

RAND CAPITAL CORP
Form 10-Q
August 07, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2017

**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

16-0961359
(IRS Employer

Incorporation or Organization)

Identification No.)

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

14203
(Zip Code)

(716) 853-0802

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

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 August 7, 2017, there were 6,321,988 shares of the registrant's common stock outstanding.

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	June 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
Investments at fair value:		
Control investments (cost of \$99,500)	\$ 99,500	\$ 99,500
Affiliate investments (cost of \$19,341,212 and \$17,589,623, respectively)	14,691,888	13,605,974
Non-Control/Non-Affiliate investments (cost of \$16,052,007 and \$13,941,907, respectively)	15,471,799	13,795,007
Total investments, at fair value (cost of \$35,492,719 and \$31,631,030, respectively)	30,263,187	27,500,481
Cash	6,590,994	12,280,140
Interest receivable (net of allowance: \$161,000)	373,835	324,237
Deferred tax asset	1,684,327	1,165,164
Prepaid income taxes	298,630	
Other assets	608,514	1,148,508
Total assets	\$ 39,819,487	\$ 42,418,530
LIABILITIES AND STOCKHOLDERS EQUITY (NET ASSETS)		
Liabilities:		
Debentures guaranteed by the SBA, net	\$ 7,841,473	\$ 7,827,773
Profit sharing and bonus payable	132,000	1,270,052
Income tax payable		320,008
Accounts payable and accrued expenses	164,294	324,537
Deferred revenue	47,175	46,797
Total liabilities	8,184,942	9,789,167
Commitments and contingencies (See Note 5)		
Stockholders equity (net assets):		
Common stock, \$.10 par; shares authorized 10,000,000; shares issued 6,863,034; shares outstanding of 6,321,988 at 6/30/17 and 12/31/16	686,304	686,304
Capital in excess of par value	10,581,789	10,581,789
Accumulated net investment loss	(1,851,733)	(1,577,848)
Undistributed net realized gain on investments	27,127,054	27,127,054
Net unrealized depreciation on investments	(3,439,764)	(2,718,831)

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Treasury stock, at cost: 541,046 shares	(1,469,105)	(1,469,105)
Total stockholders equity (net assets) (per share \$5.00 at 6/30/17; \$5.16 at 12/31/16)	31,634,545	32,629,363
Total liabilities and stockholders equity (net assets)	\$ 39,819,487	\$ 42,418,530

See accompanying notes

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RAND CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Investment income:				
Interest from portfolio companies:				
Control investments	\$	\$	\$	\$ 11,828
Affiliate investments	137,243	94,614	274,000	159,575
Non-Control/Non-Affiliate investments	140,397	68,527	249,731	129,632
Total interest from portfolio companies	277,640	163,141	523,731	301,035
Interest from other investments:				
Non-Control/Non-Affiliate investments	6,859	18,648	17,834	21,709
Total interest from other investments	6,859	18,648	17,834	21,709
Dividend and other investment income:				
Affiliate investments	53,024	33,232	115,397	80,797
Non-Control/Non-Affiliate investments	2,681		5,193	
Total dividend and other investment income	55,705	33,232	120,590	80,797
Fee income:				
Control investments				2,000
Affiliate investments	3,167	1,167	4,084	1,862
Non-Control/Non-Affiliate investments	5,768	4,318	11,537	7,234
Total fee income	8,935	5,485	15,621	11,096
Total investment income	349,139	220,506	677,776	414,637
Operating expenses:				
Salaries	165,413	155,437	330,826	310,875
Bonus and profit sharing				1,411,659
Employee benefits	47,699	36,711	100,069	126,222
Directors fees	36,374	47,380	71,249	94,755
Professional fees	178,193	86,288	262,195	151,048
Stockholders and office operating	80,725	61,542	147,935	124,036
Insurance	6,258	6,258	17,560	17,518
Corporate development	11,609	16,055	33,317	31,525
Other operating	3,323	2,375	5,283	5,975
	529,594	412,046	968,434	2,273,613

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Interest on SBA obligations	77,569	77,570	155,138	155,139
Total operating expenses	607,163	489,616	1,123,572	2,428,752
Net investment loss before income taxes	(258,024)	(269,110)	(445,796)	(2,014,115)
Income tax benefit	(99,403)	(114,564)	(171,911)	(777,591)
Net investment loss	(158,621)	(154,546)	(273,885)	(1,236,524)
Net realized gain on sales and dispositions of investments:				
Control investments				13,176,313
Non-Control/Non-Affiliate investments		168,140		168,140

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Net realized gain before income tax expense		168,140		13,344,453
Income tax expense		34,520		4,977,481
Net realized gain on investments		133,620		8,366,972
Net change in unrealized depreciation or appreciation on investments:				
Control investments				(11,362,500)
Affiliate investments	(665,675)	(325,000)	(665,675)	(747,800)
Non-Control/Non-Affiliate investments	(52,664)	69,444	(433,308)	69,444
Change in unrealized depreciation or appreciation before income tax benefit	(718,339)	(255,556)	(1,098,983)	(12,040,856)
Deferred income tax benefit	(241,623)	(78,390)	(378,050)	(4,494,796)
Net change in unrealized depreciation or appreciation on investments	(476,716)	(177,166)	(720,933)	(7,546,060)
Net realized and unrealized (loss) gain on investments	(476,716)	(43,546)	(720,933)	820,912
Net decrease in net assets from operations	\$ (635,337)	\$ (198,092)	\$ (994,818)	\$ (415,612)
Weighted average shares outstanding	6,321,988	6,328,538	6,321,988	6,328,538
Basic and diluted net decrease in net assets from operations per share	\$ (0.10)	\$ (0.03)	\$ (0.16)	\$ (0.07)
		See accompanying notes		

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

(Unaudited)

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Net assets at beginning of period	\$ 32,269,882	\$ 33,636,140	\$ 32,629,363	\$ 33,853,660
Net investment loss	(158,621)	(154,546)	(273,885)	(1,236,524)
Net realized gain on investments		133,620		8,366,972
Net change in unrealized depreciation or appreciation on investments	(476,716)	(177,166)	(720,933)	(7,546,060)
Net decrease in net assets from operations	(635,337)	(198,092)	(994,818)	(415,612)
Total decrease in net assets	(635,337)	(198,092)	(994,818)	(415,612)
Net assets at end of period	\$ 31,634,545	\$ 33,438,048	\$ 31,634,545	\$ 33,438,048
Accumulated net investment loss	\$ (1,851,733)	\$ (1,261,104)	\$ (1,851,733)	\$ (1,261,104)

See accompanying notes

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RAND CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six months ended June 30, 2017	Six months ended June 30, 2016
Cash flows from operating activities:		
Net decrease in net assets from operations	\$ (994,818)	\$ (415,612)
Adjustments to reconcile net decrease in net assets to net cash (used in) provided by operating activities:		
Investments in portfolio companies	(3,800,000)	(3,898,466)
Proceeds from sale of investments		13,969,453
Proceeds from loan repayments		416,972
Change in unrealized depreciation or appreciation on investments	1,098,983	12,040,856
Deferred tax benefit	(519,163)	(2,994,272)
Realized gain on portfolio investments		(13,344,453)
Depreciation and amortization	15,700	16,692
Original issue discount amortization	(8,395)	(4,998)
Non-cash conversion of debenture interest	(53,294)	(5,051)
Changes in operating assets and liabilities:		
Increase in interest receivable	(49,598)	(39,577)
Decrease (increase) in other assets	537,995	(49,113)
(Increase) decrease in prepaid income taxes	(298,630)	65,228
(Decrease) increase in income tax payable	(320,008)	1,417,888
(Decrease) increase in accounts payable and accrued expenses	(160,244)	10,266
(Decrease) increase in profit sharing and bonus payable	(1,138,052)	1,311,659
Increase in deferred revenue	378	34,406
Total adjustments	(4,694,328)	8,947,490
Net cash (used in) provided by operating activities	(5,689,146)	8,531,878
Net (decrease) increase in cash	(5,689,146)	8,531,878
Cash:		
Beginning of period	12,280,140	5,844,795
End of period	\$ 6,590,994	\$ 14,376,673

See accompanying notes

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RAND CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

June 30, 2017

(Unaudited)

(a)	(b)	(c)	(d)(f)	Percent of Net Assets	
Company, Geographic Location, Business Description, (Industry) and Website	Date	Acquired Equity	Cost	Fair Value	
Non-Control/Non-Affiliate Investments					
48.9% of net assets: (j)					
ACV Auctions, Inc. (e)(g)	1,181,160 Series A preferred shares.	8/12/16	1% \$ 163,000	\$ 282,356	0.9%
Buffalo, NY. Live mobile auctions for new and used car dealers. (Software)					
www.acvauctions.com					
Athenex, Inc. NASDAQ: ATNX (e)(g)(o)(p)	46,296 restricted common shares valued at \$13.26 per share.	9/8/14	<1% 143,285	614,000	1.9%
(Formerly Kinex Pharmaceuticals, Inc.)					
Buffalo, NY. Specialty pharmaceutical and drug development. (Health Care)					
www.athenex.com					
City Dining Cards, Inc. (Loupe) (e)(g)	9,525.25 Series B preferred shares.	9/1/15	4% 500,000	0	0.0%
Buffalo, NY. Customer loyalty technology company for restaurants. (Software)					
www.loupeapp.io					
eHealth Global Technologies, Inc.	(g) \$1,500,000 term note at 10% due September 2, 2019.	6/28/16	0% 1,500,000	1,500,000	11.1%
Henrietta, NY. eHealth Connect® improves health care delivery through intelligently aggregated clinical record and images for patient referrals.					
(n) \$2,000,000 term note at 10% due September 28, 2019.					
(Health Care)					
Total eHealth			3,500,000	3,500,000	

www.ehealthtechnologies.com

Empire Genomics, LLC (g)	\$900,000 senior secured convertible term notes at 10% due April 30, 2018.	6/13/14	0%	900,000	900,000	3.6%
Buffalo, NY. Molecular diagnostics company that offers a comprehensive menu of assay services for diagnosing and guiding patient therapeutic treatments. (Health Care)				250,000	250,000	
www.empiregenomics.com	\$250,000 promissory note at 12% due December 31, 2019.					
	(i) Interest receivable \$247,715.					
	Total Empire			1,150,000	1,150,000	

GoNoodle, Inc. (g)(m)	\$1,000,000 secured note at 12% due January 31, 2020, (1% Payment in Kind (PIK)).	2/6/15	<1%	1,024,203	1,024,203	3.2%
(Formerly HealthTeacher, Inc.)				25	25	
Nashville, TN. Student engagement education software providing core aligned physical activity breaks. (Software)	Warrant for 47,324 Series C Preferred shares.					
www.gonoodle.com						
	Total GoNoodle			1,024,228	1,024,228	

Mercantile Adjustment Bureau, LLC (g)	\$1,199,039 subordinated secured note at 13% (3% for the calendar year 2017) due January 31, 2018.	10/22/12	4%	1,195,688	945,688	3.0%
Williamsville, NY. Full service accounts receivable management and collections company.				150,000		
(Contact Center)				97,625		
www.mercantilesolutions.com	(e) \$150,000 subordinated debenture at 8% due June 30, 2018.					
	Warrant for 3.29% membership interests. Option for 1.5% membership interests.					
	Total Mercantile			1,443,313	945,688	

Outmatch Holdings, LLC (e)(g)	2,542,167 Class P1 Units.	11/18/10	4%	2,140,007	2,140,007	6.8%
(Chequed Holdings, LLC)				5,489	5,489	

Dallas, TX. Web based predictive employee selection and reference checking. (Software)	109,788 Class C1 Units.						
	Total Outmatch				2,145,496	2,145,496	
www.outmatch.com							
PostProcess Technologies LLC (e)(g)	\$300,000 convertible	7/25/16	0%	300,000	300,000	0.9%	
Buffalo, NY. Provides innovative solutions for the post-processing of additive manufactured 3D parts. (Manufacturing)	promissory note at 5% due July 28, 2018.						
www.postprocess.com							

Non-Control/Non-Affiliate Investments					\$ 16,052,007	\$ 15,471,799
Investments 46.4% of net assets (k)						
BeetNPath, LLC (Grainful) (e)(g)	1,119,024 Series A-2 Preferred Membership Units.	10/20/14	9%	\$ 359,000	\$ 359,000	
NY. Frozen entrées and packaged dry side made from 100% whole grain steel cut oats						
Grainful brand name. (Consumer Product)	1,032,918 Series B Preferred Membership Units.				261,277	291,000
grainful.com						
Total BeetNPath					620,277	650,000
Carolina Skiff LLC (g)	6.0825% Class A common membership interest.	1/30/04	7%	15,000		1,100,000
Carolina, GA. Manufacturer of fresh water, and pleasure boats.						
(Manufacturing)						
carolinaskiff.com						
Parview Social, Inc. (e)(g)	312,500 Series seed plus preferred shares.	1/4/16	6%	200,000		200,000
NY. Social media publishing tool for A and professional firms. (Software)						
parviewsocial.com						
First Wave Products Group, LLC (e)(g)	\$500,000 senior term notes at 10% due July 31, 2017.	4/19/12	7%	661,563		250,000
NY. Sells First Crush automated pill	\$280,000 junior term notes at				316,469	
that crushes and grinds medical pills for	10% due July 31, 2017.					
homes and medical institutions. (Health	Warrant for 41,619 capital securities.				22,000	
firstwaveproducts.com						
Total First Wave					1,000,032	250,000
MediCare, Inc.	(g) 1,586,902 Series B preferred shares.	4/10/15	6%	1,000,000		1,000,000
Park, FL. Designs, produces and	(g) \$2,000,000 promissory note at 8%					
es patented surgical instrumentation.	due May 1, 2020.					
(Care)					1,922,286	1,922,286

niconendo.com	(g) Warrant for 250,000 common shares	80,000	80,000
	(n) \$1,000,000 promissory note at 8% due May 1, 2020.	961,111	961,111
	(n) Warrant for 125,000 common shares.	40,000	40,000
	Total Genicon	4,003,397	4,003,397

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RAND CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

June 30, 2017 (Continued)

(Unaudited)

(a)	(b)	(c)			(d)(f)	Percent
Company, Geographic Location, Business	Date	Acquired Equity	Cost	Value	Fair	of Net Assets
Description, (Industry) and Website	Type of Investment	Acquired Equity	Cost	Value	Fair	Percent
GiveGab, Inc. (e)(g) Ithaca, NY. Online fundraising, day of giving supporter engagement software for non-profit organizations. (Software) www.givegab.com	5,084,329 Series Seed preferred shares.	3/13/13 7%	616,221	424,314	424,314	1.3%
G-TEC Natural Gas Systems (e) Buffalo, NY. Manufactures and distributes systems that allow natural gas to be used as an alternative fuel to gases. (Manufacturing) www.gas-tec.com	16.930% Class A membership interest. 8% cumulative dividend.	8/31/99 18%	400,000	100,000	100,000	0.3%
Intrinsiq Materials, Inc. (e)(g) Rochester, NY. Produces printable electronics utilizing a unique process of nanomaterial based ink in a room-temperature environment. (Manufacturing) www.intrinsiqmaterials.com	4,161,747 Series A preferred shares.	9/19/13 12%	1,125,673	780,000	780,000	2.5%
Knoa Software, Inc. (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 shares. 1,876,922 Series B preferred shares.	11/20/12 7%	750,000 479,155 48,466	449,455 48,466	449,455 48,466	1.6%

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\$48,466 convertible promissory note at 8% due May 9, 2018.

Total Knoa

1,277,621 497,921

KnowledgeVision Systems, Inc. (e)(g)	200,000 Series A-1 preferred shares.	11/13/13	7%	250,000		1.7%
Lincoln, MA. Online presentation and training software. (Software)				300,000	300,000	
www.knowledgevision.com				165,001	165,001	
	214,285 Series A-2 preferred shares.			35,000	35,000	
				50,000	50,000	
	129,033 Series A-3 preferred shares.					
	Warrant for 46,743 Series A-3 shares.					
	\$50,000 subordinated promissory note at 8% due August 31, 2017.					
	Total KnowledgeVision			800,001	550,001	
Mezmeriz, Inc. (e)(g)	1,554,565 Series Seed preferred shares.	1/9/08	14%	742,850	351,477	1.1%
Ithaca, NY. Micro-electronic mechanical systems (MEMS) developer of carbon fiber MEMS mirror modules for gesture recognition and 3D scanning. (Electronics Developer)						
www.mezmeriz.com						
Microcision LLC (g)(m)	\$1,500,000 subordinated promissory note at 12% (1% PIK) due December 31, 2024.	9/24/09	15%	1,904,605	1,904,605	6.0%
Pennsauken Township, NJ. Manufacturer of precision machined medical implants, components and assemblies. (Manufacturing)						
www.microcision.com						
	15% Class A common membership interest.					
	Total Microcision			1,904,605	1,904,605	
New Monarch Machine Tool, Inc. (g)	22.84 common shares.	9/24/03	15%	22,841	22,841	0.1%

Cortland, NY. Manufactures and services
vertical/horizontal machining centers.
(Manufacturing)

www.monarchmt.com

OnCore Golf Technology, Inc. (e)(g)	150,000 Series AA preferred shares.	12/31/14	7%	375,000		0.9%
Buffalo, NY. Maker of patented golf balls. (Consumer Product)	\$300,000 subordinated convertible promissory notes at 6% due January 24, 2018.			300,000	300,000	
www.oncoregolf.com						
	Total OnCore			675,000	300,000	

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RAND CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

June 30, 2017 (Continued)

(Unaudited)

(a)	(b)	(c)	(d)(f)		Percent	
Company, Geographic Location, Business Description, (Industry) and Website	Date	Equity	Cost	Fair Value	of Net Assets	
SciAps, Inc. (e)(g)	187,500 Series A convertible preferred shares.	7/12/13	9%		6.4%	
Woburn, MA. Instrumentation company producing portable analytical devices using XRF, LIBS and RAMAN spectroscopy to identify compounds, minerals, and elements. (Manufacturing)	274,299 Series A-1 convertible preferred shares.			1,500,000	700,000	
www.sciaps.com	117,371 Series B convertible preferred shares.			504,710	504,710	
	113,636 Series C preferred shares.			250,000	250,000	
	369,698 Series C-1 preferred shares.			175,000	175,000	
	Total SciAps			399,274	399,274	
				2,828,984	2,028,984	
SOMS Technologies, LLC (g)	5,959,490 Series B membership interests.	12/2/08	9%	472,632	528,348	1.7%
Valhalla, NY. Produces and markets the microGreen Extended Performance Oil Filter. (Consumer Products)						
www.microgreenfilter.com						
Teleservices Solutions Holdings, LLC (e) (g)(m)	250,000 Class B preferred units.	5/30/14	6%	250,000	0.0%	
Montvale, NJ. Customer contact center specializing in customer acquisition and retention for selected industries. (Contact Center)	1,000,000 Class C preferred units.			1,190,680		
	80,000 Class D preferred units.			91,200		
				104,198		

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www.ipacesetters.com	104,198 Class E preferred units.						
	PIK dividend for Series C and D at 12% and 14%, respectively.						
	Total Teleservices				1,636,078		
Tilson Technology Management, Inc.(g)	120,000 Series B preferred shares.	1/20/15	8%	600,000	600,000	3.2%	
Portland, ME. Cellular, fiber optic and wireless information systems, construction, and management. (Professional Services)	21,391 Series C convertible preferred shares.			200,000	200,000		
	\$200,000 subordinated promissory note at 8% due September 28, 2021.			200,000	200,000		
www.tilsontech.com	Total Tilson				1,000,000	1,000,000	
Subtotal Affiliate Investments					\$ 19,341,212	\$ 14,691,888	
Control Investments 0.3% of net assets (I)							
Advantage 24/7 LLC (e)(g)	53% Membership interest.	12/30/10	53%	\$ 99,500	\$ 99,500	0.3%	
Williamsville, NY. Marketing program for wine and spirits dealers. (Marketing Company)							
www.advantage24-7.com							
Subtotal Control Investments					\$ 99,500	\$ 99,500	
TOTAL INVESTMENTS 95.7%					\$ 35,492,719	\$ 30,263,187	
OTHER ASSETS IN EXCESS OF							
LIABILITIES 4.3%						1,371,358	
NET ASSETS 100%						\$ 31,634,545	

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RAND CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

June 30, 2017 (Continued)

(Unaudited)

Notes to the Consolidated Schedule of Portfolio Investments

(a) At June 30, 2017, restricted securities represented 100% of the fair value of the investment portfolio. Restricted securities are subject to one or more restrictions on resale and are not freely marketable.

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

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

(d) The Corporation's investments are carried at fair value in accordance with Accounting Standards Codification (ASC) 820 Fair Value Measurements and Disclosures, which defines fair value and establishes guidelines for measuring fair value. At June 30, 2017, ASC 820 designates 98% of the Corporation's investments as Level 3 assets. Under the valuation policy of the Corporation, unrestricted publicly held securities are valued at the average closing bid price for these securities for the last 3 trading days of the month. Restricted securities are subject to restrictions on resale, and, other than with respect to the shares of common stock of Athenex, Inc. owned by the Corporation, are valued at fair value as determined by the management of the Corporation and submitted to the Board of Directors for approval. The Corporation valued the shares of common stock of Athenex using the average closing bid price for the last three trading days of the reporting period, and applied a discount to that value to address the sale restriction. 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.

(f) As of June 30, 2017 the total cost of investment securities was approximately \$35.5 million. Net unrealized depreciation was approximately (\$5.2) million, which was comprised of \$2.2 million of unrealized appreciation of investment securities and (\$7.4) million of unrealized depreciation of investment securities. At June 30, 2017, the aggregate gross unrealized gain for federal income tax purposes was \$2.5 million and the aggregate gross unrealized

loss for federal income tax purposes was (\$6.9) million. The net unrealized loss for federal income tax purposes was (\$4.4) million based on a tax cost of \$31.2 million.

(g) Rand Capital SBIC, Inc. investment.

(h) Reduction in cost and value from previously reported balances reflects current principal repayment. There were no principal repayments during the six months ended June 30, 2017.

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

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

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

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

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

(n) Rand Capital SBIC II, L.P. investment.

(o) Publicly-traded company.

(p) At June 30, 2017, shares of common stock of Athenex owned by the Corporation were categorized as a Level 2 investment because these shares were subject to restriction on sale as of the end of the period. The Corporation valued the shares of common stock of Athenex that it owns using the average closing bid price for the last three trading days of the reporting period, and applied a discount to that value to address the sale restriction. See Athenex's publicly disclosed financial reports at sec.gov for additional information on Athenex's industry, financial results and business operations.

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RAND CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

June 30, 2017 (Continued)

(Unaudited)

Investments in and Advances to Affiliates

Company	Type of Investment	December 31, 2016 Fair Value	Gross Additions (1)	Gross Reductions (2)	June 30, 2017 Fair Value	Amount of Interest/ Dividend/ Fee Income (3)
Control Investments:						
Advantage 24/7 LLC	53% Membership interest.	\$ 99,500	\$	\$	\$ 99,500	\$
Total Control Investments		\$ 99,500	\$ 0	\$ 0	\$ 99,500	\$ 0
Affiliate Investments:						
BeetNPath, LLC	1,119,024 Series A-2 Preferred Membership Units.	\$ 359,000	\$ 291,000	\$	\$ 359,000	\$
	1,032,918 Series B Preferred Membership Units	150,000		150,000	0	4,800
	\$150,000 convertible promissory note at 8%.					
Total BeetNPath		509,000	291,000	150,000	650,000	4,800
Carolina Skiff LLC		1,100,000			1,100,000	99,373

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	6.0825% Class A common membership interest.					
ClearView Social, Inc.	312,500 Series seed plus preferred shares.	200,000			200,000	
First Wave Products Group, LLC	\$500,000 senior term notes at 10%.					
	\$280,000 junior term notes at 10%.	250,000			250,000	
	Warrant for 41,619 capital securities.					
	Total First Wave	250,000			250,000	
Genicon, Inc.	1,586,902 Series B preferred shares.					
	\$1,100,000 senior term loans at 12%.					
	\$600,000 term loan at 14%.					
	\$2,000,000 promissory note at 8%	1,000,000			1,000,000	
	\$1,000,000 promissory note at 8%	1,100,000		(1,100,000)		
		600,000		(600,000)		50,234
	Warrant for 250,000 common shares		2,002,286	(80,000)	1,922,286	32,200
			1,001,111	(40,000)	961,111	32,425
	Warrant for 125,000 common shares		80,000		80,000	10,805
			40,000		40,000	
	Total Genicon	2,700,000	3,123,397	(1,820,000)	4,003,397	125,664
GiveGab, Inc.	5,084,329 Series Seed preferred shares.	424,314			424,314	

G-TEC Natural Gas Systems	16.930% Class A membership interest. 8% cumulative dividend.	100,000		100,000	
Intrinsiq Materials, Inc.	4,161,747 Series A preferred shares.	780,000		780,000	
Knoa Software, Inc.	973,533 Series A-1 convertible preferred shares. 1,876,922 Series B preferred shares.				
	\$48,466 convertible promissory note at 8%.	449,455		449,455	
		48,466		48,466	1,939
	Total Knoa	497,921		497,921	1,939
KnowledgeVision Systems, Inc.	200,000 Series A-1 preferred shares.				
	214,285 Series A-2 preferred shares.				
	129,033 Series A-3 preferred shares.				
	\$50,000 subordinated promissory note at 8%	300,000		300,000	
		165,001		165,001	
	Warrant for 46,743 Series A-3 shares.		50,000	50,000	1,732
		35,000		35,000	
	Total Knowledge Vision	500,001	50,000	550,001	1,732
Mezmeriz, Inc.	1,554,565 Series seed preferred shares.	351,477		351,477	
Microcision LLC		1,891,964	12,641	1,904,605	113,820

	\$1,500,000 subordinated promissory note at 11%.			
New Monarch Machine Tool, Inc.	22.84 common shares.	22,841	22,841	1,000
OnCore Golf Technology, Inc.	150,000 Series AA preferred shares.			
	\$300,000 subordinated convertible promissory notes at 6%.	300,000	300,000	14,088
	Total OnCore	300,000	300,000	14,088

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RAND CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

June 30, 2017 (Continued)

(Unaudited)

Investments in and Advances to Affiliates

Company	Type of Investment	December 31, 2016 Fair Value	Gross Additions (1)	Gross Reductions (2)	June 30, 2017 Fair Value	Amount of Interest/ Dividend/ Fee Income (3)
SciAps, Inc.	187,500 Series A convertible preferred shares.	1,000,000		(300,000)	700,000	
		504,710			504,710	
	274,299 Series A-1 convertible preferred shares.	250,000			250,000	
			175,000		175,000	
	117,371 Series B convertible preferred shares.		399,274		399,274	
		200,000		(200,000)		4,731
	113,636 Series C preferred shares.	100,000		(100,000)		2,376
	369,698 Series C-1 preferred shares.					
	\$200,000 subordinated promissory note at 10%.					
	\$100,000 secured subordinated convertible note at 10%.					

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	Total SciAps	2,054,710	574,274	(600,000)	2,028,984	7,107
SOMS Technologies, LLC	5,959,490 Series B membership interests.	528,348			528,348	6,024
Teleservices Solutions Holdings, LLC	250,000 Class B shares.		200,000	(200,000)		
	1,000,000 Class C shares.	91,200		(91,200)		
	80,000 Class D preferred units.	104,198		(104,198)		
	104,198 Class E preferred units.					
	Total Teleservices	395,398		(395,398)		
Tilson Technology Management, Inc.	120,000 Series B preferred shares.	600,000			600,000	10,000
		200,000			200,000	
	21,391 Series C convertible preferred shares.	200,000			200,000	7,934
	\$200,000 subordinated promissory note at 8%.					
	Total Tilson	1,000,000			1,000,000	17,934
	Total Affiliate Investments	\$ 13,605,974	\$ 4,051,312	(\$ 2,965,398)	\$ 14,691,888	\$ 393,481
	Total Control and Affiliate Investments	\$ 13,705,474	\$ 4,051,312	(\$ 2,965,398)	\$ 14,791,388	\$ 393,481

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

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

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

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

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RAND CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

June 30, 2017 (Continued)

(Unaudited)

Industry Classification	Percentage of Total Investments (at fair value) as of June 30, 2017
Healthcare	41.1%
Software	23.8%
Manufacturing	20.6%
Consumer Product	4.9%
Professional Services	3.3%
Contact Center	3.1%
Oil and Gas	1.7%
Electronics	1.2%
Marketing	0.3%
Total Investments	100%

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

December 31, 2016

(a)	(b)	(c)			(d)(f)	Percent
Company, Geographic Location, Business	Date	Acquired Equity	Cost	Value	Fair Value	of Net Assets
Description, (Industry) and Website	Type of Investment	Acquired Equity	Cost	Value	Fair Value	Percent of Net Assets
Non-Control/Non-Affiliate Investments						
42.3% of net assets: (j)						
ACV Auctions, Inc. (e)(g) Buffalo, NY. Live mobile auctions for new and used car dealers. (Software) www.acvauctions.com	118,116 Series A preferred shares.	8/12/16	1%	\$ 163,000	\$ 163,000	0.5%
Athenex, Inc. (e)(g) (Formerly Kinex Pharmaceuticals, Inc.) Buffalo, NY. Specialty pharmaceutical and drug development. (Health Care) www.athenex.com	46,296 common shares.	9/8/14	<1%	143,285	416,664	1.3%
City Dining Cards, Inc. (Loupe) (e)(g) Buffalo, NY. Customer loyalty technology company that helps businesses attract and retain customers. (Software) www.loupeapp.io	9,525.25 Series B preferred shares.	9/1/15	4%	500,000	500,000	1.5%
eHealth Global Technologies, Inc. (g) Henrietta, NY. eHealth Connect® improves health care delivery through intelligently aggregated clinical record and images for patient referrals. (Health Care) www.ehealthtechnologies.com	\$1,500,000 term note at 9% due September 2, 2019.	6/28/16	0%	1,500,000	1,500,000	4.6%

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Empire Genomics, LLC (e)(g)	\$900,000 senior secured convertible term notes at 10% due April 1, 2017.	6/13/14	0%	900,000	900,000	3.5%
Buffalo, NY. Molecular diagnostics company that offers a comprehensive menu of assay services for diagnosing and guiding patient therapeutic treatments. (Health Care)	\$250,000 promissory note at 12% due December 31, 2019.					
www.empiregenomics.com	(i) Interest receivable \$200,339.			250,000	250,000	
	Total Empire			1,150,000	1,150,000	
GoNoodle, Inc. (g)	\$1,000,000 secured note at 12% due January 31, 2020, (1% Payment in Kind (PIK)).	2/6/15	<1%	1,019,101	1,019,101	3.1%
(Formerly HealthTeacher, Inc.)	Warrant for 47,324 Series C Preferred shares.			25	25	
Nashville, TN. Student engagement education software providing core aligned physical activity breaks. (Software)						
www.gonoodle.com	Total GoNoodle			1,019,126	1,019,126	
Mercantile Adjustment Bureau, LLC (g)	\$1,099,039 subordinated secured note at 13% (3% for the calendar year 2016) due October 30, 2017.	10/22/12	4%	1,090,690	1,090,690	3.3%
Williamsville, NY. Full service accounts receivable management and collections company.	(e) \$150,000 subordinated debenture at 8% due June 30, 2018.			150,000		
(Contact Center)	Warrant for 3.29% membership interests. Option for 1.5% membership interests.			97,625		
www.mercantilesolutions.com	Total Mercantile			1,338,315	1,090,690	
Outmatch Holdings, LLC (e)(g)	2,446,199 Class P1 Units.	11/18/10	4%	2,140,007	2,140,007	6.6%
(Chequed Holdings, LLC)	109,788 Class C1 Units.			5,489	5,489	
Dallas, TX. Web based predictive employee selection and reference checking. (Software)	Total Outmatch			2,145,496	2,145,496	

www.outmatch.com

<p>PostProcess Technologies LLC (e)(g) Buffalo, NY. Provides innovative solutions for the post-processing of additive manufactured 3D parts. (Manufacturing)</p>	<p>\$300,000 convertible promissory note at 5% due July 28, 2018.</p>	<p>7/25/16</p>	<p>0%</p>	<p>300,000</p>	<p>300,000</p>	<p>0.9%</p>
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www.postprocess.com

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

December 31, 2016 (Continued)

(a)	(b)	(c)	(d)(f)	Percent of Net Assets		
Company, Geographic Location, Business Description, (Industry) and Website	Date	Equity	Cost	Fair Value		
Rheonix, Inc. (e)	9,676 common shares.	10/29/09	4%	11,000	9.0%	
Ithaca, NY. Developer of fully automated microfluidic based molecular assay and diagnostic testing devices. (Health Care)	(g) 1,839,422 Series A preferred shares.			2,099,999	2,165,999	
	(g) 50,593 common shares.			702,732	702,732	
	(g) 589,420 Series B preferred shares.					
www.rheonix.com	Total Rheonix			2,802,731	2,938,731	
SocialFlow, Inc. (e)(g)	1,049,538 Series B preferred shares.	4/5/13	4%	500,000	731,431	6.3%
New York, NY. Provides instant analysis of social networks using a proprietary, predictive	1,204,819 Series B-1 preferred shares.			750,000	839,648	
	717,772 Series C preferred shares.			500,000	500,221	
analytic algorithm to optimize advertising and publishing. (Software)	Total Social Flow			1,750,000	2,071,300	
www.socialflow.com						
Somerset Gas Transmission Company, LLC (e)	26.5337 units.	7/10/02	3%	719,097	500,000	1.5%
Columbus, OH. Natural gas transportation. (Oil and Gas)						

www.somersetgas.com

Other Non-Control/Non-Affiliate Investments:

DataView, LLC (Software) (e)	Membership Interest.				310,357		0.0%
UStec/Wi3 (Manufacturing) (e)	Common Stock.				100,500		0.0%
Subtotal Non-Control/Non-Affiliate Investments					\$ 13,941,907	\$ 13,795,007	

Affiliate Investments 41.7% of net assets (k)

BeetNPath, LLC (Grainful) (e)(g)	1,119,024 Series A-2 Preferred Membership Units.	10/20/14	9%	\$ 359,000	\$ 359,000	1.6%	
Ithaca, NY. Frozen entrées and packaged dry side dishes made from 100% whole grain steel cut oats under Grainful brand name. (Consumer Product)	\$150,000 convertible promissory note at 8% due September 1, 2017.				150,000	150,000	
www.grainful.com							
Total BeetNPath					509,000	509,000	

Carolina Skiff LLC (g)	6.0825% Class A common membership interest.	1/30/04	7%	15,000	1,100,000	3.4%
Waycross, GA. Manufacturer of fresh water, ocean fishing and pleasure boats.						
(Manufacturing)						

www.carolinaskiff.com

ClearView Social, Inc. (e)(g)	312,500 Series seed plus preferred shares.	1/4/16	6%	200,000	200,000	0.6%
Buffalo, NY. Social media publishing tool for law, CPA and professional firms. (Software)						
www.clearviewsocial.com						

First Wave Products Group, LLC (e)(g)	\$500,000 senior term notes at 10% due January 31, 2017.	4/19/12	7%	661,563	250,000	0.8%
Batavia, NY. Sells First Crush automated pill crusher that crushes and grinds medical pills for nursing homes and medical institutions.	\$280,000 junior term notes at 10% due January 31, 2017.				316,469	
(Health Care)					22,000	

Warrant for 41,619
capital securities.

www.firstwaveproducts.com	Total First Wave			1,000,032	250,000	
Genicon, Inc. (g)	1,586,902 Series B preferred shares.	4/10/15	6%	1,000,000	1,000,000	8.3%
Winter Park, FL. Designs, produces and distributes patented surgical instrumentation.	\$1,100,000 promissory note at 12% due April 1, 2019.			1,100,000	1,100,000	
(Health Care) www.geniconendo.com	\$600,000 promissory note at 14% due March 31, 2018.			600,000	600,000	
	Total Genicon			2,700,000	2,700,000	
GiveGab, Inc. (e)(g)	5,084,329 Series Seed preferred shares.	3/13/13	7%	616,221	424,314	1.3%
Ithaca, NY. Online fundraising, day of giving supporter engagement software for non-profit organizations. (Software)						
www.givegab.com						

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Lincoln, MA. Online presentation and training software. (Software)	214,285 Series A-2 preferred shares.			300,000	300,000	
				165,001	165,001	
www.knowledgevision.com	129,033 Series A-3 preferred shares.			35,000	35,000	
	Warrant for 46,743 Series A-3 shares.					
	Total KnowledgeVision			750,001	500,001	

Mezmeriz, Inc. (e)(g)	1,554,565 Series Seed preferred shares.	1/9/08	14%	742,850	351,477	1.1%
Ithaca, NY. Micro-electronic mechanical systems (MEMS) developer of carbon fiber MEMS mirror modules for gesture recognition and 3D scanning. (Electronics Developer)						
www.mezmeriz.com						

Microcision LLC (g)	\$1,500,000 subordinated promissory note at 12% (1% PIK) due December 31, 2024.	9/24/09	15%			5.8%
Pennsauken Township, NJ. Manufacturer of precision machined medical implants, components and assemblies. (Manufacturing)				1,891,964	1,891,964	
www.microcision.com	15% Class A common membership interest.					
	Total Microcision			1,891,964	1,891,964	

New Monarch Machine Tool, Inc. (g)	22.84 common shares.	9/24/03	15%	22,841	22,841	0.1%
Cortland, NY. Manufactures and services vertical/horizontal machining centers. (Manufacturing)						
www.monarchmt.com						

OnCore Golf Technology, Inc. (e)(g)	150,000 Series AA preferred shares.	12/31/14	7%	375,000		0.9%
Buffalo, NY. Maker of patented hollow-metal core golf balls. (Consumer Product)	\$300,000 subordinated convertible promissory			300,000	300,000	
www.oncoregolf.com						

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notes at 6% due
January 24, 2017.

					675,000	300,000	
	Total OnCore						
SciAps, Inc. (e)(g)	187,500 Series A convertible preferred shares.	7/12/13	9%	1,500,000	1,000,000	6.3%	
Woburn, MA. Instrumentation company producing portable analytical devices using XRF, LIBS and RAMAN spectroscopy to identify compounds, minerals, and elements. (Manufacturing)	274,299 Series A-1 convertible preferred shares.			504,710	504,710		
www.sciaps.com	117,371 Series B convertible preferred shares.			250,000	250,000		
	\$200,000 subordinated convertible note at 10% due April 8, 2017.			200,000	200,000		
	\$100,000 secured subordinated convertible note at 10% due December 31, 2017.			100,000	100,000		
	Total SciAps			2,554,710	2,054,710		

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

December 31, 2016 (Continued)

(a)	(b)	(c)	(d)(f)	Percent	
Company, Geographic Location, Business Description, (Industry) and Website	Date	Acquired Equity	Cost	Fair Value	
Type of Investment	Cost	Value	Value	of Net Assets	
SOMS Technologies, LLC (g) Valhalla, NY. Produces and markets the microGreen Extended Performance Oil Filter. (Consumer Products) www.microgreenfilter.com	12/2/08	5,959,490 Series B membership interests.	472,632	528,348	1.6%
Teleservices Solutions Holdings, LLC (e) (g)(m) Montvale, NJ. Customer contact center specializing in customer acquisition and retention for selected industries. (Contact Center) www.ipacesetters.com	5/30/14	250,000 Class B preferred units. 1,000,000 Class C preferred units. 80,000 Class D preferred units. 104,198 Class E preferred units. PIK dividend for Series C and D at 12% and 14%, respectively.	250,000 1,190,680 91,200 104,198	200,000 91,200 104,198	1.2%
Tilson Technology Management, Inc.(g) Portland, ME. Cellular, fiber optic and wireless information systems, construction, and	1/20/15	120,000 Series B preferred shares. 21,391 Series C convertible preferred shares.	600,000 200,000 200,000	600,000 200,000 200,000	3.1%
Total Teleservices			1,636,078	395,398	

management. (Professional Services)	\$200,000			
www.tilsonotech.com	subordinated promissory note at 8% due September 28, 2021.			
	Total Tilson		1,000,000	1,000,000

Subtotal Affiliate Investments \$ 17,589,623 \$ 13,605,974

Control Investments 0.3% of net assets (I)

Advantage 24/7 LLC (e)(g)	53% Membership interest.	12/30/10	53%	\$ 99,500	\$ 99,500	0.3%
Williamsville, NY. Marketing program for wine and spirits dealers. (Marketing Company)						
www.advantage24-7.com						

Subtotal Control Investments \$ 99,500 \$ 99,500

TOTAL INVESTMENTS 84.3% \$ 31,631,030 \$ 27,500,481

OTHER ASSETS IN EXCESS OF 5,128,882

LIABILITIES 15.7%

NET ASSETS 100% \$ 32,629,363

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

December 31, 2016 (Continued)

Notes to the Consolidated Schedule of Portfolio Investments

(a) At December 31, 2016, restricted securities represented 100% of the fair value of the investment portfolio. Restricted securities are subject to one or more restrictions on resale and are not freely marketable.

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

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

(d) The Corporation's investments are carried at fair value in accordance with Accounting Standards Codification (ASC) 820 Fair Value Measurements and Disclosures, which defines fair value and establishes guidelines for measuring fair value. At December 31, 2016, ASC 820 designates 100% of the Corporation's investments as Level 3 assets. Under the valuation policy of the Corporation, unrestricted publicly held securities are valued at the average closing bid price for these securities for the last three trading days of the month. Restricted securities are subject to restrictions on resale, and are valued at fair value as determined by the management of the Corporation and submitted to the Board of Directors for approval. Fair value is considered to be the amount 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.

(f) As of December 31, 2016 the total cost of investment securities was approximately \$31.6 million. Net unrealized depreciation was approximately (\$4.1) million, which was comprised of \$1.9 million of unrealized appreciation of investment securities and (\$6.0) million of unrealized depreciation of investment securities. At December 31, 2016, the aggregate gross unrealized gain for federal income tax purposes was \$2.2 million and the aggregate gross unrealized loss for federal income tax purposes was (\$5.4) million. The net unrealized loss for federal income tax purposes was (\$3.3) million based on a tax cost of \$30.8 million.

(g) Rand Capital SBIC, Inc. investment.

(h) Reduction in cost and value from previously reported balances reflects current principal repayment. There were no principal repayments during the three months ended December 31, 2016.

(i) Represents interest due (amounts over \$50,000 net of reserves) from investment included as interest receivable on the Corporation's Statement of Financial Position.

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

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

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

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

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

December 31, 2016 (Continued)

Investments in and Advances to Affiliates

Company	Type of Investment	December 31, 2015 Fair Value	Gross Additions (1)	Gross Reductions (2)	December 31, 2016 Fair Value	Amount of Interest/ Dividend/ Fee Income (3)
Control Investments:						
Advantage 24/7 LLC	53% Membership interest.	\$ 99,500	\$	\$	\$ 99,500	\$
Gemcor II, LLC	\$1,000,000 subordinated promissory note at 15%.	416,972		(416,972)		11,828
	31.25 membership units.	13,400,000		(13,400,000)		2,000
	Escrow receivable due from sale of business.					
	Total Gemcor	13,816,972		(13,816,972)		13,828
	Total Control Investments	\$ 13,916,472	\$ 0	(\$ 13,816,972)	\$ 99,500	\$ 13,828
Affiliate Investments:						
BeetNPath, LLC	1,119,024 Series A-2 Preferred Membership Units.	\$ 359,000	\$	\$	\$ 359,000	\$
			150,000		150,000	6,477

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\$150,000
convertible
promissory note
at 8%.

		Total BeetNPath				
		359,000	150,000		509,000	6,477
Carolina Skiff LLC	6.0825% Class A common membership interest.	600,000	500,000		1,100,000	131,785
ClearView Social, Inc.	312,500 Series seed plus preferred shares.		200,000		200,000	
First Wave Products Group, LLC	\$500,000 senior term notes at 10%. \$280,000 junior term notes at 10%. Warrant for 41,619 capital securities.	250,000			250,000	834
	Total First Wave	250,000			250,000	834
Genicon, Inc.	1,586,902 Series B preferred shares.	1,000,000			1,000,000	3,028
	\$1,100,000 senior term loans at 12%.		1,100,000		1,100,000	109,700
	\$600,000 term loan at 14%.		600,000		600,000	28,700
	Total Genicon	1,000,000	1,700,000		2,700,000	141,428
GiveGab, Inc.	5,084,329 Series Seed preferred shares.	424,314			424,314	
G-TEC Natural Gas Systems	17.845% Class A membership	100,000			100,000	

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interest. 8%
cumulative
dividend.

Intrinsiq Materials, Inc.	4,161,747 Series A preferred shares.		780,000		780,000	
		95,000		(95,000)		6,689
	\$95,000 convertible promissory note at 8%.					
	Total Intrinsiq	95,000	780,000	(95,000)	780,000	6,689
Knoa Software, Inc.	973,533 Series A-1 convertible preferred shares.	381,503		(381,503)		
		490,752		(41,297)	449,455	
	1,876,922 Series B preferred shares.		48,466		48,466	2,499
	\$48,466 convertible promissory note at 8%.					
Total Knoa	872,255	48,466	(422,800)	497,921	2,499	
KnowledgeVision Systems, Inc.	200,000 Series A-1 preferred shares.				300,000	
		300,000				
	214,285 Series A-2 preferred shares.	165,001			165,001	
		35,000			35,000	
	129,033 Series A-3 preferred shares.					
Warrant for 46,743 Series A-3 shares.						
Total Knowledge Vision	500,001				500,001	

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Mezmeriz, Inc.	1,554,565 Series seed preferred shares.	351,477			351,477	
Microcision LLC	\$1,500,000 subordinated promissory note at 11%. 15% Class A common membership interest.	1,891,964			1,891,964	211,269
	Total Microcision	1,891,964			1,891,964	211,269
New Monarch Machine Tool, Inc.	22.84 common shares.	22,841			22,841	29,409
OnCore Golf Technology, Inc.	150,000 Series AA preferred shares.	187,500		(187,500)		
	\$300,000 subordinated convertible promissory notes at 6%.	150,000	150,000		300,000	17,186
	Total OnCore	337,500	150,000	(187,500)	300,000	17,186

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

December 31, 2016 (Continued)

Investments in and Advances to Affiliates

Company	Type of Investment	December 31, 2015 Fair Value	Gross Additions (1)	Gross Reductions (2)	December 31, 2016 Fair Value	Fee Income (3)	Amount of Interest/ Dividend/
Rheonix, Inc.	9,676 common shares.						
	1,839,422 Series A preferred shares.						
	50,593 common shares.	11,000		(11,000)			
		2,165,999		(2,165,999)			
	589,420 Series B preferred shares.	59,000		(59,000)			
	Total Rheonix		702,732		(702,732)		
	Total Rheonix		2,938,731		(2,938,731)		
SciAps, Inc.	187,500 Series A convertible preferred shares.	1,000,000			1,000,000		
		504,710			504,710		
	274,299 Series A-1 convertible preferred shares.	250,000		200,000	200,000	14,611	
				100,000	100,000	2,555	
	117,371 Series B preferred shares.						

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\$200,000
subordinated
promissory note at
10%.

\$100,000 secured
subordinated
convertible note at
10%.

Total SciAps 1,754,710 300,000 2,054,710 17,166

SOMS Technologies, LLC 5,959,490 Series B membership interests. 528,348 528,348 13,464

Statisfy, Inc. 65,000 Series seed preferred shares.

Warrant for 1,950,000 Series seed preferred shares. 20,968 (20,968)

629,032 (629,032)

Total Statisfy 650,000 (650,000)

Teleservices Solutions Holdings, LLC 250,000 Class B shares.

1,000,000 Class C shares.

80,000 Class D preferred units. 1,190,680 (990,680) 200,000

91,200 91,200

104,198 Class E preferred units. 104,198 104,198

Total Teleservices 1,386,078 (990,680) 395,398

Tilson Technology Management, Inc. 12 Series B preferred shares. 600,000 600,000 16,250

200,000 200,000

21,390 Series C convertible preferred shares. 200,000 200,000 4,164

\$200,000 subordinated promissory note at

8%.

Total Tilson	600,000	400,000		1,000,000	20,414
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Total Affiliate Investments	\$ 14,662,219	\$ 4,228,466	(\$ 5,284,711)	\$ 13,605,974	\$ 598,620
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Total Control and Affiliate Investments	\$ 28,578,691	\$ 4,228,466	(\$ 19,101,683)	\$ 13,705,474	\$ 612,448
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This schedule should be read in conjunction with the Corporation's Consolidated Financial Statements, including the Consolidated Schedule of Portfolio Investments and Notes to the Consolidated Financial Statements.

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

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

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

Table of Contents**RAND CAPITAL CORPORATION AND SUBSIDIARY**
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**December 31, 2016 (Continued)**

Industry Classification	Percentage of Total Investments (at fair value) as of December 31, 2016
Healthcare	32.6%
Software	27.3%
Manufacturing	22.7%
Contact Center	5.4%
Consumer Product	4.9%
Professional Services	3.6%
Oil and Gas	1.8%
Electronics	1.3%
Marketing	0.4%
Total Investments	100%

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Rand Capital Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

For the Six Months Ended June 30, 2017 and 2016

(Unaudited)

Note 1. ORGANIZATION

Rand Capital Corporation (Rand) was incorporated under the laws of New York in February 1969. We completed our initial public offering in 1971 as an internally managed, closed-end, diversified, management investment company. We have elected to be treated as a business development company (BDC) under the Investment Company Act of 1940, as amended (the 1940 Act). As a BDC, we are required to comply with certain regulatory requirements. For instance, we generally have to invest at least 70% of our total assets in qualifying assets and provide managerial assistance to the portfolio companies in which we invest. See Item 1. Business Regulation, Regulation as a Business Development Company in our Annual Report on Form 10-K for the year ended December 31, 2016.

We have historically made the majority of our venture capital investments through our wholly-owned subsidiary, Rand Capital SBIC, Inc. (Rand SBIC), which operates as a small business investment company (SBIC) and has been licensed by the U.S. Small Business Administration (SBA) since 2002. Rand SBIC s predecessor was organized as a Delaware limited partnership and was converted into a New York corporation on December 31, 2008, at which time our operations as a licensed SBIC were continued. Although Rand SBIC was operated as if it were a BDC, it was registered as an investment company under the 1940 Act. In 2012, the SEC granted an Order of Exemption for Rand with respect to the operations of Rand SBIC, and then Rand SBIC filed an election to be regulated as a BDC under the 1940 Act. Rand SBIC s board of directors is comprised of the directors of Rand, a majority of whom are not interested persons of Rand or Rand SBIC.

Responding to our request submitted during 2016, the SBA issued a green light or go forth letter authorizing Rand to continue its application process to obtain a license to form and operate a second SBIC subsidiary. The application for the new SBIC fund was filed with the SBA in April 2017 and is currently under review by the SBA. We expect our new SBIC subsidiary will continue our investment strategy of focusing on privately-held, early stage and emerging growth businesses with proven management teams. Our initial wholly-owned subsidiary, Rand SBIC, has historically been our primary investment vehicle since its formation and, once approved by the SBA, we expect to continue this investment strategy through our new SBIC subsidiary. Under the SBA s pre-licensing approval protocols, we have begun investing from this second fund.

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

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

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

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation It is our opinion that the accompanying consolidated financial statements include all adjustments of a normal recurring nature necessary for a fair presentation in accordance with United States generally accepted accounting principles (GAAP) of the consolidated financial position, results of

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operations, cash flows and statement of changes in net assets for the interim periods presented. Certain information and note disclosures normally included in audited annual consolidated financial statements prepared in accordance with GAAP have been omitted; however, we believe that the disclosures made are adequate to make the information presented herein not misleading. Our interim results for the six months ended June 30, 2017 are not necessarily indicative of the results for the full year.

These statements should be read in conjunction with the consolidated financial statements and the notes included in our Annual Report on Form 10-K for the year ended December 31, 2016. Information contained in this filing should also be reviewed in conjunction with our related filings with the SEC prior to the date of this report. Those filings include, but are not limited to, the following:

- N-54A Election to Adopt Business Development Company status
- DEF-14A 2017 Definitive Proxy Statement submitted to shareholders
- Form 10-K Annual Report on Form 10-K for the year ended December 31, 2016
- Form 10-Q Quarterly Report on Form 10-Q for the quarter period ended March 31, 2017

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

Reclassification Certain balances in prior years were reclassified to conform to presentations adopted in 2017.

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 maturity of these financial instruments.

Fair Value of SBA Debentures In March 2017, the SBIC Funding Corporation completed a pooling of SBA debentures that have a coupon rate of 2.845%, excluding a mandatory SBA annual charge estimated to be 0.804%, resulting in a total estimated fixed rate for ten years of 3.649%. The carrying value of Rand's SBA debentures is a reasonable estimate of fair value because their stated interest rates approximate current interest rates that are available for debt with similar terms.

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

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

that would have been used had a ready market for the investments existed and these differences could be material if the Corporation's assumptions and judgments differ from results of actual liquidation events.

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

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 following investments remain on non-accrual status: G-TEC Natural Gas Systems (G-Tec), First Wave Products Group, LLC (First Wave) and a portion of the Mercantile Adjustment Bureau, LLC (Mercantile) outstanding loan balance.

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

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

The Corporation may hold preferred equity securities that contain cumulative dividend provisions. Cumulative dividends are recorded as dividend income, if declared and deemed collectible, and any dividends in arrears are 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 amortization of financing fees charged to the portfolio companies upon successful closing of Rand SBIC financings and income associated with portfolio company board attendance fees. The income associated with the amortization of financing fees was \$14,621 and \$9,096 for the six months ended June 30, 2017 and 2016, respectively. The board fees were \$1,000 and \$2,000 for the six months ended June 30, 2017 and 2016, respectively.

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

Original Issue Discount Investments may include original issue discount or OID income. This occurs when the Corporation purchases a warrant and a note from a portfolio company simultaneously, which requires an allocation of a portion of the purchase price to the warrant and reduces the note or debt instrument by an equal amount in the form of a note discount or OID. The note is reported net of the OID and the OID is accreted into interest income over the life of the loan. The Corporation recognized \$8,395 and \$4,998 in OID income for the six months ended June 30, 2017 and 2016. OID income is estimated to be approximately \$25,000 for the remainder of 2017.

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Deferred Debenture Costs SBA debenture origination and commitment costs, which are netted against the debenture obligation (See Note 6 SBA Debentures), will be amortized ratably over the terms of the SBA debentures. Amortization expense was \$13,700 for each of the six months ended June 30, 2017 and 2016. Amortization expense on currently outstanding debentures for the next five years is estimated to average approximately \$27,000 per year.

SBA Debenture The Corporation had \$8,000,000 in outstanding SBA debentures at June 30, 2017 and December 31, 2016 with a weighted average interest rate of 3.54% as of June 30, 2017. The debentures are presented net of deferred debenture costs (see Note 6). The \$8,000,000 in outstanding SBA leverage matures from 2022 through 2025.

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

Net Assets per Share Net assets per share are based on the number of shares of common stock outstanding. We do not have any common stock equivalents outstanding.

Supplemental Cash Flow Information Income taxes paid during the six months ended June 30, 2017 and 2016, net of refunds, was \$587,840 and \$1,216,250, respectively. Interest paid during the six months ended June 30, 2017 and 2016 was \$140,275 and \$141,050, respectively. The Corporation converted \$53,294 and \$5,051 of interest receivable into investments during the six months ended June 30, 2017 and 2016, respectively.

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

Stockholders' Equity (Net Assets) At June 30, 2017 and December 31, 2016, there were 500,000 shares of \$10.00 par value preferred stock authorized and unissued.

On October 19, 2016, the Board of Directors extended the repurchase authorization for up to 1,000,000 shares of the Corporation's outstanding common stock on the open market through October 19, 2017 at prices that are no greater than the then current net asset value. No shares were repurchased during the six months ended June 30, 2017 or June 30, 2016. At June 30, 2017, the total treasury shares held was 541,046 shares with a total cost of \$1,469,105.

Profit Sharing and Stock Option Plan In 2001, the stockholders of the Corporation authorized the establishment of an Employee Stock Option Plan (the Option Plan), that provides for the award of stock options to purchase up to 200,000 common shares to eligible employees. In 2002, the Corporation placed the Option Plan on inactive status as it developed a new profit sharing plan for the Corporation's employees in connection with the formation of its SBIC subsidiary. As of June 30, 2017, no stock options had been awarded under the Option Plan. Because Section 57(n) of the 1940 Act prohibits maintenance of a profit sharing plan for the officers and employees of a BDC where any option, warrant or right is outstanding under an executive compensation plan, no stock options will be granted under the Option Plan while any profit sharing plan is in effect with respect to the Corporation.

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

There were no amounts earned pursuant to the Plan for the six months ended June 30, 2017. The Corporation had accrued \$1,411,659 under the Plan for the six months ended June 30, 2016. Estimated payroll taxes and benefits on the profit sharing under the Plan were also accrued at June 30, 2016. The amounts accrued did not exceed the defined limits under the Plan. At December 31, 2016, the Corporation's final approved and accrued amount was \$1,270,052 under the Plan, of which \$1,138,052 was paid during the six months ended June 30, 2017.

Income Taxes The Corporation reviews the tax positions it has taken to determine if they meet a more likely than not threshold for the benefit of the tax position to be recognized in the consolidated financial statements. A tax position that fails to meet the more likely than not recognition threshold will result in either a reduction of a current or deferred tax asset or receivable, or the recording of a current or deferred tax liability. There were no new uncertain tax positions recorded at June 30, 2017.

It is the Corporation's policy to include interest and penalties related to income tax liabilities in income tax expense. There were no amounts recognized for interest or penalties related to tax expense for the six months ended June 30, 2017 or 2016.

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

At June 30, 2017, Genicon, Inc. (Genicon), eHealth Global Technologies, Inc. (eHealth), Rheonix, Inc. (Rheonix), Outmatch (formerly Chequed Holdings, LLC) (Outmatch) and Social Flow, Inc. (Social Flow) represented 13%, 12%, 10%, 7% and 7%, respectively, of the fair value of the Corporation's investment portfolio.

Note 3. INVESTMENTS

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

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

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

Loan and debt securities are valued at cost when it is representative of the fair value of the investment or sufficient assets or liquidation proceeds are expected to exist from a sale of a portfolio company at

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its estimated fair value. However, they may be valued at an amount other than the price the security would command given the rate and 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 and all other debt 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 all other debt securities, the Corporation may discount the value of such securities. The market approach uses observable prices and other relevant information generated by similar market transactions. It may include the use of market multiples derived from a set of comparables to assist in pricing the investment. Additionally, the Corporation adjusts valuations if a subsequent significant equity financing has occurred that includes a meaningful portion of the financing by a sophisticated, unrelated new investor. The income approach employs a cash flow and discounting methodology to value an investment.

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

Level 1: Quoted prices in active markets for identical assets or liabilities, used in the Corporation's valuation at the measurement date.

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

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

Financial assets are categorized based upon the level of judgment associated with the inputs used to measure their fair value.

Any changes in estimated fair value are recorded in the statement of operations as Net (decrease) increase in unrealized depreciation or appreciation on investments.

Under the valuation policy, the Corporation values unrestricted publicly traded companies, categorized as Level 1 investments, at the average closing bid price for the last three trading days of the reporting period. There were no such Level 1 investments as of June 30, 2017. The Corporation did have one portfolio company, Athenex, that completed an Initial Public Offering during the second quarter of 2017 and the shares of the common stock of Athenex, owed by the Corporation, were categorized as a Level 2 investment because these shares were subject to restriction on sale as of the end of the period. The Corporation valued the common stock of Athenex stock that it owns using the average closing bid price for the last three trading days of the reporting period, and applied a discount to that value to address the sale restriction.

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;

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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 occurrences that may have an impact (both positive and negative) on the operating performance of the portfolio company;

Qualitative assessment of key management;

Contractual rights, obligations or restrictions associated with the investment; and

Other factors deemed relevant by the Corporation's management to assess valuation.

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

Equity Securities

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

The significant unobservable inputs used in the fair value measurement of the Corporation's equity investments are earnings before interest, tax and depreciation and amortization (EBITDA) and revenue multiples, where applicable, the financial and operational performance of the business, and the 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 to the unobservable inputs, such as variances in financial performance from expectations, may result in a significantly higher or lower fair value measurement. Significant changes in any of these unobservable inputs may result in a significantly higher or lower fair value estimate.

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

When appropriate the Black-Scholes pricing model is used to estimate the fair value of warrants for accounting purposes. This model requires the use of highly subjective inputs including expected volatility and expected life, in

addition to variables for the valuation of minority equity positions in small private and early stage companies. Significant changes in any of these unobservable inputs may result in a significantly higher or lower fair value estimate.

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

Loan and Debt Securities

The significant unobservable inputs used in the fair value measurement of the Corporation's 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 debt securities. Fair value may also be determined based on other criteria where appropriate. Significant changes to the unobservable inputs may

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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 market value inputs are identified causing the Corporation to depart from this basis.

The following table provides a summary of the significant unobservable inputs used to determine the fair value of the Corporation's Level 3 portfolio investments as of June 30, 2017:

Investment Type	Market Approach EBITDA Multiple	Market Approach Liquidation Seniority	Market Approach Revenue Multiple	Market Approach Transaction Pricing	Black Scholes Pricing Model	Asset Approach Liquidation Method	Totals
Non-Control/Non-Affiliate Equity	\$ 945,688	\$	\$ 2,071,325	\$ 5,866,583	\$	\$	\$ 7,937,908
Non-Control/Non-Affiliate Debt			5,674,203			300,000	6,919,891
Total Non-Control/Non-Affiliate	945,688		7,745,528	5,866,583		300,000	14,857,799
Affiliate Equity	1,628,348	22,841	3,078,440	3,405,791	120,000	800,000	9,055,420
Affiliate Debt	1,904,605		648,466	2,883,397		200,000	5,636,468
Total Affiliate	3,532,953	22,841	3,726,906	6,289,188	120,000	1,000,000	14,691,888
Control Equity			99,500				99,500
Control Debt							
Total Control			99,500				99,500
Total Level 3 Investments	\$ 4,478,641	\$ 22,841	\$ 11,571,934	\$ 12,155,771	\$ 120,000	\$ 1,300,000	\$ 29,649,187
Range	4.8X-6.7X	1X	0.5X-10.3X	Not Applicable	Not Applicable	Not Applicable	
Unobservable Input	EBITDA Multiple	Asset Value	Revenue Multiple	Transaction Price	Exercise Price	Asset Value	
Weighted Average	5.9X	1X	3.1X	Not Applicable	Not Applicable	Not Applicable	

The following table provides a summary of the components of Level 1, 2 and 3 Assets Measured at Fair Value at June 30, 2017:

**Fair Value Measurements at Reported Date
Using**

Description	Quoted Prices in Active Markets for Identical Assets			Significant Observable Inputs		Other Significant Unobservable Inputs
	June 30, 2017	(Level 1)		(Level 2)	(Level 3)	
Loan investments	\$ 3,550,000	\$		\$		\$ 3,550,000
Debt investments	9,006,359					9,006,359
Equity investments	17,706,828			614,000		17,092,828
Total	\$ 30,263,187	\$		\$ 614,000		\$ 29,649,187

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The following table provides a summary of the components of Level 1, 2 and 3 Assets Measured at Fair Value at December 31, 2016:

Description	Fair Value Measurements at Reported Date Using			
	December 31, 2016	Quoted Prices in Active Markets for Identical Assets		Other Significant Unobservable Inputs
		(Level 1)	Significant Observable Inputs (Level 2)	(Level 3)
Loan investments	\$ 3,200,000	\$	\$	\$ 3,200,000
Debt investments	6,700,221			6,700,221
Equity investments	17,600,260			17,600,260
Total	\$ 27,500,481	\$	\$	\$ 27,500,481

The following table provides a summary of changes in Assets Measured at Fair Value Using Significant Unobservable Inputs (Level 3) for the quarter ended June 30, 2017:

Description	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Venture Capital Investments			
	Loan Investments	Debt Investments	Equity Investments	Total
Ending Balance, December 31, 2016, of Level 3 Assets	\$ 3,200,000	\$ 6,700,221	\$ 17,600,260	\$ 27,500,481
Unrealized Gains and Losses included in net change in net assets from operations:				
ACV Auctions, Inc. (ACV Auctions)			119,356	119,356
Athenex, Inc. (Athenex)			197,336	197,336
BeetNPath, LLC (Beetnpath)			29,723	29,723
City Dining Cards, Inc. (Loupe)			(500,000)	(500,000)
Mercantile Adjustment Bureau, LLC (Mercantile)		(250,000)		(250,000)
SciAps, Inc. (Sciaps)			(300,000)	(300,000)
Teleservices Solutions Holdings, LLC (Teleservices)			(395,398)	(395,398)
Total Unrealized Gains and Losses		(250,000)	(848,983)	(1,098,983)
Purchases of Securities/Changes to Securities/Non-cash conversions:				
Beetnpath		100,000	11,277	111,277
eHealth Global Technologies, Inc. (eHealth)	2,000,000			2,000,000
Genicon, Inc. (Genicon)	300,000	883,397	120,000	1,303,397
GoNoodle, Inc. (GoNoodle)		5,102		5,102
KnowledgeVision Systems, Inc. (Knowledge Vision)	50,000			50,000

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Mercantile		104,998		104,998
Microcision LLC (Microcision)		12,641		12,641
Sciaps			274,274	274,274
<i>Total Purchases of Securities/Changes to Securities/Non-cash conversions</i>	2,350,000	1,106,138	405,551	3,861,689
Transfers within Level 3	(2,000,000)	1,450,000	550,000	
Transfers out of Level 3			(614,000)	(614,000)
Ending Balance, June 30, 2017, of Level 3 Assets	\$ 3,550,000	\$ 9,006,359	\$ 17,092,828	\$ 29,649,187
Change in unrealized depreciation on investments for the period included in changes in net assets				\$ (1,296,319)
Net realized gain on investments for the period included in changes in net assets				\$

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The following table provides a summary of changes in Assets Measured at Fair Value Using Significant Unobservable Inputs (Level 3) for the six months ended June 30, 2016:

Description	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Venture Capital Investments			
	Loan Investments	Debt Investments	Equity Investments	Total
Ending Balance, December 31, 2015, of Level 3 Assets	\$ 416,972	\$ 5,076,632	\$ 31,338,796	\$ 36,832,400
<u>Realized Gains included in net change in net assets from operations:</u>				
Gemcor II, LLC (Gemcor)			13,176,313	13,176,313
Total Realized Gains			13,176,313	13,176,313
<u>Unrealized Gains and Losses included in net change in net assets from operations:</u>				
Athenex, Inc. (Athenex)			69,444	69,444
Gemcor			(11,362,500)	(11,362,500)
Knoa Software, Inc. (Knoa)			(422,800)	(422,800)
Satisfy, Inc. (Satisfy)			(325,000)	(325,000)
Total Unrealized Gains and Losses			(12,040,856)	(12,040,856)
<u>Purchases of Securities/Changes to Securities/Non-cash conversions:</u>				
BeetNPath, LLC (Beetnpath)		150,000		150,000
ClearView Social, Inc. (Clearview Social)			200,000	200,000
eHealth Global Technologies, Inc. (eHealth)	1,500,000			1,500,000
Empire Genomics, LLC (Empire Genomics)		550,000		550,000
Genicon, Inc. (Genicon)	1,100,000			1,100,000
GoNoodle, Inc. (GoNoodle)		5,051		5,051
Knoa Software, Inc. (Knoa)		48,466		48,466
Mercantile Adjustment Bureau, LLC (Mercantile)		4,998		4,998
OnCore Golf Technology, Inc. (Oncore Golf)		150,000		150,000
SciAps, Inc. (Sciaps)		200,000		200,000
Total Purchases of Securities/Changes to Securities/Non-cash conversions	2,600,000	1,108,515	200,000	3,908,515
<u>Repayments and Sale of Securities:</u>				
Gemcor	(416,972)		(13,801,313)	(14,218,285)
Total Repayments and Sale of Securities	(416,972)		(13,801,313)	(14,218,285)
Ending Balance, June 30, 2016, of Level 3 Assets	\$ 2,600,000	\$ 6,185,147	\$ 18,872,940	\$ 27,658,087

Change in unrealized appreciation on investments for the period included in changes in net assets	\$ (12,040,856)
Net realized gain on investments for the period included in changes in net assets	\$ 13,344,453

Table of Contents**NOTE 4. OTHER ASSETS**

At June 30, 2017 and December 31, 2016, other assets was comprised of the following:

	June 30, 2017 (Unaudited)	December 31, 2016
Escrow receivable from Gemcor II LLC (Gemcor)	\$ 550,000	\$ 1,100,000
Prepaid expenses	53,227	6,758
Dividend receivable		34,101
Equipment (net)	4,523	6,523
Operating receivables	764	1,126
 Total other assets	 \$ 608,514	 \$ 1,148,508

During the first quarter of 2016, Gemcor II, LLC sold its assets, and \$1,100,000 of the proceeds were held in escrow, subject to potential claims. During the first quarter of 2017, \$550,000 of the Gemcor escrow receivable was released and the remainder is expected to be released during 2017.

Note 5. COMMITMENTS AND CONTINGENCIES

The Corporation did not have any commitments to fund any investments as of June 30, 2017.

Note 6. SBA DEBENTURES

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

	June 30, 2017 (Unaudited)	December 31, 2016
Debentures guaranteed by the SBA	\$ 8,000,000	\$ 8,000,000
Less unamortized issue costs	(158,527)	(172,227)
 Debentures guaranteed by the SBA, net	 \$ 7,841,473	 \$ 7,827,773

Note 7. FINANCIAL HIGHLIGHTS

The following schedule provides the financial highlights, calculated based on weighted average shares outstanding, for the six months ended June 30, 2017 and the year ended December 31, 2016:

Six months ended June 30, 2017 (Unaudited)	Year ended December 31,
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	2016	
Income from investment operations (1):		
Investment income	\$ 0.11	\$ 0.16
Operating expenses	0.18	0.54
Investment loss before income taxes	(0.07)	(0.38)
Income tax benefit	(0.03)	(0.13)
Net investment loss	(0.04)	(0.25)
Net realized and unrealized (loss) gain on investments	(0.12)	0.06
Decrease in net asset value	(0.16)	(0.19)
Net asset value, beginning of period	5.16	5.35

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Net asset value, end of period	\$ 5.00	\$ 5.16
Per share market price, end of period	\$ 2.79	\$ 3.16
Total return based on market value	(11.7%)	(16.1%)
Total return based on net asset value	(3.05%)	(3.62%)
Supplemental data:		
Ratio of operating expenses before income taxes to average net assets	3.50%	10.23%
Ratio of operating expenses including income taxes to average net assets	1.79%	8.48%
Ratio of net investment loss to average net assets	(0.85%)	(3.62%)
Portfolio turnover	13.2%	18.4%
Net assets, end of period	\$ 31,634,545	\$ 32,629,363
Weighted shares outstanding, end of period	6,321,988	6,325,792

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

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

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

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

FORWARD LOOKING STATEMENTS

Statements included in this Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this report that do not relate to present or historical conditions are forward-looking statements within the meaning of that term in Section 27A of the Securities Act of 1933, as amended, and in Section 21E of the Securities Exchange Act of 1934, as amended. Additional oral or written forward-looking statements may be made by us from time to time, and forward-looking statements may be included in documents that are filed with the Securities and Exchange Commission. Forward-looking statements involve risks and uncertainties that could cause our results or outcomes to differ materially from those expressed in the forward-looking statements. Forward-looking statements may include, without limitation, statements relating to our plans, strategies, objectives, expectations and intentions and are intended to be made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Words such as believes, forecasts, intends, possible, expects, estimates, anticipates, or plans and similar are intended to identify forward-looking statements. Among the important factors on which such statements are based are assumptions concerning the state of the United States economy and the local markets in which our portfolio companies operate, the state of the securities markets in which the securities of our portfolio companies could be traded, liquidity within the United States financial markets, and inflation. Forward-looking statements are also subject to the risks and uncertainties described under the caption Risk Factors contained in Part II, Item 1A of this report and in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016.

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 internally managed investment company that lends to and invests in small companies. 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 as provided for in the 1940 Act and the rules and regulations promulgated thereunder. We have historically made the majority of our investments through our wholly-owned subsidiary, Rand Capital SBIC, Inc. (Rand SBIC), which is our first small business investment company (SBIC) and has been licensed by the U.S. Small Business Administration (SBA) since 2002.

Responding to our request submitted during 2016, the U.S. Small Business Administration (SBA) issued a green light or go forth letter authorizing Rand to continue our application process to obtain a license to form and operate a second SBIC subsidiary and create a new SBIC fund. We filed our application for our second SBIC fund in April 2017 and it is currently under review by the SBA. We funded this new SBIC with \$7.5 million of our cash and combined with \$15 million of expected SBA leverage will create a new \$22.5 million SBIC fund. We also expect our new SBIC subsidiary will continue our investment strategy of focusing on privately-held, early stage and emerging growth businesses with proven management teams. Our initial wholly-owned subsidiary, Rand SBIC, has historically been

our primary investment vehicle since its formation and, once approved by the SBA, we expect to continue this investment strategy through our new SBIC subsidiary. Under the SBA's pre-licensing approval protocols, we have begun investing from this second fund.

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Outlook

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

We expect that well run businesses will require capital to grow and should be able to compete effectively given the low cost of capital, strong business and consumer spending, and eager reception of new technologies and service concepts.

Given our increased scale we are able to invest larger amounts in companies, which will provide an opportunity to accelerate our rate of growth.

We continue to manage risk by investing with other investors, when possible.

We are actively involved with the governance and management of our portfolio companies, which enables us to support their operating and marketing efforts and facilitate their growth.

As our portfolio continues to expand, we are able to better leverage our infrastructure.

We have sufficient cash to invest in new opportunities and to repurchase shares for the treasury. At quarter end, we had authorization to repurchase an additional 458,954 shares of our common stock. However, our prioritized use of cash continues to be growing our portfolio.

Critical Accounting Policies

We prepare our consolidated financial statements in accordance with United States generally accepted accounting principles (GAAP), which require the use of estimates and assumptions that affect the reported amounts of assets and liabilities. A summary of our critical accounting policies can be found in our Annual Report on Form 10-K for the year ended December 31, 2016 under Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations.

Table of Contents**Financial Condition**

Overview:	6/30/17	12/31/16	(Decrease)	% (Decrease)
Total assets	\$ 39,819,487	\$ 42,418,530	\$ (2,599,043)	(6.1%)
Total liabilities	8,184,942	9,789,167	(1,604,225)	(16.4%)
Net assets	\$ 31,634,545	\$ 32,629,363	\$ (994,818)	(3.0%)

Net asset value per share (NAV) was \$5.00 at June 30, 2017 and \$5.16 at December 31, 2016.

Our gross outstanding SBA debentures at June 30, 2017 were \$8,000,000 and will mature from 2022 through 2025. Cash approximated 21% of net assets at June 30, 2017 as compared to 38% at December 31, 2016.

Composition of Our Investment Portfolio

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

	6/30/17	12/31/16	Increase (Decrease)	% Increase (Decrease)
Investments, at cost	\$ 35,492,719	\$ 31,631,030	\$ 3,861,689	12.2%
Unrealized depreciation, net	(5,229,532)	(4,130,549)	(1,098,983)	(26.6%)
Investments at fair value	\$ 30,263,187	\$ 27,500,481	\$ 2,762,706	10.0%

Our total investments at fair value, as estimated by management and approved by our Board of Directors, approximated 96% of net assets at June 30, 2017 versus 84% of net assets at December 31, 2016.

The change in investments during the six months ended June 30, 2017, at cost, is comprised of the following:

	Cost Increase (Decrease)
New investments:	
eHealth Global Technologies, Inc. (eHealth)	\$ 2,000,000
Genicon, Inc. (Genicon)	1,300,000
SciAps, Inc. (Sciaps)	250,000
Mercantile Adjustment Bureau, LLC (Mercantile)	100,000
BeetNPath, LLC (Beetnpath)	100,000
KnowledgeVision Systems, Inc. (Knowledge Vision)	50,000
Total of new investments	3,800,000
Other changes to investments:	

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Sciaps interest conversion	24,274
Microcision LLC (Microcision) interest conversion	12,641
Beetnpath interest conversion	11,277
GoNoodle, Inc. (GoNoodle) interest conversion	5,102
Mercantile OID amortization	4,998
Genicon OID amortization	3,397
Total of other changes to investments	61,689
Net change in investments, at cost	\$ 3,861,689

Table of Contents**Results of Operations****Investment Income**

On a long-term basis, our investment objective is to realize capital appreciation on our equity investments while investing in a mixture of loan, debenture and equity instruments. Our near-term focus is to provide a current return on a portion of the investment portfolio to cover our expenses.

Comparison of the six months ended June 30, 2017 to the six months ended June 30, 2016

	June 30, 2017	June 30, 2016	Increase (Decrease)	% Increase (Decrease)
Interest from portfolio companies	\$ 523,731	\$ 301,035	\$ 222,696	74.0%
Interest from other investments	17,834	21,709	(3,875)	(17.8%)
Dividend and other investment income	120,590	80,797	39,793	49.3%
Fee income	15,621	11,096	4,525	40.8%
Total investment income	\$ 677,776	\$ 414,637	\$ 263,139	63.5%

Interest from portfolio companies Interest from portfolio companies was 74% higher during the first six months of 2017 versus the same period in 2016 due to several investments made in the form of debt instruments in 2016 and 2017. These new debt instruments were originated from Genicon Inc. (Genicon), eHealth Global Technologies, Inc. (eHealth), Empire Genomics, LLC (Empire Genomics) and several other portfolio companies.

The following investments remain on non-accrual status: G-TEC Natural Gas Systems (G-Tec), First Wave Products Group, LLC (First Wave) and a portion of the Mercantile Adjustment Bureau, LLC (Mercantile) outstanding loan balance.

Interest from other investments The decrease in interest from other investments is primarily due to lower average cash balances during the six months ended June 30, 2017 versus the same period in 2016.

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

	June 30, 2017	June 30, 2016
Carolina Skiff LLC (Carolina Skiff)	\$ 99,373	\$ 63,583
Tilson Technology Management, Inc. (Tilson)	10,000	3,750
SOMS Technologies, LLC (SOMS)	6,024	13,464
Empire Genomics LLC (Empire Genomics)	5,193	

Total dividend and other investment income	\$ 120,590	\$ 80,797
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Fee income Fee income consists of the revenue associated with the amortization of financing fees charged to the portfolio companies upon successful closing of Rand SBIC financings and income from portfolio company board attendance 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 \$14,621 and \$9,096 for the six months ended June 30, 2017 and 2016, respectively. The income from board fees was \$1,000 and \$2,000 for the six months ended June 30, 2017 and 2016, respectively.

Table of Contents**Operating Expenses*****Comparison of the six months ended June 30, 2017 to the six months ended June 30, 2016***

	June 30, 2017	June 30, 2016	Decrease	% Decrease
Total operating expenses	\$ 1,123,572	\$ 2,428,752	\$ (1,305,180)	(53.7%)

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

The decrease in operating expenses during the six months ended June 30, 2017 versus the same period in 2016 was primarily caused by a decrease of \$1,411,659 in bonus and profit sharing expense. However, we incurred higher professional fees during the six months ended June 30, 2017 that were associated with the formation of our new SBIC fund.

Gemcor II, LLC (Gemcor), previously our largest portfolio company in terms of fair value, sold its assets in March 2016 and based on our ownership percentage, we received gross cash proceeds of approximately \$13.8 million, excluding an escrow receivable, and realized a gain, before income taxes, of approximately \$13.2 million from the sale. Related to this sale, we expensed \$1,411,659 under our Profit Sharing Plan during the six months ended June 30, 2016. There were no amounts earned pursuant to the Profit Sharing Plan for the six months ended June 30, 2017.

Realized Gains and Losses on Investments***Comparison of the six months ended June 30, 2017 to the six months ended June 30, 2016***

	June 30, 2017	June 30, 2016	Decrease
Realized gain on investments before income taxes	\$	\$ 13,344,453	\$ (13,344,453)

There were no realized gains or losses during the six months ended June 30, 2017.

During the six months ended June 30, 2016, our portfolio company Gemcor II, LLC sold its assets and accordingly, we received gross cash proceeds of approximately \$13.8 million, excluding an escrow receivable, and recognized a realized gain, before income taxes, of \$13.2 million from the sale. In addition, we recorded a realized gain of \$168,140 during the second quarter of 2016 from an earn out provision in connection with the 2014 sale of QuaDPharma, LLC to Athenex, Inc.

Change in Unrealized Depreciation or Appreciation of Investments***Comparison of the six months ended June 30, 2017 to the six months ended June 30, 2016***

	June 30, 2017	June 30, 2016	Increase
	\$ (1,098,983)	\$ (12,040,856)	\$ 10,941,873

Change in unrealized depreciation or
appreciation before income taxes

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The change in unrealized depreciation, before income taxes, for the six months ended June 30, 2017 was comprised of the following:

	June 30, 2017
City Dining Cards, Inc. (Loupe)	\$ (500,000)
Teleservices Solutions Holdings, LLC (Teleservices)	(395,398)
SciAps, Inc. (Sciaps)	(300,000)
Mercantile Adjustment Bureau, LLC (Mercantile)	(250,000)
Athenex, Inc. (Athenex)	197,336
ACV Auctions, Inc. (ACV)	119,356
BeetNPath, LLC (Beetnpath)	29,723
Total change in net unrealized depreciation of investments before income taxes during the six months ended June 30, 2017	\$ (1,098,983)

The valuations of our investments in Loupe, Mercantile and Teleservices were decreased after we reviewed each portfolio company and its current and projected financial condition and determined that a valuation adjustment was necessary.

The valuation of Sciaps was decreased to revalue our equity holdings based upon the liquidation preferences of our securities as compared to the most recent equity round of financing completed by Sciaps.

In accordance with our valuation policy, we increased the value of our investments in ACV and Beetnpath based on a significant equity financing by a new non-strategic outside entity.

Athenex completed an Initial Public Offering (IPO) during the second quarter of 2017 and its shares of common stock are now publicly traded on the NASDAQ Global Select Market under the symbol `ATNX`. We hold 46,296 shares of the common stock of Athenex and valued these shares using the three day average bid price for the last three trading days of the reporting period, which was then discounted due to restrictions on the sale of the shares.

The decrease in unrealized appreciation before income taxes for the six months ended June 30, 2016 was comprised of the following:

	June 30, 2016
Reclassify Gemcor II, LLC (Gemcor) to a realized gain	\$ (11,362,500)
Knoa Software, Inc. (Knoa)	(422,800)
Satisfy, Inc. (Satisfy)	(325,000)
Athenex, Inc. (Athenex)	69,444
Total change in net unrealized appreciation of investments before income taxes during the six months ended June 30, 2016	\$ (12,040,856)

During March of 2016, our portfolio company, Gemcor II, LLC sold its assets and accordingly, we received gross cash proceeds of approximately \$13.8 million and recognized a realized gain, before income taxes, of approximately

\$13.2 million. As of June 30, 2016 and 2017, we continue to own 31% of Gemcor II, LLC, which is the entity that sold substantially all of its assets. After the asset sale, a contingent escrow remains on the books of Gemcor, which we valued at \$1,412,500. A plan of liquidation of Gemcor II, LLC was agreed to by all members of the limited liability company, and this escrow was released and a gain realized during the third quarter of 2016.

The valuation of our investment in Knoa was decreased during the six months ended June 30, 2016 to value our equity holdings at a value consistent with the anticipated pricing for Knoa's future equity financing.

The valuation of our investment in Satisfy was decreased after our management reviewed the portfolio company and its financial condition and determined that a valuation adjustment was necessary.

In accordance with our valuation policy, we increased the value of our investment in Athenex based on a significant equity financing by a new non-strategic outside entity. This new financing used a higher valuation for Athenex than had been used for its prior financing rounds.

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

Net Decrease in Net Assets from Operations

We account for our operations under GAAP for investment companies. The principal measure of our financial performance is net decrease in net assets from operations on our consolidated statements of operations. For the six months ended June 30, 2017 and 2016, the net decrease in net assets from operations was (\$994,818) and (\$415,612), respectively.

Liquidity and Capital Resources

Our principal objective is to achieve growth in net asset value per share through capital appreciation. Therefore, a significant portion of our investment portfolio is structured to maximize the potential for capital appreciation, and certain portfolio investments may be structured to provide little or no current yield in the form of dividends or interest payments.

As of June 30, 2017, our total liquidity consisted of approximately \$6.6 million in cash on hand.

Net cash used by operating activities has averaged approximately \$1,300,000 over the last three years. Our cash flow from operations may fluctuate based on the timing of the receipt of dividend income and realized gains and the associated income taxes paid. We will generally use cash to fund our operating expenses and also to invest in companies, as we seek to build our portfolio utilizing our available cash and proceeds from liquidations of portfolio investments. We anticipate that we will continue to exit investments. However, the timing of liquidation events within the portfolio is difficult to project with any certainty. As of June 30, 2017, we did not have any outstanding commitments to borrow funds from the SBA. Starting in 2022, our SBA debt begins to reach maturity, and this will require us to identify sources of future funding if liquidation of investments is not sufficient to fund operations and repay the SBA debt obligation.

We received authorization from the SBA during the fourth quarter of 2016 to file a formal application to form and operate our second SBIC subsidiary and start a new SBIC fund. We capitalized the new SBIC fund with \$7.5 million of cash on hand during April 2017 and, if our application is approved by the SBA, we anticipate a debt commitment from the SBA equal to two times our equity capital investment, or \$15 million, for a total fund size of \$22.5 million.

We believe that the cash on hand at June 30, 2017 and the scheduled interest payments on our portfolio investments will be sufficient to meet our cash needs throughout 2017. We continue to seek potential exits from portfolio companies to increase the amount of liquidity available for new investments, operating activities and future SBA debenture repayment obligations.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our investment activities contain elements of risk. Our investment portfolio consists of equity and debt securities in private companies and is subject to valuation risk. Because there is typically no public market for the equity and debt securities in which we invest, the valuation of the equity interests in the portfolio is stated at fair value as determined in good faith by our management and approved by our Board of Directors. This is in accordance with our investment valuation policy (see the discussion of valuation policy contained in Note 3. Investments in the consolidated financial statements contained in Item 1 of this report, which is hereby incorporated herein by reference.) In the absence of readily ascertainable market values, the estimated value of the portfolio may differ significantly from the values that

would be placed on the portfolio if a ready market for the investments existed. Any changes in valuation are recorded on the consolidated statement of operations as Net change in unrealized depreciation on investments.

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

As of June 30, 2017, we did not have any off-balance sheet arrangements or hedging or similar derivative financial instrument investments.

Item 4. Controls and Procedures

Disclosure Controls and Procedures. The Corporation maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that this information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Chief Executive Officer and the Chief Financial Officer carried out an evaluation of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures as of June 30, 2017. Based on the evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that the Corporation's controls and procedures were effective as of June 30, 2017.

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.

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None.

Item 1A. Risk Factors

See Part I, Item 1A, Risk Factors, of the Annual Report on Form 10-K for the year ended December 31, 2016.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**Issuer Purchases of Equity Securities**

Period	Total number of shares purchased (1)	Average price paid per share (2)	Total number of shares purchased as part of publicly announced plan (3)	Maximum number of shares that may yet be purchased under the share repurchase program
4/1/2017 - 4/30/2017				458,954
5/1/2017 - 5/31/2017				458,954
6/1/2017 - 6/30/2017				458,954

(1) There were no shares repurchased during the first quarter of 2017.

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

(3) On October 19, 2016, the Board of Directors extended the repurchase authorization of up to 1,000,000 shares of the Corporation's common stock on the open market at prices no greater than the then current net asset value through October 19, 2017.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

(a) Exhibits

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

- (3)(i) Certificate of Incorporation of the Corporation, incorporated by reference to Exhibit (a) (1) and (a) (2) of Form N-2 filed with the Securities Exchange Commission on April 22, 1997 (File No. 333-25617).
- (3)(ii) By-laws of the Corporation, incorporated by reference to Exhibit 3(ii) to the Corporation's Quarterly Report on Form 10-Q for the period ended September 30, 2016 filed with the Securities and Exchange Commission on November 2, 2016 (File No. 814-00235).
- (4) Specimen certificate of common stock certificate, incorporated by reference to Exhibit (d) (1) of Form N-2 filed with the Securities Exchange Commission on April 22, 1997 (File No. 333-25617).
- (31.1) Certification of the Chief Executive Officer Pursuant to Rules 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as amended, filed herewith.
- (31.2) Certification of the Chief Financial Officer Pursuant to Rules 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as amended, filed herewith.
- (32.1) Section 1350 Certifications - Rand Capital Corporation - furnished herewith

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Signatures

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

Dated: August 7, 2017

RAND CAPITAL CORPORATION

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

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