.0%
Net assets	<u>\$30,632,053</u>	<u>\$31,524,187</u>	<u>(\$ 892,134)</u>	(2.8%)

Net asset value per share (NAV) was \$4.85 at June 30, 2019 and \$4.99 at December 31, 2018.

Our gross outstanding SBA debentures at June 30, 2019 were \$11,000,000 and will mature from 2022 through 2029. Cash and cash equivalents approximated 28% of net assets at June 30, 2019, as compared to 13% at December 31, 2018.

Composition of Our Investment Portfolio

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

	June 30, 2019	December 31, 2018	(Decrease) Increase	% (Decrease) Increase
Investments, at cost	\$35,467,536	\$38,292,143	(\$2,824,607)	(7.4%)
Unrealized depreciation, net	<u>(4,225,491)</u>	<u>(3,625,339)</u>	<u>600,152</u>	16.6%
Investments at fair value	<u>\$31,242,045</u>	<u>\$34,666,804</u>	<u>(\$3,424,759)</u>	(9.9%)

Our total investments at fair value, as estimated by management and approved by our Board of Directors, approximated 102% of net assets at June 30, 2019 versus 110% of net assets at December 31, 2018.

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

	Cost Increase (Decrease)
New investments:	
Tilson Technology Management, Inc. (Tilson)	\$ 500,012
Genicon Inc. (Genicon)	250,000
KnowledgeVision Systems, Inc. (Knowledgevision)	150,000
Advantage 24/7 LLC (Advantage 24/7)	140,000
Total of new investments	1,040,012
Other changes to investments:	
Genicon interest conversion and OID amortization	167,809
Empire Genomics, LLC (Empire Genomics) capitalized fee income and interest conversion	49,821
Microcision LLC (Microcision) interest conversion	9,678
GoNoodle, Inc. (GoNoodle) interest conversion	5,205
Total of other changes to investments	232,513
Investments repaid, sold, liquidated or converted:	
eHealth Global Technologies, Inc. (eHealth) loan repayment	(3,500,000)
SOMS Technologies, LLC (SOMS) realized loss	(472,632)
Advantage 24/7 investment conversion and loan repayment	(124,500)
Total of investments repaid, sold or liquidated	(4,097,132)
Net change in investments, at cost	<u>(\$ 2,824,607)</u>

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Results of Operations

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

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

Investment Income

	Three months ended June 30, 2019	Three months ended June 30, 2018	(Decrease) Increase	% (Decrease) Increase
Interest from portfolio companies	\$ 315,489	\$ 315,700	(\$ 211)	(0.1%)
Interest from other investments	53,538	7,735	45,803	592.2%
Dividend and other investment income	207,060	78,942	128,118	162.3%
Fee income	6,959	11,141	(4,182)	(37.5%)
Total investment income	<u>\$ 583,046</u>	<u>\$ 413,518</u>	<u>\$ 169,528</u>	41.0%

The total investment income that was received on a current basis for the three months ended June 30, 2019 was received from nine portfolio companies. This contrasts with the eight portfolio companies generating current income for the three months ended June 30, 2018.

Interest from portfolio companies – Interest from portfolio companies remained approximately the same during the three months ended June 30, 2019 versus the same period in 2018. The following investments are on non-accrual status: BeetnPath, LLC (Beetnpath), G-TEC Natural Gas Systems (G-Tec) and a portion of the Mercantile Adjustment Bureau, LLC (Mercantile) outstanding loan balances.

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

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

	Three months ended June 30, 2019	Three months ended June 30, 2018
Knoa Software, Inc. (Knoa)	\$ 193,934	\$ —
Tilson Technology Management, Inc. (Tilson)	13,126	9,687
Carolina Skiff LLC (Carolina Skiff)	—	39,169
New Monarch Machine Tool, Inc. (New Monarch)	—	27,409
Empire Genomics LLC (Empire Genomics)	—	2,677
Total dividend and other investment income	<u>\$ 207,060</u>	<u>\$ 78,942</u>

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

The income associated with the amortization of financing fees was \$6,459 and \$10,141 for the three months ended June 30, 2019 and 2018, respectively. The board fees were \$500 and \$1,000 for the three months ended June 30, 2019 and 2018, respectively.

Expenses

	Three months ended June 30, 2019	Three months ended June 30, 2018	Increase	% Increase
Total expenses	\$ 824,077	\$ 473,670	\$350,407	74.0%

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

The increase in expenses during the three months ended June 30, 2019 versus the same period in 2018 was primarily caused by a 395%, or \$254,907, increase in shareholder expenses and a 198%, or \$73,932, increase in professional fees. During the three months ended June 30, 2019, we held a special meeting of shareholders to approve all proposals related to the Transactions. We incurred additional shareholder expenses and professional fees related to this aforementioned special shareholder meeting, and the regulatory procedures that are required with such a meeting.

In addition, we deferred an additional \$25,000 in stock issuance costs attributable to the Transactions during the three months ended June 30, 2019. These expenses are intended to be offset against the equity capital raise when the Transactions close, or expensed if the Transactions are not completed. The deferred expenses are included on our Consolidated Statement of Financial Position at June 30, 2019 in the line item “Other assets.”

Net Realized Loss on Investments

	Three months ended June 30, 2019	Three months ended June 30, 2018	Change
Realized loss on investments before income taxes	(\$ 432,739)	\$ —	(\$432,739)

During the three months ended June 30, 2019, we recognized a realized loss on our investment in SOMS Technologies, LLC as the company ceased doing business. In addition, we received a final distribution of proceeds from an investment we exited in 2016, Gemcor LLC (Gemcor) of \$39,893.

Change in Unrealized Depreciation of Investments

	Three months ended June 30, 2019	Three months ended June 30, 2018	Change
Change in unrealized depreciation of investments before income taxes	(\$ 1,122,448)	(\$ 756,441)	(\$366,007)

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

	Three months ended June 30, 2019
SocialFlow, Inc. (Socialflow)	(\$ 750,000)
Genicon, Inc. (Genicon)	(715,080)
BeetNPath, LLC (Beetnpath)	(130,000)
SOMS Technologies, LLC (SOMS)	472,632
Total change in net unrealized depreciation of investments before income taxes during the three months ended June 30, 2019	<u>(\$ 1,122,448)</u>

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

Our valuation of Genicon was decreased during the three months ended June 30, 2019 to revalue our holdings based upon the liquidation preferences of our securities and as a result of a recent round of financing.

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

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

	Three months ended June 30, 2018
Empire Genomics, LLC (Empire Genomics)	(\$ 450,000)
SOMS Technologies, LLC (SOMS)	(498,348)
GiveGab, Inc. (Givegab)	191,907
Total change in net unrealized depreciation of investments before income taxes during the three months ended June 30, 2018	<u>(\$ 756,441)</u>

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

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

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

Net Increase (Decrease) in Net Assets from Operations

We account for our operations under GAAP for investment companies. The principal measure of our financial performance is "net increase (decrease) in net assets from operations" on our consolidated statements of operations. For the three months ended June 30, 2019 and 2018, the net decrease in net assets from operations was (\$1,347,549) and (\$631,294), respectively.

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Comparison of the six months ended June 30, 2019 to the six months ended June 30, 2018

Investment Income

	Six months ended June 30, 2019	Six months ended June 30, 2018	Increase	% Increase
Interest from portfolio companies	\$ 721,454	\$ 613,048	\$ 108,406	17.7%
Interest from other investments	71,349	12,845	58,504	455.5%
Dividend and other investment income	241,685	133,107	108,578	81.6%
Fee income	267,928	17,327	250,601	1,446.3%
Total investment income	<u>\$ 1,302,416</u>	<u>\$ 776,327</u>	<u>\$ 526,089</u>	67.8%

Interest from portfolio companies – Interest from portfolio companies was approximately 18% higher during the six months ended June 30, 2019 versus the same period in 2018 due to the fact that we have originated more income-producing debt investments in the last year. The new debt instruments were originated from KnowledgeVision Systems, Inc. and Tech 2000, Inc.

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

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

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

	Six months ended June 30, 2019	Six months ended June 30, 2018
Knoa Software, Inc. (Knoa)	\$ 193,934	\$ —
Carolina Skiff LLC (Carolina Skiff)	24,043	80,264
Tilson Technology Management, Inc. (Tilson)	23,708	19,376
New Monarch Machine Tool, Inc. (New Monarch)	—	27,409
Empire Genomics LLC (Empire Genomics)	—	6,058
Total dividend and other investment income	<u>\$ 241,685</u>	<u>\$ 133,107</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 \$42,428 and \$15,327 for the six months ended June 30, 2019 and 2018, respectively. In addition, the Corporation recognized a one-time fee of \$225,000 in conjunction with the repayment of the eHealth loan instrument. The board fees were \$500 and \$2,000 for the six months ended June 30, 2019 and 2018, respectively.

Expenses

	Six months ended June 30, 2019	Six months ended June 30, 2018	Increase	% Increase
Total expenses	\$ 1,513,812	\$ 1,062,234	\$ 451,578	42.5%

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

The increase in expenses during the six months ended June 30, 2019 versus the same period in 2018 was primarily caused by a 195%, or \$251,723, increase in shareholder expense and a 143%, or \$198,900, increase in professional fees. Shareholder expense and professional fees were higher during the six months ended June 30, 2019 because we incurred expenses in connection with aforementioned Transactions, the special shareholder meeting held in May 2019 and the regulatory procedures that are required with such Transactions. These expenses also included external shareholder, legal, tax consulting and other advisory expenses to support the complex regulatory environment in which we operate.

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

Net Realized Loss on Investments

	Six months ended June 30, 2019	Six months ended June 30, 2018	Change
Realized loss on investments before income taxes	(\$ 392,239)	\$ —	(\$392,239)

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

Change in Unrealized Depreciation of Investments

	Six months ended June 30, 2019	Six months ended June 30, 2018	Change
Change in unrealized depreciation of investments before income taxes	(\$ 600,152)	(\$ 1,207,930)	\$607,778

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

	Six months ended June 30, 2019
SocialFlow, Inc. (Socialflow)	(\$ 1,071,300)
Genicon, Inc. (Genicon)	(752,580)
BeetNPath, LLC (Beetnpath)	(523,904)
SciAps, Inc. (Sciaps)	(385,000)
Mercantile Adjustment Bureau, LLC (Mercantile)	(200,000)
SOMS Technologies, LLC	472,632
Tilson Technology Management, Inc. (Tilson)	1,860,000
Total change in net unrealized depreciation of investments before income taxes during the six months ended June 30, 2019	(\$ 600,152)

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

Our valuation of Genicon was decreased during the six months ended June 30, 2019 to revalue our holdings based upon the liquidation preferences of our securities and as a result of a recent round of financing.

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

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

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

	Six months ended June 30, 2018
Empire Genomics, LLC (Empire Genomics)	(\$ 651,489)
SOMS Technologies, LLC (SOMS)	(498,348)
First Wave Products Group (First Wave)	(250,000)
GiveGab, Inc. (Givegab)	191,907
Total change in net unrealized depreciation of investments before income taxes during the six months ended June 30, 2018	(\$ 1,207,930)

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

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

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

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

Net Increase (Decrease) in Net Assets from Operations

We account for our operations under GAAP for investment companies. The principal measure of our financial performance is "net increase (decrease) in net assets from operations" on our consolidated statements of operations. For the six months ended June 30, 2019 and 2018, the net decrease in net assets from operations was (\$892,134) and (\$1,151,707), respectively.

Liquidity and Capital Resources

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

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As of June 30, 2019, our total liquidity consisted of approximately \$8.6 million in cash and cash equivalents on hand and the availability of \$3.0 million under our SBA leverage commitment.

Net cash used by operating activities has averaged approximately \$1,200,000 over the last three years. The average cash used for investment in portfolio companies over the last three years was approximately \$1,980,000. Our cash flow from operations may fluctuate based on the timing of the receipt of dividend income and realized gains and the associated income taxes paid. We will generally use cash to fund our operating expenses and also to invest in companies, as we seek to build our portfolio utilizing our available cash and proceeds from liquidations of portfolio investments. We anticipate that we will continue to exit investments. However, the timing of liquidation events within the portfolio is difficult to project with any certainty. As of June 30, 2019, we had the availability to borrow an additional \$3.0 million from the SBA. Starting in 2022, our SBA debt begins to reach maturity, and this will require us to identify sources of future funding if liquidation of investments is not sufficient to fund operations and repay the SBA debt obligation.

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

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

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

Item 4. Controls and Procedures

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

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Based on the evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that the Corporation's controls and procedures were effective as of June 30, 2019.

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

PART II.
OTHER INFORMATION

Item 1. Legal Proceedings

We and each of our directors were named as defendants in a complaint that was filed in the United States District Court for the Western District of New York on April 29, 2019, captioned George Assad v. Rand Capital Corporation, et al., Case No. 1:19-cv-00557. The complaint alleged violations of Section 14(a) of the Securities Exchange Act of 1934, as amended and Rule 14a-9 promulgated under the Securities Exchange Act of 1934, as amended, in Rand's definitive proxy statement prepared for purposes of seeking to obtain shareholder approval of the Transactions. This action was voluntarily dismissed with prejudice on June 5, 2019.

Item 1A. Risk Factors

See Part I, Item 1A, "Risk Factors," of the Annual Report on Form 10-K for the year ended December 31, 2018.

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

Issuer Purchases of Equity Securities

Period	Total number of shares purchased (1)	Average price paid per share (2)	Total number of shares purchased as part of publicly announced plan (3)	Maximum number of shares that may yet be purchased under the share repurchase program
4/1/2019 – 4/30/2019	—	—	—	458,954
5/1/2019 – 5/31/19	—	—	—	458,954
6/1/2019 – 6/30/2019	—	—	—	458,954

- (1) There were no shares repurchased during the three months ending June 30, 2019.
- (2) The average price paid per share is calculated on a settlement basis and includes commission.
- (3) On October 25, 2018, the Board of Directors extended the repurchase authorization of up to 1,000,000 shares of the Corporation's common stock on the open market at prices no greater than the then current net asset value through October 25, 2019.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

(a) Exhibits

The following exhibits are filed with this report or are incorporated herein by reference to a prior filing, in accordance with Rule 2b-32 under the Securities Exchange Act of 1934.

- (3.1)(i) [Certificate of Incorporation of the Corporation, incorporated by reference to Exhibit \(a\)\(1\) of Form N-2 filed with the Securities Exchange Commission on April 22, 1997. \(File No. 333-25617\).](#)
- (3.1)(ii) [By-laws of the Corporation, incorporated by reference to Exhibit 3\(ii\) to the Corporation's Quarterly Report on Form 10-Q for the period ended September 30, 2016 filed with the Securities Exchange Commission on November 2, 2016. \(File No. 814-00235\).](#)
- (4) [Specimen certificate of common stock certificate, incorporated by reference to Exhibit \(b\) of Form N-2 filed with the Securities Exchange Commission on April 22, 1997. \(File No. 333-25617\).](#)
- (31.1) [Certification of Principal Executive Officer Pursuant to Rules 13a-14\(a\)/15d-14\(a\) under the Securities Exchange Act of 1934, as amended – filed herewith.](#)
- (31.2) [Certification of Principal Financial Officer Pursuant to Rules 13a-14\(a\)/15d-14\(a\) under the Securities Exchange Act of 1934, as amended – filed herewith.](#)
- (32.1) [Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – Rand Capital Corporation – filed herewith.](#)

Signatures

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

Dated: August 6, 2019

RAND CAPITAL CORPORATION

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

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

EXHIBIT 31.1

CERTIFICATION

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

I, Allen F. Grum, certify that:

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

Dated: August 6, 2019

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

EXHIBIT 31.2

CERTIFICATION

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

I, Daniel P. Penberthy, certify that:

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

Dated: August 6, 2019

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

EXHIBIT 32.1

CERTIFICATION

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

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

The Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 (the "Form 10-Q") of the Company fully complies with the requirement of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 6, 2019

/s/ Allen F. Grum

Allen F. Grum, President
(Chief Executive Officer)

Dated: August 6, 2019

/s/ Daniel P. Penberthy

Daniel P. Penberthy, Treasurer
(Chief Financial Officer)