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

FORM 10-Q

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

For the quarterly period ended September 30, 2021

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

For the Transition Period from _____ to _____

Commission File Number: 814-00235

Rand Capital Corporation

(Exact Name of Registrant as specified in its Charter)

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

16-0961359
(IRS Employer Identification No.)

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

14203
(Zip Code)

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

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

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

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

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

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

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

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

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

As of November 5, 2021, there were 2,581,021 shares of the registrant's common stock outstanding.

[Table of Contents](#)

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

PART I. – FINANCIAL INFORMATION

Item 1.	Financial Statements and Supplementary Data	1
	Consolidated Statements of Financial Position as of September 30, 2021 (Unaudited) and December 31, 2020	1
	Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2021 and 2020 (Unaudited)	2
	Consolidated Statements of Changes in Net Assets for the Three and Nine Months Ended September 30, 2021 and 2020 (Unaudited)	4
	Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2021 and 2020 (Unaudited)	5
	Consolidated Schedule of Portfolio Investments as of September 30, 2021 (Unaudited)	6
	Consolidated Schedule of Portfolio Investments as of December 31, 2020	14
	Notes to the Consolidated Financial Statements (Unaudited)	22
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	39
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	50
Item 4.	Controls and Procedures	50

PART II. – OTHER INFORMATION

Item 1.	Legal Proceedings	51
Item 1A.	Risk Factors	51
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	51
Item 3.	Defaults upon Senior Securities	51
Item 4.	Mine Safety Disclosures	51
Item 5.	Other Information	51
Item 6.	Exhibits	52

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements and Supplementary Data

RAND CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	September 30, 2021 (Unaudited)	December 31, 2020
ASSETS		
Investments at fair value:		
Control investments (cost of \$1,753,591 and \$0, respectively)	\$ 602,570	\$ —
Affiliate investments (cost of \$24,929,546 and \$14,835,885, respectively)	28,084,871	13,891,199
Non-Control/Non-Affiliate investments (cost of \$23,042,003 and \$25,884,428, respectively)	33,414,928	26,157,302
Total investments, at fair value (cost of \$49,725,140 and \$40,720,313, respectively)	62,102,369	40,048,501
Cash and cash equivalents	13,299,834	20,365,415
Interest receivable (net of allowance of \$0 and \$15,000, respectively)	111,213	258,186
Prepaid income taxes	200,281	220,740
Other assets	167,961	74,100
Total assets	\$75,881,658	\$60,966,942
LIABILITIES AND STOCKHOLDERS' EQUITY (NET ASSETS)		
Liabilities:		
Debentures guaranteed by the SBA (net of debt issuance costs)	\$10,852,844	\$10,824,587
Dividend payable	—	3,434,117
Accounts payable and accrued expenses	82,309	171,373
Due to investment adviser	233,438	156,999
Capital gains incentive fees	4,114,000	—
Deferred revenue	384,196	153,895
Deferred taxes	52,746	121,141
Total liabilities	15,719,533	14,862,112
Commitments and contingencies (See Note 5)		
Stockholders' equity (net assets):		
Common stock, \$0.10 par; shares authorized 100,000,000; shares issued: 2,648,916; shares outstanding: 2,581,021	264,892	264,892
Capital in excess of par value	52,003,545	52,003,545
Treasury stock, at cost: 67,895 shares and 66,747 shares, respectively	(1,566,605)	(1,545,834)
Total distributable earnings	9,460,293	(4,617,773)
Total stockholders' equity (net assets) (per share – \$23.31 and \$17.86, respectively)	60,162,125	46,104,830
Total liabilities and stockholders' equity (net assets)	\$75,881,658	\$60,966,942

See accompanying notes

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

	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Investment income:				
Interest from portfolio companies:				
Control investment	\$ 8,898	\$ —	\$ 11,765	\$ —
Affiliate investments	409,467	178,714	1,023,968	487,822
Non-Control/Non-Affiliate investments	339,416	456,160	1,075,016	1,253,439
Total interest from portfolio companies	757,781	634,874	2,110,749	1,741,261
Interest from other investments:				
Non-Control/Non-Affiliate investments	473	1,157	13,343	87,161
Total interest from other investments	473	1,157	13,343	87,161
Dividend and other investment income:				
Affiliate investments	100,896	13,125	208,947	39,375
Non-Control/Non-Affiliate investments	129,013	80,212	404,678	161,525
Total dividend and other investment income	229,909	93,337	613,625	200,900
Fee income:				
Affiliate investments	13,867	5,000	77,785	10,417
Non-Control/Non-Affiliate investments	10,313	2,500	24,270	7,500
Total fee income	24,180	7,500	102,055	17,917
Total investment income	1,012,343	736,868	2,839,772	2,047,239
Expenses:				
Base management fee (see Note 8)	230,724	152,438	619,240	434,201
Capital gains incentive fees (see Note 8)	454,000	—	4,114,000	—
Interest on SBA obligations	104,190	104,190	312,570	312,570
Professional fees	94,258	126,759	378,382	383,795
Stockholders and office operating	43,420	50,022	184,503	217,866
Directors' fees	39,050	28,375	114,450	85,125
Insurance	9,230	8,033	28,937	26,101
Corporate development	2,027	10,474	10,330	12,480
Bad debt recovery	(15,000)	(24,000)	(15,000)	(24,000)
Other operating	—	107	108	572
Total expenses	961,899	456,398	5,747,520	1,448,710
Net investment income (loss) before income taxes	50,444	280,470	(2,907,748)	598,529
Income tax (benefit) expense	(2,708)	—	17,015	(419,101)
Net investment income (loss)	53,152	280,470	(2,924,763)	1,017,630
Net realized gain on sales and dispositions of investments:				
Affiliate investments	—	—	135,430	56,916
Non-Control/Non-Affiliate investments	2,601,361	—	4,594,036	2,355,130
Net realized gain on sales and dispositions of investments	2,601,361	—	4,729,466	2,412,046

[Table of Contents](#)

Net change in unrealized appreciation/depreciation on investments:				
Affiliate investments	3,647,299	—	3,647,299	(515,804)
Non-Control/Non-Affiliate investments	<u>(3,980,612)</u>	<u>(17,947)</u>	<u>9,401,742</u>	<u>(24,229)</u>
Change in unrealized appreciation/ depreciation before income taxes	(333,313)	(17,947)	13,049,041	(540,033)
Deferred income tax expense	—	—	951	1,773,412
Net change in unrealized appreciation/depreciation on investments	<u>(333,313)</u>	<u>(17,947)</u>	<u>13,048,090</u>	<u>(2,313,445)</u>
Net realized and unrealized gains (losses) on investments	2,268,048	(17,947)	17,777,556	98,601
Net increase in net assets from operations	\$ 2,321,200	\$ 262,523	\$14,852,793	\$ 1,116,231
Weighted average shares outstanding	2,581,679	2,587,155	2,581,942	2,162,308
Basic and diluted net increase in net assets from operations per share	\$ 0.90	\$ 0.10	\$ 5.75	\$ 0.52

See accompanying notes

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

	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Net assets at beginning of period	\$ 58,119,821	\$ 49,711,314	\$ 46,104,830	\$ 53,628,516
Net investment income (loss)	53,152	280,470	(2,924,763)	1,017,630
Net realized gain on sales and dispositions of investments	2,601,361	—	4,729,466	2,412,046
Net change in unrealized appreciation/ depreciation on investments	(333,313)	(17,947)	13,048,090	(2,313,445)
Net increase in net assets from operations	2,321,200	262,523	14,852,793	1,116,231
Purchase of treasury shares	(20,771)	(23,684)	(20,771)	(37,988)
Declaration of dividend	(258,125)	—	(774,727)	(4,756,606)
Net assets at end of period	\$ 60,162,125	\$ 49,950,153	\$ 60,162,125	\$ 49,950,153

See accompanying notes

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

	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Cash flows from operating activities:		
Net increase in net assets from operations	\$ 14,852,793	\$ 1,116,231
Adjustments to reconcile net increase in net assets to net cash used in operating activities:		
Investments in portfolio companies	(15,086,336)	(7,027,982)
Proceeds from sale of portfolio investments	7,243,193	4,557,542
Proceeds from loan repayments	3,873,553	—
Net realized gain on sales and dispositions of portfolio investments	(4,729,466)	(2,412,046)
Change in unrealized (appreciation) depreciation on investments before income taxes	(13,049,041)	540,033
Deferred income tax (benefit) expense	(68,395)	1,432,893
Depreciation and amortization	28,255	28,256
Original issue discount amortization	(105,923)	(38,552)
Non-cash conversion of debenture interest	(199,848)	(280,724)
Change in interest receivable allowance	(15,000)	(24,000)
Changes in operating assets and liabilities:		
Decrease (increase) in interest receivable	161,973	(291,236)
(Increase) decrease in other assets	(93,860)	211,644
Decrease in prepaid income taxes	20,459	302,307
Decrease in accounts payable and accrued expenses	(89,064)	(125,088)
Increase in due to investment adviser	76,439	101,883
Increase in capital gains incentive fees payable	4,114,000	—
Decrease in bonus payable	—	(80,000)
Increase in deferred revenue	230,301	42,085
Total adjustments	(17,688,760)	3,062,985
Net cash used in operating activities	(2,835,967)	(1,946,754)
Cash flows from financing activities:		
Payment of cash dividend	(4,208,843)	(4,756,606)
Purchase of treasury shares	(20,771)	(37,988)
Net cash used in financing activities	(4,229,614)	(4,794,594)
Net decrease in cash and cash equivalents	(7,065,581)	(6,741,348)
Cash and cash equivalents:		
Beginning of period	20,365,415	25,815,720
End of period	\$ 13,299,834	\$ 19,074,372

See accompanying notes

[Table of Contents](#)

RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS
September 30, 2021
(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 – 55.5% of net assets: (j)						
ACV Auctions, Inc. NASDAQ: ACVA (e)(g)(n) Buffalo, NY. Live mobile wholesale auctions for new and used car dealers. (Software) www.acvauctions.com	540,580 Class A Common stock valued at \$18.12.	8/12/16	<1%	\$ 149,000	\$9,795,310	16.3%
Ares Capital Corporation NASDAQ: ARCC (n) New York, NY. (BDC Investment Fund)	27,000 shares.	3/16/20	<1%	343,460	549,360	0.9%
Barings BDC, Inc. NYSE: BBDC (n) New York, NY. (BDC Investment Fund)	40,000 shares.	8/13/20	<1%	333,352	440,800	0.7%
Caitec, Inc. Halethorpe, MD. Pet product manufacturer and distributor. (Consumer Goods) www.caitec.com	\$1,750,000 Subordinated Secured Promissory Note at 12% (+2% PIK) due June 1, 2026.	11/6/20	2%	1,782,153	1,782,153	6.4%
	150 Class A Units.	11/6/20		150,000	150,000	
	(g) \$1,750,000 Subordinated Secured Promissory Note at 12% (+2% PIK) due June 1, 2026.	11/6/20	2%	1,782,153	1,782,153	
	(g) 150 Class A Units.	11/6/20		150,000	150,000	
Total Caitec				<u>3,864,306</u>	<u>3,864,306</u>	
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	2%	661,563	33,000	0.1%
FS KKR Capital Corp. NYSE: FSK (n) Philadelphia, PA. (BDC Investment Fund)	54,000 shares.	3/16/20	<1%	849,438	1,199,340	2.0%
Golub Capital BDC, Inc. NASDAQ: GBDC (n) New York, NY. (BDC Investment Fund)	31,250 shares.	3/16/20	<1%	403,910	493,542	0.8%
GoNoodle, Inc. (g)(l) Nashville, TN. Student engagement education software providing core aligned physical activity breaks. (Software) www.gonoodle.com	\$1,500,000 Secured Note at 12% (1% PIK) due September 30, 2024.	11/1/19	<1%	1,528,951	1,528,951	2.6%
	Warrant for 47,324 Series C Preferred.	3/1/15		25	25	
	Warrant for 21,948 Series D Preferred.	11/1/19		38	38	
	Total GoNoodle				<u>1,529,014</u>	
HDI Acquisition LLC (Hilton Displays) (l) Greenville, NC. HDI is engaged in manufacturing, installation and maintenance of signage and brands. (Manufacturing) www.hiltondisplays.com	\$1,245,119 Term Loan at 12% (+2% PIK) due June 20, 2023.	11/8/19	0%	1,294,578	1,294,578	2.1%
Lumious (Tech 2000, Inc.) (g) Herndon, VA. Develops and delivers IT training. (Software) www.t2000inc.com	\$850,000 Replacement Term Note at 14% due November 15, 2023.	11/16/18	0%	860,777	860,777	1.4%

RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS
September 30, 2021 (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
Mattison Avenue Holdings LLC (l) Dallas, TX. Provider of upscale salon spaces for lease. (Professional Services) www.mattisonsalonsuites.com	\$1,794,944.92 Third Amended, Restated and Consolidated Promissory Note at 14% (2% PIK) due June 9, 2022.	6/23/21	0%	1,810,110	1,810,110	3.0%
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% (8% effective August 2020) due January 31, 2022. (e) \$150,000 Subordinated Debenture at 8% due January 31, 2022. Warrant for 3.29% Membership Interests. Option for 1.5% Membership Interests.	10/22/12 6/30/14 10/22/12	4%	780,487 150,000 97,625	780,487 150,000 —	1.6%
Total Mercantile				<u>1,028,112</u>	<u>930,487</u>	
OnCore Golf Technology, Inc. (e)(g) Buffalo, NY. Patented and proprietary golf balls utilizing technology and innovation. (Consumer Product) www.oncoregolf.com	300,483 Preferred AA.	11/30/18	3%	752,712	300,000	0.5%
Open Exchange, Inc.(e)(g) (Formerly KnowledgeVision Systems, Inc.) Lincoln, MA. Online presentation and training software. (Software) www.openexc.com	397,899 Series C Preferred. 397,899 Common.	11/13/13 10/22/19	3%	1,193,697 208,243	2,785,000 2,785,000	9.3%
Total Open Exchange				<u>1,401,940</u>	<u>5,570,000</u>	
Owl Rock Capital Corporation NYSE:ORRC (n) New York, NY. (BDC Investment Fund)	30,000 shares.	3/16/20	<1%	347,067	425,800	0.7%
PennantPark Investment Corporation NASDAQ: PNNT (n) New York, NY. (BDC Investment Fund)	195,000 shares.	8/13/20	<1%	892,212	1,277,250	2.1%
PostProcess Technologies, Inc. (e)(g) Buffalo, NY. Provides innovative solutions for the post-processing of additive manufactured 3D parts. (Manufacturing) www.postprocess.com	360,002 Series A1 Preferred.	11/1/19	<1%	348,875	348,875	0.6%
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 12/12/13 10/24/09 9/29/15	4%	— 2,099,999 — 702,732	— — — 702,732	1.2%
Total Rheonix				<u>2,802,731</u>	<u>702,732</u>	
SocialFlow, Inc. (e)(g) New York, NY. Provides instant analysis of social networks using a proprietary, predictive analytic algorithm to optimize advertising and publishing. (Software) www.socialflow.com	1,049,538 Series B Preferred. 1,204,819 Series B-1 Preferred. 717,772 Series C Preferred.	4/5/13 4/8/14 6/26/15	4%	500,000 750,000 500,000	92,425 138,637 92,425	0.5%
Total Social Flow				<u>1,750,000</u>	<u>323,487</u>	
Somerset Gas Transmission Company, LLC (e)(m) Columbus, OH. Natural gas transportation. (Oil and Gas) www.somersetgas.com	26.5337 Units.	4/1/05	3%	719,097	500,000	0.8%
TCG BDC, Inc. NASDAQ: CGBD (n) New York, NY. (BDC Investment Fund)	86,000 shares.	8/13/20	<1%	899,749	1,166,160	1.9%
Subtotal Non-Control/Non-Affiliate Investments				<u>\$23,042,003</u>	<u>\$33,414,928</u>	

[Table of Contents](#)

RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS
September 30, 2021 (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
Affiliate Investments – 46.7% of net assets (k)						
BMP Swanson Holdco, LLC (g)(m) Plano, TX. Designs, installs and maintains a variety of fire protection systems. (Professional Services) www.bmpswanson.com	\$1,600,000 Term Note at 12% due September 4, 2026.	3/4/21	9%	\$1,600,000	\$1,600,000	3.0%
	Preferred Membership Interest for 9.29%.	3/4/21		233,333	233,333	
	Total BMP Swanson			<u>1,833,333</u>	<u>1,833,333</u>	
Carolina Skiff LLC (g)(m) Waycross, GA. Manufacturer of ocean fishing and pleasure boats. (Manufacturing) www.carolinaskiff.com	6.0825% Class A Common Membership Interest.	1/30/04	7%	15,000	1,500,000	2.5%
DSD Operating, LLC (m) Duluth, GA. Design and renovate auto dealerships. (Automotive) www.dsdteam.com	\$2,745,000 Term Note at 12% (+2% PIK) due September 30, 2026.	9/30/21	11%	2,745,000	2,745,000	6.3%
	1,067 Class A Preferred shares.			1,067,500	1,067,500	
	1,067 Class B Common shares.			—	—	
Total DSD				<u>3,812,500</u>	<u>3,812,500</u>	
Filterworks Acquisition USA, LLC DBA Autotality (l)(m) Deerfield Beach, FL. Provides spray booth equipment, frame repair machines and paint booth filter services for collision shops. (Automotive) www.autotality.com	\$2,283,702 Term Note at 12% (+2% PIK) due December 4, 2023.	11/8/19	9%	2,385,650	2,385,650	4.9%
	562.5 Class A Units.			562,500	562,500	
	Total Filterworks			<u>2,948,150</u>	<u>2,948,150</u>	
ITA Acquisition, LLC (m) Ormond Beach, FL. Blind and shade manufacturing. (Manufacturing) www.itainc.com	\$1,900,000 Term Note at 12% (+2% PIK) due June 21, 2026.	6/22/21	24%	1,910,674	1,910,674	6.5%
	(g) \$1,500,000 Term Note at 12% (+2% PIK) due June 21, 2026.	6/22/21		1,508,429	1,508,429	
	(g) 500 Class A Preferred Units and 500 Class B Common Units.	6/22/21		500,000	500,000	
	Total ITA			<u>3,919,103</u>	<u>3,919,103</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	—	0.8%
	1,876,922 Series B Preferred.	6/9/14		479,155	479,155	
	Total Knoa			<u>1,229,155</u>	<u>479,155</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.	5/14/15	12%	742,850	—	0.0%
Microcision LLC (g) Pennsauken Township, NJ. Manufacturer of precision machined medical implants, components and assemblies. (Manufacturing) www.microcision.com	Membership Interest Purchase Warrant for 5%.	1/10/20	5%	110,000	95,000	0.2%
New Monarch Machine Tool, Inc. (e)(g) Cortland, NY. Manufactures and services vertical/horizontal machining centers. (Manufacturing) www.monarchmt.com	22.84 Common.	1/17/08	15%	22,841	—	0.0%

RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS
September 30, 2021 (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
SciAps, Inc. (e)(g)	187,500 Series A Preferred.	7/12/13	6%	1,500,000	—	2.9%
Woburn, MA. Instrumentation company producing portable analytical devices using XRF, LIBS and RAMAN spectroscopy to identify compounds, minerals, and elements. (Manufacturing) www.sciaps.com	274,299 Series A1 Convertible Preferred.	4/4/14		504,710	—	
	117,371 Series B Convertible Preferred.	8/31/15		250,000	—	
	113,636 Series C Convertible Preferred.	4/7/16		175,000	—	
	369,698 Series C1 Convertible Preferred.	4/7/16		399,274	—	
	147,059 Series D Convertible Preferred.	5/9/17		250,000	250,000	
	Warrant to purchase Series D-1 Preferred.	5/9/17		45,000	—	
	\$1,500,000 Second Amended and Restated Secured Subordinated Promissory Note at 12% due August 20, 2024.	8/20/21				
				1,476,250	1,476,250	
	Total SciAps			4,600,234	1,726,250	
Seybert's Billiards Corporation	\$1,400,000 Term Note at 12% (+2% PIK) due January 19, 2026.	1/19/21	8%	1,398,183	1,398,183	4.8%
Coldwater, MI. Billiard supplies. (Consumer Product) www.seyberts.com	Warrant for 4%.	1/19/21		25,000	25,000	
	(g) \$1,400,000 Term Note at 12% (+2% PIK) due January 19, 2026.	1/19/21		1,398,182	1,398,182	
	Warrant for 4%.	1/19/21		25,000	25,000	
	Total Seybert's			2,846,365	2,846,365	
Tilson Technology Management, Inc. (g)	*120,000 Series B Preferred.	1/20/15	9%	600,000	3,900,000	14.8%
Portland, ME. Provides network deployment construction and information system services	*21,391 Series C Preferred.	9/28/16		200,000	695,000	
management for cellular, fiber optic and wireless systems providers. Its affiliated entity, SQF, LLC is a CLEC supporting small cell 5G deployment.	*70,176 Series D Preferred.	9/29/17		800,000	2,280,000	
(Professional Services) www.tilsonotech.com	*15,385 Series E Preferred.	3/15/19		500,012	500,012	
	211,567 SQF Hold Co. Common.	3/15/19		—	800,000	
	23,077 Series F Preferred.	6/15/20		750,003	750,003	
	Total Tilson			2,850,015	8,925,015	
	*2.5% dividend payable quarterly.					
Subtotal Affiliate Investments				\$24,929,546	\$28,084,871	
Control Investments – 1.0% of net assets (o)						
Empire Genomics, Corp. (g)	\$444,915.88 Secured Promissory Note at 8% due December 31, 2026.	5/3/21	29%	\$ 444,915	\$ 444,915	1.0%
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	1,576,499 common shares.	5/3/21		1,308,676	157,655	
	Total Empire			1,753,591	602,570	
Subtotal Control Investments				\$ 1,753,591	\$ 602,570	
TOTAL INVESTMENTS – 103.2%				\$49,725,140	\$62,102,369	
LIABILITIES IN EXCESS OF OTHER ASSETS – (3.2%)					(1,940,244)	
NET ASSETS – 100%					\$60,162,125	

RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS
September 30, 2021 (Continued)
(Unaudited)

Notes to the Consolidated Schedule of Portfolio Investments

(a) At September 30, 2021, restricted securities represented 75% of the fair value of the investment portfolio. Restricted securities are subject to one or more restrictions on resale and are not freely marketable. Type of investment for equity position is in the form of shares unless otherwise noted as units or interests, i.e., preferred shares, common shares.

(b) The Date Acquired column indicates the date on which the Corporation first acquired an investment.

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

(d) The Corporation's investments are carried at fair value in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820 "Fair Value Measurements and Disclosures," which defines fair value and establishes guidelines for measuring fair value. At September 30, 2021, ASC 820 designates 75% of the Corporation's investments as "Level 3" assets. Under the valuation policy of the Corporation, unrestricted publicly traded securities are valued at the average closing price for these securities for the last three trading days of the reporting period. Restricted securities are subject to restrictions on resale and are valued at fair value as determined by our external investment advisor Rand Capital Management, LLC ("RCM") and submitted to the Board of Directors for approval. Fair value is considered to be the amount that the Corporation may reasonably expect to receive for portfolio securities when sold on the valuation date. Valuations as of any particular date, however, are not necessarily indicative of amounts which may ultimately be realized as a result of future sales or other dispositions of securities and these favorable or unfavorable differences could be material. Among the factors considered in determining the fair value of restricted securities are the financial condition and operating results, projected operations, and other analytical data relating to the investment. Also considered are the market prices for unrestricted securities of the same class (if applicable) and other matters which may have an impact on the value of the portfolio company (see Note 3. "Investments" to the Consolidated Financial Statements).

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

(f) As of September 30, 2021, the total cost of investment securities was approximately \$49.7 million. Net unrealized appreciation was approximately \$12.4 million, which was comprised of \$22.9 million of unrealized appreciation of investment securities and (\$10.5) million of unrealized depreciation of investment securities. At September 30, 2021, the aggregate gross unrealized gain for federal income tax purposes was \$22.7 million and the aggregate gross unrealized loss for federal income tax purposes was (\$10.7) million. The net unrealized gain for federal income tax purposes was \$12.0 million based on a tax cost of \$50.1 million.

(g) Rand Capital SBIC, Inc. investment.

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

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

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

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

(l) Payment in kind (PIK) represents earned interest that is added to the cost basis of the investment and due at maturity. The amount of PIK earned is included in the interest rate detailed in the "Type of Investment" column, unless it has been noted with a (+), in which case the PIK is in addition to the face amount of interest due on the security.

(m) Equity holdings are held in a wholly owned (100%) "blocker corporation" of Rand Capital Corporation or Rand Capital SBIC, Inc. for federal income tax and Regulated Investment Company (RIC) compliance.

(n) Publicly traded company.

(o) 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.

RAND CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS
September 30, 2021 (Continued)
(Unaudited)

Investments in and Advances to Affiliates

Company	Type of Investment	January 1, 2021, Fair Value	Net Change in Unrealized Appreciation (Depreciation)	Gross Additions (1)	Gross Reductions (2)	September 30, 2021 Fair Value	Net Realized Gains	Amount of Interest/ Dividend/ Fee Income (3)
Control Investments: Empire Genomics	\$444,915.88 Secured Promissory Note at 8% due December 31, 2026. 1,576,499 common shares.	\$ —	\$ —	\$ 444,915	\$ —	\$ 444,915	\$ —	\$ 11,765
	Total Empire	\$ —	\$ —	\$ 157,655	\$ —	\$ 157,655	\$ —	\$ —
	Total Control Investments	\$ —	\$ —	\$ 602,570	\$ —	\$ 602,570	\$ —	\$ 11,765
Affiliate Investments: BMP Swanson Holdco, LLC	\$1,600,000 Term Note at 12% due September 4, 2026. Preferred Membership Interest for 9.29%	\$ —	\$ —	\$ 1,600,000	\$ —	\$ 1,600,000	\$ —	\$ 115,889
	Total BMP Swanson	\$ —	\$ —	233,333	\$ —	233,333	\$ —	\$ —
	Total BMP Swanson	\$ —	\$ —	1,833,333	\$ —	1,833,333	\$ —	115,889
Carolina Skiff LLC	6.0825% Class A Common Membership interest.	1,500,000	—	—	—	1,500,000	—	81,801
ClearView Social, Inc.	312,500 Series Seed Plus Preferred.	200,000	—	—	(200,000)	—	135,430	—
DSD Operating, LLC	\$2,745,000 Term Note at 12% (+2% PIK) due September 30, 2026. 1,067 Class A Preferred shares. 1,067 Class B Common shares.	—	—	2,745,000	—	2,745,000	—	—
	Total DSD	—	—	1,067,500	—	1,067,500	—	—
	Total DSD	—	—	3,812,500	—	3,812,500	—	—
Filterworks Acquisition USA, LLC	\$2,283,702 Term Note at 12%. 562.5 Class A Units.	2,349,831	—	35,819	—	2,385,650	—	250,736
	Total Filterworks	562,500	—	—	—	562,500	—	—
	Total Filterworks	2,912,331	—	35,819	—	2,948,150	—	250,736
ITA Acquisition	\$1,900,000 Term Note at 12% (+2% PIK) due June 22, 2026. (g) \$1,500,000 Term Note at 12% (+2% PIK) due June 22, 2026. (g) 500 Class A Preferred Units and 500 Class B Common Units.	—	—	1,910,674	—	1,910,674	—	76,600
	Total ITA	—	—	1,508,429	—	1,508,429	—	60,530
	Total ITA	—	—	500,000	—	500,000	—	14,096
	Total ITA	—	—	3,919,103	—	3,919,103	—	151,226
Knoa Software, Inc.	973,533 Series A-1 Convertible Preferred. 1,876,922 Series B Preferred.	544,860	(544,860)	—	—	—	—	87,771
	Total Knoa	479,155	—	—	—	479,155	—	—
	Total Knoa	1,024,015	(544,860)	—	—	479,155	—	87,771
Mezmeriz, Inc. Microcision	1,554,565 Series Seed Preferred. \$1,500,000 Subordinated Promissory Note at 10%. Membership Interest Purchase Warrant for 5%.	—	—	—	—	—	—	—
	Total Microcision	1,411,997	—	88,003	(1,500,000)	—	—	126,711
	Total Microcision	95,000	—	—	—	95,000	—	—
	Total Microcision	1,506,997	—	88,003	(1,500,000)	95,000	—	126,711
New Monarch Machine Tool, Inc.	22.84 Common.	22,841	(22,841)	—	—	—	—	—
OnCore Golf Technology, Inc.	300,483 Series A Preferred.	300,000	—	—	(300,000)	—	—	—
SciAps, Inc.	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. Warrant to Purchase Series D-1 Preferred. \$1,500,000 Subordinated Promissory Note at 12%.	—	—	—	—	—	—	—
	Total SciAps	250,000	—	—	—	250,000	—	—
	Total SciAps	1,465,000	—	11,250	—	1,476,250	—	161,250
	Total SciAps	1,715,000	—	11,250	—	1,726,250	—	161,250

RAND CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS
September 30, 2021 (Continued)
(Unaudited)

Company	Type of Investment	January 1, 2021, Fair Value	Net Change in Unrealized Appreciation (Depreciation)	Gross Additions (1)	Gross Reductions (2)	September 30, 2021 Fair Value	Net Realized Gains	Amount of Interest/ Dividend/ Fee Income (3)
Seybert's Billiards Corporation	\$1,400,000 Term Note at 12% (+2% PIK) due January 19, 2026.	—	—	1,398,183	—	1,398,183	—	147,970
	Warrant for 4%.	—	—	25,000	—	25,000	—	—
	(g) \$1,400,000 Term Note at 12% (+2% PIK) due January 19, 2026.	—	—	1,398,182	—	1,398,182	—	147,971
	Warrant for 4%.	—	—	25,000	—	25,000	—	—
	Total Seybert's	—	—	2,846,365	—	2,846,365	—	295,941
Tilson Technology Management, Inc.	120,000 Series B Preferred.	1,950,000	1,950,000	—	—	3,900,000	—	39,375
	21,391 Series C Preferred.	347,604	347,396	—	—	695,000	—	—
	70,176 Series D Preferred.	1,140,360	1,139,640	—	—	2,280,000	—	—
	15,385 Series E Preferred.	500,012	—	—	—	500,012	—	—
	23,077 Series F Preferred.	750,003	—	—	—	750,003	—	—
	211,567 SQF Hold Co. Common.	22,036	777,964	—	—	800,000	—	—
Total Tilson	4,710,015	4,215,000	—	—	8,925,015	—	39,375	
Total Affiliate Investments		\$13,891,199	\$ 3,647,299	\$12,546,373	(\$2,000,000)	\$ 28,084,871	\$135,430	\$ 1,310,700
Total Control and Affiliate Investments		\$13,891,199	\$ 3,647,299	\$13,148,943	(\$2,000,000)	\$ 28,687,441	\$135,430	\$ 1,322,465

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

- (1) Gross additions include increases in the cost basis of investments resulting from new portfolio investments, follow on investments, capitalized interest and the accretion of discounts. Gross additions also include the movement of an existing portfolio company into this category and out of another category.
- (2) Gross reductions include decreases in the cost basis of investments resulting from principal repayments, sales, note conversions, the exchange of existing securities for new securities and the movement of an existing portfolio company out of this category and into another category.
- (3) Represents the total amount of interest, fees or dividends credited to income for the portion of the period an investment was included in "Control or Affiliate" categories, respectively.

RAND CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS
September 30, 2021 (Continued)
(Unaudited)

Industry Classification	Percentage of Total Investments (at fair value) as of September 30, 2021
Software	29.9%
Professional Services	21.8
Manufacturing	14.3
Consumer Product	11.3
Automotive	10.9
BDC Investment Fund	8.9
Healthcare	2.1
Oil and Gas	0.8
Total Investments	100%

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

Company, Geographic Location, Business Description, (Industry) and Website	(a) Type of Investment	(b) Date Acquired	(c) Equity	Cost	(d)(f) Fair Value	Percent of Net Assets
Non-Control/Non-Affiliate Investments – 56.8% 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	\$6,531,815	14.2%
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.	1/1/19	0%	55,000	55,000	0.1%
Apollo Investment Corporation NASDAQ: AINV (n) Public BDC New York, NY.	35,000 shares.	3/16/20	<1%	364,084	371,700	0.8%
Ares Capital Corporation NASDAQ: ARCC (n) Public BDC New York, NY.	27,000 shares.	3/16/20	<1%	343,460	451,800	1.0%
Barings BDC, Inc. NYSE: BBDC (n) Public BDC New York, NY.	40,000 shares.	8/13/20	<1%	333,352	366,933	0.8%
Caitec, Inc. Halethorpe, MD. Pet product manufacturer. (Manufacturing) www.caitec.com	\$1,750,000 Subordinated Secured Promissory Note at 12% (+2% PIK) due June 1, 2026. 150 Class A Units.	11/6/20	2%	1,755,351 150,000	1,755,351 150,000	8.3%
	(g) \$1,750,000 Subordinated Secured Promissory Note at 12% (+2% PIK) due June 1, 2026. (g) 150 Class A Units.	11/6/20 11/6/20	2%	1,755,351 150,000	1,755,351 150,000	
	Total Caitec			<u>3,810,702</u>	<u>3,810,702</u>	
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. 298,347 Series B Preferred.	3/19/18 3/19/18 11/9/20	<1%	200,000 101,342 500,000	320,042 566,132 500,000	3.0%
	Total Centivo			<u>801,342</u>	<u>1,386,174</u>	
Empire Genomics, LLC (g) Buffalo, NY. Molecular diagnostics company that offers a comprehensive menu of assay services for diagnosing and guiding patient therapeutic treatments. (Health Care) www.empiregenomics.com	\$1,209,014 Senior Secured Convertible Term Notes at 10% due February 28, 2021. \$444,915 Promissory Note at 9% due February 28, 2021.	6/13/14 10/1/18	0%	1,308,675 444,915	157,654 444,915	1.3%
	Total Empire			<u>1,753,590</u>	<u>602,569</u>	
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	2%	661,563	33,000	0.1%
FS KKR Capital Corp. NYSE: FSK (n) Public BDC Philadelphia, PA.	25,000 shares.	3/16/20	<1%	338,980	412,417	0.9%
GiveGab, Inc. (e)(g) Ithaca, NY. Nonprofit giving platform that provides an easy and effective way for fundraising professionals to raise money online. (Software) www.givegab.com	5,084,329 Series Seed Preferred.	1/14/15	4%	616,221	616,221	1.3%

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

Company, Geographic Location, Business Description, (Industry) and Website	(a) Type of Investment	(b) Date Acquired	(c) Equity	Cost	(d)(f) Fair Value	Percent of Net Assets
Golub Capital BDC, Inc. NASDAQ: GBDC (n) Public BDC New York, NY.	31,250 shares.	3/16/20	<1%	403,910	435,520	0.9%
GoNoodle, Inc. (g)(l) Nashville, TN. Student engagement education software providing core aligned physical activity breaks. (Software) www.gonoodle.com	\$1,500,000 Secured Note at 12% (1% PIK) due September 30, 2024. Warrant for 47,324 Series C Preferred. Warrant for 21,948 Series D Preferred.	11/1/19 3/1/15 11/1/19	<1%	1,517,539 25 38	1,517,539 25 38	3.3%
Total GoNoodle				<u>1,517,602</u>	<u>1,517,602</u>	
HDI Acquisition LLC (Hilton Displays) (l) Greenville, NC. HDI is engaged in manufacturing, installation and maintenance of signage and brands. (Manufacturing) www.hiltondisplays.com	\$1,245,119 Term Loan at 12% (+2% PIK) due June 20, 2023.	11/8/19	0%	1,275,140	1,275,140	2.8%
Lumious (Tech 2000, Inc.) (g) Herndon, VA. Develops and delivers IT training. (Software) www.t2000inc.com	\$850,000 Replacement Term Note at 14% due November 15, 2021.	11/16/18	0%	860,777	860,777	1.9%
Mattison Avenue Holdings LLC (l) Dallas, TX. Provider of upscale salon spaces for lease. (Professional Services) www.mattisonsalonsuites.com	\$1,031,406 Second Amended, Restated and Consolidated Promissory Note at 14% (2% PIK) due June 9, 2022.	11/8/19	0%	1,122,204	1,122,204	2.5%
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% (8% effective August 2020) due January 31, 2022. (e) \$150,000 Subordinated Debenture at 8% due January 31, 2022. Warrant for 3.29% Membership Interests. Option for 1.5% Membership Interests.	10/22/12 6/30/14 10/22/12	4%	1,199,040 150,000 97,625	500,000 — —	1.1%
Total Mercantile				<u>1,446,665</u>	<u>500,000</u>	
Open Exchange, Inc.(e) (g) (Formerly KnowledgeVision Systems, Inc.) Lincoln, MA. Online presentation and training software. (Software) www.openexc.com	397,899 Series C Preferred. 397,899 Common.	11/13/13 10/22/19	4%	1,193,697 208,243	543,283 108,656	1.4%
Total Open Exchange				<u>1,401,940</u>	<u>651,939</u>	
Owl Rock Capital Corporation NYSE: ORRC (n) Public BDC New York, NY.	30,000 shares.	3/16/20	<1%	347,067	380,900	0.8%
PennantPark Investment Corporation NASDAQ: PNNT (n) Public BDC New York, NY.	100,000 shares.	8/13/20	<1%	370,130	458,667	1.0%
PostProcess Technologies, Inc. (e)(g) Buffalo, NY. Provides innovative solutions for the post-processing of additive manufactured 3D parts. (Manufacturing) www.postprocess.com	360,002 Series A1 Preferred.	11/1/19	<1%	348,875	471,603	1.0%
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 12/12/13 10/24/09 9/29/15	4%	— 2,099,999 — 702,732	— — — 702,732	1.5%
Total Rheonix				<u>2,802,731</u>	<u>702,732</u>	

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

Company, Geographic Location, Business Description, (Industry) and Website	(a) Type of Investment	(b) Date Acquired	(c) Equity	Cost	(d)(f) Fair Value	Percent of Net Assets
Science and Medicine Group, Inc. (SMG) (g) Arlington, VA. Research and advisory firm serving the life science, analytical instrument, diagnostic, healthcare, radiology, and dental industries. (Health Care) www.scienceandmedicinegroup.com	\$1,900,000 Participation Agreement of \$5,000,000 Promissory Note at 12% due March 5, 2023.	7/31/20	0%	1,900,000	1,900,000	4.1%
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 4/8/14 6/26/15	4%	500,000 750,000 500,000	92,425 138,637 92,425	0.7%
Total Social Flow				<u>1,750,000</u>	<u>323,487</u>	
Somerset Gas Transmission Company, LLC (e)(m) Columbus, OH. Natural gas transportation. (Oil and Gas) www.somersetgas.com	26.5337 Units.	4/1/05	3%	719,097	500,000	1.1%
TCG BDC, Inc. NASDAQ: CGBD (n) Public BDC New York, NY.	40,000 shares.	8/13/20	<1%	376,996	418,400	0.9%
Subtotal Non-Control/Non-Affiliate Investments				<u>\$25,884,428</u>	<u>\$26,157,302</u>	
Affiliate Investments – 30.1% of net assets (k)						
Carolina Skiff LLC (g)(m) Waycross, GA. Manufacturer of ocean fishing and pleasure boats. (Manufacturing) www.carolinaskiff.com	6.0825% Class A Common Membership Interest.	1/30/04	7%	\$ 15,000	\$ 1,500,000	3.2%
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	0.4%
Filterworks Acquisition USA, LLC (l)(m) Deerfield Beach, FL. Provides spray booth equipment, frame repair machines and paint booth filter services for collision shops. (Automotive) www.filterworkusa.com	\$2,283,702 Term Note at 12% (+2% PIK) due December 4, 2023. 562.5 Class A Units.	11/8/19	9%	2,349,831 562,500	2,349,831 562,500	6.3%
Total Filterworks				<u>2,912,331</u>	<u>2,912,331</u>	
Knoa Software, Inc. (e)(g) New York, NY. End user experience management and performance (EMP) solutions utilizing enterprise applications. (Software) www.knoa.com	973,533 Series A-1 Convertible Preferred. 1,876,922 Series B Preferred.	11/20/12 6/9/14	7%	750,000 479,155	544,860 479,155	2.2%
Total Knoa				<u>1,229,155</u>	<u>1,024,015</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.	5/14/15	12%	742,850	—	0.0%

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

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

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

Notes to the Consolidated Schedule of Portfolio Investments

(a) At December 31, 2020, restricted securities represented 92% of the fair value of the investment portfolio. Restricted securities are subject to one or more restrictions on resale and are not freely marketable. Type of investment for equity position is in the form of shares unless otherwise noted as units or interests, i.e., preferred shares, common shares.

(b) The Date Acquired column indicates the date on which the Corporation first acquired an investment.

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

(d) The Corporation's investments are carried at fair value in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820 "Fair Value Measurements and Disclosures," which defines fair value and establishes guidelines for measuring fair value. At December 31, 2020, ASC 820 designates 92% of the Corporation's investments as "Level 3" assets. Under the valuation policy of the Corporation, unrestricted publicly traded securities are valued at the average closing price for these securities for the last three trading days of the reporting period. Restricted securities are subject to restrictions on resale and are valued at fair value as determined by our external investment advisor Rand Capital Management, LLC ("RCM") and submitted to the Board of Directors for approval. Fair value is considered to be the amount that the Corporation may reasonably expect to receive for portfolio securities when sold on the valuation date. Valuations as of any particular date, however, are not necessarily indicative of amounts which may ultimately be realized as a result of future sales or other dispositions of securities and these favorable or unfavorable differences could be material. Among the factors considered in determining the fair value of restricted securities are the financial condition and operating results, projected operations, and other analytical data relating to the investment. Also considered are the market prices for unrestricted securities of the same class (if applicable) and other matters which may have an impact on the value of the portfolio company (see Note 3. "Investments" to the Consolidated Financial Statements).

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

(f) As of December 31, 2020, the total cost of investment securities was approximately \$40.7 million. Net unrealized depreciation was approximately (\$672) thousand, which was comprised of \$10.6 million of unrealized appreciation of investment securities and (\$11.3) million of unrealized depreciation of investment securities. At December 31, 2020, the aggregate gross unrealized gain for federal income tax purposes was \$10.1 million and the aggregate gross unrealized loss for federal income tax purposes was (\$11.3) million. The net unrealized loss for federal income tax purposes was (\$1.2) million based on a tax cost of \$40.9 million.

(g) Rand Capital SBIC, Inc. investment.

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

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

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

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

(l) Payment in kind (PIK) represents earned interest that is added to the cost basis of the investment and due at maturity. The amount of PIK earned is included in the interest rate detailed in the "Type of Investment" column, unless it has been noted with a (+), in which case the PIK is in addition to the face amount of interest due on the security.

(m) Equity holdings are held in a wholly owned (100%) "blocker corporation" of Rand Capital Corporation or Rand Capital SBIC, Inc. for federal income tax and Regulated Investment Company (RIC) compliance.

(n) Publicly traded company.

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

Investments in and Advances to Affiliates

Company	Type of Investment	December 31, 2019 Fair Value	Net Change in Unrealized Appreciation (Depreciation)	Gross Additions (1)	Gross Reductions (2)	December 31, 2020 Fair Value	Net Realized (Losses) Gains	Amount of Interest/ Dividend/ Fee Income (3)
Control Investments:								
	Total Control Investments	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Affiliate Investments:								
BeetNPath, LLC	1,119,024 Series A-2 Preferred Membership Units.	\$ —	\$ —	\$ —	\$ —	\$ —	(\$ 359,000)	\$ —
	1,032,918 Series B Preferred Membership Units.	—	—	—	—	—	(261,277)	—
	\$262,626.64 Convertible Secured Notes at 8%.	—	—	—	—	—	(262,627)	—
	Total BeetNPath	—	—	—	—	—	(882,904)	—
Carolina Skiff LLC	6.0825% Class A Common Membership interest.	1,750,000	(250,000)	—	—	1,500,000	—	66,230
ClearView Social, Inc.	312,500 Series Seed Plus Preferred.	200,000	—	—	—	200,000	—	—
Filterworks	\$2,283,702 Term Note at 12%.	2,302,653	—	47,178	—	2,349,831	—	330,251
Acquisition USA, LLC	562.5 Class A Units.	562,500	—	—	—	562,500	—	—
	Total Filterworks	2,865,153	—	47,178	—	2,912,331	—	330,251
Genicon, Inc.	1,586,902 Series B Preferred.	—	—	—	—	—	(1,000,000)	—
	\$3,250,000 Promissory Notes at 10%.	500,000	(500,000)	—	—	—	(3,743,377)	17,054
	\$250,000 Promissory Note at 10%	250,000	(250,000)	—	—	—	(262,184)	—
	Warrant for Common.	—	—	—	—	—	(120,000)	—
	Total Genicon	750,000	(750,000)	—	—	—	(5,125,561)	17,054
G- TEC Natural Gas Systems	16.639% Class A Membership Interest. 8% cumulative dividend.	—	—	—	—	—	(400,000)	—
Knoa Software, Inc.	973,533 Series A-1 Convertible Preferred.	750,000	(205,140)	—	—	544,860	—	—
	1,876,922 Series B Preferred.	479,155	—	—	—	479,155	—	—
	Total Knoa	1,229,155	(205,140)	—	—	1,024,015	—	—
Mezmeriz, Inc.	1,554,565 Series Seed Preferred.	—	—	—	—	—	—	—
Microcision	\$1,500,000 Subordinated Promissory Note at 10%.	—	—	1,500,000	(88,003)	1,411,997	—	187,414
	Membership Interest Purchase Warrant for 5%	—	(15,000)	110,000	—	95,000	116,991	—
	Total Microcision	—	(15,000)	1,610,000	(88,003)	1,506,997	116,991	187,414
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	—	—
SciAps, Inc.	187,500 Series A Preferred.	—	—	—	—	—	—	—
	274,299 Series A-1 Convertible Preferred.	—	—	—	—	—	—	—
	117,371 Series B Convertible Preferred.	250,000	(250,000)	—	—	—	—	—
	113,636 Series C Convertible Preferred.	175,000	(175,000)	—	—	—	—	—
	369,698 Series C-1 Convertible Preferred.	399,274	(399,274)	—	—	—	—	—
	147,059 Series D Convertible Preferred.	250,000	—	—	—	250,000	—	—
	Warrant to Purchase Series D-1 Preferred.	—	(45,000)	45,000	—	—	—	—
	\$1,500,000 Subordinated Promissory Note at 12%.	—	—	1,500,000	(35,000)	1,465,000	—	147,667
	Total SciAps	1,074,274	(869,274)	1,545,000	(35,000)	1,715,000	—	147,667
Teleservices Solutions Holdings, LLC	250,000 Class B Preferred Units.	—	—	—	—	—	(250,000)	—
	1,000,000 Class C Preferred Units.	—	—	—	—	—	(1,190,680)	—
	80,000 Class D Preferred Units.	—	—	—	—	—	(91,200)	—
	PIK Dividend for Series C and D at 12% and 14%, respectively.	—	—	—	—	—	(104,198)	—
	Total Teleservices	—	—	—	—	—	(1,636,078)	—

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

Investments in and Advances to Affiliates

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

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

- (1) Gross additions include increases in the cost basis of investments resulting from new portfolio investments, follow on investments, capitalized interest and the accretion of discounts. Gross additions also include the movement of an existing portfolio company into this category and out of another category.
- (2) Gross reductions include decreases in the cost basis of investments resulting from principal repayments, sales, note conversions, the exchange of existing securities for new securities and the movement of an existing portfolio company out of this category and into another category.
- (3) Represents the total amount of interest, fees or dividends credited to income for the portion of the period an investment was included in "Control or Affiliate" categories, respectively.

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

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

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

Note 1. ORGANIZATION

Rand Capital Corporation (“Rand”, “we”, “us” and “our”) was incorporated under the laws of New York in February 1969. We completed our initial public offering in 1971 as an internally managed, closed-end, diversified, investment management company. We have elected to be treated as a business development company (“BDC”) under the Investment Company Act of 1940, as amended (the “1940 Act”). As a BDC, we are required to comply with certain regulatory requirements. For instance, we generally have to invest at least 70% of our total assets in “qualifying assets” and provide managerial assistance to the portfolio companies in which we invest. See Item 1. Business – Regulations—Business Development Company Regulations in our Annual Report on Form 10-K for the year ended December 31, 2020.

In 2002, Rand formed a wholly-owned subsidiary for the purpose of operating it as a small business investment company (“SBIC”) licensed by the U.S. Small Business Administration (“SBA”). The subsidiary received an SBA license to operate as an SBIC in 2002. The subsidiary, which had been organized as a Delaware limited partnership, was converted into a New York corporation on December 31, 2008, at which time its operations as a licensed SBIC were continued by the newly formed corporation under the name of Rand Capital SBIC, Inc. (“Rand SBIC”). Subsequent to the quarter ended September 30, 2021 Rand SBIC submitted a request to the SBA to surrender its SBA license. See Note 10. Subsequent Event, for additional information. In 2012, the SEC (as defined herein) granted an Order of Exemption for Rand with respect to the operations of Rand SBIC. At that time, although Rand SBIC was operated as if it were a BDC, it was registered as an investment company under the 1940 Act. Upon Rand’s receipt of the order granting the exemptions, Rand SBIC filed an election to be regulated as a BDC under the 1940 Act.

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

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

Table of Contents

The Board of Directors declared the following quarterly cash dividends during the nine months ended September 30, 2021:

<u>Quarter</u>	<u>Amount</u>	<u>Record Date</u>	<u>Payment Date</u>
1st	\$0.10	March 15, 2021	March 29, 2021
2nd	\$0.10	June 2, 2021	June 16, 2021
3rd	\$0.10	September 2, 2021	September 16, 2021

In order to qualify to make the RIC election, Rand placed several of its investments in newly formed holding companies that facilitate a tax structure that is advantageous to the RIC election. The following investments are held in blocker companies: Rand Somerset Holdings Corp., Rand Carolina Skiff Holdings Corp., Rand DSD Holdings Corp., Rand Filterworks Holdings Corp., Rand ITA Holdings Corp., and Rand BMP Swanson Hold Co., LLC (the "Blocker Corps") as wholly owned subsidiaries of Rand to hold certain equity investments. These subsidiaries are consolidated using United States generally accepted accounting principles ("GAAP") for financial reporting purposes.

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

On October 7, 2020, Rand, RCM and certain of their affiliates received exemptive relief from the Securities and Exchange Commission ("SEC") to permit Rand to co-invest in portfolio companies with certain other funds, including other BDCs and registered investment companies, managed by RCM and certain of its affiliates in a manner consistent with Rand's investment objective, positions, policies, strategies and restrictions as well as regulatory requirements, subject to compliance with certain conditions (the "Order"). Pursuant to the Order, Rand is generally permitted to co-invest with affiliated funds if a "required majority" (as defined in Section 57(o) of the 1940 Act) of Rand's independent directors make certain conclusions in connection with a co-investment transaction, including that (1) the terms of the transaction, including the consideration to be paid, are reasonable and fair to Rand and its shareholders and do not involve overreaching in respect to Rand or its shareholders on the part of any person concerned and (2) the transaction is consistent with the interests of Rand's shareholders and is consistent with Rand's investment objective and strategies. On March 29, 2021, the SEC granted approval for a new exemptive relief order (the "New Order") that supersedes the Order and permits the Corporation to co-invest with affiliates of RCM and Callodine Group, LLC ("Callodine") (see discussion of Callodine in "Overview" section in Item 2.) under RCM's current ownership structure after the completion of the Adviser Change of Control (as defined below).

The accompanying financial statements describe the operations of Rand and its wholly-owned subsidiaries Rand SBIC and the Blocker Corps, (collectively, the "Corporation").

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

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—It is our opinion that the accompanying consolidated financial statements include all adjustments of a normal recurring nature necessary for a fair presentation in accordance with 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. The interim results for the three and nine months ended September 30, 2021 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, 2020. 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.

Reclassification—Certain balance sheet accounts have been reclassified to comply with regulatory rules.

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

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

Fair Value of SBA Debentures—In September 2021, the SBIC Funding Corporation completed a pooling of SBA debentures that have a coupon rate of 1.304%, excluding a mandatory SBA annual charge estimated to be 0.271%, resulting in a total estimated ten-year fixed rate of 1.575%. 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 RCM and approved by our 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 RCM's assumptions and judgments differ from results of actual liquidation events. Under the valuation policy of the Corporation, unrestricted publicly traded securities are valued at the average closing price for these securities for the last three trading days of the reporting period.

Table of Contents

Qualifying Assets—More than 70% of the Corporation’s investments were made in qualifying privately held small business enterprises, that were not investment companies, are 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.

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 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.

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.

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.

[Table of Contents](#)

SBA Debentures—The Corporation had \$11,000,000 in outstanding SBA debentures at September 30, 2021 and December 31, 2020, respectively, with a weighted average interest rate, including the SBA annual fee, of 3.45% at September 30, 2021. 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. Subsequent to the quarter ended September 30, 2021, the Corporation repaid its \$11,000,000 of outstanding SBA debentures. See Note 10. Subsequent Event, for additional information.

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© 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, adjusted retroactively for the reverse stock split that occurred in May 2020. The Corporation does not have any common stock equivalents outstanding.

Supplemental Cash Flow Information—Income taxes paid (refunded) during the nine months ended September 30, 2021 and 2020 were \$63,276 and (\$380,890), respectively. Interest paid during the nine months ended September 30, 2021 and 2020 was \$379,085 and \$380,124, respectively. The Corporation converted \$199,848 and \$280,724 of interest receivable into investments during the nine months ended September 30, 2021 and 2020, 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 September 30, 2021 and December 31, 2020, there were 500,000 shares of \$10.00 par value preferred stock authorized and unissued.

On April 22, 2021, the Board of Directors approved a new share repurchase plan, which authorizes the Corporation to repurchase shares of the Corporation’s outstanding common stock with an aggregate cost of up to \$1,500,000 at prices per share of common stock no greater than the then current net asset value. This new share repurchase authorization lasts for a period of 12 months from the authorization date until April 22, 2022. This new share repurchase plan replaces the share repurchase authorization that was previously approved by the Board of Directors in April 2020. During the nine months ended September 30, 2021, the Corporation repurchased 1,148 shares of common stock at a cost of \$20,771. During the nine months ended September 30, 2020, the Corporation repurchased 3,397 shares of common stock for a cost of \$37,988.

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

Table of Contents

Income Taxes – The Corporation has elected U.S. federal tax treatment as a RIC as of January 1, 2020 on its timely filed U.S. Federal tax return for the 2020 tax year. In order to qualify as a RIC, among other things, the Corporation is required to meet certain source of income and asset diversification requirements and timely distribute to its shareholders at least 90% of its investment company taxable income, as defined by the Code (as defined below), for each tax year. If the Corporation makes the requisite distributions to its shareholders, this will generally relieve the Corporation from any requirement to pay corporate-level U.S. federal income taxes with respect to all income distributed to its shareholders.

As part of the RIC election, and in accordance with GAAP, a net deferred tax asset of \$1,451,658 was eliminated during the first quarter of 2020. This asset related to book/tax differences that are no longer applicable now that the Corporation has elected RIC status for federal income tax purposes.

Certain investments that generate non-qualifying income for RIC purposes, and the deferred tax liability related to these investments of \$247,460, were contributed to the Corporation's blocker corporations in December 2019. These blocker corporations will be subject to federal and state income taxation.

The Corporation reviews the tax positions it has taken to determine if they meet a "more likely than not threshold" for the benefit of the tax position to be recognized in the consolidated financial statements. A tax position that fails to meet the more likely than not recognition threshold will result in either a reduction of a current or deferred tax asset or receivable, or the recording of a current or deferred tax liability. There were no uncertain tax positions recorded at September 30, 2021 or December 31, 2020.

Under the provisions of Section 382 the Internal Revenue Code of 1986, as amended, (the "Code"), net operating loss and credit carryforwards and other tax attributes may be subject to limitations if there has been a significant change in ownership in the Corporation, as defined by the Code. Prior to the completion of the Transaction, the Corporation was able to utilize its remaining federal net operating losses ("NOL"). The Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), made changes to the NOL carryback rules for businesses, and the Corporation was able to carryback a portion of its NOL under the CARES Act receiving a tax benefit of \$90,141 during the nine months ended September 30, 2020.

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

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 the nine months ended September 30, 2021 or the nine months ended September 30, 2020.

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. The Corporation does not anticipate non-performance by such banks.

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

	September 30, 2021
ACV Auctions, Inc. (ACV)	16%
Tilson Technology Management, Inc. (Tilson)	14%
Open Exchange, Inc. (Open Exchange)	9%
ITA Acquisition, LLC (ITA)	6%
Caitec, Inc. (Caitec)	6%

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

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 portfolio 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.
- 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 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.

Table of Contents

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

At September 30, 2021, 25% of the Corporation's investments were Level 1 investments and 75% were Level 3. At December 31, 2020, 8% of the Corporation's investments were Level 1 investments and 92% were Level 3 investments. There were no Level 2 investments at September 30, 2021 or December 31, 2020.

Under the valuation policy of the Corporation, unrestricted publicly traded securities are valued at the average closing price for these securities for the last three trading days of the reporting period.

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 to assess valuation.

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

Equity Securities

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

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

Table of Contents

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

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

For investments made within the last year, the Corporation generally relies on the cost basis, which is deemed to represent the fair value, unless other fair value inputs are identified causing the Corporation to depart from this basis.

Loan and Debt Securities

The significant unobservable inputs used in the fair value measurement of the Corporation's loan and debt securities are the financial and operational performance of the portfolio company, similar debt with similar terms with other portfolio companies, as well as the market acceptance for the portfolio company's products or services. These inputs will likely provide an indicator as to the probability of principal recovery of the investment. The Corporation's loan and debt investments are often junior secured or unsecured securities. Fair 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 September 30, 2021:

Investment Type	Market Approach EBITDA Multiple	Market Approach Liquidation Seniority	Market Approach Revenue Multiple	Market Approach Transaction Pricing	Totals
Non-Control/Non-Affiliate Equity	\$ —	\$ 500,000	\$1,026,219	\$ 6,551,938	\$ 8,078,157
Non-Control/Non-Affiliate Loan and Debt	4,035,175	2,389,728	—	3,564,306	9,989,209
Total Non-Control/Non-Affiliate	\$4,035,175	\$2,889,728	\$1,026,219	\$10,116,244	\$18,067,366
Affiliate Equity	\$2,062,500	\$ —	\$ 729,155	\$10,870,848	\$13,662,503
Affiliate Loan and Debt	2,385,650	—	—	12,036,718	14,422,368
Total Affiliate	\$4,448,150	\$ —	\$ 729,155	\$22,907,566	\$28,084,871
Control Equity	\$ —	\$ —	\$ —	\$ 157,655	\$ 157,655
Control Debt	—	—	—	444,915	444,915
Total Level 3 Investments	\$8,483,325	\$2,889,728	\$1,755,374	\$33,626,380	\$46,754,807

[Table of Contents](#)

Range	5-6X	1X	1.5X-5X	Not Applicable
Unobservable Input	EBITDA			
	Multiple	Asset Value	Revenue Multiple	Transaction Price
Weighted Average	5.5X	1X	2.9X	Not Applicable

The following table provides a summary of the components of Level 1, 2 and 3 Assets Measured at Fair Value at September 30, 2021:

Description	September 30, 2021	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	\$ 14,444,211	\$ —	\$ —	\$ 14,444,211
Debt investments	10,412,281	—	—	10,412,281
Equity investments	37,245,877	15,347,562	—	21,898,315
Total	<u>\$ 62,102,369</u>	<u>\$ 15,347,562</u>	<u>\$ —</u>	<u>\$ 46,754,807</u>

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

Description	December 31, 2020	Fair Value Measurements at Reported Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Significant Unobservable Inputs (Level 3)
Loan investments	\$ 6,771,394	\$ —	\$ —	\$ 6,771,394
Debt investments	9,799,365	—	—	9,799,365
Equity investments	23,477,742	3,296,337	—	20,181,405
Total	<u>\$40,048,501</u>	<u>\$ 3,296,337</u>	<u>\$ —</u>	<u>\$ 36,752,164</u>

[Table of Contents](#)

The following table provides a summary of changes in Assets Measured at Fair Value Using Significant Unobservable Inputs (Level 3) for the nine months ended September 30, 2021:

Description	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			Total
	Loan Investments	Debt Investments	Equity Investments	
Ending Balance December 31, 2020, of Level 3 Assets	\$ 6,771,394	\$ 9,799,365	\$20,181,405	\$36,752,164
Realized gain included in net change in net assets from operations:				
Centivo Corporation (Centivo)	—	—	1,614,433	1,614,433
ClearView Social, Inc. (Clearview Social)	—	—	135,430	135,430
GiveGab, Inc. (Givegab)	—	—	1,846,705	1,846,705
Total realized gains	—	—	3,596,568	3,596,568
Unrealized gains/(losses) included in net change in net assets from operations:				
Centivo	—	—	(584,832)	(584,832)
Knoa Software, Inc. (Knoa)	—	—	(544,860)	(544,860)
Mercantile Adjustment Bureau, LLC (Mercantile)	—	849,040	—	849,040
New Monarch Machine Tool, Inc. (New Monarch)	—	—	(22,841)	(22,841)
Open Exchange, Inc. (Open Exchange)	—	—	4,918,061	4,918,061
Post Process Technologies, Inc. (Post Process)	—	—	(122,728)	(122,728)
Tilson Technology Management, Inc. (Tilson)	—	—	4,215,000	4,215,000
Total unrealized gains (losses)	—	849,040	7,857,800	8,706,840
Purchases of securities/changes to securities/non-cash conversions:				
Caitec, Inc. (Caitec)	53,606	—	—	53,606
DSD Operating, LLC (DSD)	2,745,000	—	1,067,500	3,812,500
Filterworks Acquisition USA, LLC (Filterworks)	—	35,819	—	35,819
GoNoodle, Inc. (GoNoodle)	—	11,412	—	11,412
HDI Acquisition LLC (Hilton Displays)	—	19,438	—	19,438
ITA Acquisition, LLC (ITA)	3,419,100	—	500,000	3,919,100
Mattison Avenue Holdings LLC (Mattison)	682,296	5,611	—	687,907
Microcision, LLC (Microcision)	—	88,003	—	88,003
Seybert's Billiards Corporation (Seybert's)	—	2,796,366	50,000	2,846,366
SciAps, Inc. (Sciaps)	—	11,250	—	11,250
BMP Swanson Holdco, LLC (Swanson)	1,600,000	—	233,333	1,833,333
Total purchases of securities/changes to securities/non-cash conversions	8,500,002	2,967,899	1,850,833	13,318,734
Repayments and sale of securities:				
Advantage 24/7, LLC (Advantage 24/7)	(55,000)	—	—	(55,000)
Centivo	—	—	(2,415,775)	(2,415,775)
Clearview Social	—	—	(335,430)	(335,430)
Givegab	—	—	(2,462,926)	(2,462,926)
Mercantile	—	(418,553)	—	(418,553)
Microcision	—	(1,500,000)	—	(1,500,000)
Science and Medicine Group, Inc. (SMG)	(1,900,000)	—	—	(1,900,000)
Total repayments and sale of securities	(1,955,000)	(1,918,553)	(5,214,131)	(9,087,684)
Transfers within Level 3	1,127,815	(1,285,470)	157,655	—
Transfers out of Level 3	—	—	(6,531,815)	(6,531,815)
Ending Balance September 30, 2021, of Level 3 Assets	<u>\$14,444,211</u>	<u>\$10,412,281</u>	<u>\$21,898,315</u>	<u>\$46,754,807</u>
Change in unrealized appreciation/depreciation on investments for the period included in changes in net assets				<u>\$13,049,041</u>
Net realized gain on investments for the period included in changes in net assets				<u>\$ 4,729,466</u>

[Table of Contents](#)

The following table provides a summary of changes in Assets Measured at Fair Value Using Significant Unobservable Inputs (Level 3) for the nine months ended September 30, 2020:

Description	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Venture Capital Investments			
	Loan	Debt	Equity	Total
	Investments	Investments	Investments	
Ending Balance, December 31, 2019, of Level 3 Assets	\$1,570,692	\$13,647,107	\$21,802,993	\$37,020,792
Realized gain included in net change in net assets from operations:				
Advantage 24/7 LLC (Advantage 24/7)	36,877	—	—	36,877
Microcision LLC (Microcision)	—	56,916	—	56,916
Outmatch Holdings, LLC (Outmatch)	—	—	2,318,253	2,318,253
Total Realized Gains	36,877	56,916	2,318,253	2,412,046
Unrealized Losses included in net change in net assets from operations:				
Genicon, Inc. (Genicon)	—	(515,804)	—	(515,804)
Total Unrealized Losses	—	(515,804)	—	(515,804)
Purchases of Securities/Changes to Securities/Non-cash conversions:				
AIKG LLC (Andretti)	—	135,262	—	135,262
Filterworks Acquisition USA, LLC	—	35,229	—	35,229
Genicon	—	15,804	—	15,804
GoNoodle, Inc. (GoNoodle)	—	11,297	—	11,297
HDI Acquisition LLC (Hilton Displays)	—	19,117	—	19,117
Mattison Avenue Holdings LLC (Mattison)	—	79,819	—	79,819
Microcision	—	(93,502)	110,000	16,498
SciAps, Inc. (Sciaps)	—	1,461,250	45,000	1,506,250
Science and Medicine Group, Inc. (SMG)	1,900,000	—	—	1,900,000
Tilson Technology Management, Inc. (Tilson)	—	—	750,003	750,003
Total Purchases of Securities/Changes to Securities/Non-cash conversions	1,900,000	1,664,276	905,003	4,469,279
Repayments and Sale of Securities:				
Advantage 24/7	(36,877)	—	—	(36,877)
Microcision LLC (Microcision)	—	(56,916)	—	(56,916)
Outmatch Holdings, LLC (Outmatch)	—	—	(4,463,749)	(4,463,749)
Total Repayments and Sale of Securities	(36,877)	(56,916)	(4,463,749)	(4,557,542)
Transfers within Level 3	250,000	(250,000)	—	—
Ending Balance September 30, 2020, of Level 3 Assets	<u>\$3,720,692</u>	<u>\$14,545,579</u>	<u>\$20,562,500</u>	<u>\$38,828,771</u>

Change in unrealized depreciation on investments for the period included in changes in net assets (\$ 540,033)

Net realized gain on investments for the period included in changes in net assets \$ 2,412,046

Note 4. OTHER ASSETS

At September 30, 2021 and December 31, 2020, other assets was comprised of the following:

	September 30, 2021	December 31, 2020
Dividend receivable	\$ 100,480	\$ 65,700
Escrow receivable	35,766	—
Prepaid expenses	31,715	8,400
Total other assets	<u>\$ 167,961</u>	<u>\$ 74,100</u>

[Table of Contents](#)

Note 5. COMMITMENTS AND CONTINGENCIES

The Corporation had no commitments at September 30, 2021 or December 31, 2020.

Note 6. SBA DEBENTURES

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

	September 30, 2021	December 31, 2020
Debentures guaranteed by the SBA	<u>\$11,000,000</u>	<u>\$11,000,000</u>
Less unamortized issue costs	<u>(147,156)</u>	<u>(175,413)</u>
Debentures guaranteed by the SBA, net	<u>\$10,852,844</u>	<u>\$10,824,587</u>

The weighted average interest rate, including the SBA annual fee, at September 30, 2021, was 3.45%.

The debenture terms require semiannual payments of interest at annual interest rates ranging from 2.245% to 3.644%, plus an annual charge ranging from 0.804% to 0.94%. The debentures have fixed interest rates and a 10-year maturity date. As of September 30, 2021, the Corporation had \$3,000,000 in additional leverage available from the SBA.

The debentures outstanding at September 30, 2021 will mature as follows:

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

Subsequent to the quarter ended September 30, 2021, the Corporation repaid its \$11,000,000 of outstanding SBA debentures. See Note 10. Subsequent Event, for additional information.

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

The following schedule analyzes the changes in stockholders' equity (net assets) section of the Consolidated Statement of Financial Position for the three and nine months ended September 30, 2021 and 2020, respectively:

	Common Stock	Capital in excess of par value	Treasury Stock, at cost	Total distributable earnings (losses)	Total Stockholders' Equity (Net Assets)
July 1, 2021	<u>\$264,892</u>	<u>\$52,003,545</u>	<u>(\$1,545,834)</u>	<u>\$ 7,397,218</u>	<u>\$ 58,119,821</u>
Payment of Dividend	—	—	—	(258,125)	(258,125)
Purchase of treasury shares	—	—	(20,771)	—	(20,771)
Net increase in net assets from operations	—	—	—	2,321,200	2,321,200
September 30, 2021	<u>\$264,892</u>	<u>\$52,003,545</u>	<u>(\$1,566,605)</u>	<u>\$ 9,460,293</u>	<u>\$ 60,162,125</u>

	Common Stock	Capital in excess of par value	Treasury Stock, at cost	Total distributable earnings	Total Stockholders' Equity (Net Assets)
July 1, 2020	<u>\$2,384,547</u>	<u>\$34,142,455</u>	<u>(\$1,483,409)</u>	<u>\$14,667,721</u>	<u>\$ 49,711,314</u>
Purchase of treasury shares	—	—	(23,684)	—	(23,684)
Net increase in net assets from operations	—	—	—	262,523	262,523
September 30, 2020	<u>\$2,384,547</u>	<u>\$34,142,455</u>	<u>(\$1,507,093)</u>	<u>\$14,930,244</u>	<u>\$ 49,950,153</u>

	Common Stock	Capital in excess of par value	Treasury Stock, at cost	Total distributable (losses) earnings	Total Stockholders' Equity (Net Assets)
January 1, 2021	<u>\$264,892</u>	<u>\$52,003,545</u>	<u>(\$1,545,834)</u>	<u>(\$ 4,617,773)</u>	<u>\$ 46,104,830</u>
Payment of Dividend	—	—	—	(774,727)	(774,727)
Purchase of treasury shares	—	—	(20,771)	—	(20,771)
Net increase in net assets from operations	—	—	—	14,852,793	14,852,793
September 30, 2021	<u>\$264,892</u>	<u>\$52,003,545</u>	<u>(\$1,566,605)</u>	<u>\$ 9,460,293</u>	<u>\$ 60,162,125</u>

	Common Stock	Capital in excess of par value	Treasury Stock, at cost	Total distributable earnings (losses)	Total Stockholders' Equity (Net Assets)
January 1, 2020	<u>\$1,519,637</u>	<u>\$34,142,455</u>	<u>(\$1,469,105)</u>	<u>\$ 19,435,529</u>	<u>\$ 53,628,516</u>
Payment of Dividend	864,910	—	—	(5,621,516)	(4,756,606)
Purchase of treasury shares	—	—	(37,988)	—	(37,988)
Net increase in net assets from operations	—	—	—	1,116,231	1,116,231
September 30, 2020	<u>\$2,384,547</u>	<u>\$34,142,455</u>	<u>(\$1,507,093)</u>	<u>\$ 14,930,244</u>	<u>\$ 49,950,153</u>

Note 8. RELATED PARTY TRANSACTIONS

Investment Management Agreement

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

The “Base Management Fee” is calculated at an annual rate of 1.50% of the Corporation’s total assets (other than cash or cash equivalents but including assets purchased with borrowed funds). For the three and nine months ended September 30, 2021, the Base Management Fee was \$230,724 and \$619,240, respectively. For the three and nine months ended September 30, 2020, the Base Management Fee was \$152,438 and \$434,201, respectively. At September 30, 2021 and December 31, 2020, the Corporation had \$230,724 and \$155,318 payable, respectively, for the Base Management Fees on its Consolidated Statement of Financial Position.

In addition, the Corporation had \$2,714 and \$1,681 payable at September 30, 2021 and December 31, 2020, respectively, to RCM for the expenses associated with the Administration Agreement.

The “Incentive Fee” is comprised of two parts: (1) the “Income Based Fee” and (2) the “Capital Gains Fee”. The Income Based Fee is calculated and payable quarterly in arrears based on the “Pre-Incentive Fee Net Investment Income” (as defined in the agreement) for the immediately preceding calendar quarter, subject to a hurdle rate of 1.75% per quarter (7% annualized) and is payable promptly following the filing of the Corporation’s financial statements for such quarter.

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

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

The Income Based Fee paid to RCM for any calendar quarter that begins more than two years and three months after November 8, 2019 shall not be in excess of the Incentive Fee Cap. The “Incentive Fee Cap” for any quarter is an amount equal to (1) 20.0% of the Cumulative Net Return (as defined below) during the relevant Income Based Fee Calculation Period (as defined below) minus (2) the aggregate Income Based Fee that was paid in respect of the calendar quarters included in the relevant Income Based Fee Calculation Period.

For purposes of the calculation of the Income Based Fee, “Income Based Fee Calculation Period” is defined as, with reference to a calendar quarter, the period of time consisting of such calendar quarter and the additional quarters that comprise the lesser of (1) the number of quarters immediately preceding such calendar quarter that began more than two years after November 8, 2019 or (2) the eleven calendar quarters immediately preceding such calendar quarter.

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

Table of Contents

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

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

For both the nine months ended September 30, 2021 and the nine months ended September 30, 2020, there were no Income Based Fees earned under the Investment Management Agreement.

The second part of the Incentive Fee is the “Capital Gains Fee”. This fee will be determined and payable in arrears as of the end of each calendar year. Under the terms of the Investment Management Agreement, the Capital Gains Fee is calculated at the end of each applicable year by subtracting (1) the sum of the cumulative aggregate realized capital losses and aggregate unrealized capital depreciation from (2) the cumulative aggregate realized capital gains, in each case calculated from November 8, 2019. If this amount is positive at the end of any calendar year, then the Capital Gains Fee for such year is equal to 20.0% of such amount, less the cumulative aggregate amount of Capital Gains Fees paid in all prior years. If such amount is negative, then there is no Capital Gains Fee payable for that calendar year. If the Investment Management Agreement is terminated as of a date that is not a calendar year end, the termination date shall be treated as though it were a calendar year end for purposes of calculating and paying the Capital Gains Fee.

For purposes of the Capital Gains Fee:

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

Table of Contents

No capital gains incentive fees were earned by the Corporation's investment adviser, RCM, as calculated under the Investment Management Agreement, for the year ended December 31, 2020.

Realized gains during the nine months ending September 30, 2021, resulted in approximately \$1,850,000 of net eligible realized capital gains, of which approximately \$370,000 would be payable to RCM as a Capital Gains Fee under the formula for the nine-month period ended September 30, 2021. However, as of September 30, 2021, there was no Capital Gains Fee actually payable under the Investment Management Agreement to RCM, as such amounts remain unaudited at September 30, 2021, and the final calculations are determined annually, and subject to change based on subsequent realized gains, losses or unrealized losses during the remainder of 2021. In accordance with U.S. generally accepted accounting principles (GAAP), the Corporation is required to cumulatively accrue a capital gains incentive fee on all realized and unrealized gains and losses, which resulted in an accrual in the amount of \$4,114,000 as of September 30, 2021, which represents both the interim earned fee and the fee that would be due based on net portfolio appreciation.

In determining whether a capital gains incentive fee accrual is necessary, GAAP requires a company to consider the amount of cumulative aggregate unrealized capital appreciation that such company has with respect to its investments, as a capital gains incentive fee would be payable if such unrealized capital appreciation were realized, despite the fact that such unrealized capital appreciation is not used by the Corporation in determining the amount of Capital Gains Fee actually payable under the Investment Management Agreement. A capital gains incentive fee accrual under GAAP is calculated using the cumulative aggregate realized capital gains and losses and the aggregate net change in unrealized capital appreciation/depreciation at the close of the period. If the calculated amount is positive, GAAP requires the Corporation to record a capital gains incentive fee accrual equal to 20% of this cumulative amount, less the aggregate amount of actual capital gains incentive fees paid, or capital gains incentive fees accrued under GAAP, for all prior periods. The Corporation has not paid any Capital Gains Incentive Fees, under the Investment Management Agreement, to date. There can be no guarantee that the Corporation will realize the unrealized capital appreciation, upon which this accrual has been calculated, in the future.

Administration Agreement

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

RCM is responsible for our financial and other records that are required to be maintained and prepares all reports and other materials required to be filed with the SEC or any other regulatory authority, including reports to shareholders. In addition, RCM assists us in determining and publishing the Corporation's net asset value (NAV), overseeing the preparation and filing of our tax returns, and the printing and dissemination of reports to shareholders, and generally overseeing the payment of our expenses and the performance of administrative and professional services rendered by others. RCM provides, on the Corporation's behalf, managerial assistance to those portfolio companies that have accepted its offer to provide such assistance.

[Table of Contents](#)

Note 9. FINANCIAL HIGHLIGHTS

The following schedule provides the financial highlights, calculated based on shares outstanding, for the nine months ended September 30, 2021 and 2020. Share and per share data included in this schedule has been retroactively restated to reflect the effect of the Reverse Stock Split that occurred during May 2020.

	Nine months ended September 30, 2021 (Unaudited) (2)	Nine months ended September 30, 2020 (Unaudited) (2)
Income (loss) from investment operations (1):		
Investment income	\$ 1.10	\$ 0.79
Expenses	2.22	0.56
Investment (loss) income before income taxes	(1.12)	0.23
Income tax expense (benefit)	0.01	(0.16)
Net investment (loss) income	(1.13)	0.39
Net realized and unrealized gain on investments	6.89	0.04
Increase in net assets from operations	5.76	0.43
Purchase of treasury shares	(0.01)	(0.01)
Payment of cash dividend	(0.30)	(1.84)
Effect of the Reverse Stock Split	—	(12.18)
Increase (decrease) in net assets	5.45	(13.60)
Net asset value, beginning of period	17.86	32.93
Net asset value, end of period	\$ 23.31	\$ 19.33
Per share market price, end of period	\$ 16.13	\$ 10.97
Total return based on market price	(8.4%)	(54.5%)
Total shareholder return (includes dividends paid)	0.9%	(45.4%)
Total return based on net asset value	30.5%	(7.3%)
Supplemental data:		
Ratio of expenses before income taxes to average net assets	10.8%	1.9%
Ratio of expenses including income taxes to average net assets	10.9%	4.5%
Ratio of net investment (loss) income to average net assets	(5.5%)	1.4%
Debt/Equity ratio	18.0%	21.7%
Portfolio turnover	29.5%	17.9%
Net assets, end of period	\$ 60,162,125	\$ 49,950,153
Weighted shares outstanding, end of period	2,581,942	2,162,308

- (1) *Per share data is based on shares outstanding and the results are rounded to the nearest cent.*
(2) *Share and per share data included herein has been retroactively restated to reflect the effect of the Reverse Stock Split.*

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.

Note 10. SUBSEQUENT EVENT

Subsequent to the quarter ended September 30, 2021, the Corporation repaid in full the \$11,000,000 of outstanding SBA debentures, using cash on hand. In addition, the Corporation received approval from its Board of Directors, and had Rand SBIC submit a request to the SBA to surrender its license to operate as a SBIC, which also terminates the availability of the \$3,000,000 of available SBA leverage.

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 SEC. Forward-looking statements involve risks and uncertainties that could cause our results or outcomes to differ materially from those expressed in the forward-looking statements. Forward-looking statements may include, without limitation, statements relating to our plans, strategies, objectives, expectations and intentions, including statements related to our investment strategies, the impact of COVID-19 on our portfolio companies, the impact of our election as a RIC for U.S. federal tax purposes on payment of corporate level federal income taxes by Rand, statements regarding our liquidity and financial resources; statements regarding any Capital Gains Fee that may be due to RCM upon a hypothetical liquidation of our portfolio and the amount of the Capital Gains Fee that may be payable for 2021, and statements regarding the percentage of our estimated taxable income distributed in the 2020 cash dividend, future dividend payments, and are intended to be made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Words such as “believes,” “forecasts,” “intends,” “possible,” “expects,” “estimates,” “anticipates,” or “plans” and similar expressions are intended to identify forward-looking statements. Among the important factors on which such statements are based are assumptions concerning the scope of the impact of the COVID-19 pandemic and its specific impact on our portfolio companies, the state of the United States economy and the local markets in which our portfolio companies operate, the state of the securities markets in which the securities of our portfolio companies could be traded, liquidity within the United States financial markets, and inflation. Forward-looking statements are also subject to the risks and uncertainties described under the caption “Risk Factors” contained in Part 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, 2020.

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

Overview

We are an externally managed investment company that lends to and invests in lower middle market companies. Our investment objective is to generate current income and when also possible, capital appreciation, by targeting investment opportunities with favorable risk-adjusted returns. Our investment activities are managed by our investment adviser, Rand Capital Management, LLC (“RCM”).

We have elected to be regulated as a business development company (“BDC”) under the Investment Company Act of 1940, as amended (the “1940 Act”). As a BDC, we are required to comply with certain regulatory requirements specified in the 1940 Act. Historically, we made the majority of our investments through our wholly owned subsidiary, Rand Capital SBIC, Inc. (“Rand SBIC”), which operates as a small business investment company (“SBIC”) and has been licensed by the U.S. Small Business Administration (“SBA”) since 2002. Subsequent to the quarter ended September 30, 2021, Rand SBIC submitted a request to the SBA to surrender its SBA license. See Note 10. Subsequent Event, for additional information. With the capital raised in 2019 through our stock sale to East Asset Management (“East”), we now also have liquidity at Rand Capital Corporation, the parent company, with which to make investments.

Table of Contents

In November 2019, Rand completed a stock sale transaction (the “Transaction”) with East. The Transaction consisted of a \$25 million investment in Rand by East, in exchange for approximately 8.3 million shares of Rand common stock. Concurrent with the closing of the Transaction with East on November 8, 2019, Rand entered into an investment advisory and management agreement (the “Prior Investment Management Agreement”) and an administration agreement (the “Prior Administration Agreement”) with RCM. In connection with retaining RCM as our investment adviser and administrator, Rand’s management and staff became employees of RCM.

On December 16, 2020, Rand’s shareholders approved a new investment advisory and management agreement (the “Investment Management Agreement”) with RCM at a special meeting of shareholders (the “Special Meeting”). The approval was required because Callodine Group, LLC (“Callodine”) planned to acquire a controlling interest in RCM, which was, at that time, majority owned by East (the “Adviser Change in Control”), constituted an “assignment.” The terms of the Investment Management Agreement were identical to those contained in the Prior Investment Management Agreement, with RCM continuing to provide investment advisory and management services to Rand following the Adviser Change in Control. Following approval by Rand’s shareholders at the Special Meeting, Rand, on December 31, 2020, entered into the Investment Management Agreement and a new administration agreement (the “Administration Agreement”) with RCM and terminated the Prior Administration Agreement. The terms of the Administration Agreement are identical to those contained in the Prior Administration Agreement.

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

We elected U.S. federal tax treatment as a regulated investment company (“RIC”) as of January 1, 2020, under subchapter M of the Internal Revenue Code of 1986, as amended, on our timely filed U.S. Federal tax return for the 2020 tax year. To maintain our qualification as a RIC, we must, among other things, meet certain source of income and asset diversification requirements. As of September 30, 2021, we are in compliance with the RIC requirements. As a RIC, we generally will not be subject to corporate-level U.S. federal income taxes on any net ordinary income or capital gains that we timely distribute to our shareholders as dividends.

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

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

To maintain our RIC status, we are required to meet specified source-of-income and asset diversification requirements and distribute annually to our shareholders at least 90% of our ordinary net income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. Accordingly, our Board of Directors has initiated a regular quarterly cash dividend.

[Table of Contents](#)

The Board of Directors declared the following quarterly cash dividends during the nine months ended September 30, 2021:

<u>Quarter</u>	<u>Amount</u>	<u>Record Date</u>	<u>Payment Date</u>
1st	\$0.10	March 15, 2021	March 29, 2021
2nd	\$0.10	June 2, 2021	June 16, 2021
3rd	\$0.10	September 2, 2021	September 16, 2021

We intend to co-invest, subject to the conditions included in the exemptive relief order we received from the SEC, with certain of our affiliates. See “SEC Exemptive Order” below. We believe these types of co-investments are likely to afford us additional investment opportunities and provide an ability to achieve greater diversification in our investment portfolio.

SEC Exemptive Order

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

On March 29, 2021, the SEC approved a new exemptive relief order (the “New Order”) reflecting the new organizational structure of RCM and its affiliates after the Adviser Change of Control. This New Order supersedes the Order and permits, subject to compliance with specified conditions, the Corporation to co-invest with funds managed by the Adviser and its affiliates under the Adviser’s current ownership structure after the completion of the Adviser Change in Control.

COVID-19 Update

Since the outbreak of the COVID-19 pandemic, our investment adviser, RCM, has continued to engage in active discussions with the management teams of the companies within our portfolio regarding actions taken by those portfolio companies with respect to the safety and welfare of their employees and their processes for phasing back to pre-COVID-19 work environments. We also have been informed by RCM about the impact of the COVID-19 on the businesses of our portfolio companies, and the potential impact of disruptions in the supply chain, and the actions these portfolio companies have taken, and are taking, to adapt to changes in demand, both increased and decreased, depending upon the portfolio company. While we do not know what the ultimate long-term impact of the COVID -19 pandemic will be on our portfolio companies, RCM is actively monitoring our portfolio companies, their liquidity and operational status.

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, 2020 under Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Table of Contents

Financial Condition

Overview:

	September 30, 2021	December 31, 2020	Increase	% Increase
Total assets	\$ 75,881,658	\$60,966,942	\$ 14,914,716	24.5%
Total liabilities	15,719,533	14,862,112	857,421	5.8%
Net assets	<u>\$ 60,162,125</u>	<u>\$46,104,830</u>	<u>\$ 14,057,295</u>	30.5%

Net asset value per share (NAV) was \$23.31 at September 30, 2021 and \$17.86 at December 31, 2020.

Our gross outstanding SBA debentures at September 30, 2021 were \$11,000,000 and they mature from 2022 through 2029. Subsequent to the quarter ended September 30, 2021, the Corporation repaid all of its outstanding SBA debentures. See Note 10. Subsequent Event, for additional information. Cash and cash equivalents approximated 22% of net assets at September 30, 2021, as compared to 44% of net assets at December 31, 2020.

Composition of Our Investment Portfolio

Our financial condition is dependent on the success of our portfolio holdings. The following summarizes our investment portfolio at the dates indicated.

	September 30, 2021	December 31, 2020	Increase	% Increase
Investments, at cost	\$ 49,725,140	\$40,720,313	\$ 9,004,827	22.1%
Unrealized appreciation (depreciation), net	12,377,229	(671,812)	13,049,041	NA
Investments, at fair value	<u>\$ 62,102,369</u>	<u>\$40,048,501</u>	<u>\$ 22,053,868</u>	55.1%

Our total investments at fair value, as determined by RCM and approved by our Board of Directors, approximated 103% of net assets at September 30, 2021 versus 87% of net assets at December 31, 2020.

Our investment objective is to maximize total return to our shareholders with current income and, capital appreciation, when possible. As a result, the investments made by Rand are focused on investing in higher yielding debt instruments and related equity investments in privately held, lower middle market companies with committed and experienced managements in a broad variety of industries. We may invest in public equity of other business development companies that provide income through dividends and have more liquidity than our private company investments.

The change in investments during the nine months ended September 30, 2021, at cost, is comprised of the following:

	Cost Increase (Decrease)
New investments:	
ITA Acquisition, LLC (ITA)	\$ 3,900,000
DSD Operating, LLC (DSD)	3,812,500
Seybert's Billiards Corporation (Seybert's)	2,800,000
BMP Swanson Holdco, LLC (Swanson)	1,833,333
Mattison Avenue Holdings, LLC (Mattison)	667,130
TCG BDC, Inc. (TCG)	522,753
PennantPark Investment Corporation (PennantPark)	522,082
Apollo Investment Corporation (Apollo)	518,080
FS KKR Capital Corp. (FS KKR)	510,458
Total of new investments	15,086,336
Other changes to investments:	
Microcision LLC (Microcision) OID amortization	88,003
Caitec, Inc. (Caitec) interest conversion	53,606
Seybert's interest conversion	39,696
Filterworks Acquisition USA, LLC (Filterworks) interest conversion	35,819
Mattison interest conversion	20,777
HDI Acquisition LLC (Hilton Displays) interest conversion	19,438
ITA interest conversion	19,100
GoNoodle, Inc. (GoNoodle) interest conversion	11,412
SciAps, Inc. (Sciaps) OID amortization	11,250
Seybert's OID amortization	6,670
Total of other changes to investments	305,771
Investments repaid, sold, liquidated or converted:	
Science and Medicine Group, Inc. (SMG) repayment	(1,900,000)
Microcision repayment	(1,500,000)
Apollo sale	(882,164)
Centivo Corporation (Centivo) sale	(801,342)
GiveGab, Inc. (Givegab) sale	(616,221)
Mercantile Adjustment Bureau, LLC (Mercantile) repayment	(418,553)
ClearView Social Inc. (ClearView) sale	(200,000)
Advantage 24/7 LLC (Advantage) repayment	(55,000)
ACV Auctions, Inc. (ACV) sale	(14,000)
Total of investments repaid, sold, liquidated or converted	(6,387,280)
Net change in investments, at cost	\$ 9,004,827

Results of Operations

Comparison of the three months ended September 30, 2021 to the three months ended September 30, 2020

Investment Income

	Three months ended September 30, 2021	Three months ended September 30, 2020	Increase (Decrease)	% Increase (Decrease)
Interest from portfolio companies	\$ 757,781	\$ 634,874	\$ 122,907	19.4%
Interest from other investments	473	1,157	(684)	(59.1%)
Dividend and other investment income	229,909	93,337	136,572	146.3%
Fee income	24,180	7,500	16,680	222.4%
Total investment income	<u>\$ 1,012,343</u>	<u>\$ 736,868</u>	<u>\$ 275,475</u>	37.4%

The total investment income that was received on a current basis during the three months ended September 30, 2021 was received from 23 portfolio companies. This is an increase from the 20 portfolio companies that generated current income during the three months ended September 30, 2020. The number of companies contributing to current investment income increased due to the addition of more income generating portfolio companies in the last year in furtherance of our investment objectives and strategies.

Interest from portfolio companies – Interest from portfolio companies was approximately 19% higher during the three months ended September 30, 2021 versus the same period in 2020 due to the fact that we originated more income-producing debt investments during the last twelve months. The new debt instruments were originated from BMP Swanson Holdco, LLC (Swanson), Caitec, Inc. (Caitec), DSD Operating, LLC (DSD), ITA Acquisition, LLC (ITA), and Seybert’s Billiards Corporation (Seybert’s).

Interest from other investments – The decrease in interest from other investments is due to lower interest rates received on our cash and cash equivalents, and lower cash balances during the three months ended September 30, 2021 versus the same period in 2020.

Dividend and other investment income – Dividend income is comprised of cash distributions from limited liability companies (LLCs) and corporations in which we have invested, including our investment in the shares of publicly traded business development companies (BDC). 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. The dividend distributions for the respective periods were:

	Three months ended September 30, 2021	Three months ended September 30, 2020
Knoa Software, Inc. (Knoa)	\$ 87,771	\$ —
FS KKR	35,100	—
TCG	32,680	14,800
PennantPark	23,400	—
Tilson Technology Management, Inc. (Tilson)	13,125	13,125
Ares Capital Corporation (Ares)	11,070	10,800
Owl Rock Capital Corporation (Owl Rock)	9,300	23,400
Golub Capital BDC, Inc. (Golub)	9,063	9,062
Barings BDC, Inc. (Barings)	8,400	6,400
Apollo	—	15,750
Total dividend and other investment income	<u>\$ 229,909</u>	<u>\$ 93,337</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.”

Table of Contents

The income associated with the amortization of financing fees was \$24,180 and \$7,500 for the three months ended September 30, 2021 and 2020, respectively.

Expenses

	Three months ended September 30, 2021	Three months ended September 30, 2020	Increase	% Increase
Total expenses	\$ 961,899	\$ 456,398	\$505,501	110.8%

The increase in total expenses during the three months ended September 30, 2021 versus the same period in 2020 was primarily due to a \$454,000 increase in the capital gains incentive fee accrual and an approximately \$78,000 increase in the base management fee payable to RCM. The increase in capital gains incentive fees, shown on our Consolidated Statement of Operations, is due to our accrual during the three months ended September 30, 2021 of a capital gains incentive fee. The Investment Management Agreement with RCM does not allow the use of unrealized gains in calculating the amount of the capital gains incentive fee payable under that agreement. However, as required by GAAP, we must accrue capital gains incentive fees on the basis of unrealized gains. Our capital gains incentive fee accrual reflects the capital gains incentive fees that would be payable to RCM if our entire investment portfolio was liquidated at its fair value as of the balance sheet date even though RCM is not entitled to a capital gains incentive fee with respect to unrealized gains unless and until such gains are actually realized. There were no capital gains incentive fees accrued for the three months ended September 30, 2020.

The base management fee, payable to RCM, is calculated on total assets less cash, and, as we deploy more capital into investments, the base management fee, payable to RCM, will increase accordingly.

In November 2019, we completed a stock sale transaction with East and concurrently externalized the management of our portfolio to Rand Capital Management, LLC (RCM) as our external investment adviser and administrator. Our primary expenses now include the payment of fees to RCM under the Investment Management Agreement, and our allocable portion of overhead expenses and other administrative expenses under the Administration Agreement with RCM. Under the terms of the Investment Management Agreement, the compensation of the investment professionals of RCM and its staff, and the general office and overhead expenses incurred by RCM in maintaining its place of business, will be provided, and paid for by RCM and not by us. We will be responsible for all other expenses.

Net Investment Income

The excess of investment income over total expenses represents net investment income (or loss). The net investment income for the three months ended September 30, 2021 and 2020 was \$53,152 and \$280,470, respectively.

Realized Gain on Investments

	Three months ended September 30, 2021	Three months ended September 30, 2020	Change
Realized gain on investments before income taxes	\$ 2,601,361	\$ —	\$2,601,361

During the three months ended September 30, 2021, we sold our investment in Centivo Corporation and recognized a realized gain of \$1,614,433. In addition, during the three months ended September 30, 2021, we recognized a net realized gain of \$957,573 on the sale of 50,000 shares of Class A common stock of ACV Auctions, Inc. (ACV). ACV trades on the NASDAQ Global Select Market under the symbol "ACVA". As of September 30, 2021, we owned 540,580 shares of Class A common stock of ACV.

Table of Contents

During the three months ended September 30, 2021, we received additional proceeds from the 2nd quarter sale of our investment in Givegab and recognized a gain of \$29,355.

Change in Unrealized Depreciation of Investments

	<u>Three months ended</u> <u>September 30, 2021</u>	<u>Three months ended</u> <u>September 30, 2020</u>	<u>Change</u>
Change in unrealized depreciation of investments before income taxes	(\$333,313)	(\$17,947)	(\$315,366)

The change in unrealized depreciation, before income taxes, for the three months ended September 30, 2021, was comprised of the following:

	<u>Three months ended</u> <u>September 30, 2021</u>
ACV Auctions, Inc. (ACV)	(\$4,318,151)
Centivo sale	(584,832)
Knoa Software, Inc. (Knoa)	(544,860)
PennantPark Investment Corporation (Pennantpark)	(22,750)
New Monarch Machine Tool, Inc. (New Monarch)	(22,841)
Owl Rock Capital Corporation (Owl Rock)	(7,300)
Golub Capital BDC, Inc. (Golub)	8,854
Barings BDC, Inc. (Barings)	13,600
TCG	15,767
Ares Capital Corporation (Ares)	19,800
FS KKR Capital Corp. (FS KKR)	45,360
Mercantile Adjustment Bureau, LLC (Mercantile)	849,040
Tilson Technology Management, Inc. (Tilson)	\$4,215,000
Total change in net unrealized appreciation (depreciation) of investments before income taxes	<u><u>(\$333,313)</u></u>

Ares, Barings, FS KKR, Golub, Owl Rock and Pennantpark are all publicly traded stocks, and as such, are marked to market at the end of each quarter, using the three-day average closing price.

ACV completed an Initial Public Offering (IPO) at a price of \$25.00 per share on March 23, 2021, and trades on the NASDAQ Global Select market under the symbol "ACVA". At September 30, 2021, we held 540,580 shares of unrestricted Class A common stock. Our holdings in the Class A common stock of ACV was valued using a price of \$18.12 per shares using the three-day average closing price.

In accordance with the Corporation's valuation policy, we increased the value of our investment in Tilson based on a significant equity financing by new non-strategic outside investors that had a higher valuation for this portfolio company.

During the three months ended September 30, 2021, the valuation of our investments in Knoa and New Monarch were decreased after a review of their operations and financial condition. In addition, our investment in Mercantile was increased during the same three-month period after a review of their financial condition.

Table of Contents

The change in unrealized depreciation, before income taxes, for the three months ended September 30, 2020 was comprised of the following:

	Three months ended September 30, 2020
PennantPark Investment Corporation (Pennantpark)	(\$48,130)
Apollo Investment Corporation (Apollo)	(37,450)
Barings BDC, Inc. (Barings)	(13,485)
TCG BDC, Inc. (TCG)	(9,530)
Owl Rock Capital Corporation (Owl Rock)	(7,000)
Ares Capital Corporation (Ares)	(5,310)
FS KKR Capital Corp. (FS KKR)	50,250
Golub Capital BDC, Inc. (Golub)	52,708
Total change in net unrealized depreciation of investments before income taxes	(\$17,947)

Apollo, Ares, Barings, FS KKR, Golub, Owl Rock, Pennantpark and TCG are each publicly traded stocks, and as such, are marked to market at the end of each quarter, using the three-day average closing price.

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

Net Increase in Net Assets from Operations

The net increase in net assets from operations on our consolidated statements of operations for the three months ended September 30, 2021 and 2020 was \$2,321,200 and \$262,523, respectively.

Comparison of the nine months ended September 30, 2021 to the nine months ended September 30, 2020

Investment Income

	Nine months ended September 30, 2021	Nine months ended September 30, 2020	Increase (Decrease)	% Increase (Decrease)
Interest from portfolio companies	\$ 2,110,749	\$ 1,741,261	\$369,488	21.2%
Interest from other investments	13,343	87,161	(73,818)	(84.7%)
Dividend and other investment income	613,625	200,900	412,725	205.4%
Fee income	102,055	17,917	84,138	469.6%
Total investment income	<u>\$ 2,839,772</u>	<u>\$ 2,047,239</u>	<u>\$792,533</u>	38.7%

The total investment income that was received on a current basis during the nine months ended September 30, 2021 was received from 26 portfolio companies. This is an increase from the 23 portfolio companies that generated current income during the nine months ended September 30, 2020. The number of companies contributing to investment income increased due to the addition of more income generating portfolio company investments in the last year in furtherance of our investment objectives and strategies.

Interest from portfolio companies – Interest from portfolio companies was approximately 21% higher during the nine months ended September 30, 2021 versus the same period in 2020 due to the fact that we originated more income-producing debt investments during the last twelve months. The new debt instruments were originated from BMP Swanson Holdco, LLC (Swanson), Caitec, Inc. (Caitec), DSD Operating, LLC (DSD), ITA Acquisition, LLC (ITA), and Seybert's Billiards Corporation (Seybert's). In addition, interest income is higher due to an approximately \$88,000 increase in OID income during the nine months ended September 30, 2021 due to a first quarter 2021 loan payoff.

Interest from other investments—The decrease in interest from other investments is due to lower interest rates received on our cash and cash equivalents, and lower cash balances during the nine months ended September 30, 2021 versus the same period in 2020.

Table of Contents

Dividend and other investment income—Dividend income is comprised of cash distributions from limited liability companies (LLCs) and corporations in which we have invested, including our investment in the shares of publicly held business development companies (BDC). 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. The dividend distributions for the respective periods were:

	Nine months ended September 30, 2021	Nine months ended September 30, 2020
FS KKR	\$ 99,900	\$ 34,000
TCG	95,460	14,800
Knoa	87,771	—
Carolina Skiff LLC (Carolina Skiff)	81,801	—
Pennantpark	70,200	—
Tilson	39,375	39,375
Ares	32,670	21,600
Owl Rock	27,900	35,100
Apollo	27,360	31,500
Golub	27,188	18,125
Barings	24,000	6,400
Total dividend and other investment income	<u>\$ 613,625</u>	<u>\$ 200,900</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 \$57,959 and \$17,917 for the nine months ended September 30, 2021 and 2020, respectively. During the nine months ended September 30, 2021, the Corporation recognized a one-time fee of \$30,000 in conjunction with the repayment of the Microcision loan instrument. There were \$14,096 in board fees for the nine months ended September 30, 2021 and there were no board fees for the nine months ended September 30, 2020.

Expenses

	Nine months ended September 30, 2021	Nine months ended September 30, 2020	Increase	% Increase
Total expenses	\$ 5,747,520	\$ 1,448,710	\$4,298,810	296.7%

Total expenses increased approximately \$4,300,000 during the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020. The increase in expenses was primarily due to a \$4,114,000 increase in the capital gains incentive fee accrual and an approximately \$185,000 increase in the base management fee payable to RCM. The increase in the capital gains incentive fee accrual, shown on our Consolidated Statement of Operations, is due to our accrual during the nine months ended September 30, 2021 of a capital gains incentive fee, which accrual results from a requirement of GAAP. The Investment Management Agreement does not allow the use of unrealized gains in calculating the amount of the capital gains incentive fee payable under that agreement to RCM. However, as required by GAAP, the Corporation must accrue capital gains incentive fees on the basis of unrealized gains. Our capital gains incentive fee accrual reflects the capital gains incentive fees that would be payable to RCM if our entire investment portfolio was liquidated at its fair value as of the balance sheet date even though RCM is not entitled to a capital gains incentive fee with respect to unrealized gains unless and until such gains are actually realized. There were no capital gains incentive fees accrued for the nine months ended September 30, 2020.

The base management fee, payable to RCM, is calculated on total assets less cash, and, as we deploy more capital into investments, the base management fee, payable to RCM, will increase accordingly.

Table of Contents

Net Investment Income

The excess of investment income over total expenses represents net investment income (or loss). The net investment (loss) income for the nine months ended September 30, 2021 and 2020 was \$(2,924,763) and \$1,017,630, respectively.

Realized Gain on Investments

	Nine months ended September 30, 2021	Nine months ended September 30, 2020	Change
Realized gain on investments before income taxes	\$4,729,466	\$2,412,046	\$2,317,420

During the nine months ended September 30, 2021, we sold our investment in Givegab and recognized a gain of \$1,846,705, sold our investment in Centivo Corporation and recognized a gain of \$1,614,433, and sold our investment in ClearView Social, Inc. and recognized a gain of \$135,430. The realized gain from the sale of Clearview included \$35,766 that will be held in escrow and is expected to be received in 2022. The escrow holdback is recorded in "Other Assets" on the Corporation's Balance Sheet.

In addition, during the nine months ended September 30, 2021 we recognized a net realized gain of \$957,573 on the sale of 50,000 shares of Class A common stock of ACV Auctions, Inc. (ACV). ACV trades on the NASDAQ Global Select Market under the symbol "ACVA". As of September 30, 2021, we owned 540,580 shares of ACV. During the nine months ended September 30, 2021, we also sold our shares in Apollo Investment Corporation and recognized a gain of approximately \$175,000.

During the nine months ended September 30, 2020, we realized a \$2.3 million gain when we exited our investment in Outmatch. We also received additional proceeds of approximately \$57,000 from Microcision LLC (Microcision) related to the 2019 sale of our equity interest in Microcision and approximately \$37,000 in additional gain from Advantage 24/7.

Change in Unrealized Appreciation/Depreciation of Investments

	Nine months ended September 30, 2021	Nine months ended September 30, 2020	Change
Change in unrealized appreciation/depreciation of investments before income taxes	\$13,049,041	(\$540,033)	\$13,589,074

The change in unrealized appreciation, before income taxes, for the nine months ended September 30, 2021 was comprised of the following:

	Nine months ended September 30, 2021
Open Exchange	\$4,918,061
Tilson	4,215,000
ACV	3,277,495
Mercantile	849,040
Pennantpark	296,501
FS KKR	276,465
TCG	225,007
Ares	97,560
Barings	73,867
Golub	58,022
Owl Rock	44,900
Apollo	(7,616)
New Monarch	(22,841)
Post Process	(122,728)
Knoa	(544,860)
Centivo sale	(584,832)
Total change in net unrealized appreciation of investments before income taxes	\$13,049,041

Ares, Barings, FS KKR, Golub, Owl Rock and Pennantpark are all publicly traded stocks, and as such, are marked to market at the end of each quarter using the three-day average closing price. We sold our Apollo shares during the nine months ended September 30, 2021.

ACV completed an Initial Public Offering (IPO) at a price of \$25.00 per share on March 23, 2021, and trades on the NASDAQ Global Select market under the symbol "ACVA". At September 30, 2021, we held 540,580 shares of unrestricted Class A common stock. Our holdings in the Class A common stock of ACV was valued using a price of \$18.12 per share, based upon the three-day average closing price.

Table of Contents

In accordance with the Corporation's valuation policy, we increased the value of our investments in Open Exchange and Tilson based on significant equity financings for each of these portfolio companies.

During the nine months ended September 30, 2021, the valuation of our investments in Knoa, New Monarch and Post Process was decreased after a review of their operations and financial condition. In addition, our investment in Mercantile was increased during the nine months ended September 30, 2021 after a review of their financial operations.

The change in unrealized depreciation, before income taxes, for the nine months ended September 30, 2020 was comprised of the following:

	Nine months ended September 30, 2020
Genicon, Inc. (Genicon)	(\$515,804)
Apollo	(71,367)
Pennantpark	(48,130)
Barings	(13,485)
TCG	(9,530)
Golub	6,923
Owl Rock	17,633
Ares	34,540
FS KKR	59,187
Total change in net unrealized depreciation of investments before income taxes	(\$540,033)

The valuation of our investment in Genicon was decreased after a review of their operations and financial condition.

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

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

Net Increase in Net Assets from Operations

We account for our operations under GAAP for investment companies. The principal measure of our financial performance is "net increase in net assets from operations" on our consolidated statements of operations. For the nine months ended September 30, 2021 and 2020, the net increase in net assets from operations was \$14,852,793 and \$1,116,231, respectively.

Liquidity and Capital Resources

Our investment objective is to generate current income and, when possible, complement this current income with capital appreciation. As a result, our recent and future investments are expected to be made primarily in yield generating investments and may include related equity options, such as warrants or preferred equity.

As of September 30, 2021, our total liquidity consisted of approximately \$13,300,000 in cash and cash equivalents. In addition, we had an outstanding SBA leverage commitment of \$3,000,000. Subsequent to the quarter ended September 30, 2021, we repaid our outstanding \$11,000,000 in SBA debentures and terminated our remaining SBA leverage commitment. See Note 10. Subsequent Event, for additional information.

[Table of Contents](#)

Net cash provided by operating activities has averaged approximately \$82,000 per year over the last three years. The cash used for investments in portfolio companies has averaged approximately \$10,100,000 per year over the last three years. We will generally use cash to fund our expenses, invest in portfolio companies, pay dividends and repurchase shares. We anticipate that we will continue to exit investments and shift our portfolio to income producing investments. However, the timing of liquidation events within the portfolio is difficult to project.

We believe that the cash on hand at September 30, 2021 and the scheduled interest payments on our portfolio investments will be sufficient to meet our cash needs for the next year. We continue to pursue current income and distributions from portfolio companies to increase the liquidity available for new investments, expenses and dividends to our shareholders.

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our investment activities contain elements of risk. Our investment portfolio primarily 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 RCM 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 investments in our portfolio may differ significantly from the values that would be placed on such investments in our 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, and does currently include, marketable securities traded in the over-the-counter market or on other stock markets. In addition, there may be a portion of the portfolio for which no regular trading market exists. In order to realize the full value of a security, the market must trade in an orderly fashion, or a willing purchaser must be available when a sale is to be made. Should an economic or other event occur that would not allow markets to trade in an orderly fashion, we may not be able to realize the fair value of our marketable investments or other investments in a timely manner.

As of September 30, 2021, we did not have any off-balance sheet arrangements or hedging or similar derivative financial instrument investments.

Item 4. Controls and Procedures

Disclosure Controls and Procedures. The Corporation maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms, and that this information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Chief Executive Officer and the Chief Financial Officer carried out an evaluation of the effectiveness of the design and operation of the Corporation’s disclosure controls and procedures as of September 30, 2021. Based on the evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that the Corporation’s controls and procedures were effective as of September 30, 2021.

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

**PART II.
OTHER INFORMATION**

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

See the information provided under the heading “Risk Factors” in our annual report on Form10-K for the year ended December 31, 2020.

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 dollar amount of shares that may yet be purchased under the share repurchase program (3)
7/1/2021 – 7/31/2021	—	—	—	\$ 1,500,000
8/1/2021 – 8/31/2021	911	\$ 18.18	911	\$ 1,483,437
9/1/2021 – 9/30/2021	237	\$ 17.75	237	\$ 1,479,230
Total	<u>1,148</u>	<u>\$ 18.09</u>	<u>1,148</u>	

- (1) There were 1,148 shares repurchased, in open market transactions, during the third quarter of 2021.
- (2) The average price paid per share is calculated on a settlement basis and includes commission.
- (3) On April 22, 2021, the Board of Directors approved a new share repurchase plan, which authorizes the Corporation to repurchase shares of the Corporation’s outstanding common stock with an aggregate cost of up to \$1,500,000 at prices per share of common stock of no greater than the then current net asset value. This share repurchase authorization lasts for a period of 12 months from the authorization date, until April 22, 2022.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Table of Contents

Item 6. Exhibits

(a) Exhibits

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

- (3.1)(i) [Certificate of Incorporation of the Corporation, incorporated by reference to Exhibit \(a\)\(1\) of Form N-2 filed with the SEC on April 22, 1997. \(File No. 333-25617\).](#)
- (3.1)(ii) [Certificate of Amendment to the Certificate of Incorporation, as amended, incorporated by reference to Exhibit 3.1 to the Corporation's Current Report on Form 8-K filed with the SEC on November 12, 2019.](#)
- (3.1)(iii) [Certificate of Amendment to the Certificate of Incorporation, as amended, incorporated by reference to Exhibit 3.1 to the Corporation's Current Report on Form 8-K filed with the SEC on May 21, 2020.](#)
- (3.1)(iv) [By-laws of the Corporation, incorporated by reference to Exhibit 3\(ii\) to the Corporation's Quarterly Report on Form 10-Q for the period ended September 30, 2016 filed with the SEC on November 2, 2016. \(File No. 814-00235\).](#)
- (3.2)(i) [Certificate of Incorporation of Rand Merger Corporation as filed with the New York Department of State on December 18, 2008, incorporated by reference to Exhibit 1\(a\) to Registration Statement No. 811-22276 on Form N-5 of Rand Capital SBIC, Inc. filed with the SEC on February 6, 2009. \(File No. 811-22276\).](#)
- (3.2)(ii) [By-laws of Rand Capital SBIC, Inc., incorporated by reference to Exhibit 2 to Registration Statement No. 811-22276 on Form N-5 of Rand Capital SBIC, Inc. filed with the SEC on February 6, 2009. \(File No. 811-22276\).](#)
- (4.1) [Specimen certificate of common stock certificate, incorporated by reference to Exhibit \(b\) of Form N-2 filed with the SEC on April 22, 1997. \(File No. 333-25617\).](#)
- (31.1) [Certification of Principal Executive Officer Pursuant to Rules 13a-14\(a\)/15d-14\(a\) under the Securities Exchange Act of 1934, as amended – filed herewith.](#)
- (31.2) [Certification of Principal Financial Officer Pursuant to Rules 13a-14\(a\)/15d-14\(a\) under the Securities Exchange Act of 1934, as amended – filed herewith.](#)
- (32.1) [Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – Rand Capital Corporation – filed herewith.](#)

Signatures

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

Dated: November 5, 2021

RAND CAPITAL CORPORATION

/s/ Allen F. Grum

Allen F. Grum, President
(Chief Executive Officer)

/s/ Daniel P. Penberthy

Daniel P. Penberthy, Treasurer
(Chief Financial Officer)

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;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 5, 2021

/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;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 5, 2021

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

EXHIBIT 32.1

CERTIFICATION

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

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

The Quarterly Report on Form 10-Q for the quarter ended September 30, 2021 (the "Form 10-Q") of the Company fully complies with the requirement of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 5, 2021

/s/ Allen F. Grum

Allen F. Grum, President
(Chief Executive Officer)

Dated: November 5, 2021

/s/ Daniel P. Penberthy

Daniel P. Penberthy, Treasurer
(Chief Financial Officer)