

RAND CAPITAL CORP  
Form 10-Q  
November 07, 2018  
[Table of Contents](#)

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

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2018**

**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)**

|  |   |
|--|---|
| <b>New York</b><br><b>(State or Other Jurisdiction of<br/>Incorporation or Organization)</b> | <b>16-0961359</b><br><b>(IRS Employer<br/>Identification No.)</b> |
| <b>2200 Rand Building, Buffalo, NY</b><br><b>(Address of Principal executive offices)</b>    | <b>14203</b><br><b>(Zip Code)</b>                                 |
| <b>(716) 853-0802</b><br><b>(Registrant's telephone number, including area code)</b>         |   |

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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

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 November 5, 2018, there were 6,321,988 shares of the registrant's common stock outstanding.

**Table of Contents**

**RAND CAPITAL CORPORATION**

**TABLE OF CONTENTS FOR FORM 10-Q**

**PART I. FINANCIAL INFORMATION**

|         |  |    |
|---------|--|----|
| Item 1. | <u>Financial Statements and Supplementary Data</u>   | 1  |
|         | <u>Consolidated Statements of Financial Position as of September 30, 2018 (Unaudited) and December 31, 2017</u>                            | 1  |
|         | <u>Consolidated Statements of Operations for the Three Months and Nine Months Ended September 30, 2018 and 2017 (Unaudited)</u>            | 2  |
|         | <u>Consolidated Statements of Changes in Net Assets for the Three Months and Nine Months Ended September 30, 2018 and 2017 (Unaudited)</u> | 3  |
|         | <u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2018 and 2017 (Unaudited)</u>                             | 4  |
|         | <u>Consolidated Schedule of Portfolio Investments as of September 30, 2018 (Unaudited)</u>   | 5  |
|         | <u>Consolidated Schedule of Portfolio Investments as of December 31, 2017</u>  | 13 |
|         | <u>Notes to the Consolidated Financial Statements (Unaudited)</u>  | 21 |
| Item 2. | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>   | 33 |
| Item 3. | <u>Quantitative and Qualitative Disclosures about Market Risk</u>  | 42 |
| Item 4. | <u>Controls and Procedures</u>   | 42 |

**PART II. OTHER INFORMATION**

|          |  |    |
|----------|--|----|
| Item 1.  | <u>Legal Proceedings</u>   | 43 |
| Item 1A. | <u>Risk Factors</u>  | 43 |
| Item 2.  | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 43 |
| Item 3.  | <u>Defaults upon Senior Securities</u>                             | 43 |
| Item 4.  | <u>Mine Safety Disclosures</u>                                     | 43 |
| Item 5.  | <u>Other Information</u>   | 43 |
| Item 6.  | <u>Exhibits</u>  | 44 |

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements and Supplementary Data****RAND CAPITAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

|   | September 30,<br>2018<br>(Unaudited) | December 31,<br>2017 |
|---|--------------------------------------|----------------------|
| <b><u>ASSETS</u></b>  |                                      |                      |
| Investments at fair value:  |                                      |                      |
| Control investments (cost of \$99,500)  | \$ 99,500                            | \$ 99,500            |
| Affiliate investments (cost of \$20,413,709 and \$20,871,129, respectively)                                     | 16,728,607                           | 17,016,795           |
| Non Control/Non-Affiliate investments (cost of \$16,796,433 and \$15,718,690, respectively)                     | 15,344,150                           | 15,167,767           |
| Total investments, at fair value (cost of \$37,309,642 and \$36,689,319, respectively)                          | 32,172,257                           | 32,284,062           |
| Cash and cash equivalents   | 4,404,574                            | 6,262,039            |
| Interest receivable (net of allowance: \$211,342 at 9/30/18; \$161,000 at 12/31/17)                             | 147,934                              | 231,048              |
| Deferred tax asset  | 772,275                              | 551,863              |
| Prepaid income taxes  | 1,122,826                            | 762,047              |
| Other assets  | 38,360                               | 42,854               |
| <b>Total assets</b>   | <b>\$ 38,658,226</b>                 | <b>\$ 40,133,913</b> |
| <b><u>LIABILITIES AND STOCKHOLDERS EQUITY (NET ASSETS)</u></b>  |                                      |                      |
| <b>Liabilities:</b>   |                                      |                      |
| Debentures guaranteed by the SBA (net of debt issuance costs)   | \$ 7,875,723                         | \$ 7,855,173         |
| Profit sharing and bonus payable  |                                      | 144,000              |
| Accounts payable and accrued expenses   | 120,886                              | 178,348              |
| Deferred revenue  | 73,941                               | 37,707               |
| Total liabilities   | 8,070,550                            | 8,215,228            |
| Commitments and contingencies (See Note 5)  |                                      |                      |
| <b>Stockholders equity (net assets):</b>  |                                      |                      |
| Common stock, \$.10 par; shares authorized 10,000,000; shares issued 6,863,034; shares outstanding of 6,321,988 | 686,304                              | 686,304              |
| Capital in excess of par value  | 10,581,789                           | 10,581,789           |
| Accumulated net investment loss   | (1,643,744)                          | (1,597,146)          |
| Undistributed net realized gain on investments  | 26,496,804                           | 27,215,738           |
| Net unrealized depreciation on investments  | (4,064,372)                          | (3,498,895)          |
| Treasury stock, at cost: 541,046 shares   | (1,469,105)                          | (1,469,105)          |

Edgar Filing: RAND CAPITAL CORP - Form 10-Q

|  |                      |                      |
|--|----------------------|----------------------|
| Total stockholders equity (net assets) (per share \$4.84 at 9/30/18; \$5.05 at 12/31/17) | 30,587,676           | 31,918,685           |
| <b>Total liabilities and stockholders equity (net assets)</b>                            | <b>\$ 38,658,226</b> | <b>\$ 40,133,913</b> |

See accompanying notes

Table of Contents

## RAND CAPITAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

|  | Three<br>months<br>ended<br>September 30,<br>2018 | Three<br>months<br>ended<br>September 30,<br>2017 | Nine months<br>ended<br>September 30,<br>2018 | Nine months<br>ended<br>September 30,<br>2017 |
|--|---|---|---|---|
| <b>Investment income:</b>                  |   |   |   |   |
| Interest from portfolio companies:         |   |   |   |   |
| Affiliate investments                      | \$ 192,758  | \$ 142,247  | \$ 515,784                                    | \$ 416,247                                    |
| Non-Control/Non-Affiliate investments      | 257,531   | 167,675   | 547,553                                       | 417,406                                       |
| Total interest from portfolio companies    | 450,289   | 309,922   | 1,063,337                                     | 833,653                                       |
| Interest from other investments:           |   |   |   |   |
| Non-Control/Non-Affiliate investments      | 7,872   | 6,348   | 20,717  | 24,182  |
| Total interest from other investments      | 7,872   | 6,348   | 20,717  | 24,182  |
| Dividend and other investment income:      |   |   |   |   |
| Affiliate investments                      | 48,856  | 74,408  | 175,905                                       | 189,805                                       |
| Non-Control/Non-Affiliate investments      |   | 2,405   | 6,058   | 7,598   |
| Total dividend and other investment income | 48,856  | 76,813  | 181,963                                       | 197,403                                       |
| Fee income:                                |   |   |   |   |
| Affiliate investments                      | 4,042   | 2,166   | 11,625  | 6,250   |
| Non-Control/Non-Affiliate investments      | 151,243   | 1,770   | 160,987                                       | 13,307  |
| Total fee income                           | 155,285   | 3,936   | 172,612                                       | 19,557  |
| <b>Total investment income</b>             | <b>662,302</b>                                    | <b>397,019</b>                                    | <b>1,438,629</b>                              | <b>1,074,795</b>                              |
| <b>Expenses:</b>                           |   |   |   |   |
| Salaries                                   | 169,875   | 165,413   | 509,624                                       | 496,239                                       |
| Employee benefits                          | 39,845  | 38,454  | 148,841                                       | 138,523                                       |
| Directors fees                             | 28,624  | 36,374  | 92,123  | 107,623                                       |
| Professional fees                          | 81,745  | 48,433  | 220,773                                       | 310,628                                       |
| Stockholders and office operating          | 47,839  | 45,355  | 176,877                                       | 193,290                                       |
| Insurance                                  | 8,700   | 8,058   | 27,588  | 25,618  |
| Corporate development                      | 15,028  | 16,621  | 41,470  | 49,938  |
| Other operating                            | 4,875   | 2,772   | 9,990   | 8,055   |
|  | 396,531   | 361,480   | 1,227,286                                     | 1,329,914                                     |
| Interest on SBA obligations                | 77,568  | 77,568  | 232,406                                       | 232,706                                       |

Edgar Filing: RAND CAPITAL CORP - Form 10-Q

|  |                        |           |                |              |
|--|------------------------|-----------|----------------|--------------|
| Bad debt (recovery) expense  | (26,299)               |           | 50,342         |              |
| Total expenses   | 447,800                | 439,048   | 1,510,034      | 1,562,620    |
| <b>Net investment gain (loss) before income taxes</b>                                    | <b>214,502</b>         | (42,029)  | (71,405)       | (487,825)    |
| Income tax expense (benefit)   | 50,003                 | (17,050)  | (24,807)       | (188,961)    |
| <b>Net investment gain (loss)</b>  | <b>164,499</b>         | (24,979)  | (46,598)       | (298,864)    |
| <b>Net realized loss on sales and dispositions of investments:</b>                       |                        |           |                |              |
| Affiliate investments  | (1,125,673)            |           | (1,125,673)    |              |
| Net realized loss before income tax benefit  | (1,125,673)            |           | (1,125,673)    |              |
| Income tax benefit   | 406,739                |           | 406,739        |              |
| Net realized loss on investments   | (718,934)              |           | (718,934)      |              |
| <b>Change in unrealized depreciation on investments:</b>                                 |                        |           |                |              |
| Affiliate investments  | 725,673                |           | 169,232        | (665,675)    |
| Non-Control/Non-Affiliate investments  | (249,871)              | 111,000   | (901,360)      | (322,308)    |
| Change in unrealized depreciation before income tax expense (benefit)                    | 475,802                | 111,000   | (732,128)      | (987,983)    |
| Deferred income tax expense (benefit)  | 100,669                | 28,090    | (166,651)      | (349,960)    |
| Net change in unrealized depreciation on investments                                     | 375,133                | 82,910    | (565,477)      | (638,023)    |
| <b>Net realized and unrealized (loss) gain on investments</b>                            | <b>(343,801)</b>       | 82,910    | (1,284,411)    | (638,023)    |
| <b>Net (decrease) increase in net assets from operations</b>                             | <b>(\$ 179,302)</b>    | \$ 57,931 | (\$ 1,331,009) | (\$ 936,887) |
| <b>Weighted average shares outstanding</b>   | <b>6,321,988</b>       | 6,321,988 | 6,321,988      | 6,321,988    |
| <b>Basic and diluted net (decrease) increase in net assets from operations per share</b> | <b>(\$ 0.03)</b>       | \$ 0.01   | (\$ 0.21)      | (\$ 0.15)    |
|  | See accompanying notes |           |                |              |

Table of Contents

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

(Unaudited)

|   | <b>Three<br/>months<br/>ended<br/>September 30,<br/>2018</b> | <b>Three<br/>months<br/>ended<br/>September 30,<br/>2017</b> | <b>Nine months<br/>ended<br/>September 30,<br/>2018</b> | <b>Nine months<br/>ended<br/>September 30,<br/>2017</b> |
|---|--|--|---|---|
| <b>Net assets at beginning of period</b>              | <b>\$ 30,766,978</b>   | <b>\$ 31,634,545</b>   | <b>\$ 31,918,685</b>                                    | <b>\$ 32,629,363</b>                                    |
| Net investment gain (loss)                            | <b>164,499</b>   | (24,979)   | (46,598)  | (298,864)   |
| Net realized loss on investment                       | <b>(718,934)</b>   |  | (718,934)   |   |
| Net change in unrealized depreciation on investments  | <b>375,133</b>   | 82,910   | (565,477)   | (638,023)   |
| Net (decrease) increase in net assets from operations | <b>(179,302)</b>   | 57,931   | (1,331,009)   | (936,887)   |
| Total (decrease) increase in net assets               | <b>(179,302)</b>   | 57,931   | (1,331,009)   | (936,887)   |
| <b>Net assets at end of period</b>                    | <b>\$ 30,587,676</b>   | <b>\$ 31,692,476</b>   | <b>\$ 30,587,676</b>                                    | <b>\$ 31,692,476</b>                                    |
| <b>Accumulated net investment loss</b>                | <b>(\$ 1,643,744)</b>  | <b>(\$ 1,876,712)</b>  | <b>(\$ 1,643,744)</b>                                   | <b>(\$ 1,876,712)</b>                                   |

See accompanying notes

Table of Contents

## RAND CAPITAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

|  | Nine months<br>ended<br>September 30,<br>2018 | Nine months<br>ended<br>September 30,<br>2017 |
|--|---|---|
| <b>Cash flows from operating activities:</b>   |   |   |
| Net decrease in net assets from operations   | (\$ 1,331,009)                                | (\$ 936,887)                                  |
| Adjustments to reconcile net decrease in net assets to net cash and cash equivalents used in operating activities: |   |   |
| Investments in portfolio companies   | (1,365,000)                                   | (3,900,000)                                   |
| Proceeds from loan repayments  | 70,131  |   |
| Change in unrealized depreciation on investments   | 732,128                                       | 987,983                                       |
| Deferred tax benefit   | (220,412)                                     | (542,917)                                     |
| Realized loss on portfolio investments   | 1,125,673                                     |   |
| Depreciation and amortization  | 22,200  | 23,550  |
| Original issue discount amortization   | (29,462)                                      | (21,085)                                      |
| Non-cash conversion of debenture interest  | (421,665)                                     | (262,105)                                     |
| Change in interest receivable allowance  | 50,342  |   |
| Changes in operating assets and liabilities:   |   |   |
| Decrease in interest receivable  | 32,772  | 121,675                                       |
| Decrease in other assets   | 2,844   | 561,499                                       |
| Increase in prepaid income taxes   | (360,779)                                     | (266,935)                                     |
| Decrease in income tax payable   |   | (320,008)                                     |
| Decrease in accounts payable and accrued expenses  | (69,462)                                      | (210,173)                                     |
| Decrease in profit sharing and bonus payable   | (132,000)                                     | (1,138,052)                                   |
| Increase (decrease) in deferred revenue  | 36,234  | (3,557)                                       |
| Total adjustments  | (526,456)                                     | (4,970,125)                                   |
| <b>Net cash and cash equivalents used in operating activities</b>  | <b>(1,857,465)</b>                            | <b>(5,907,012)</b>                            |
| <b>Net decrease in cash and cash and cash equivalents</b>  | <b>(1,857,465)</b>                            | <b>(5,907,012)</b>                            |
| <b>Cash and cash equivalents:</b>  |   |   |
| Beginning of period  | 6,262,039                                     | 12,280,140                                    |
| End of period  | \$ 4,404,574                                  | \$ 6,373,128                                  |

See accompanying notes



Table of Contents

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**

**September 30, 2018**

**(Unaudited)**

| (a)  | (b)  | (c)           | (d)(f)         | (j)                         |
|--|--|---------------|----------------|-----------------------------|
| Company, Geographic Location,<br>Business<br>Description, (Industry) and Website   | Date<br>Acquired                           | Equity        | Fair<br>Value  | Percent<br>of Net<br>Assets |
| <u>Type of<br/>Investment</u>  | <u>Cost</u>                                | <u>Equity</u> | <u>Value</u>   | <u>Assets</u>               |
| <b>Non-Control/Non-Affiliate Investments</b>   |  |               |                |                             |
| <b>50.2% of</b>  |  |               |                |                             |
| <b>net assets: (j)</b>   |  |               |                |                             |
| <b>ACV Auctions, Inc. (e)(g)</b>   | 1,181,160 Series<br>A Preferred            | 8/12/16       | <1%            | 0.9%                        |
| Buffalo, NY. Live mobile wholesale<br>auctions for new<br>and used car dealers. (Software)   | shares.                                    |               | \$163,000      | \$282,356                   |
| www.acvauctions.com  |  |               |                |                             |
| <b>Centivo Corporation (e)(g)</b>  | 190,967 Series<br>A-1 Preferred            | 7/5/17        | <1%            | 1.0%                        |
| New York, NY. Tech-enabled health<br>solutions<br>company that helps self-insured<br>employers and their<br>employees save money and have a better<br>experience.<br>(Health Care) | shares.<br>337,808 Series<br>A-2 Preferred |               |                |                             |
|  | shares.                                    |               | <u>101,342</u> | <u>101,342</u>              |
|  | <b>Total</b>                               |               | <u>301,342</u> | <u>301,342</u>              |
|  | <b>Centivo</b>                             |               | <u>301,342</u> | <u>301,342</u>              |
| www.centivo.com  |  |               |                |                             |
| <b>eHealth Global Technologies, Inc. (g)</b>   | \$3,500,000<br>Replacement<br>Term         | 6/28/16       | 0%             | 11.5%                       |
| Henrietta, NY. eHealth Connect®<br>improves health<br>care delivery through intelligently<br>aggregated clinical record and images for<br>patient referrals.                       | Note at 13% due<br>December 31,<br>2020.   |               | 3,500,000      | 3,500,000                   |

(Health Care)

www.ehealthtechnologies.com

|  |  |         |    |                  |                |
|--|--|---------|----|------------------|----------------|
| <b>Empire Genomics, LLC (g)(m)</b>   | \$1,209,014  |         |    |                  |                |
| Buffalo, NY. Molecular diagnostics company that offers a comprehensive menu of assay services for diagnosing and guiding patient therapeutic treatments. (Health Care) | Senior Secured Convertible Term Notes at 10% (8% Payment in Kind (PIK)) due December 31, 2020. | 6/13/14 | 0% |                  | 2.3%           |
| www.empiregenomics.com   | \$444,916 Promissory Note at 9% due December 31, 2020.   |         |    | 1,209,014        | 450,000        |
|  | <b>Total</b>   |         |    | <u>394,915</u>   | <u>252,569</u> |
|  | <b>Empire</b>  |         |    | <u>1,603,929</u> | <u>702,569</u> |

|   |   |         |    |         |         |
|---|---|---------|----|---------|---------|
| <b>GiveGab, Inc. (e)(g)</b>   | 5,084,329 Series Seed Preferred shares. | 3/13/13 | 4% |         | 2.0%    |
| Ithaca, NY. Online fundraising, day of supporter engagement software for non-profit organizations. (Software) |   |         |    | 616,221 | 616,221 |
| www.givegab.com   |   |         |    |         |         |

|  |   |        |     |                  |                  |
|--|---|--------|-----|------------------|------------------|
| <b>GoNoodle, Inc. (g)(m)</b>   | \$1,000,000 Secured Note at 12% due January 31, 2020, (1% Payment in Kind (PIK)). | 2/6/15 | <1% |                  | 3.4%             |
| Nashville, TN. Student engagement software providing core aligned physical activity breaks. (Software) | Warrant for 47,324 Series C Preferred shares.                                     |        |     | 1,037,070        | 1,037,070        |
| www.gonoodle.com   |   |        |     | <u>25</u>        | <u>25</u>        |
|  | <b>Total</b>  |        |     | <u>1,037,095</u> | <u>1,037,095</u> |
|  | <b>GoNoodle</b>   |        |     | <u>1,037,095</u> | <u>1,037,095</u> |

|  |   |          |    |           |         |
|--|---|----------|----|-----------|---------|
| <b>Mercantile Adjustment Bureau, LLC (g)</b>   | \$1,199,039 Subordinated Secured Note at 13% (3% for the calendar year 2018) due January 31, 2019. (e) \$150,000 Subordinated | 10/22/12 | 4% |           | 3.1%    |
| Williamsville, NY. Full service accounts receivable management and collections company. (Contact Center) www.mercantilesolutions.com |   |          |    | 1,199,040 | 949,040 |

|  |   |          |    |                  |                  |      |
|--|---|----------|----|------------------|------------------|------|
|  | Debenture at 8%<br>due June 30,<br>2018.  |          |    | 150,000          | -                |      |
|  | Warrant for<br>3.29%<br>Membership<br>Interests. Option<br>for 1.5%<br>Membership<br>Interests. |          |    | <u>97,625</u>    | <u>-</u>         |      |
|  | (i) Interest<br>receivable<br>\$51,761.   |          |    |                  |                  |      |
|  | <b>Total<br/>Mercantile</b>   |          |    | <u>1,446,665</u> | <u>949,040</u>   |      |
| <b>Outmatch Holdings, LLC (e)(g)<br/>(Chequed Holdings, LLC)</b>   | 2,745,545 Class<br>P1 Units.  | 11/18/10 | 4% | 2,140,007        | 2,140,007        | 7.0% |
|  | 109,788 Class C1<br>Units.  |          |    | <u>5,489</u>     | <u>5,489</u>     |      |
|  | <b>Total<br/>Outmatch</b>   |          |    | <u>2,145,496</u> | <u>2,145,496</u> |      |
| Dallas, TX. Web based predictive<br>employee selection<br>and reference checking. (Software)<br>www.outmatch.com   |   |          |    |                  |                  |      |
| <b>PostProcess Technologies LLC (e)(g)</b>   | \$300,000<br>Convertible<br>Promissory<br>Note at 5% due<br>July 28, 2020.                      | 7/25/16  | 0% | 300,000          | 300,000          | 1.0% |
| Buffalo, NY. Provides innovative<br>solutions for the<br>post-processing of additive manufactured<br>3D parts.<br>(Manufacturing)<br>www.postprocess.com |   |          |    |                  |                  |      |

Table of Contents

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**

**September 30, 2018 (Continued)**

**(Unaudited)**

| <b>Company, Geographic Location, Business Description, (Industry) and Website</b> | <b>(a)<br/>Type of Investment</b>                   | <b>(b)<br/>Date Acquired</b> | <b>(c)<br/>Equity</b> | <b>Cost</b>      | <b>(d)(f)<br/>Fair Value</b> | <b>Percent of Net Assets</b> |
|---|---|------------------------------|-----------------------|------------------|------------------------------|------------------------------|
| <b>Rheonix, Inc. (e)</b>  | 9,676<br>Common shares.                             | 10/29/09                     | 4%                    | -                | 11,000                       | 9.6%                         |
| Ithaca, NY. Developer of fully automated  | <b>(g)</b><br>1,839,422<br>Series A preferred       |                              |                       |                  |                              |                              |
| microfluidic based molecular assay and diagnostic testing devices. (Health Care)  | shares.<br><b>(g)</b> 50,593<br>Common              |                              |                       | 2,099,999        | 2,165,999                    |                              |
| www.rheonix.com   | shares.<br><b>(g)</b> 589,420<br>Series B Preferred |                              |                       | -                | 59,000                       |                              |
|   | shares.   |                              |                       | <u>702,732</u>   | <u>702,732</u>               |                              |
|   | <b>Total<br/>Rheonix</b>                            |                              |                       | <u>2,802,731</u> | <u>2,938,731</u>             |                              |
| <b>SocialFlow, Inc. (e)(g)</b>  | 1,049,538<br>Series B Preferred                     |                              |                       |                  |                              |                              |
| New York, NY. Provides instant analysis of social                                 | shares.   | 4/5/13                       | 4%                    | 500,000          | 731,431                      | 6.8%                         |
| networks using a proprietary, predictive analytic                                 | 1,204,819<br>Series B-1 Preferred                   |                              |                       |                  |                              |                              |
|   | shares.   |                              |                       | 750,000          | 839,648                      |                              |
|   | 717,772<br>Series C Preferred                       |                              |                       |                  |                              |                              |
|   | shares.   |                              |                       | <u>500,000</u>   | <u>500,221</u>               |                              |
|   |   |                              |                       | <u>1,750,000</u> | <u>2,071,300</u>             |                              |

algorithm to optimize advertising and publishing.  
(Software)  
www.socialflow.com

**Total Social Flow**

|  |                   |         |    |         |         |      |
|--|-------------------|---------|----|---------|---------|------|
| <b>Somerset Gas Transmission Company, LLC (e)</b><br>Columbus, OH. Natural gas transportation.<br>(Oil and Gas)<br>www.somersetgas.com | 26.5337<br>Units. | 7/10/02 | 3% | 719,097 | 500,000 | 1.6% |
|--|-------------------|---------|----|---------|---------|------|

**Other Non-Control/Non-Affiliate Investments:**

|                                      |                      |   |   |         |   |      |
|--------------------------------------|----------------------|---|---|---------|---|------|
| <b>DataView, LLC (Software) (e)</b>  | Membership Interest. | - | - | 310,357 | - | 0.0% |
| <b>UStec/Wi3 (Manufacturing) (e)</b> | Common stock.        | - | - | 100,500 | - | 0.0% |

**Subtotal Non-Control/Non-Affiliate Investments**

\$16,796,433    \$15,344,150

**Affiliate Investments 54.7% of net assets (k)**

|   |  |          |    |  |  |      |
|---|--|----------|----|--|--|------|
| <b>BeetNPath, LLC (Grainful) (e)(g)</b><br>Ithaca, NY. Frozen entrées made from 100% whole grain steel cut oats under Grainful brand name. (Consumer Product)<br>www.grainful.com | 1,119,024<br>Series A-2<br>Preferred<br>Membership<br>Units.<br>1,032,918<br>Series B<br>Preferred<br>Membership<br>Units.<br>\$140,000<br>Convertible<br>Secured<br>Note at<br>8% due<br>December<br>21, 2019<br><b>Total<br/>BeetNPath</b> | 10/20/14 | 9% | \$359,000<br><br>261,277<br><br><u>140,000</u><br><br><u>760,277</u> | \$359,000<br><br>291,000<br><br><u>140,000</u><br><br><u>790,000</u> | 2.6% |
|---|--|----------|----|--|--|------|

|   |   |         |    |        |           |      |
|---|---|---------|----|--------|-----------|------|
| <b>Carolina Skiff LLC (g)</b><br>Waycross, GA. Manufacturer of ocean fishing and pleasure boats.<br>(Manufacturing) | 6.0825%<br>Class A<br>Common<br>Membership<br>Interest. | 1/30/04 | 7% | 15,000 | 1,750,000 | 5.8% |
|---|---|---------|----|--------|-----------|------|

www.carolinaskiff.com

|  |  |         |    |                  |         |
|--|--|---------|----|------------------|---------|
| <b>ClearView Social, Inc. (e)(g)</b>   | 312,500<br>Series Seed<br>Plus<br>Preferred  | 1/4/16  | 6% |                  | 0.6%    |
| Buffalo, NY. Social media publishing tool for law, CPA and professional firms. (Software)<br>www.clearviewsocial.com   | shares.  |         |    | 200,000          | 200,000 |
| <b>First Wave Products Group, LLC (e)(g)</b>   | \$500,000<br>Senior Term<br>Notes at<br>10%  | 4/19/12 | 7% |                  | 0.0%    |
| Batavia, NY. Sells First Crush automated pill crusher that crushes and grinds pills for nursing homes and medical institutions. (Health Care)<br>www.firstwaveproducts.com | due July 31, 2017.<br>\$280,000<br>Junior Term<br>Notes at<br>10%<br>due July 31, 2017.<br>Warrant for<br>41,619<br>Capital<br>Securities. |         |    | 661,563          | -       |
|  |  |         |    | 316,469          | -       |
|  |  |         |    | <u>22,000</u>    | =       |
|  | <b>Total First Wave</b>  |         |    | <u>1,000,032</u> | =       |

Table of Contents

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**

September 30, 2018 (Continued)

(Unaudited)

| Company, Geographic Location, Business Description, (Industry) and Website  | (a)<br>Type of Investment  | (b)<br>Date<br>Acquired | (c)<br>Equity | Cost   | (d)(f)<br>Fair<br>Value  | Percent<br>of Net<br>Assets |
|---|--|-------------------------|---------------|--|--|-----------------------------|
| <b>Genicon, Inc. (g) (m)</b><br>Winter Park, FL. Designs, produces and distributes patented surgical instrumentation. (Health Care)<br>www.geniconendo.com                                      | 1,586,902 Series B Preferred shares.<br>\$3,000,000 Promissory Notes at 10% due May 1, 2020, (8% Payment in Kind (PIK)).<br>Warrant for 250,000 Common shares.<br>Warrant for 125,000 Common shares.<br><b>Total Genicon</b> | 4/10/15                 | 6%            | 1,000,000<br><br><br><br>3,057,327<br>80,000<br>40,000<br><u>4,177,327</u> | 1,000,000<br><br><br><br>3,057,327<br>80,000<br>40,000<br><u>4,177,327</u> | 13.7%                       |
| <b>G-TEC Natural Gas Systems (e)</b><br>Buffalo, NY. Manufactures and distributes systems that allow natural gas to be used as an alternative fuel to gases. (Manufacturing)<br>www.gas-tec.com | 16.639% Class A Membership Interest.<br>8% cumulative dividend.  | 8/31/99                 | 17%           | 400,000  | 100,000  | 0.3%                        |
| <b>Knoa Software, Inc. (e)(g)(h)</b><br>New York, NY. End user experience management and performance (EMP) solutions utilizing enterprise applications. (Software)<br>www.knoa.com              | 973,533 Series A-1 Convertible Preferred shares.<br>1,876,922 Series B Preferred shares.<br><b>Total Knoa</b>  | 11/20/12                | 7%            | 750,000<br><br><u>479,155</u><br><u>1,229,155</u>                          | 750,000<br><br><u>479,155</u><br><u>1,229,155</u>                          | 4.0%                        |
| <b>KnowledgeVision Systems, Inc. (g)</b><br>Lincoln, MA. Online presentation and training   | 200,000 Series A-1 Preferred shares.<br>214,285 Series A-2 Preferred shares.   | 11/13/13                | 7%            | 250,000<br>300,000   | -<br>300,000   | 4.3%                        |

|  |  |          |     |                  |                  |      |
|--|--|----------|-----|------------------|------------------|------|
| software. (Software)   | 129,033 Series A-3 Preferred shares.   |          |     | 165,001          | 165,001          |      |
| www.knowledgevision.com  | Warrant for 46,743 Series A-3 shares. \$75,000 Subordinated Promissory Notes at 8% payable on demand of majority of holders after August 31, 2019.(e) \$750,000 Replacement Term Note at 11% due April 30, 2021. |          |     | 75,000           | 75,000           |      |
|  |  |          |     | <u>750,000</u>   | <u>750,000</u>   |      |
|  | <b>Total KnowledgeVision</b>   |          |     | <u>1,575,001</u> | <u>1,325,001</u> |      |
| <b>Mezmeriz, Inc. (e)(g)</b>   | 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 |  |          |     |                  |                  |      |
| <b>Microcision LLC (g)(m)</b>  | \$1,500,000 Subordinated Promissory Note at 12% (1% Payment in Kind (PIK)) due December 31, 2024. 15% Class A Common Membership Interest.  | 9/24/09  | 15% |                  |                  | 6.3% |
| Pennsauken Township, NJ. Manufacturer of precision machined medical implants, components and assemblies. (Manufacturing) www.microcision.com   |  |          |     | 1,928,532        | 1,928,532        |      |
|  |  |          |     | <u>-</u>         | <u>-</u>         |      |
|  | <b>Total Microcision</b>   |          |     | <u>1,928,532</u> | <u>1,928,532</u> |      |
| <b>New Monarch Machine Tool, Inc. (g)</b>  | 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   |  |          |     |                  |                  |      |
| <b>OnCore Golf Technology, Inc. (e)(g)</b>   |  | 12/31/14 | 9%  | 375,000          | -                | 1.0% |

Edgar Filing: RAND CAPITAL CORP - Form 10-Q

|  |  |                |                |
|--|--|----------------|----------------|
| Buffalo, NY. Maker of patented golf balls. | 150,000 Series AA Preferred shares.  |                |                |
| (Consumer Product)                         | \$300,000 Subordinated Convertible Promissory Notes at 10% due January 24, 2018. |                |                |
| www.oncoregolf.com                         | (i) Interest receivable \$50,342.  | <u>300,000</u> | <u>300,000</u> |
|  | <b>Total OnCore</b>  | <u>675,000</u> | <u>300,000</u> |

Table of Contents

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**

**September 30, 2018 (Continued)**

**(Unaudited)**

| <b>Company, Geographic Location, Business Description, (Industry) and Website</b>   | <b>(a)<br/>Type of Investment</b>  | <b>(b)<br/>Date<br/>Acquired</b> | <b>(c)<br/>Equity</b> | <b>Cost</b>                                      | <b>(d)(f)<br/>Fair<br/>Value</b>         | <b>Percent<br/>of Net<br/>Assets</b> |
|---|--|----------------------------------|-----------------------|--|--|--------------------------------------|
| <b>SciAps, Inc. (e)(g)</b>  | 187,500 Series A Preferred shares.   | 7/12/13                          | 6%                    | 1,500,000  | 700,000                                  | 6.6%                                 |
| Woburn, MA. Instrumentation company producing portable analytical devices using XRF, LIBS and AMAN spectroscopy to identify compounds, minerals, and elements. (Manufacturing) www.sciaps.com | 274,299 Series A-1 Convertible Preferred shares.<br>117,371 Series B Convertible Preferred shares.<br>113,636 Series C Convertible Preferred shares.<br>369,698 Series C-1 Convertible Preferred shares.<br>147,059 Series D Convertible Preferred shares. |                                  |                       | 504,710<br>250,000<br>175,000<br>399,274         | 250,000<br>250,000<br>175,000<br>399,274 |                                      |
|   | <b>Total SciAps</b>  |                                  |                       | <u>3,078,984</u>                                 | <u>2,024,274</u>                         |                                      |
| <b>OMS Technologies, LLC (e)(g)</b>   | 5,959,490 Series B Membership Interests.   | 12/2/08                          | 9%                    | 472,632  | 30,000                                   | 0.1%                                 |
| Walhalla, NY. Produces and markets the microGreen Extended Performance Oil Filter. (Consumer Products) www.microgreenfilter.com   |  |                                  |                       |  |  |                                      |
| <b>Teleservices Solutions Holdings, LLC (e)(m)</b>  | 250,000 Class B Preferred Units.<br>1,000,000 Class C Preferred Units.<br>80,000 Class D Preferred Units.<br>104,198 Class E Preferred Units.  | 5/30/14                          | 6%                    | 250,000<br>1,190,680<br>91,200<br><u>104,198</u> | -<br>-<br>-<br>-                         | 0.0%                                 |
| Montvale, NJ. Customer contact center specializing in customer acquisition and retention for selected industries. (Contact Center)  |  |                                  |                       |  |  |                                      |

Edgar Filing: RAND CAPITAL CORP - Form 10-Q

|  |  |          |     |                  |                  |              |      |
|--|--|----------|-----|------------------|------------------|--------------|------|
| www.ipacesetters.com   | PIK dividend for Series C and D at 12% and 14%, respectively.        |          |     |                  |                  |              |      |
|  | <b>Total Teleservices</b>  |          |     |                  | <u>1,636,078</u> |              | =    |
| <b>Tilson Technology Management, Inc. (g)</b>  | 120,000 Series B Preferred shares.                                   | 1/20/15  | 11% | 600,000          | 600,000          |              | 8.2% |
| Portland, ME. Cellular, fiber optic and wireless                                       | 21,391 Series C Convertible Preferred shares.                        |          |     | 200,000          | 200,000          |              |      |
| Information systems, construction, and management. (Professional Services)             | 65,790 Series D Preferred shares.                                    |          |     | 750,000          | 750,000          |              |      |
| www.tilsontech.com   | \$750,000 Subordinated Promissory Note at 8% due December 1, 2022.   |          |     | 750,000          | 750,000          |              |      |
|  | \$200,000 Subordinated Promissory Note at 8% due September 28, 2021. |          |     | <u>200,000</u>   | <u>200,000</u>   |              |      |
|  | <b>Total Tilson</b>  |          |     | <u>2,500,000</u> | <u>2,500,000</u> |              |      |
| <b>Subtotal Affiliate Investments</b>  |  |          |     | \$20,413,709     | \$16,728,607     |              |      |
| <b>Control Investments 0.3% of net assets (l)</b>                                      |  |          |     |                  |                  |              |      |
| <b>Advantage 24/7 LLC (e)(g)</b>   | 45% Membership Interest.   | 12/30/10 | 45% | \$99,500         | \$99,500         |              | 0.3% |
| Williamsville, NY. Marketing program for wine and spirits dealers. (Marketing Company) |  |          |     |                  |                  |              |      |
| www.advantage24-7.com  |  |          |     |                  |                  |              |      |
| <b>Subtotal Control Investments</b>  |  |          |     | \$99,500         | \$99,500         |              |      |
| <b>TOTAL INVESTMENTS 105.2%</b>  |  |          |     | \$37,309,642     | \$32,172,257     |              |      |
| <b>OTHER ASSETS IN EXCESS OF LIABILITIES (5.2%)</b>                                    |  |          |     |                  |                  | (1,584,581)  |      |
| <b>NET ASSETS 100%</b>   |  |          |     |                  |                  | \$30,587,676 |      |



**Table of Contents**

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**

**September 30, 2018 (Continued)**

**(Unaudited)**

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

(a) At September 30, 2018, restricted securities represented 100% of the fair value of the investment portfolio. Restricted securities are subject to one or more restrictions on resale and are not freely marketable.

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

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

(d) The Corporation's investments are carried at fair value in accordance with Accounting Standards Codification (ASC) 820 Fair Value Measurements and Disclosures, which defines fair value and establishes guidelines for measuring fair value. At September 30, 2018, ASC 820 designates 100% of the Corporation's investments as Level 3 assets. Under the valuation policy of the Corporation, unrestricted publicly held securities are valued at the average closing bid price for these securities for the last three trading days of the reporting period. Restricted securities are subject to restrictions on resale, and are valued at fair value as determined by the management of the Corporation and submitted to the Board of Directors for approval. Fair value is considered to be the amount that the Corporation may reasonably expect to receive for portfolio securities when sold on the valuation date. Valuations as of any particular date, however, are not necessarily indicative of amounts which may ultimately be realized as a result of future sales or other dispositions of securities and these favorable or unfavorable differences could be material. Among the factors considered in determining the fair value of restricted securities are the financial condition and operating results, projected operations, and other analytical data relating to the investment. Also considered are the market prices for unrestricted securities of the same class (if applicable) and other matters which may have an impact on the value of the portfolio company (see Note 3 Investments to the Consolidated Financial Statements).

(e) These investments are non-income producing. All other investments are income producing. Non-income producing investments have not generated cash payments of interest or dividends including LLC tax-related distributions within the last twelve months, or are not expected to do so going forward.

(f) As of September 30, 2018 the total cost of investment securities was approximately \$37.3 million. Net unrealized depreciation was approximately (\$5.1) million, which was comprised of \$2.3 million of unrealized appreciation of investment securities and (\$7.4) million of unrealized depreciation of investment securities. At September 30, 2018, the aggregate gross unrealized gain for federal income tax purposes was \$2.6 million and the aggregate gross unrealized loss for federal income tax purposes was (\$6.5) million. The net unrealized loss for federal income tax

purposes was (\$3.9) million based on a tax cost of \$36.1 million.

(g) Rand Capital SBIC, Inc. investment.

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

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

Table of Contents

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**

September 30, 2018 (Continued)

(Unaudited)

**Investments in and Advances to Affiliates**

| Company                       | Type of Investment                               | December<br>31, 2017<br>Fair Value | Gross<br>Additions (1) | Gross<br>Reductions<br>(2) | September<br>30, 2018<br>Fair<br>Value | Net<br>Realized<br>Gains<br>(Losses) | Amount of<br>Interest/<br>Dividend/<br>Fee<br>Income (3) |
|-------------------------------|--|------------------------------------|------------------------|----------------------------|--|--------------------------------------|--|
| <b>Control Investments:</b>   |  |                                    |                        |                            |  |                                      |  |
| <b>Advantage 24/7 LLC</b>     | 45% Membership interest.                         | \$99,500                           | \$-                    | \$-                        | \$99,500                               | \$-                                  | \$-  |
|                               | <b>Total Control Investments</b>                 | <b>\$99,500</b>                    | <b>\$-</b>             | <b>\$-</b>                 | <b>\$99,500</b>                        | <b>\$-</b>                           | <b>\$-</b>   |
| <b>Affiliate Investments:</b> |  |                                    |                        |                            |  |                                      |  |
| <b>BeetNPath, LLC</b>         | 1,119,024 Series A-2 Preferred Membership Units. | \$359,000                          | \$-                    | \$-                        | \$359,000                              | \$-                                  | \$-  |
|                               | 1,032,918 Series B Preferred Membership Units.   | 291,000                            | -                      | -                          | 291,000                                | -                                    | -  |
|                               | \$140,000 convertible secured note at 8%         | -                                  | <u>140,000</u>         | -                          | <u>140,000</u>                         | -                                    | <u>2,551</u>   |
|                               | <b>Total BeetNPath</b>                           | <u>650,000</u>                     | <u>140,000</u>         | -                          | <u>790,000</u>                         | -                                    | <u>2,551</u>   |
| <b>Carolina Skiff LLC</b>     | 6.0825% Class A common membership interest.      | 1,750,000                          | -                      | -                          | 1,750,000                              | -                                    | 119,433  |
|                               |  | 200,000                            | -                      | -                          | 200,000                                | -                                    | -  |

Edgar Filing: RAND CAPITAL CORP - Form 10-Q

|                                       |  |                  |                |                  |                  |             |                |   |
|---------------------------------------|--|------------------|----------------|------------------|------------------|-------------|----------------|---|
| <b>ClearView Social, Inc.</b>         | 312,500 Series seed plus preferred shares.                   |                  |                |                  |                  |             |                |   |
| <b>First Wave Products Group, LLC</b> | \$500,000 senior term notes at 10%.                          | 250,000          | -              | (250,000)        | -                | -           | -              | - |
|                                       | \$280,000 junior term notes at 10%.                          | -                | -              | -                | -                | -           | -              | - |
|                                       | Warrant for 41,619 capital securities.                       | -                | =              | -                | =                | =           | =              | = |
|                                       | <b>Total First Wave</b>                                      | <u>250,000</u>   | =              | <u>(250,000)</u> | =                | =           | =              | = |
| <b>Genicon, Inc.</b>                  | 1,586,902 Series B preferred shares.                         | 1,000,000        | -              | -                | 1,000,000        | -           | -              | - |
|                                       | \$3,000,000 promissory notes at 8%.                          | 2,903,779        | 153,548        | -                | 3,057,327        | -           | 251,069        | - |
|                                       | Warrant for 250,000 common shares                            | 80,000           | -              | -                | 80,000           | -           | -              | - |
|                                       | Warrant for 125,000 common shares                            | <u>40,000</u>    | -              | =                | <u>40,000</u>    | =           | -              | = |
|                                       | <b>Total Genicon</b>   | <u>4,023,779</u> | <u>153,548</u> | =                | <u>4,177,327</u> | =           | <u>251,069</u> | = |
| <b>GiveGab, Inc.</b>                  | 5,084,329 Series Seed preferred shares.                      | 424,314          | 191,907        | (616,221)        | -                | -           | -              | - |
| <b>G-TEC Natural Gas Systems</b>      | 16.639% Class A membership interest. 8% cumulative dividend. | 100,000          | -              | -                | 100,000          | -           | -              | - |
| <b>Intrinsiq Materials, Inc.</b>      | 4,161,747 Series A preferred shares.                         | 400,000          | -              | (400,000)        | -                | (1,125,673) | -              | - |
| <b>Knoa Software, Inc.</b>            | 973,533 Series A-1 convertible preferred shares.             | 750,000          | -              | -                | 750,000          | -           | -              | - |
|                                       | 1,876,922 Series B preferred shares.                         | 479,155          | -              | -                | 479,155          | -           | -              | - |
|                                       | \$48,466 convertible promissory note at 8%.                  | <u>48,466</u>    | =              | <u>(48,466)</u>  | =                | =           | <u>773</u>     | = |
|                                       | <b>Total Knoa</b>  | <u>1,277,621</u> | =              | <u>(48,466)</u>  | <u>1,229,155</u> | =           | <u>773</u>     | = |
| <b>KnowledgeVision Systems, Inc.</b>  | 200,000 Series A-1 preferred shares.                         | -                | -              | -                | -                | -           | -              | - |
|                                       | 214,285 Series A-2 preferred shares.                         | 300,000          | -              | -                | 300,000          | -           | -              | - |
|                                       | 129,033 Series A-3 preferred shares.                         | 165,001          | -              | -                | 165,001          | -           | -              | - |

Edgar Filing: RAND CAPITAL CORP - Form 10-Q

|   |  |                |                |   |                  |   |               |
|---|--|----------------|----------------|---|------------------|---|---------------|
|   | \$75,000<br>subordinated<br>promissory notes at<br>8%              | 50,000         | 25,000         | - | 75,000           | - | 3,896         |
|   | \$750,000<br>replacement term<br>note at 11%                       | -              | 750,000        | - | 750,000          | - | 37,571        |
|   | Warrant for 46,743<br>Series A-3 shares.                           | <u>35,000</u>  | <u>-</u>       | = | <u>35,000</u>    | = | <u>-</u>      |
|   | <b>Total Knowledge<br/>Vision</b>                                  | <u>550,001</u> | <u>775,000</u> | = | <u>1,325,001</u> | = | <u>41,467</u> |
| <b>Mezmeriz, Inc.</b>                         | 1,554,565 Series<br>seed preferred<br>shares.                      | 351,477        | -              | - | 351,477          | - | -             |
| <b>Microcision LLC</b>                        | \$1,500,000<br>subordinated<br>promissory note at<br>12% (1% PIK). | 1,914,140      | 14,392         | - | 1,928,532        | - | 172,704       |
| <b>New Monarch<br/>Machine Tool,<br/>Inc.</b> | 22.84 common<br>shares.  | 22,841         | -              | - | 22,841           | - | 29,409        |

Table of Contents

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**

**September 30, 2018 (Continued)**

**(Unaudited)**

**Investments in and Advances to Affiliates**

| Company                                     | Type of Investment   | December 31,<br>2017 Fair<br>Value | Gross<br>Additions<br>(1) | Gross<br>Reductions<br>(2) | September<br>30, 2018<br>Fair Value | Net<br>Realized<br>Gains<br>(Losses) | Amount of<br>Interest/<br>Dividend/<br>Fee Income<br>(3) |
|---|--|------------------------------------|---------------------------|----------------------------|-------------------------------------|--------------------------------------|--|
| <b>OnCore Golf<br/>Technology,<br/>Inc.</b> | 150,000 Series AA<br>preferred shares.                                 | -                                  | -                         | -                          | -                                   | -                                    | -  |
|   | \$300,000<br>subordinated<br>convertible<br>promissory notes at<br>6%. | <u>300,000</u>                     | =                         | =                          | <u>300,000</u>                      | =                                    | =  |
|   | <b>Total OnCore</b>  | <u>300,000</u>                     | =                         | =                          | <u>300,000</u>                      | =                                    | =  |
| <b>SciAps, Inc.</b>                         | 187,500 Series A<br>convertible<br>preferred<br>shares.                | 700,000                            | -                         | -                          | 700,000                             | -                                    | -  |
|   | 274,299 Series A-1<br>convertible<br>preferred<br>shares.              | 250,000                            | -                         | -                          | 250,000                             | -                                    | -  |
|   | 117,371 Series B<br>convertible<br>preferred<br>shares.                | 250,000                            | -                         | -                          | 250,000                             | -                                    | -  |
|   | 113,636 Series C<br>preferred shares.                                  | 175,000                            | -                         | -                          | 175,000                             | -                                    | -  |
|   | 369,698 Series C-1<br>preferred shares.                                | 399,274                            | -                         | -                          | 399,274                             | -                                    | -  |
|   | 147,059 Series D<br>shares   | -                                  | <u>250,000</u>            | =                          | <u>250,000</u>                      | =                                    | =  |
|   | <b>Total SciAps</b>  | <u>1,774,274</u>                   | <u>250,000</u>            | =                          | <u>2,024,274</u>                    | =                                    | =  |
| <b>SOMS</b>                                 |  | 528,348                            | -                         | (498,348)                  | 30,000                              | -                                    | -  |

|   |  |                     |                    |                      |                     |                      |                  |
|---|--|---------------------|--------------------|----------------------|---------------------|----------------------|------------------|
| <b>Technologies, LLC</b>                  | 5,959,490 Series B membership interests.       |                     |                    |                      |                     |                      |                  |
| <b>Teleservices</b>                       | 250,000 Class B preferred units.               | -                   | -                  | -                    | -                   | -                    | -                |
| <b>Solutions</b>                          | 1,000,000 Class C preferred units.             | -                   | -                  | -                    | -                   | -                    | -                |
| <b>Holdings, LLC</b>                      | 80,000 Class D preferred units.                | -                   | -                  | -                    | -                   | -                    | -                |
|   | 104,198 Class E preferred units.               | =                   | =                  | =                    | =                   | =                    | =                |
|   | <b>Total Teleservices</b>                      | =                   | =                  | =                    | =                   | =                    | =                |
| <b>Tilson Technology Management, Inc.</b> | 120,000 Series B preferred shares.             | 600,000             | -                  | -                    | 600,000             | -                    | 15,000           |
|   | 21,391 Series C convertible preferred shares.  | 200,000             | -                  | -                    | 200,000             | -                    | -                |
|   | \$200,000 subordinated promissory note at 8%.  | 200,000             | -                  | -                    | 200,000             | -                    | 11,967           |
|   | 65,790 Series D preferred shares.              | 750,000             | -                  | -                    | 750,000             | -                    | 14,064           |
|   | \$750,000 subordinated promissory note at 8%.  | <u>750,000</u>      | =                  | =                    | <u>750,000</u>      | =                    | <u>44,877</u>    |
|   | <b>Total Tilson</b>                            | <u>2,500,000</u>    | =                  | =                    | <u>2,500,000</u>    | =                    | <u>85,908</u>    |
|   | <b>Total Affiliate Investments</b>             | <b>\$17,016,795</b> | <b>\$1,524,847</b> | <b>(\$1,813,035)</b> | <b>\$16,728,607</b> | <b>(\$1,125,673)</b> | <b>\$703,314</b> |
|   | <b>Total Control and Affiliate Investments</b> | <b>\$17,116,295</b> | <b>\$1,524,847</b> | <b>(\$1,813,035)</b> | <b>\$16,828,107</b> | <b>(\$1,125,673)</b> | <b>\$703,314</b> |

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

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

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

another category.

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

Table of Contents

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**

**September 30, 2018 (Continued)**

**(Unaudited)**

| <b>Industry Classification</b> | <b>Percentage of Total<br/>Investments (at fair value)<br/>as of September 30, 2018</b> |
|--------------------------------|---|
| Healthcare                     | 36.1%   |
| Software                       | 27.7  |
| Manufacturing                  | 19.0  |
| Professional Services          | 7.8   |
| Consumer Product               | 3.5   |
| Contact Center                 | 2.9   |
| Oil and Gas                    | 1.6   |
| Electronics                    | 1.1   |
| Marketing                      | 0.3   |
| <b>Total Investments</b>       | <b>100%</b>   |

Table of Contents

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**

**December 31, 2017**

| Company, Geographic Location, Business  | (a)  | (b)             | (c)           | (d)(f)           | Percent          |               |
|---|--|-----------------|---------------|------------------|------------------|---------------|
| <u>Description, (Industry) and Website</u>  | <u>Type of Investment</u>  | <u>Acquired</u> | <u>Equity</u> | <u>Cost</u>      | <u>Value</u>     |               |
| <u>Description, (Industry) and Website</u>  | <u>Type of Investment</u>  | <u>Acquired</u> | <u>Equity</u> | <u>Cost</u>      | <u>Value</u>     | <u>Assets</u> |
| <b>Non-Control/Non-Affiliate Investments</b>  |  |                 |               |                  |                  |               |
| <b>47.5%</b>  |  |                 |               |                  |                  |               |
| <b>of net assets: (j)</b>   |  |                 |               |                  |                  |               |
| <b>ACV Auctions, Inc. (e)(g)</b>  | 1,181,160 Series A preferred shares.                             | 8/12/16         | <1%           |                  |                  | 0.9%          |
| Buffalo, NY. Live mobile wholesale auctions for new and used car dealers. (Software)<br>www.acvauctions.com   |  |                 |               | \$163,000        | \$282,356        |               |
| <b>Centivo Corporation (e)(n)</b>   | \$100,000 convertible unsecured note at 2% due February 1, 2019. | 7/5/17          | 0%            |                  |                  | 0.3%          |
| New York, NY. Tech-enabled health solutions company that helps self-insured employers and their employees save money and have a better experience. (Health Care)                              |  |                 |               | 100,000          | 100,000          |               |
| <b>eHealth Global Technologies, Inc.</b>  | (g) \$1,500,000 term note at 10% due September 2, 2019.          | 6/28/16         | 0%            |                  |                  | 11.0%         |
| Henrietta, NY. eHealth Connect® improves health care delivery through intelligently aggregated clinical record and images for patient referrals. (Health Care)<br>www.ehealthtechnologies.com | (n) \$2,000,000 term note at 10% due September 2, 2019.          |                 |               |                  | 1,500,000        |               |
|   | <b>Total eHealth</b>   |                 |               | <u>2,000,000</u> | <u>2,000,000</u> |               |
|   |  |                 |               | <u>3,500,000</u> | <u>3,500,000</u> |               |
| <b>Empire Genomics, LLC (g)</b>   | \$1,101,489 senior secured convertible term                      | 6/13/14         | 0%            |                  |                  | 4.2%          |
| Buffalo, NY. Molecular diagnostics  |  |                 |               |                  |                  |               |

|   |  |          |     |  |                  |                  |      |
|---|--|----------|-----|--|------------------|------------------|------|
| company that offers a comprehensive menu of assay services for diagnosing and guiding patient therapeutic treatments.<br>(Health Care)<br>www.empiregenomics.com  | notes at 10% due April 30, 2018. \$250,000 promissory note at 12% due December 31, 2019.<br>(i) Interest receivable \$65,906.<br><b>Total Empire</b>   |          |     |  | 1,101,489        | 1,101,489        |      |
|   |  |          |     |  | <u>250,000</u>   | <u>250,000</u>   |      |
|   |  |          |     |  | <u>1,351,489</u> | <u>1,351,489</u> |      |
| <b>GoNoodle, Inc. (g)(m)</b><br><b>(Formerly HealthTeacher, Inc.)</b><br>Nashville, TN. Student engagement education software providing core aligned physical activity breaks. (Software)<br>www.gonoodle.com | \$1,000,000 secured note at 12% due January 31, 2020, (1% Payment in Kind (PIK)).<br>Warrant for 47,324 Series C Preferred shares.<br><b>Total GoNoodle</b>  | 2/6/15   | <1% |  | 1,029,330        | 1,029,330        | 3.2% |
|   |  |          |     |  | <u>25</u>        | <u>25</u>        |      |
|   |  |          |     |  | <u>1,029,355</u> | <u>1,029,355</u> |      |
| <b>Mercantile Adjustment Bureau, LLC (g)</b><br>Williamsville, NY. Full service accounts receivable management and collections company.<br>(Contact Center)<br>www.mercantilesolutions.com                    | \$1,199,039 subordinated secured note at 13% (3% for the calendar year 2017) due January 31, 2018.<br>(e) \$150,000 subordinated debenture at 8% due June 30, 2018.<br>Warrant for 3.29% membership interests. Option for 1.5% membership interests.<br>(i) Interest receivable \$55,983.<br><b>Total Mercantile</b> | 10/22/12 | 4%  |  | 1,199,040        | 949,040          | 3.0% |
|   |  |          |     |  | 150,000          | -                |      |
|   |  |          |     |  | <u>97,625</u>    | <u>-</u>         |      |
|   |  |          |     |  | <u>1,446,665</u> | <u>949,040</u>   |      |
| <b>Outmatch Holdings, LLC (e)(g)</b><br><b>(Chequed Holdings, LLC)</b><br>Dallas, TX. Web based predictive employee selection and reference checking. (Software)  | 2,641,899 Class P1 Units.<br>109,788 Class C1 Units.<br><b>Total Outmatch</b>  | 11/18/10 | 4%  |  | 2,140,007        | 2,140,007        | 6.7% |
|   |  |          |     |  | <u>5,489</u>     | <u>5,489</u>     |      |
|   |  |          |     |  | <u>2,145,496</u> | <u>2,145,496</u> |      |

www.outmatch.com

|  |   |                |           |                |                |             |
|--|---|----------------|-----------|----------------|----------------|-------------|
| <p><b>PostProcess Technologies LLC (e)(g)</b><br/>                 Buffalo, NY. Provides innovative solutions for the post-processing of additive manufactured 3D parts.<br/>                 (Manufacturing)<br/>                 www.postprocess.com</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> |
|--|---|----------------|-----------|----------------|----------------|-------------|

Table of Contents

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**

**December 31, 2017 (Continued)**

| Company, Geographic Location, Business  | (a)  | (b)             | (c)           |                  | (d)(f)           | Percent       |
|---|--|-----------------|---------------|------------------|------------------|---------------|
| <u>Description, (Industry) and Website</u>  | <u>Type of Investment</u>  | <u>Acquired</u> | <u>Equity</u> | <u>Cost</u>      | <u>Value</u>     | <u>Assets</u> |
| <b>Rheonix, Inc. (e)</b><br>Ithaca, NY. Developer of fully automated<br>microfluidic based molecular assay and<br>diagnostic testing devices. (Health Care)<br>www.rheonix.com  | 9,676 common<br>shares.<br>(g) 1,839,422 Series<br>A preferred<br>shares.<br>(g) 50,593 common<br>shares.<br>(g) 589,420 Series B<br>preferred shares. | 10/29/09        | 4%            | -                | 11,000           | 9.2%          |
|   |  |                 |               | 2,099,999        | 2,165,999        |               |
|   |  |                 |               | -                | 59,000           |               |
|   | <b>Total Rheonix</b>   |                 |               | <u>702,732</u>   | <u>702,732</u>   |               |
|   |  |                 |               | <u>2,802,731</u> | <u>2,938,731</u> |               |
| <b>SocialFlow, Inc. (e)(g)</b><br>New York, NY. Provides instant analysis of<br>social networks using a proprietary, predictive<br>analytic algorithm to optimize advertising and<br>publishing. (Software)<br>www.socialflow.com | 1,049,538 Series B<br>preferred shares.<br>1,204,819 Series<br>B-1 preferred<br>shares.<br>717,772 Series C<br>preferred shares.                       | 4/5/13          | 4%            | 500,000          | 731,431          | 6.5%          |
|   |  |                 |               | 750,000          | 839,648          |               |
|   |  |                 |               | <u>500,000</u>   | <u>500,221</u>   |               |
|   | <b>Total Social Flow</b>   |                 |               | <u>1,750,000</u> | <u>2,071,300</u> |               |
| <b>Somerset Gas Transmission Company,<br/>LLC (e)</b><br>Columbus, OH. Natural gas transportation.<br>(Oil and Gas)<br>www.somersetgas.com  | 26.5337 units.   | 7/10/02         | 3%            | 719,097          | 500,000          | 1.6%          |
| <b>Other Non-Control/Non-Affiliate Investments:</b>   |  |                 |               |                  |                  |               |
| <b>DataView, LLC (Software) (e)</b>   | Membership Interest.   | -               | -             | 310,357          | -                | 0.0%          |
| <b>UStec/Wi3 (Manufacturing) (e)</b>  | Common Stock.  | -               | -             | 100,500          | -                | 0.0%          |

**Subtotal Non-Control/Non-Affiliate Investments**

\$15,718,690 \$15,167,767

**Affiliate Investments 53.3% of net assets (k)**

|  |  |          |    |                  |                |       |
|--|--|----------|----|------------------|----------------|-------|
| <b>BeetNPath, LLC (Grainful) (e)(g)</b>  | 1,119,024 Series A-2 Preferred   | 10/20/14 | 9% |                  |                | 2.0%  |
| Ithaca, NY. Frozen entrées and packaged dry side dishes made from 100% whole grain steel cut oats under Grainful brand name. (Consumer Product)<br>www.grainful.com                | Membership Units.<br>1,032,918 Series B Preferred  |          |    | \$359,000        | \$359,000      |       |
|  | Membership Units.  |          |    | <u>261,277</u>   | <u>291,000</u> |       |
|  | <b>Total BeetNPath</b>   |          |    | <u>620,277</u>   | <u>650,000</u> |       |
| <b>Carolina Skiff LLC (g)</b>  | 6.0825% Class A common membership interest.  | 1/30/04  | 7% |                  |                | 5.5%  |
| Waycross, GA. Manufacturer of fresh water, ocean fishing and pleasure boats. (Manufacturing)<br>www.carolinaskiff.com  |  |          |    | 15,000           | 1,750,000      |       |
| <b>ClearView Social, Inc. (e)(g)</b>   | 312,500 Series seed plus preferred shares.   | 1/4/16   | 6% |                  |                | 0.6%  |
| Buffalo, NY. Social media publishing tool for law, CPA and professional firms. (Software)<br>www.clearviewsocial.com   |  |          |    | 200,000          | 200,000        |       |
| <b>First Wave Products Group, LLC (e)(g)</b>   | \$500,000 senior term notes at 10% due   | 4/19/12  | 7% |                  |                | 0.8%  |
| Batavia, NY. Sells First Crush automated pill crusher that crushes and grinds medical pills for nursing homes and medical institutions. (Health Care)<br>www.firstwaveproducts.com | July 31, 2017.<br>\$280,000 junior term notes at 10% due   |          |    | 661,563          | 250,000        |       |
|  | July 31, 2017.<br>Warrant for 41,619 capital securities.   |          |    | 316,469          | -              |       |
|  | <b>Total First Wave</b>  |          |    | <u>22,000</u>    | <u>-</u>       |       |
|  |  |          |    | <u>1,000,032</u> | <u>250,000</u> |       |
| <b>Genicon, Inc.</b>   | (g) 1,586,902 Series B preferred shares.<br>(g) \$2,000,000 promissory note at 8% due May 1, 2020. | 4/10/15  | 6% | 1,000,000        | 1,000,000      | 12.6% |
| Winter Park, FL. Designs, produces and distributes patented surgical instrumentation.  |  |          |    | 1,936,002        | 1,936,002      |       |

|  |   |   |   |
|--|---|---|---|
| (Health Care)<br><br>www.geniconendo.com | <p>(g) Warrant for 250,000 common shares.</p> <p>(n) \$1,000,000 promissory note at 8% due May 1, 2020.</p> <p>(n) Warrant for 125,000 common shares.</p> | <p>80,000</p> <p>967,777</p> <p><u>40,000</u></p> | <p>80,000</p> <p>967,777</p> <p><u>40,000</u></p> |
|  | <b>Total Genicon</b>  | <b><u>4,023,779</u></b>                           | <b><u>4,023,779</u></b>                           |

Table of Contents

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**

**December 31, 2017 (Continued)**

| Company, Geographic Location, Business   | (a)  | (b)             | (c)           |                        | (d)(f)                 | Percent       |
|--|--|-----------------|---------------|------------------------|------------------------|---------------|
| <u>Description, (Industry) and Website</u>   | <u>Type of Investment</u>  | <u>Acquired</u> | <u>Equity</u> | <u>Cost</u>            | <u>Value</u>           | <u>Assets</u> |
| <b>GiveGab, Inc. (e)(g)</b><br><br>Ithaca, NY. Online fundraising, day of giving supporter engagement software for non-profit organizations. (Software)<br>www.givegab.com   | 5,084,329 Series Seed preferred shares.  | 3/13/13         | 6%            | 616,221                | 424,314                | 1.3%          |
| <b>G-TEC Natural Gas Systems (e)</b><br><br>Buffalo, NY. Manufactures and distributes systems that allow natural gas to be used as an alternative fuel to gases. (Manufacturing)<br>www.gas-tec.com                                | 16.639% Class A membership interest.<br><br>8% cumulative dividend.                      | 8/31/99         | 17%           | 400,000                | 100,000                | 0.3%          |
| <b>Intrinsiq Materials, Inc. (e)(g)</b><br><br>Rochester, NY. Produces printable electronics utilizing a unique process of nanomaterial based ink in a room-temperature environment. (Manufacturing)<br>www.intrinsiqmaterials.com | 4,161,747 Series A preferred shares.   | 9/19/13         | 12%           | 1,125,673              | 400,000                | 1.3%          |
| <b>Knoa Software, Inc. (g)</b><br><br>New York, NY. End user experience management and performance (EMP) solutions   | 973,533 Series A-1 convertible preferred shares.<br>1,876,922 Series B preferred shares. | 11/20/12        | 7%            | 750,000<br><br>479,155 | 750,000<br><br>479,155 | 4.0%          |

|   |   |          |     |         |                  |                  |      |
|---|---|----------|-----|---------|------------------|------------------|------|
| utilizing enterprise applications. (Software)<br>www.knoa.com   | \$48,466 convertible promissory note at 8% due May 9, 2018.   |          |     |         | <u>48,466</u>    | <u>48,466</u>    |      |
|   | <b>Total Knoa</b>   |          |     |         | <u>1,277,621</u> | <u>1,277,621</u> |      |
| <b>KnowledgeVision Systems, Inc. (e)(g)</b>   | 200,000 Series A-1 preferred shares.  | 11/13/13 | 7%  | 250,000 | -                | -                | 1.7% |
| Lincoln, MA. Online presentation and training software. (Software)  | 214,285 Series A-2 preferred shares.  |          |     | 300,000 | 300,000          |                  |      |
| www.knowledgevision.com   | 129,033 Series A-3 preferred shares.  |          |     | 165,001 | 165,001          |                  |      |
|   | Warrant for 46,743 Series A-3 shares.   |          |     | 35,000  | 35,000           |                  |      |
|   | \$50,000 subordinated promissory note at 8% payable on demand of majority of noteholders after August 31, 2017. |          |     |         | <u>50,000</u>    | <u>50,000</u>    |      |
|   | <b>Total KnowledgeVision</b>  |          |     |         | <u>800,001</u>   | <u>550,001</u>   |      |
| <b>Mezmeriz, Inc. (e)(g)</b>  | 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)<br>www.mezmeriz.com |   |          |     |         |                  |                  |      |
| <b>Microcision LLC (g)(m)</b>   | \$1,500,000 subordinated promissory note at 12% (1% PIK) due December 31, 2024.                                 | 9/24/09  | 15% |         | 1,914,140        | 1,914,140        | 6.0% |
| Pennsauken Township, NJ. Manufacturer of precision machined medical implants, components and assemblies. (Manufacturing)<br>www.microcision.com   | 15% Class A common membership interest.   |          |     |         | <u>-</u>         | <u>-</u>         |      |
|   | <b>Total Microcision</b>  |          |     |         | <u>1,914,140</u> | <u>1,914,140</u> |      |
| <b>New Monarch Machine Tool, Inc. (g)</b>   | 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](http://www.monarchmt.com)

Table of Contents

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**

**December 31, 2017 (Continued)**

| Company, Geographic Location, Business  | (a)  | (b)             | (c)           |  | (d)(f)   | Percent       |
|---|--|-----------------|---------------|--|--|---------------|
| <u>Description, (Industry) and Website</u>  | <u>Type of Investment</u>  | <u>Acquired</u> | <u>Equity</u> | <u>Cost</u>  | <u>Value</u>   | <u>Assets</u> |
| OnCore Golf Technology, Inc. (e)(g)<br>Buffalo, NY. Maker of patented golf balls.<br>(Consumer Product)<br>www.oncoregolf.com   | 150,000 Series AA preferred shares.<br>\$300,000 subordinated convertible promissory notes at 6% (10% for calendar year 2017) due January 24, 2018.<br>(i) Interest receivable \$50,342.   | 12/31/14        | 9%            | 375,000  | -  | 0.9%          |
|   | <b>Total OnCore</b>  |                 |               | <u>300,000</u><br><u>675,000</u>                             | <u>300,000</u><br><u>300,000</u>                           |               |
| SciAps, Inc. (e)(g)<br>Woburn, MA. Instrumentation company producing portable analytical devices using XRF, LIBS and RAMAN spectroscopy to identify compounds, minerals, and elements.<br>(Manufacturing)<br>www.sciaps.com | 187,500 Series A convertible preferred shares.<br>274,299 Series A-1 convertible preferred shares.<br>117,371 Series B convertible preferred shares.<br>113,636 Series C preferred shares.<br>369,698 Series C-1 preferred shares. | 7/12/13         | 8%            | 1,500,000<br>504,710<br>250,000<br>175,000<br><u>399,274</u> | 700,000<br>250,000<br>250,000<br>175,000<br><u>399,274</u> | 5.6%          |
|   | <b>Total SciAps</b>  |                 |               | <u>2,828,984</u>   | <u>1,774,274</u>   |               |
| SOMS Technologies, LLC (e)(g)<br>Valhalla, NY. Produces and markets the   | 5,959,490 Series B membership interests.   | 12/2/08         | 9%            | 472,632  | 528,348  | 1.7%          |

|  |  |          |     |  |  |  |      |
|--|--|----------|-----|--|--|--|------|
| microGreen Extended Performance Oil Filter.<br>(Consumer Products)<br>www.microgreenfilter.com   |  |          |     |  |  |  |      |
| <b>Teleservices Solutions Holdings, LLC (e)(g)(m)</b>  | 250,000 Class B preferred units.<br>1,000,000 Class C preferred units.<br>80,000 Class D preferred units.<br>104,198 Class E preferred units.<br>PIK dividend for Series C and D at 12% and 14%, respectively.   | 5/30/14  | 6%  | 250,000<br>1,190,680<br>91,200<br><u>104,198</u>           | -<br>-<br>-<br>=   |  | 0.0% |
| Montvale, NJ. Customer contact center specializing in customer acquisition and retention for selected industries. (Contact Center)<br>www.ipacesetters.com | <b>Total Teleservices</b>  |          |     | <u>1,636,078</u>   | =  |  |      |
| <b>Tilson Technology Management, Inc.</b>  | (g) 120,000 Series B preferred shares.<br>21,391 Series C convertible preferred shares.<br>(g) \$200,000 subordinated promissory note at 8% due September 28, 2021.<br>(n) 65,790 Series D preferred shares.<br>(n) \$750,000 subordinated promissory note at 8% due December 1, 2022. | 1/20/15  | 11% | 600,000<br>200,000<br>200,000<br>750,000<br><u>750,000</u> | 600,000<br>200,000<br>200,000<br>750,000<br><u>750,000</u> |  | 7.8% |
| Portland, ME. Cellular, fiber optic and wireless information systems, construction, and management. (Professional Services)<br>www.tilsonotech.com         | <b>Total Tilson</b>  |          |     | <u>2,500,000</u>   | <u>2,500,000</u>   |  |      |
| <b>Subtotal Affiliate Investments</b>  |  |          |     | \$20,871,129   | \$17,016,795   |  |      |
| <b>Control Investments 0.3% of net assets (D)</b>  |  |          |     |  |  |  |      |
| <b>Advantage 24/7 LLC (e)(g)</b>   | 53% Membership interest.   | 12/30/10 | 53% | \$99,500   | \$99,500   |  | 0.3% |
| Williamsville, NY. Marketing program for wine and spirits dealers. (Marketing Company)<br>www.advantage24-7.com  |  |          |     |  |  |  |      |
| <b>Subtotal Control Investments</b>  |  |          |     | \$99,500   | \$99,500   |  |      |

|  |               |              |              |
|--|---------------|--------------|--------------|
| <b>TOTAL INVESTMENTS</b>                     | <b>101.1%</b> | \$36,689,319 | \$32,284,062 |
| <b>OTHER ASSETS IN EXCESS OF LIABILITIES</b> | <b>(1.1%)</b> |              | (365,377)    |
| <b>NET ASSETS</b>                            | <b>100%</b>   |              | \$31,918,685 |

**Table of Contents**

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**

**December 31, 2017 (Continued)**

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

(a) At December 31, 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 date in which the Corporation first acquired an investment in the company or a predecessor company.

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

(d) The Corporation's investments are carried at fair value in accordance with Accounting Standards Codification (ASC) 820 Fair Value Measurements and Disclosures, which defines fair value and establishes guidelines for measuring fair value. At December 31, 2017, ASC 820 designates 100% of the Corporation's investments as Level 3 assets. Under the valuation policy of the Corporation, unrestricted publicly held securities are valued at the average closing bid price for these securities for the last three trading days of the reporting period. Restricted securities are subject to restrictions on resale, and are valued at fair value as determined by the management of the Corporation and submitted to the Board of Directors for approval. Fair value is considered to be the amount that the Corporation may reasonably expect to receive for portfolio securities when sold on the valuation date. Valuations as of any particular date, however, are not necessarily indicative of amounts which may ultimately be realized as a result of future sales or other dispositions of securities and these favorable or unfavorable differences could be material. Among the factors considered in determining the fair value of restricted securities are the financial condition and operating results, projected operations, and other analytical data relating to the investment. Also considered are the market prices for unrestricted securities of the same class (if applicable) and other matters which may have an impact on the value of the portfolio company (see Note 3 Investments to the Consolidated Financial Statements).

(e) These investments are non-income producing. All other investments are income producing. Non-income producing investments have not generated cash payments of interest or dividends including LLC tax-related distributions within the last twelve months, or are not expected to do so going forward.

(f) As of December 31, 2017, the total cost of investment securities was approximately \$36.7 million. Net unrealized depreciation was approximately (\$4.4) million, which was comprised of \$2.4 million of unrealized appreciation of investment securities and (\$6.8) million of unrealized depreciation of investment securities. At December 31, 2017, the aggregate gross unrealized gain for federal income tax purposes was \$2.8 million and the aggregate gross unrealized loss for federal income tax purposes was (\$4.4) million. The net unrealized loss for federal income tax purposes was (\$1.6) million based on a tax cost of \$33.9 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 year ended December 31, 2017.

(i) Represents interest due (amounts over \$50,000) 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.

Table of Contents

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**

**December 31, 2017 (Continued)**

**Investments in and Advances to Affiliates**

| Company                       | Type of Investment                               | December 31, 2016 Fair Value | Gross Additions (1)   | Gross Reductions (2)    | December 31, 2017 Fair Value | Net Realized Gains (Losses) | Amount of Interest/ Dividend/ Fee Income (3) |
|-------------------------------|--|------------------------------|-----------------------|-------------------------|------------------------------|-----------------------------|--|
| <b>Control Investments:</b>   |  |                              |                       |                         |                              |                             |  |
| <b>Advantage 24/7 LLC</b>     | 53% Membership interest.                         | \$99,500                     | \$-                   | \$-                     | \$99,500                     | \$-                         | \$-  |
|                               | <b>Total Control Investments</b>                 | <b>\$99,500</b>              | <b>\$-</b>            | <b>\$-</b>              | <b>\$99,500</b>              | <b>-</b>                    | <b>\$-</b>                                   |
| <b>Affiliate Investments:</b> |  |                              |                       |                         |                              |                             |  |
| <b>BeetNPath, LLC</b>         | 1,119,024 Series A-2 Preferred Membership Units. | \$359,000                    |                       | \$-                     | \$359,000                    | -                           | \$-  |
|                               | 1,032,918 Series B Preferred Membership Units    | -                            | \$291,000             | -                       | 291,000                      | -                           | -  |
|                               | \$150,000 convertible promissory note at 8%.     | <u>150,000</u>               | <u>-</u>              | <u>(150,000)</u>        | <u>-</u>                     | <u>=</u>                    | <u>4,800</u>                                 |
|                               | <b>Total BeetNPath</b>                           | <b><u>509,000</u></b>        | <b><u>291,000</u></b> | <b><u>(150,000)</u></b> | <b><u>650,000</u></b>        | <b><u>=</u></b>             | <b><u>4,800</u></b>                          |
| <b>Carolina Skiff LLC</b>     | 6.0825% Class A common membership interest.      | 1,100,000                    | 650,000               | -                       | 1,750,000                    | -                           | 178,532                                      |
| <b>ClearView Social, Inc.</b> | 312,500 Series seed plus preferred shares.       | 200,000                      | -                     | -                       | 200,000                      | -                           | -  |
| <b>First Wave Products</b>    | \$500,000 senior term notes at                   | 250,000                      | -                     | -                       | 250,000                      | -                           | -  |

Edgar Filing: RAND CAPITAL CORP - Form 10-Q

|                                  |   |                  |                  |                    |                  |   |                |
|----------------------------------|---|------------------|------------------|--------------------|------------------|---|----------------|
| <b>Group, LLC</b>                | 10%.  |                  |                  |                    |                  |   |                |
|                                  | \$280,000 junior term notes at 10%.                         | -                | -                | -                  | -                | - | -              |
|                                  | Warrant for 41,619 capital securities.                      | -                | =                | =                  | -                | = | =              |
|                                  | <b>Total First Wave</b>                                     | <u>250,000</u>   | =                | =                  | <u>250,000</u>   | = | =              |
| <b>Genicon, Inc.</b>             | 1,586,902 Series B preferred shares.                        | 1,000,000        | -                | -                  | 1,000,000        | - | -              |
|                                  | \$1,100,000 senior term loans at 12%.                       | 1,100,000        | -                | (1,100,000)        | -                | - | 50,234         |
|                                  | \$600,000 term loan at 14%.                                 | 600,000          | -                | (600,000)          | -                | - | 32,200         |
|                                  | \$2,000,000 promissory note at 8%                           | -                | 2,016,002        | (80,000)           | 1,936,002        | - | 129,752        |
|                                  | \$1,000,000 promissory note at 8%                           | -                | 1,007,777        | (40,000)           | 967,777          | - | 60,860         |
|                                  | Warrant for 250,000 common shares                           | -                | 80,000           | -                  | 80,000           | - | -              |
|                                  | Warrant for 125,000 common shares                           | -                | <u>40,000</u>    | -                  | <u>40,000</u>    | = | -              |
|                                  | <b>Total Genicon</b>  | <u>2,700,000</u> | <u>3,143,779</u> | <u>(1,820,000)</u> | <u>4,023,779</u> | = | <u>273,046</u> |
| <b>GiveGab, Inc.</b>             | 5,084,329 Series Seed preferred shares.                     | 424,314          | -                | -                  | 424,314          | - | -              |
| <b>G-TEC Natural Gas Systems</b> | 16.639% Class A membership interest. 8% cumulative dividend | 100,000          | -                | -                  | 100,000          | - | -              |
| <b>Intrinsiq Materials, Inc.</b> | 4,161,747 Series A preferred shares.                        | 780,000          | -                | (380,000)          | 400,000          | - | -              |
| <b>Knoa Software, Inc.</b>       | 973,533 Series A-1 convertible preferred shares.            | -                | 750,000          | -                  | 750,000          | - | -              |
|                                  | 1,876,922 Series B preferred shares.                        | 449,455          | 29,700           | -                  | 479,155          | - | -              |
|                                  | \$48,466  | <u>48,466</u>    | -                | =                  | <u>48,466</u>    | - | <u>3,877</u>   |

|                                       |   |                |                |   |                  |   |              |
|---------------------------------------|---|----------------|----------------|---|------------------|---|--------------|
|                                       | convertible promissory note at 8%.                        |                |                |   |                  |   |              |
|                                       | <b>Total Knoa</b>   | <u>497,921</u> | <u>779,700</u> | = | <u>1,277,621</u> | = | <u>3,877</u> |
| <b>KnowledgeVision Systems, Inc.</b>  | 200,000 Series A-1 preferred shares.                      | -              | -              | - | -                | - | -            |
|                                       | 214,285 Series A-2 preferred shares.                      | 300,000        | -              | - | 300,000          | - | -            |
|                                       | 129,033 Series A-3 preferred shares.                      | 165,001        | -              | - | 165,001          | - | -            |
|                                       | \$50,000 subordinated promissory note at 8%               | -              | 50,000         | - | 50,000           | - | 3,748        |
|                                       | Warrant for 46,743 Series A-3 shares.                     | <u>35,000</u>  | <u>-</u>       | = | <u>35,000</u>    | = | <u>-</u>     |
|                                       | <b>Total Knowledge Vision</b>                             | <u>500,001</u> | <u>50,000</u>  | = | <u>550,001</u>   | = | <u>3,748</u> |
| <b>Mezmeriz, Inc.</b>                 | 1,554,565 Series seed preferred shares.                   | 351,477        | -              | - | 351,477          | - | -            |
| <b>Microcision LLC</b>                | \$1,500,000 subordinated promissory note at 12% (1% PIK). | 1,891,964      | 22,176         | - | 1,914,140        | - | 228,239      |
| <b>New Monarch Machine Tool, Inc.</b> | 22.84 common shares.                                      | 22,841         | -              | - | 22,841           | - | 28,409       |

Table of Contents

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**

**December 31, 2017 (Continued)**

**Investments in and Advances to Affiliates**

| Company                             | Type of Investment   | December 31, 2016<br>Fair Value | Gross Additions<br>(1) | Gross Reductions<br>(2) | December 31, 2017<br>Fair Value | Net Realized<br>Fair Gains<br>(Losses) | Amount of<br>Interest/<br>Dividend/<br>Income (3) |
|-------------------------------------|--|---------------------------------|------------------------|-------------------------|---------------------------------|--|---|
| <b>OnCore Golf Technology, Inc.</b> | 150,000 Series AA preferred shares.                        | -                               | -                      | -                       | -                               | -                                      | -   |
|                                     | \$300,000 subordinated convertible promissory notes at 6%. | <u>300,000</u>                  | =                      | =                       | <u>300,000</u>                  | =                                      | <u>29,211</u>                                     |
|                                     | <b>Total OnCore</b>  | <u>300,000</u>                  | =                      | =                       | <u>300,000</u>                  | =                                      | <u>29,211</u>                                     |
| <b>SciAps, Inc.</b>                 | 187,500 Series A convertible preferred shares.             | 1,000,000                       | -                      | (300,000)               | 700,000                         | -                                      | -   |
|                                     | 274,299 Series A-1 convertible preferred shares.           | 504,710                         | -                      | (254,710)               | 250,000                         | -                                      | -   |
|                                     | 117,371 Series B convertible preferred shares.             | 250,000                         | -                      | -                       | 250,000                         | -                                      | -   |
|                                     | 113,636 Series C preferred shares.                         | -                               | 175,000                | -                       | 175,000                         | -                                      | -   |
|                                     | 369,698 Series C-1 preferred shares.                       | -                               | 399,274                | -                       | 399,274                         | -                                      | -   |
|                                     | \$200,000 subordinated promissory note at 10%.             | 200,000                         | -                      | (200,000)               | -                               | -                                      | 4,731   |

Edgar Filing: RAND CAPITAL CORP - Form 10-Q

|   |   |                     |                    |                      |                     |            |                  |
|---|---|---------------------|--------------------|----------------------|---------------------|------------|------------------|
|   | \$100,000 secured subordinated convertible note at 10%. | <u>100,000</u>      | <u>-</u>           | <u>(100,000)</u>     | <u>-</u>            | =          | <u>2,376</u>     |
|   | <b>Total SciAps</b>                                     | <u>2,054,710</u>    | <u>574,274</u>     | <u>(854,710)</u>     | <u>1,774,274</u>    | =          | <u>7,107</u>     |
| <b>SOMS Technologies, LLC</b>               | 5,959,490 Series B membership interests.                | 528,348             | -                  | -                    | 528,348             | -          | 6,024            |
| <b>Teleservices Solutions Holdings, LLC</b> | 250,000 Class B preferred units.                        | -                   | -                  | -                    | -                   | -          | -                |
|   | 1,000,000 Class C preferred units.                      | 200,000             | -                  | (200,000)            | -                   | -          | -                |
|   | 80,000 Class D preferred units.                         | 91,200              | -                  | (91,200)             | -                   | -          | -                |
|   | 104,198 Class E preferred units.                        | <u>104,198</u>      | -                  | <u>(104,198)</u>     | =                   | =          | =                |
|   | <b>Total Teleservices</b>                               | <u>395,398</u>      | =                  | <u>(395,398)</u>     | =                   | =          | =                |
| <b>Tilson Technology Management, Inc.</b>   | 120,000 Series B preferred shares.                      | 600,000             | -                  | -                    | 600,000             | -          | 20,000           |
|   | 21,391 Series C convertible preferred shares.           | 200,000             | -                  | -                    | 200,000             | -          | -                |
|   | \$200,000 subordinated promissory note at 8%.           | 200,000             | -                  | -                    | 200,000             | -          | 16,000           |
|   | 65,790 Series D preferred shares.                       | -                   | 750,000            | -                    | 750,000             | -          | 1,579            |
|   | \$750,000 subordinated promissory note at 8%.           | <u>-</u>            | <u>750,000</u>     | =                    | <u>750,000</u>      | =          | <u>5,096</u>     |
|   | <b>Total Tilson</b>                                     | <u>1,000,000</u>    | <u>1,500,000</u>   | =                    | <u>2,500,000</u>    | =          | <u>42,675</u>    |
|   | <b>Total Affiliate Investments</b>                      | <b>\$13,605,974</b> | <b>\$7,010,929</b> | <b>(\$3,600,108)</b> | <b>\$17,016,795</b> | <b>\$-</b> | <b>\$805,668</b> |
|   | <b>Total Control and Affiliate Investments</b>          | <b>\$13,705,474</b> | <b>\$7,010,929</b> | <b>(\$3,600,108)</b> | <b>\$17,116,295</b> | <b>\$-</b> | <b>\$805,668</b> |

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

(1) Gross additions include increases in the cost basis of investments resulting from new portfolio investments, follow on investments, capitalized interest and the accretion of discounts. Gross additions also include net increases in

unrealized appreciation or net decreases in unrealized depreciation, and the movement of an existing portfolio company into this category and out of another category.

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

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

Table of Contents

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**

**December 31, 2017 (Continued)**

| <b>Industry Classification</b> | <b>Percentage of Total<br/>Investments (at fair value)<br/>as of December 31, 2017</b> |
|--------------------------------|--|
| Healthcare                     | 37.7%  |
| Software                       | 24.7   |
| Manufacturing                  | 19.4   |
| Professional Services          | 7.7  |
| Consumer Product               | 4.6  |
| Contact Center                 | 2.9  |
| Oil and Gas                    | 1.6  |
| Electronics                    | 1.1  |
| Marketing                      | 0.3  |
| <b>Total Investments</b>       | <b>100%</b>  |

---

**Table of Contents**

**Rand Capital Corporation and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**(Unaudited)**

**Note 1. ORGANIZATION**

Rand Capital Corporation ( Rand , we , us and our ) was incorporated under the laws of New York in February 1969, 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, 2017.

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

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

During 2017 we established a second SBIC subsidiary, Rand Capital SBIC II, L.P. ( Rand SBIC II ), and began making investments through this SBIC subsidiary. During the first quarter of 2018, together with the SBA, we determined that the optimal structure was to revert back to investing in small businesses through our original SBIC, Rand SBIC, and the assets of Rand SBIC II were transferred to Rand SBIC. Rand SBIC has applied for \$6 million in new SBA leverage commitment and is currently undergoing the review and approval process.

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](http://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 .

**Table of Contents****Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation*** It is our opinion that the accompanying consolidated financial statements include all adjustments of a normal recurring nature necessary for a fair presentation in accordance with United States generally accepted accounting principles ( GAAP ) of the consolidated financial position, results of operations, cash flows and statement of changes in net assets for the interim periods presented. Certain information and note disclosures normally included in audited annual consolidated financial statements prepared in accordance with GAAP have been omitted; however, we believe that the disclosures made are adequate to make the information presented herein not misleading. Our interim results for the nine months ended September 30, 2018 are not necessarily indicative of the results to be expected for the full year.

These statements should be read in conjunction with the consolidated financial statements and the notes included in our Annual Report on Form 10-K for the year ended December 31, 2017. 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 2018 Definitive Proxy Statement submitted to shareholders

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

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

***Fair Value of SBA Debentures*** In September 2018, the SBIC Funding Corporation completed a pooling of SBA debentures that have a coupon rate of 3.548%, excluding a mandatory SBA annual charge estimated to be 0.804%, resulting in a total estimated fixed rate for ten years of 4.352%. 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.

**Table of Contents**

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

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

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

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

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

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

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

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

**Revenue Recognition Fee Income** Consists of the revenue associated with the amortization of financing fees charged to the portfolio companies upon successful closing of SBIC financings and income associated with portfolio company board attendance fees. The income associated with the amortization of financing fees was \$28,266 and \$18,557 for the nine months ended September 30, 2018 and 2017, respectively. The board fees were \$2,000 and \$1,000 for the nine months ended September 30, 2018 and 2017, respectively. In addition, we recorded a fee of approximately \$142,000 for modifying a debt instrument during the nine months ended September 30, 2018.

**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.

---

**Table of Contents**

**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 \$29,462 and \$21,085 in OID income for nine months ended September 30, 2018 and 2017, respectively. OID income is estimated to be approximately \$10,000 for the remainder of 2018.

**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 \$20,550 for each of the nine months ended September 30, 2018 and 2017. Amortization expense on currently outstanding debentures for the next five years is estimated to average approximately \$23,000 per year.

**SBA Debentures** The Corporation had \$8,000,000 in outstanding SBA debentures at September 30, 2018 and December 31, 2017 with a weighted average interest rate of 3.54%. The debentures are presented net of deferred debenture costs (See Note 6 SBA Debentures ). 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. The Corporation does not have any common stock equivalents outstanding.

**Supplemental Cash Flow Information** Income taxes (refunded) paid during the nine months ended September 30, 2018 and 2017 were (\$17,006) and \$590,940, respectively. Interest paid during each of the nine months ended September 30, 2018 and 2017 was \$282,875. The Corporation converted \$279,319 and \$262,105 of interest receivable into investments during the nine months ended September 30, 2018 and 2017, respectively.

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

**Stockholders' Equity (Net Assets)** At September 30, 2018 and December 31, 2017, there were 500,000 shares of \$10.00 par value preferred stock authorized and unissued.

On October 25, 2018, the Board of Directors extended the repurchase authorization for up to 1,000,000 shares of the Corporation's outstanding common stock on the open market through October 25, 2019 at prices no greater than the then current net asset value. No shares were repurchased during the nine months ended September 30, 2018. At September 30, 2018, 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 September 30, 2018, no stock options had been

**Table of Contents**

awarded under the Option Plan. Because Section 57(n) of the 1940 Act prohibits maintenance of a profit sharing plan for the officers and employees of a BDC where any option, warrant or right is outstanding under an executive compensation plan, no stock options will be granted under the Option Plan while any profit sharing plan is in effect with respect to the Corporation.

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

The Corporation did not record any expense pursuant to the Plan for the nine months ended September 30, 2018 and 2017, respectively. Included in the profit sharing and bonus payable line on the Consolidated Statement of Financial Position at December 31, 2017 was \$132,000 that was paid during the first quarter of 2018.

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

It is the Corporation's policy to include interest and penalties related to income tax liabilities in income tax expense. There were no amounts recognized for interest or penalties for the nine months ended September 30, 2018 or 2017.

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

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

|  | <b>September 30,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|--|-------------------------------|------------------------------|
| Genicon, Inc. (Genicon)                      | 13%                           | 12%                          |
| eHealth Global Technologies, Inc. (eHealth), | 11%                           | 11%                          |
| Rheonix, Inc. (Rheonix)                      | 9%                            | 9%                           |
| Tilson Technology Management, Inc. (Tilson)  | 8%                            | 8%                           |
| Outmatch (Outmatch)                          | 7%                            | 7%                           |

**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.

## **Table of Contents**

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

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

Loan and debt securities are valued at cost when it is representative of the fair value of the investment or sufficient assets or liquidation proceeds are expected to exist from a sale of a portfolio company at its estimated fair value. However, they may be valued at an amount other than cost given the carrying interest rate versus the related inherent portfolio risk of the investment. A loan or debt instrument may be reduced in value if it is judged to be of poor quality, collection is in doubt or insufficient liquidation proceeds exist.

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

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

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

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

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

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

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

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

Edgar Filing: RAND CAPITAL CORP - Form 10-Q

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;

**Table of Contents**

The current capital structure of the business and the seniority of the various classes of equity if a deemed liquidation event were to occur;

Pending debt or capital restructuring of the portfolio company;

Current information regarding any offers to purchase the investment, or recent fundraising transactions;

Current ability of the portfolio company to raise additional financing if needed;

Changes in the economic environment which may have a material impact on the operating results of the portfolio company;

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

Qualitative assessment of key management;

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

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

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

**Equity Securities**

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

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

Another key factor used in valuing equity investments is a significant recent arms-length equity transaction entered into by the portfolio company with a sophisticated, non-strategic, unrelated, new investor. The terms of these equity

transactions may not be identical to the equity transactions between the portfolio company and the Corporation, and the impact of the difference in transaction terms on the market value of the portfolio company may be difficult or impossible to quantify.

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

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

**Table of Contents****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 result in a change in fair value. For recent investments, the Corporation generally relies on the cost basis, which is deemed to represent the fair value, unless other fair value inputs are identified causing the Corporation to depart from this basis.

The following table provides a summary of the significant unobservable inputs used to determine the fair value of the Corporation's Level 3 portfolio investments as of September 30, 2018:

| <b>Investment Type</b>                 | <b>Market Approach EBITDA Multiple</b> | <b>Market Approach Liquidation Seniority</b> | <b>Market Approach Revenue Multiple</b> | <b>Market Approach Transaction Pricing</b> | <b>Totals</b>        |
|--|--|--|---|--|----------------------|
| Non-Control/Non-Affiliate Equity       | \$                                     | \$ 25  | \$ 2,645,496                            | \$ 6,209,950                               | \$ 8,855,471         |
| Non-Control/Non-Affiliate Debt         | \$ 949,040                             | 1,739,639                                    | 3,500,000                               | 300,000                                    | 6,488,679            |
| <b>Total Non-Control/Non-Affiliate</b> | <b>\$ 949,040</b>                      | <b>\$ 1,739,664</b>                          | <b>\$ 6,145,496</b>                     | <b>\$ 6,509,950</b>                        | <b>\$ 15,344,150</b> |
| Affiliate Equity                       | \$ 4,420,000                           | \$ 22,841                                    | \$ 4,053,430                            | \$ 1,031,477                               | \$ 9,527,748         |
| Affiliate Debt                         | 5,935,859                              |  |   | 1,265,000                                  | 7,200,859            |
| <b>Total Affiliate</b>                 | <b>\$ 10,355,859</b>                   | <b>\$ 22,841</b>                             | <b>\$ 4,053,430</b>                     | <b>\$ 2,296,477</b>                        | <b>\$ 16,728,607</b> |
| Control Equity                         | \$                                     | \$   | \$ 99,500                               | \$   | \$ 99,500            |
| <b>Total Control</b>                   | <b>\$</b>                              | <b>\$</b>                                    | <b>\$ 99,500</b>                        | <b>\$</b>                                  | <b>\$ 99,500</b>     |
| <b>Total Level 3 Investments</b>       | <b>\$ 11,304,899</b>                   | <b>\$ 1,762,505</b>                          | <b>\$ 10,298,426</b>                    | <b>\$ 8,806,427</b>                        | <b>\$ 32,172,257</b> |

|                    |                 |             |                  |                   |
|--------------------|-----------------|-------------|------------------|-------------------|
| Range              | 4X-9X           | 1X          | 1X-3.3X          | Not Applicable    |
| Unobservable Input | EBITDA Multiple | Asset Value | Revenue Multiple | Transaction Price |
| Weighted Average   | 5.6X            | 1X          | 2.1X             | Not Applicable    |

The following table provides a summary of the components of Level 1, 2 and 3 Assets Measured at Fair Value at September 30, 2018:

| Description        | Fair Value Measurements at Reported Date Using |  |   |   |
|--------------------|--|--|---|---|
|                    | September 30, 2018                             | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Other Significant Unobservable Inputs (Level 3) |
| Loan investments   | \$ 4,325,000                                   | \$   | \$                                      | \$ 4,325,000                                    |
| Debt investments   | 9,364,538                                      |  |   | 9,364,538                                       |
| Equity investments | 18,482,719                                     |  |   | 18,482,719                                      |
| Total              | \$ 32,172,257                                  | \$   | \$                                      | \$ 32,172,257                                   |

**Table of Contents**

The following table provides a summary of the components of Level 1, 2 and 3 Assets Measured at Fair Value on a Recurring Basis at December 31, 2017:

| Description        | Fair Value Measurements at Reported Date Using Quoted Prices in Active Markets for |                            |   |   |
|--------------------|--|----------------------------|---|---|
|                    | December 31, 2017  | Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Other Significant Unobservable Inputs (Level 3) |
| Loan investments   | \$ 3,550,000   | \$                         | \$                                      | \$ 3,550,000                                    |
| Debt investments   | 10,096,244   |                            |   | 10,096,244                                      |
| Equity investments | 18,637,818   |                            |   | 18,637,818                                      |
| Total              | \$ 32,284,062  | \$                         | \$                                      | \$ 32,284,062                                   |

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

| Description   | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Venture Capital Investments |                  |                    |               |
|---|---|------------------|--------------------|---------------|
|   | Loan Investments  | Debt Investments | Equity Investments | Total         |
| <b>Ending Balance, December 31, 2017, of Level 3 Assets</b>                           | \$ 3,550,000  | \$ 10,096,244    | \$ 18,637,818      | \$ 32,284,062 |
| <b><u>Realized loss included in net change in net assets from operations:</u></b>     |   |                  |                    |               |
| Intrinsiq Material, Inc. (Intrinsiq)  |   |                  | (1,125,673)        | (1,125,673)   |
| <b>Total Realized Losses</b>  |   |                  | (1,125,673)        | (1,125,673)   |
| <b><u>Unrealized Losses included in net change in net assets from operations:</u></b> |   |                  |                    |               |
| Empire Genomics, LLC (Empire Genomics)  |   | (901,360)        |                    | (901,360)     |
| First Wave Products Group, LLC (First Wave)   |   | (250,000)        |                    | (250,000)     |
| GiveGab, Inc. (Givegab)   |   |                  | 191,907            | 191,907       |
| Intrinsiq   |   |                  | 725,673            | 725,673       |
| SOMS Technologies, LLC (SOMS)   |   |                  | (498,348)          | (498,348)     |
| <b>Total Unrealized Losses</b>  |   | (1,151,360)      | 419,232            | (732,128)     |
| <b><u>Purchases of Securities/Changes to Securities/Non-cash conversions:</u></b>     |   |                  |                    |               |

Edgar Filing: RAND CAPITAL CORP - Form 10-Q

|   |              |              |               |                |
|---|--------------|--------------|---------------|----------------|
| BeetNPath, LLC (Beetnpath)  | 140,000      |              |               | 140,000        |
| Centivo Corporation (Centivo)   |              |              | 201,342       | 201,342        |
| Empire Genomics   | 274,106      |              |               | 274,106        |
| Genicon, Inc. (Genicon)   | 153,548      |              |               | 153,548        |
| GoNoodle, Inc. (GoNoodle)   | 7,739        |              |               | 7,739          |
| KnowledgeVision Systems, Inc.<br>(Knowledgevision)  | 775,000      |              |               | 775,000        |
| Microcision LLC (Microcision)   | 14,392       |              |               | 14,392         |
| SciAps, Inc. (Sciaps)   |              |              | 250,000       | 250,000        |
| <b>Total Purchases of Securities/Changes<br/>to Securities/Non-cash conversions</b>               | 775,000      | 589,785      | 451,342       | 1,816,127      |
| <b>Repayments and Sale of Securities:</b>   |              |              |               |                |
| Empire Genomics   |              | (21,665)     |               | (21,665)       |
| Knoa Software, Inc. (Knoa)  |              | (48,466)     |               | (48,466)       |
| <b>Total Repayments and Sale of Securities</b>  |              | (70,131)     |               | (70,131)       |
| <b>Transfers within Level 3</b>   |              | (100,000)    | 100,000       |                |
| <b>Ending Balance, September 30, 2018,<br/>of Level 3 Assets</b>                                  | \$ 4,325,000 | \$ 9,364,538 | \$ 18,482,719 | \$ 32,172,257  |
| Change in unrealized depreciation on investments for the period included in changes in net assets |              |              |               | (\$ 732,128)   |
| Net realized loss on investments for the period included in changes in net assets                 |              |              |               | (\$ 1,125,673) |

**Table of Contents**

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

| Description   | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Venture Capital Investments |                  |                    | Total         |
|---|---|------------------|--------------------|---------------|
|   | Loan Investments  | Debt Investments | Equity Investments |               |
| <b>Ending Balance, December 31, 2016, of Level 3 Assets</b>                                     | \$ 3,200,000  | \$ 6,700,221     | \$ 17,600,260      | \$ 27,500,481 |
| <b><u>Unrealized Gains and Losses included in net change in net assets from operations:</u></b> |   |                  |                    |               |
| ACV Auctions, Inc. (ACV Auctions)   |   |                  | 119,356            | 119,356       |
| Athenex, Inc. (Athenex)   |   |                  | 308,336            | 308,336       |
| 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)     |
| <b>Total Unrealized Gains and Losses</b>  |   | (250,000)        | (737,983)          | (987,983)     |
| <b><u>Purchases of Securities/Changes to Securities/Non-cash conversions:</u></b>               |   |                  |                    |               |
| Beetnpath   |   | 100,000          | 11,277             | 111,277       |
| Centivo Corporation (Centivo)   |   | 100,000          |                    | 100,000       |
| eHealth Global Technologies, Inc. (eHealth)   | 2,000,000   |                  |                    | 2,000,000     |
| Empire Genomics, LLC (Empire Genomics)  |   | 201,489          |                    | 201,489       |
| Genicon, Inc. (Genicon)   | 300,000   | 893,588          | 120,000            | 1,313,588     |
| GoNoodle, Inc. (GoNoodle)   |   | 7,662            |                    | 7,662         |
| KnowledgeVision Systems, Inc. (Knowledge Vision)  | 50,000  |                  |                    | 50,000        |
| Mercantile  |   | 107,497          |                    | 107,497       |
| Microcision LLC (Microcision)   |   | 17,403           |                    | 17,403        |
| Sciaps  |   |                  | 274,274            | 274,274       |
| <b>Total Purchases of Securities/Changes to Securities/Non-cash conversions</b>                 | 2,350,000   | 1,427,639        | 405,551            | 4,183,190     |
| <b>Transfers within Level 3</b>   | (2,000,000)   | 1,450,000        | 550,000            |               |
| <b>Transfers out of Level 3</b>   |   |                  | (725,000)          | (725,000)     |

|   |              |              |               |               |
|---|--------------|--------------|---------------|---------------|
| <b>Ending Balance, September 30, 2017,<br/>of Level 3 Assets</b>                                  | \$ 3,550,000 | \$ 9,327,860 | \$ 17,092,828 | \$ 29,970,688 |
| Change in unrealized depreciation on investments for the period included in changes in net assets |              |              |               | (\$ 987,983)  |
| Net realized gain on investments for the period included in changes in net assets                 |              |              |               | \$            |

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

At September 30, 2018 and December 31, 2017, other assets was comprised of the following:

|                           | <b>September 30, 2018</b> | <b>December 31, 2017</b> |
|---------------------------|---------------------------|--------------------------|
| Prepaid expenses          | \$ 34,621                 | \$                       |
| Operating receivables     | 2,899                     | 3,204                    |
| Equipment (net)           | 840                       | 2,490                    |
| Dividend receivable       |                           | 37,160                   |
| <b>Total other assets</b> | <b>\$ 38,360</b>          | <b>\$ 42,854</b>         |

**Note 5. COMMITMENTS AND CONTINGENCIES**

The Corporation had one commitment to fund a \$50,000 investment at September 30, 2018.

**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.

|  | <b>September 30, 2018</b> | <b>December 31, 2017</b> |
|--|---------------------------|--------------------------|
| Debentures guaranteed by the SBA             | \$ 8,000,000              | \$ 8,000,000             |
| Less unamortized issue costs                 | (124,277)                 | (144,827)                |
| <b>Debentures guaranteed by the SBA, net</b> | <b>\$ 7,875,723</b>       | <b>\$ 7,855,173</b>      |

**Table of Contents****Note 7. FINANCIAL HIGHLIGHTS**

The following schedule provides the financial highlights, calculated based on weighted average shares outstanding, for the nine months ended September 30, 2018 and 2017:

|  | <b>Nine months ended<br/>September 30, 2018<br/>(Unaudited)</b> | <b>Nine months ended<br/>September 30, 2017<br/>(Unaudited)</b> |
|--|---|---|
| Income from investment operations (1):                                   |   |   |
| Investment income  | \$ 0.23   | \$ 0.17   |
| Operating expenses   | 0.24  | 0.25  |
| Investment loss before income taxes                                      | (0.01)  | (0.08)  |
| Income tax benefit   | 0.00  | (0.03)  |
| Net investment loss  | (0.01)  | (0.05)  |
| Net realized and unrealized loss on investments                          | (0.20)  | (0.10)  |
| Decrease in net asset value  | (0.21)  | (0.15)  |
| Net asset value, beginning of period                                     | 5.05  | 5.16  |
| Net asset value, end of period   | \$ 4.84   | \$ 5.01   |
| Per share market price, end of period                                    | \$ 2.40   | \$ 2.96   |
| Total return based on market value                                       | (20.5%)   | (6.3%)  |
| Total return based on net asset value                                    | (4.2%)  | (2.9%)  |
| Supplemental data:   |   |   |
| Ratio of operating expenses before income taxes to average net assets    | 4.8%  | 4.9%  |
| Ratio of operating expenses including income taxes to average net assets | 2.9%  | 3.2%  |
| Ratio of net investment loss to average net assets                       | (0.2%)  | (0.9%)  |
| Portfolio turnover   | 4.2%  | 13.4%   |
| Net assets, end of period  | \$ 30,587,676   | \$ 31,692,476   |
| Weighted shares outstanding, end of period                               | 6,321,988   | 6,321,988   |

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

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

**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, 2017.

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 often concurrently with other investors. We have elected to be treated as a business development company ( BDC ) under the Investment Company Act of 1940, as amended (the 1940 Act ). As a BDC, we are required to comply with certain regulatory requirements. We have historically made the majority of our investments through our wholly-owned subsidiary, Rand Capital SBIC, Inc. ( Rand SBIC ), which operates as a small business investment company ( SBIC ) and has been licensed by the U.S. Small Business Administration ( SBA ) since 2002. During 2017 we established a second SBIC subsidiary, Rand Capital SBIC II, L.P. ( Rand SBIC II ) and began making investments through this SBIC subsidiary. During the first quarter of 2018, together with the SBA, we determined that the optimal structure was to revert back to investing in small businesses through our original SBIC, Rand SBIC, and the assets of Rand SBIC II were transferred to Rand SBIC. Rand SBIC has applied for an additional \$6 million in new SBA leverage commitments and is currently undergoing the review and approval process.

**Table of Contents**

**Outlook**

At the end of the third quarter of 2018, we had approximately \$4.4 million in cash and cash equivalents available for future investments and expenses. We believe the combination of cash and cash equivalents on hand, proceeds from portfolio exits, anticipated additional 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 strong macroeconomic environment and eager reception of new technologies and service concepts.

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

We are 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.

We have sufficient cash to invest in new opportunities and to opportunistically repurchase shares. At the end of the third quarter of 2018, 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.

When our portfolio expands, we are able to better leverage our infrastructure.

**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, 2017 under Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations.

**Table of Contents****Financial Condition**

|                   | September 30, 2018 | December 31, 2017 | Decrease       | % Decrease |
|-------------------|--------------------|-------------------|----------------|------------|
| <b>Overview:</b>  |                    |                   |                |            |
| Total assets      | \$ 38,658,226      | \$ 40,133,913     | (\$ 1,475,687) | (3.7%)     |
| Total liabilities | 8,070,550          | 8,215,228         | (144,678)      | (1.8%)     |
| Net assets        | \$ 30,587,676      | \$ 31,918,685     | (\$ 1,331,009) | (4.2%)     |

Net asset value per share (NAV) was \$4.84 at September 30, 2018 and \$5.05 at December 31, 2017.

Our gross outstanding SBA debentures at September 30, 2018 were \$8,000,000 and will mature from 2022 through 2025. Cash and cash equivalents approximated 14% of net assets at September 30, 2018, as compared to 20% at December 31, 2017.

**Composition of Our Investment Portfolio**

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

|                              | September 30, 2018 | December 31, 2017 | Increase<br>(Decrease) | % Increase<br>(Decrease) |
|------------------------------|--------------------|-------------------|------------------------|--------------------------|
| Investments, at cost         | \$ 37,309,642      | \$ 36,689,319     | \$ 620,323             | 1.7%                     |
| Unrealized depreciation, net | (5,137,385)        | (4,405,257)       | (732,128)              | 16.6%                    |
| Investments at fair value    | \$ 32,172,257      | \$ 32,284,062     | (\$ 111,805)           | (0.3%)                   |

Our total investments at fair value, as estimated by management and approved by our Board of Directors, approximated 105% of net assets at September 30, 2018 versus 101% of net assets at December 31, 2017.

The change in investments during the nine months ended September 30, 2018, at cost, is comprised of the following:

|   | Cost<br>Increase (Decrease) |
|---|-----------------------------|
| <b>New investments:</b>                         |                             |
| KnowledgeVision Systems, Inc. (Knowledgevision) | \$ 775,000                  |
| SciAps, Inc. (Sciaps)                           | 250,000                     |
| Centivo Corporation (Centivo)                   | 200,000                     |
| BeetNPath, LLC (Beetnpath)                      | 140,000                     |
| Total of new investments                        | 1,365,000                   |
| <b>Other changes to investments:</b>            |                             |

Edgar Filing: RAND CAPITAL CORP - Form 10-Q

|  |                    |
|--|--------------------|
| Empire Genomics, LLC (Empire Genomics)<br>capitalized fee income and interest conversion | 274,106            |
| Genicon Inc. (Genicon) interest conversion and<br>OID amortization                       | 153,548            |
| Microcision LLC (Microcision) interest conversion  | 14,392             |
| GoNoodle, Inc. (GoNoodle) interest conversion  | 7,740              |
| Centivo interest conversion  | 1,342              |
| <b>Total of other changes to investments</b>   | <b>451,128</b>     |
| <b>Investments repaid, sold or liquidated:</b>   |                    |
| Intrinsiq Material, Inc. (Intrinsiq) realized loss                                       | (1,125,673)        |
| Knoa Software Inc. (Knoa) repayment  | (48,466)           |
| Empire Genomics repayment  | (21,666)           |
| <b>Total of investments repaid, sold or liquidated</b>                                   | <b>(1,195,808)</b> |
| <b>Net change in investments, at cost</b>  | <b>\$ 620,323</b>  |

**Table of Contents****Results of Operations**

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

***Comparison of the three months ended September 30, 2018 to the three months ended September 30, 2017*****Investment Income**

|                                      | <b>Three months<br/>ended<br/>September 30, 2018</b> | <b>Three months<br/>ended<br/>September 30, 2017</b> | <b>Increase</b>   | <b>%<br/>Increase</b> |
|--------------------------------------|--|--|-------------------|-----------------------|
| Interest from portfolio companies    | \$ 450,289   | \$ 309,922   | \$ 140,367        | 45.3%                 |
| Interest from other investments      | 7,872  | 6,348  | 1,524             | 24.0%                 |
| Dividend and other investment income | 48,856   | 76,813   | (27,957)          | (36.4%)               |
| Fee income                           | 155,285  | 3,936  | 151,349           | 3,845.2%              |
| <b>Total investment income</b>       | <b>\$ 662,302</b>                                    | <b>\$ 397,019</b>                                    | <b>\$ 265,283</b> | <b>66.8%</b>          |

The total investment income that is received on a current basis for the three months ended September 30, 2018 is received from ten portfolio companies. This contrasts with the nine portfolio companies generating current income for the three months ended September 30, 2017.

**Interest from portfolio companies** Interest from portfolio companies was approximately 45% higher during the three months ended September 30, 2018 versus the same period in 2017 due to the fact that we have originated more income-producing debt investments in the last year. The new debt instruments were originated from Genicon Inc. (Genicon), eHealth Global Technologies, Inc. (eHealth) and several other portfolio companies. In addition, during the third quarter of 2018 the Empire Genomics loans were modified and resulted in a recording of interest that had previously not been accrued of approximately \$91,000. This amount was capitalized into the loan balance as part of the debt modification and is non-recurring.

The following investments are on non-accrual status: G-TEC Natural Gas Systems (G-Tec), First Wave Products Group, LLC (First Wave), OnCore Golf Technology, Inc. (Oncore) and a portion of the Mercantile Adjustment Bureau, LLC (Mercantile) outstanding loan balances.

**Interest from other investments** The increase in interest from other investments is primarily due to higher interest rates during the three months ended September 30, 2018 versus the same period in 2017.

**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:

|   | <b>Three months ended<br/>September 30,<br/>2018</b> | <b>Three months ended<br/>September 30,<br/>2017</b> |
|---|--|--|
| Carolina Skiff LLC (Carolina Skiff)                   | \$ 39,169  | \$ 41,999  |
| Tilson Technology Management, Inc.<br>(Tilson)        | 9,687  | 5,000  |
| New Monarch Machine Tool, Inc.<br>(New Monarch)       |  | 27,409   |
| Empire Genomics LLC (Empire<br>Genomics)              |  | 2,405  |
| <b>Total dividend and other investment<br/>income</b> | <b>\$ 48,856</b>                                     | <b>\$ 76,813</b>                                     |

**Table of Contents**

**Fee income** Fee income consists of the revenue associated with the amortization of financing fees charged to the portfolio companies upon successful closing of SBIC financings and income 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 \$12,939 and \$3,936 for the three months ended September 30, 2018 and 2017, respectively.

In addition, we recorded a one-time debt modification fee of approximately \$142,000 during the three month ended September 30, 2018. We charged the fee to Empire Genomics and the fee was capitalized into the Empire Genomics loan balances as part of the debt modification.

The portion of total investment income that is received in cash, on a current basis, is received from nine portfolio companies.

**Expenses**

|                | <b>Three months ended<br/>September 30,<br/>2018</b> | <b>Three months ended<br/>September 30,<br/>2017</b> | <b>Increase</b> | <b>% Increase</b> |
|----------------|--|--|-----------------|-------------------|
| Total expenses | \$ 447,800   | \$ 439,048   | \$ 8,752        | 2.0%              |

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

The increase in expenses during the three months ended September 30, 2018 versus the same period in 2017 was primarily caused by a 69%, or \$33,312, increase in professional fees. Professional fees are higher during the third quarter of 2018 because we continue to incur expenses in connection with developing and implementing our long-term growth strategy. These expenses included external legal, tax consulting and other advisory expenses to support refinement of our strategy, which involved assessing options relative to the complex regulatory environment in which we operate.

This increase was offset by a \$26,299 recovery of bad debt expense associated with the Empire Genomics loan modification for the three months ended September 30, 2018. There was no bad debt expense (recovery) for the three months ended September 30, 2017.

**Realized Losses on Investments**

|  | <b>Three months ended<br/>September 30,<br/>2018</b> | <b>Three months ended<br/>September 30,<br/>2017</b> | <b>Change</b>  |
|--|--|--|----------------|
| Realized loss on investments before income taxes | (\$ 1,125,673)                                       | \$   | (\$ 1,125,673) |

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

during the three months ended September 30, 2017.

Table of Contents**Change in Unrealized Depreciation of Investments**

|  | <b>Three months ended<br/>September 30,<br/>2018</b> | <b>Three months ended<br/>September 30,<br/>2017</b> | <b>Change</b> |
|--|--|--|---------------|
| Change in unrealized depreciation of investments before income taxes | \$ 475,802   | \$ 111,000   | \$ 364,802    |

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

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

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

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

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

|  | <b>Three months ended<br/>September 30,<br/>2017</b> |
|--|--|
| Athenex, Inc. (Athenex)  | \$ 111,000   |
| <b>Total change in net unrealized depreciation of investments before income taxes during the three months ended September 30, 2017</b> | <b>\$ 111,000</b>                                    |

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. At September 30, 2017 we held 46,296 shares of the common stock of Athenex and valued these shares using the average bid price for the last three trading days of the reporting period, which was then discounted 10% due to restrictions on the sale of the shares.

Subsequent to quarter end, the sale restrictions on our shares in Athenex common stock were removed and these shares became freely tradable.

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) Increase in Net Assets from Operations**

We account for our operations under GAAP for investment companies. The principal measure of our financial performance is net (decrease) increase in net assets from operations on our consolidated statements of operations. For the three months ended September 30, 2018 and 2017, the net (decrease) increase in net assets from operations was (\$179,302) and \$57,931, respectively.

**Table of Contents****Comparison of the nine months ended September 30, 2018 to the nine months ended September 30, 2017****Investment Income**

|   | Nine months ended<br>September 30,<br>2018 | Nine months ended<br>September 30,<br>2017 | Increase<br>(Decrease) | % Increase<br>(Decrease) |
|---|--|--|------------------------|--------------------------|
| Interest from portfolio companies       | \$ 1,063,337                               | \$ 833,653                                 | \$ 229,684             | 27.6%                    |
| Interest from other investments         | 20,717                                     | 24,182                                     | (3,465)                | (14.3%)                  |
| Dividend and other investment<br>income | 181,963                                    | 197,403                                    | (15,440)               | (7.8%)                   |
| Fee income                              | 172,612                                    | 19,557                                     | 153,055                | 782.6%                   |
| <b>Total investment income</b>          | <b>\$ 1,438,629</b>                        | <b>\$ 1,074,795</b>                        | <b>\$ 363,834</b>      | <b>33.9%</b>             |

The total investment income that is received on a current basis for the nine months ended September 30, 2018 is received from ten portfolio companies. This contrasts with the nine portfolio companies generating current income for the nine months ended September 30, 2017.

**Interest from portfolio companies** Interest from portfolio companies was approximately 28% higher during the nine months ended September 30, 2018 versus the same period in 2017 due to the fact that we have originated more income-producing debt investments in the last year. These new debt instruments were originated from Genicon Inc. (Genicon), eHealth Global Technologies, Inc. and several other portfolio companies. In addition, during the third quarter of 2018 the Empire Genomics loans were modified and resulted in a recording of interest that had previously not been accrued of approximately \$91,000. This amount was capitalized into the loan balance as part of the debt modification.

The following investments are on non-accrual status: G-TEC Natural Gas Systems (G-Tec), First Wave Products Group, LLC (First Wave), OnCore Golf Technology, Inc. (Oncore) 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 nine months ended September 30, 2018 versus the same period in 2017.

**Dividend and other investment income** The dividend distributions for the respective periods were:

|   | Nine months ended<br>September 30, 2018 | Nine months ended<br>September 30, 2017 |
|---|---|---|
| Carolina Skiff LLC (Carolina Skiff)             | \$ 119,433                              | \$ 141,372                              |
| Tilson Technology Management, Inc.<br>(Tilson)  | 29,063                                  | 15,000                                  |
| New Monarch Machine Tool, Inc. (New<br>Monarch) | 27,409                                  | 27,409                                  |
|   | 6,058                                   | 7,598                                   |

Empire Genomics LLC (Empire  
Genomics)

SOMS Technologies, LLC (SOMS) 6,024

Total dividend and other investment  
income \$ 181,963 \$ 197,403

**Fee income** The income associated with the amortization of financing fees was \$28,266 and \$18,557 for the nine months ended September 30, 2018 and 2017, respectively. The income from board fees was \$2,000 and \$1,000 for the nine months ended September 30, 2018 and 2017, respectively.

In addition, we recorded a one-time debt modification fee of approximately \$142,000 during the nine month ended September 30, 2018. We charged the fee to Empire Genomics and the fee was capitalized into the Empire Genomics loan balances as part of the debt modification.

### Expenses

|                | <b>Nine months ended<br/>September 30, 2018</b> | <b>Nine months ended<br/>September 30, 2017</b> | <b>Decrease</b> | <b>% Decrease</b> |
|----------------|---|---|-----------------|-------------------|
| Total expenses | \$ 1,510,034                                    | \$ 1,562,620                                    | (\$ 52,586)     | (3.4%)            |

**Table of Contents**

The decrease in expenses during the nine months ended September 30, 2018 is due to an overall decrease of 29%, or \$89,855, in professional fees as compared to the same period in 2017. This decrease was offset by a \$50,342 charge to bad debt expense for the nine months ended September 30, 2018 while there was no bad debt expense for the nine months ended September 30, 2017.

**Realized Losses on Investments**

|   | Nine months ended<br>September 30, 2018 | Nine months ended<br>September 30, 2017 | Change         |
|---|---|---|----------------|
| Realized loss on investments<br>before income taxes | (\$ 1,125,673)                          | \$                                      | (\$ 1,125,673) |

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

**Change in Unrealized Depreciation of Investments**

|  | Nine months ended<br>September 30, 2018 | Nine months ended<br>September 30, 2017 | Change       |
|--|---|---|--------------|
| Change in unrealized<br>depreciation of investments<br>before income taxes | (\$ 732,128)                            | (\$ 987,983)                            | (\$ 255,855) |

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

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

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

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

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

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

|   | <b>Nine months ended<br/>September 30, 2017</b> |
|---|---|
| City Dining Cards, Inc. (Loupe)   | (\$ 500,000)                                    |
| Teleservices Solutions Holdings, LLC<br>(Teleservices)  | (395,398)                                       |
| SciAps, Inc. (Sciaps)   | (300,000)                                       |
| Mercantile Adjustment Bureau, LLC (Mercantile)  | (250,000)                                       |
| Athenex, Inc. (Athenex)   | 308,336   |
| ACV Auctions, Inc. (ACV)  | 119,356   |
| BeetNPath, LLC (Beetnpath)  | 29,723  |
| <b>Total change in net unrealized depreciation of<br/>investments before income taxes during the nine<br/>months ended September 30, 2017</b> | <b>(\$ 987,983)</b>                             |

## **Table of Contents**

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 were publicly traded on the NASDAQ Global Select Market under the symbol `ATNX`. At September 30 2017 we held 46,296 shares of the common stock of Athenex and valued the shares using the 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.

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 nine months ended September 30, 2018 and 2017, the net decrease in net assets from operations was (\$1,331,009) and (\$936,887), respectively.

## **Liquidity and Capital Resources**

Our principal long-term 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 September 30, 2018, our total liquidity consisted of approximately \$4.4 million in cash and cash equivalents on hand.

Net cash used by operating activities has averaged approximately \$626,000 over the last three years. The average cash used for investment in portfolio companies over the last three years was approximately \$3,700,000. Our cash flow from operations may fluctuate based on the timing of the receipt of dividend income and realized gains and the associated income taxes paid. We will generally use cash to fund our operating expenses and also to invest in companies, as we seek to build our portfolio utilizing our available cash and proceeds from liquidations of portfolio investments. We anticipate that we will continue to exit investments. However, the timing of liquidation events within the portfolio is difficult to project with any certainty. As of September 30, 2018, 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.



## **Table of Contents**

We believe that the cash on hand at September 30, 2018, the scheduled interest payments on our portfolio investments and the anticipated additional SBA leverage will be sufficient to meet our cash needs for the next twelve months. We continue to seek potential exits from portfolio companies to increase the amount of liquidity available for new investments, operating activities and future SBA debenture repayment obligations.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

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

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

As of September 30, 2018 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 September 30, 2018. Based on the evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that the Corporation's controls and procedures were effective as of September 30, 2018.

*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.

**Table of Contents****PART II.****OTHER INFORMATION****Item 1. Legal Proceedings**

None.

**Item 1A. Risk Factors**

See Part I, Item 1A, Risk Factors, of the Annual Report on Form 10-K for the year ended December 31, 2017.

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

| Period               | Total number of shares purchased (1) | Average price paid per share (2) | Total number of shares purchased as part of publicly announced plan (3) | Maximum number of shares that may yet be purchased under the share repurchase program |
|----------------------|--------------------------------------|----------------------------------|---|---|
| 7/1/2018 - 7/31/2018 |                                      |                                  |   | 458,954   |
| 8/1/2018 - 8/31/18   |                                      |                                  |   | 458,954   |
| 9/1/2018 - 9/30/2018 |                                      |                                  |   | 458,954   |

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

**Item 3. Defaults upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not Applicable.

**Item 5. Other Information**

None.

**Table of Contents**

**Item 6. Exhibits**

**(a) Exhibits**

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

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

**Table of Contents**

**Signatures**

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

Dated: November 7, 2018

RAND CAPITAL CORPORATION

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

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