RAND CAPITAL CORP
Form 10-Q
November 02, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

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

For the Transition Period from __________ to __________

Commission File Number: 814-00235

Rand Capital Corporation

(Exact Name of Registrant as specified in its Charter)

New York	**16-0961359**
(State or Other Jurisdiction of Incorporation or Organization)	**(IRS Employer Identification No.)**
2200 Rand Building, Buffalo, NY	**14203**
(Address of Principal executive offices)	**(Zip Code)**

(716) 853-0802

(Registrant s telephone number, including area code)

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

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

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer þ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

As of November 2, 2016, there were 6,321,988 shares of the registrant s common stock outstanding.

RAND CAPITAL CORPORATION

TABLE OF CONTENTS FOR FORM 10-Q

PART I. FINANCIAL INFORMATION

PART II OTHER INFORMATION

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements and Supplementary Data

RAND CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of September 30, 2016 and December 31, 2015

	September 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Investments at fair value:		
Control investments (cost of $99,500 and $1,141,472, respectively)	**$ 99,500**	$ 13,916,472
Affiliate investments (cost of $18,239,623 and $17,663,217, respectively)	**13,688,814**	14,662,219
Non-Control/Non-Affiliate investments (cost of $13,936,867 and $8,606,053, respectively)	**13,789,967**	8,253,709
Total investments, at fair value (cost of $32,275,990 and $27,410,742, respectively)	**27,578,281**	36,832,400
Cash	**11,708,164**	5,844,795
Interest receivable (net of allowance: $122,000 at 9/30/16 and 12/31/15)	**312,523**	215,224
Deferred tax asset	**1,087,252**	
Prepaid income taxes		65,228
Other assets	**2,607,195**	1,604,413
Total assets	**$ 43,293,415**	$ 44,562,060
LIABILITIES AND STOCKHOLDERS EQUITY (NET ASSETS)		
Liabilities:		
Debentures guaranteed by the SBA (net of debt issuance costs)	**$ 7,820,923**	$ 7,800,373
Income tax payable	**826,983**	
Deferred tax liability		2,361,186
Profit sharing and bonus payable	**1,593,659**	282,000
Accounts payable and accrued expenses	**153,233**	238,911
Deferred revenue	**53,483**	25,930
Total liabilities	**10,448,281**	10,708,400
Commitments and contingencies (See Note 5)		
Stockholders equity (net assets):		
Common stock, $.10 par; shares authorized 10,000,000; shares issued 6,863,034; shares outstanding of 6,321,988 as of 9/30/16 and 6,328,538 as of 12/31/15	**686,304**	686,304
Capital in excess of par value	**10,581,789**	10,581,789
Accumulated net investment loss	**(1,375,832)**	(24,580)
Undistributed net realized gain on investments	**27,515,011**	18,262,401
Net unrealized (depreciation) appreciation on investments	**(3,093,033)**	5,795,237

Treasury stock, at cost; 541,046 shares as of 9/30/16 and 534,496 as of 12/31/15	**(1,469,105)**	(1,447,491)
Total stockholders equity (net assets) (per share 9/30/16: \$5.20, 12/31/15: \$5.35)	**32,845,134**	33,853,660
Total liabilities and stockholders equity	**\$ 43,293,415**	\$ 44,562,060

See accompanying notes

RAND CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three Months and the Nine Months Ended September 30, 2016 and 2015

(Unaudited)

	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Investment income:				
Interest from portfolio companies:				
Control investments	$	$ 18,336	$ 11,828	$ 60,756
Affiliate investments	**113,643**	100,678	273,218	312,329
Non-Control/Non-Affiliate investments	**110,395**	61,312	240,027	176,534
Total interest from portfolio companies	**224,038**	180,326	525,073	549,619
Interest from other investments:				
Non-Control/Non-Affiliate investments	**11,974**	3,529	33,683	18,719
Total interest from other investments	**11,974**	3,529	33,683	18,719
Dividend and other investment income:				
Control investments		460,947		1,364,306
Affiliate investments	**69,010**	65,810	149,807	124,239
Non-Control/Non-Affiliate investments	**3,011**		3,011	
Total dividend and other investment income	**72,021**	526,757	152,818	1,488,545
Fee income:				
Control investments		2,000	2,000	6,000
Affiliate investments	**2,083**	1,417	3,945	3,250
Non-Control/Non-Affiliate investments	**5,770**	4,250	13,004	12,417
Total fee income	**7,853**	7,667	18,949	21,667
Total investment income	**315,886**	718,279	730,523	2,078,550
Operating expenses:				
Salaries	**155,437**	149,555	466,312	448,665
Bonus and profit sharing			1,411,659	
Employee benefits	**38,730**	27,745	164,952	87,546
Directors fees	**47,380**	37,950	142,135	89,000
Professional fees	**86,938**	33,702	237,986	127,204
Stockholders and office operating	**50,846**	41,716	174,882	156,830
Insurance	**8,358**	8,400	25,876	25,954
Corporate development	**17,794**	16,982	49,319	48,363

Other operating	**3,495**	3,099	9,470	8,973
	408,978	319,149	2,682,591	992,535
Interest on SBA obligations	**77,570**	77,569	232,709	229,460
Total operating expenses	**486,548**	396,718	2,915,300	1,221,995
Net investment (loss) income before income taxes	**(170,662)**	321,561	(2,184,777)	856,555
Income tax (benefit) expense	**(55,934)**	88,298	(833,525)	262,285
Net investment (loss) income	**(114,728)**	233,263	(1,351,252)	594,270
Net realized gain on investments:				
Control investments	**1,412,500**		14,588,813	
Non-Control/Non-Affiliate investments			168,140	262,925
Net realized gain before income taxes	**1,412,500**		14,756,953	262,925
Income tax expense	**526,862**		5,504,343	89,742
Net realized gain on investments	**885,638**		9,252,610	173,183
Net change in unrealized depreciation or appreciation on investments:				
Control investments	**(1,412,500)**		(12,775,000)	
Affiliate investments	**(666,011)**	(250,000)	(1,413,811)	(443,436)
Non-Control/Non-Affiliate investments		321,300	69,444	193,572
Change in unrealized depreciation or appreciation before income taxes	**(2,078,511)**	71,300	(14,119,367)	(249,864)
Deferred income tax (benefit) expense	**(736,301)**	18,066	(5,231,097)	(91,552)
Net (decrease) increase in unrealized depreciation or appreciation on investments	**(1,342,210)**	53,234	(8,888,270)	(158,312)
Net realized and unrealized (loss) gain on investments	**(456,572)**	53,234	364,340	14,871
Net (decrease) increase in net assets from operations	**($ 571,300)**	$ 286,497	($ 986,912)	$ 609,141
Weighted average shares outstanding	**6,325,299**	6,328,538	6,327,074	6,328,538
Basic and diluted net (decrease) increase in net assets from operations, per share	**($ 0.09)**	$ 0.05	($ 0.16)	$ 0.10

See accompanying notes

RAND CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the Three Months and the Nine Months Ended September 30, 2016 and 2015

(Unaudited)

	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Net assets at beginning of period	**$ 33,438,048**	$ 32,676,085	$ 33,853,660	$ 32,353,441
Net investment (loss) income	**(114,728)**	233,263	(1,351,252)	594,270
Net realized gain on investments	**885,638**		9,252,610	173,183
Net (decrease) increase in unrealized depreciation or appreciation on investments	**(1,342,210)**	53,234	(8,888,270)	(158,312)
Net (decrease) increase in net assets from operations	**(571,300)**	286,497	(986,912)	609,141
Purchase of treasury stock	**(21,614)**		(21,614)	
Total (decrease) increase in net assets	**(592,914)**	286,497	(1,008,526)	609,141
Net assets at end of period	**$ 32,845,134**	$ 32,962,582	$ 32,845,134	$ 32,962,582
Accumulated net investment loss	**($ 1,375,832)**	($ 273,212)	($ 1,375,832)	($ 273,212)

See accompanying notes

RAND CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months Ended September 30, 2016 and 2015

(Unaudited)

	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Cash flows from operating activities:		
Net (decrease) increase in net assets from operations	**($ 986,912)**	$ 609,141
Adjustments to reconcile net (decrease) increase in net assets to net cash provided by (used in) operating activities:		
Investments in portfolio companies	**(5,883,012)**	(6,769,008)
Proceeds from sale of investments	**14,313,203**	648,605
Proceeds from loan repayments	**416,972**	151,460
Decrease in unrealized appreciation on investments	**14,119,367**	249,864
Deferred tax (benefit) expense	**(3,448,438)**	30,183
Realized gain on portfolio investments	**(14,756,953)**	(262,925)
Depreciation and amortization	**25,034**	24,698
Original issue discount amortization	**(7,497)**	(11,619)
Change in interest receivable allowance		(6,311)
Non-cash conversion of debenture interest	**(16,711)**	(69,710)
Changes in operating assets and liabilities:		
Increase in interest receivable	**(97,299)**	(37,811)
Decrease in other assets	**61,484**	31,782
Decrease (increase) in prepaid income taxes	**65,228**	(51,230)
Increase (decrease) in income taxes payable	**826,983**	(2,065,795)
Decrease in accounts payable and accrued expenses	**(85,678)**	(185,993)
Increase (decrease) in profit sharing and bonus payable	**1,311,659**	(758,750)
Increase in deferred revenue	**27,553**	6,333
Total adjustments	**6,871,895**	(9,076,227)
Net cash provided by (used in) operating activities	**5,884,983**	(8,467,086)
Cash flows from financing activities:		
Purchase of treasury shares	**(21,614)**	
Net cash provided by financing activities	**(21,614)**	
Net increase (decrease) in cash	**5,863,369**	(8,467,086)
Cash:		
Beginning of period	**5,844,795**	13,230,717

End of period	**$ 11,708,164**	$ 4,763,631

See accompanying notes

RAND CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

September 30, 2016

(Unaudited)

(a) Company, Geographic Location, Business Description, (Industry) and Website	Type of Investment	(b) Date Acquired	(c) Equity	Cost	(d)(f) Fair Value	Percent of Net Assets
Non-Control/Non-Affiliate Investments 42.0% of net assets: (j)						
ACV Auctions, Inc. (e)(g) Buffalo, NY. Live mobile auctions for new and used cars. (Software) www.acvauctions.com	118,116 Series A preferred shares.	8/12/16	1%	$163,000	$163,000	0.5%
Athenex, Inc. (e)(g) **(Formerly Kinex Pharmaceuticals, Inc.)** Buffalo, NY. Specialty pharmaceutical and drug development. (Health Care) www.athenex.com	46,296 common shares.	9/8/14	<1%	143,285	416,664	1.3%
City Dining Cards, Inc. (Loupe) (e)(g) Buffalo, NY. Customer loyalty technology company that helps businesses attract and retain customers. (Software) www.loupeapp.io	9,525.25 Series B preferred shares.	9/1/15	4%	500,000	500,000	1.5%
		6/28/16	0%	1,500,000	1,500,000	4.6%

eHealth Global Technologies, Inc. (g) Henrietta, NY. eHealth Connect® improves health care delivery through intelligently aggregated clinical record and images for patient referrals. (Health Care) www.ehealthtechnologies.com	$1,500,000 senior subordinated secured term loan at 9% due September 2, 2019.					
Empire Genomics, LLC (e)(g) Buffalo, NY. Molecular diagnostics company that offers a comprehensive menu of assay services for diagnosing and guiding patient therapeutic treatments. (Health Care) www.empiregenomics.com	$900,000 senior secured convertible term notes at 10% due April 1, 2017.	6/13/14	<1%	900,000	900,000	3.5%
	$250,000 promissory note at 12% due December 31, 2019.			250,000	250,000	
	(i) Interest receivable $170,277.					
	Total Empire			1,150,000	1,150,000	
GoNoodle, Inc. (g) **(Formerly HealthTeacher, Inc.)** Nashville, TN. Student engagement education software providing core aligned physical activity breaks. (Software) www.gonoodle.com	$1,000,000 secured note at 12% due January 31, 2020, (1% Payment in Kind (PIK)).	2/6/15	<1%	1,016,560	1,016,560	3.1%
	Warrant for 47,324 Series C Preferred shares.			25	25	
	Total GoNoodle			1,016,585	1,016,585	
Mercantile Adjustment Bureau, LLC (g) Williamsville, NY. Full service accounts receivable management and collections company. (Contact Center) www.mercantilesolutions.com	$1,099,039 subordinated secured note at 13% (3% for the calendar year 2016) due October 30, 2017.	10/22/12	4%	1,088,191	1,088,191	3.3%
	(e) $150,000 subordinated debenture at 8% due June 30, 2018.			150,000	0	

	Warrant for 3.29% membership interests. Option for 1.5% membership interests.			97,625	0	
	(i) Interest receivable $64,537.					
	Total Mercantile			1,335,816	1,088,191	
Outmatch Holdings, LLC (e)(g)	2,353,854 Class P1 Units.	11/18/10	4%	2,140,007	2,140,007	6.5%
(Chequed Holdings, LLC)				5,489	5,489	
Saratoga Springs, NY. Web based predictive employee selection and reference checking. (Software)	109,788 Class C1 Units.			2,145,496	2,145,496	
	Total Outmatch					
www.outmatch.com						
PostProcess Technologies LLC (e)(g)	$300,000 convertible promissory	7/25/16	0%	300,000	300,000	0.9%
Buffalo, NY. Provides innovative solutions for the post-processing of additive manufactured parts. (Manufacturing)	note at 5% due July 28, 2018.					
www.postprocess.com						

RAND CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

September 30, 2016 (Continued)

(Unaudited)

(a) ny, Geographic Location, Business ription, (Industry) and Website	Type of Investment	(b) Date Acquired	(c) Equity	Cost	(d)(f) Fair Value
nc. (e)	9,676 common shares.	10/29/09	4%	-	11,000
Developer of fully automated c based molecular assay and diagnostic ces. (Health Care)	**(g)** 1,839,422 Series A preferred shares. **(g)** 50,593 common shares.			2,099,999	2,165,999
				-	59,000
ix.com	**(g)** 589,420 Series B preferred shares.			702,732	702,732
	Total Rheonix			2,802,731	2,938,731
, Inc. (e)(g)	1,049,538 Series B preferred shares.	4/5/13	4%	500,000	731,431
NY. Provides instant analysis of social sing a proprietary, predictive analytic	1,204,819 Series B-1 preferred shares.			750,000	839,648
o optimize advertising and publishing.	717,772 Series C preferred shares.			500,000	500,221
	Total Social Flow			1,750,000	2,071,300
flow.com					
Gas Transmission Company, LLC (e)	26.5337 units.	7/10/02	3%	719,097	500,000
OH. Natural gas transportation.					
s)					
rsetgas.com					
-Control/Non-Affiliate Investments:					
LLC (Software) (e)	Membership Interest.	-	-	310,357	-
(Manufacturing) (e)	Common Stock.	-	-	100,500	-
on-Control/Non-Affiliate Investments				$ 13,936,867	$ 13,789,967

vestments 41.7% of net assets (k)

, LLC (Grainful) (e)(g)	1,119,024 Series A-2 Preferred Membership Units.	10/20/14	9%		
Frozen entrées and packaged dry side e from 100% whole grain steel cut oats ful brand name. (Consumer Product)				$359,000	$359,000
	$150,000 convertible promissory note at 8% due September 1, 2017.				
ful.com	**Total BeetNPath**			150,000	150,000
				509,000	509,000
kiff LLC (g)	6.0825% Class A common membership interest.	1/30/04	7%	15,000	600,000
GA. Manufacturer of fresh water, ocean pleasure boats.					
ring)					
naskiff.com					
Social, Inc. (e)(g)	312,500 Series seed plus preferred shares.	1/4/16	6%		
Y. Social media publishing tool for law, ofessional firms. (Software)				200,000	200,000
iewsocial.com					
Products Group, LLC (e)(g)	$500,000 senior term notes at 10% due December 31, 2016.	4/19/12	7%		
Y. Sells First Crush automated pill crushes and grinds medical pills for nes and medical institutions. e)				661,563	250,000
	$280,000 junior term notes at 10% due December 31, 2016.				
	Warrant for 41,619 capital securities.			316,469	0
aveproducts.com	**Total First Wave**			22,000	0
				1,000,032	250,000
nc. (g)	1,586,902 Series B preferred shares.	4/10/15	6%	1,000,000	1,000,000
, FL. Designs, produces and distributes rgical instrumentation. (Health Care)	$1,100,000 senior term loans at 12% due April 1, 2019.				
				1,100,000	1,100,000
onendo.com	$600,000 term loan at 14% due March 31, 2018.				
				600,000	600,000
	Total Genicon				
				2,700,000	2,700,000
nc. (e)(g)	5,084,329 Series Seed preferred shares.	3/13/13	9%		
				616,221	424,314

Online fundraising, day of giving
ngagement software for non-profit
ns. (Software)

ab.com

8

RAND CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

September 30, 2016 (Continued)

(Unaudited)

(a) Company, Geographic Location, Business Description, (Industry) and Website	Type of Investment	(b) Date Acquired	(c) Equity	Cost	(d)(f) Fair Value	Percent of Net Assets
G-TEC Natural Gas Systems (e) Buffalo, NY. Manufactures and distributes systems that allow natural gas to be used as an alternative fuel to gases. (Manufacturing) www.gas-tec.com	17.845% Class A membership interest. 8% cumulative dividend.	8/31/99	18%	400,000	100,000	0.3%
Intrinsiq Materials, Inc. (e)(g) Rochester, NY. Produces printable electronics utilizing a unique process of nanomaterial based ink in a room-temperature environment. (Manufacturing) www.intrinsiqmaterials.com	4,161,747 Series A preferred shares.	9/19/13	12%	1,125,673	780,000	2.4%
Knoa Software, Inc. (e)(g) New York, NY. End user experience management and performance (EMP) solutions utilizing enterprise applications. (Software) www.knoa.com	973,533 Series A-1 convertible preferred shares.	11/20/12	7%	750,000	0	1.5%
	1,876,922 Series B preferred shares.			479,155	449,455	
	$48,466 convertible promissory note at 8% due May 9, 2018.			48,466	48,466	
	Total Knoa			1,277,621	497,921	
KnowledgeVision Systems, Inc. (e)(g)	200,000 Series A-1 preferred shares.	11/13/13	7%	250,000	0	1.5%

Lincoln, MA. Online presentation and training software. (Software)	214,285 Series A-2 preferred shares.			300,000	300,000	
				165,001	165,001	
www.knowledgevision.com	129,033 Series A-3 preferred shares.			35,000	35,000	
	Warrant for 46,743 Series A-3 shares.			750,001	500,001	
	Total KnowledgeVision					
Mezmeriz, Inc. (e)(g) 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	1,554,565 Series Seed preferred shares.	1/9/08	15%	742,850	351,477	1.1%
Microcision LLC (g)	$1,500,000 subordinated	9/24/09	15%			5.8%
Philadelphia, PA. Manufacturer of precision machined medical implants, components and assemblies. (Manufacturing)	promissory note at 11% due January 31, 2017.			1,891,964	1,891,964	
www.microcision.com	15% Class A common			-	-	
	membership interest.			1,891,964	1,891,964	
	Total Microcision					
New Monarch Machine Tool, Inc. (g) Cortland, NY. Manufactures and services vertical/horizontal machining centers. (Manufacturing) www.monarchmt.com	22.84 common shares.	9/24/03	15%	22,841	22,841	0.1%
OnCore Golf Technology, Inc. (e)(g)	150,000 Series AA preferred shares.	12/31/14	7%	375,000	187,500	1.5%
Buffalo, NY. Maker of patented hollow-metal core golf balls. (Consumer Product)	$300,000 subordinated convertible					
www.oncoregolf.com				300,000	300,000	
	promissory notes at 6% due January 24,			675,000	487,500	

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

9

RAND CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

September 30, 2016 (Continued)

(Unaudited)

(a) Company, Geographic Location, Business Description, (Industry) and Website	Type of Investment	(b) Date Acquired	(c) Equity	Cost	(d)(f) Fair Value	Percent of Net Assets
SOMS Technologies, LLC (g) Valhalla, NY. Produces and markets the microGreen Extended Performance Oil Filter. (Consumer Products) www.microgreenfilter.com	5,959,490 Series B membership interests.	12/2/08	9%	472,632	528,348	1.6%
Statisfy, Inc. (e)(g) Boston, MA. Mobile marketing platform for engagement, advertising and surveys. (Software) www.statisfy.co	65,000 Series seed preferred shares.	8/18/14	10%	20,968	0	0.0%
	Warrant for 1,950,000 Series seed preferred shares.			629,032	0	
	Total Statisfy			650,000	0	
Teleservices Solutions Holdings, LLC (e)(g)(m) Montvale, NJ. Customer contact center specializing in customer acquisition and retention for selected industries. (Contact Center) www.ipacesetters.com	250,000 Class B preferred units.	5/30/14	6%	250,000	0	2.4%
	1,000,000 Class C preferred units.			1,190,680	595,340	
	80,000 Class D preferred			91,200	91,200	
				104,198	104,198	

	units. 104,198 Class E preferred units. PIK dividend for Series C and D at 12% and 14%, respectively.			1,636,078	790,738	
	Total Teleservices					
Tilson Technology Management, Inc.(g) Portland, ME. Cellular, fiber optic and wireless information systems, construction, and management. (Professional Services) www.tilsontech.com	12 Series B preferred shares.	1/20/15	8%	600,000	600,000	3.0%
	21,390.67 Series C convertible preferred shares.			200,000	200,000	
	$200,000 subordinated promissory note at 8% due September 28, 2021.			200,000	200,000	
	Total Tilson			1,000,000	1,000,000	
Subtotal Affiliate Investments				$18,239,623	$13,688,814	
Control Investments 0.3% of net assets (l)						
Advantage 24/7 LLC (e)(g) Williamsville, NY. Marketing program for wine and spirits dealers. (Marketing Company) www.advantage24-7.com	53% Membership interest.	12/30/10	53%	$99,500	$99,500	0.3%

Subtotal Control Investments	$99,500	$99,500
TOTAL INVESTMENTS 84.0%	$32,275,990	$27,578,281
OTHER ASSETS IN EXCESS OF LIABILITIES 16.0%		5,266,853
NET ASSETS 100%		$32,845,134

RAND CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

September 30, 2016 (Continued)

(Unaudited)

Notes to the Consolidated Schedule of Portfolio Investments

(a) At September 30, 2016, restricted securities represented 100% of the fair value of the investment portfolio. Restricted securities are subject to one or more restrictions on resale and are not freely marketable.

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

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

(d) The Corporation s investments are carried at fair value in accordance with Accounting Standards Codification (ASC) 820 Fair Value Measurements and Disclosures, which defines fair value and establishes guidelines for measuring fair value. At September 30, 2016, ASC 820 designates 100% of the Corporation s investments as Level 3 assets. Under the valuation policy of the Corporation, unrestricted publicly held securities are valued at the average closing bid price for these securities for the last three trading days of the month. Restricted securities are subject to restrictions on resale, and are valued at fair value as determined by the management of the Corporation and submitted to the Board of Directors for approval. Fair value is considered to be the amount that the Corporation may reasonably expect to receive for portfolio securities when sold on the valuation date. Valuations as of any particular date, however, are not necessarily indicative of amounts which may ultimately be realized as a result of future sales or other dispositions of securities and these favorable or unfavorable differences could be material. Among the factors considered in determining the fair value of restricted securities are the financial condition and operating results, projected operations, and other analytical data relating to the investment. Also considered are the market prices for unrestricted securities of the same class (if applicable) and other matters which may have an impact on the value of the portfolio company (see Note 3 Investments to the Consolidated Financial Statements).

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

(f) As of September 30, 2016, the total cost of investment securities was approximately $32.3 million. Net unrealized depreciation was approximately ($4.7) million, which was comprised of $1.4 million of unrealized appreciation of investment securities and ($6.1) million of unrealized depreciation of investment securities. At September 30, 2016, the aggregate gross unrealized gain for federal income tax purposes was $1.7 million and the aggregate gross unrealized loss for federal income tax purposes was ($5.8) million. The net unrealized loss for federal income tax purposes was $4.1 million based on a tax cost of $31.7 million.

(g) Rand Capital SBIC, Inc. investment.

(h) Reduction in cost and value from previously reported balances reflects current principal repayment. There were no principal repayments during the three months ended September 30, 2016.

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

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

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

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

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

RAND CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

September 30, 2016 (Continued)

(Unaudited)

Investments in and Advances to Affiliates

Company	Type of Investment	December 31, 2015 Fair Value	Gross Additions (1)	Gross Reductions (2)	September 30, 2016 Fair Value	Amount of Interest/ Dividend/ Fee Income (3)
Control Investments:						
Advantage 24/7 LLC	53% Membership interest.	$99,500	$ -	$ -	$99,500	$ -
Gemcor II, LLC	$1,000,000 subordinated promissory note at 15%.					
	31.25 membership units.	416,972	-	(416,972)	-	11,828
	Escrow receivable due from sale of business.	13,400,000	-	(13,400,00)	-	2,000
		-	-	-	-	-
	Total Gemcor	13,816,972	-	(13,816,972)	-	13,828
	Total Control Investments	**$13,916,472**	**$0**	**($13,816,972)**	**$99,500**	**$13,828**
Affiliate Investments:						
BeetNPath, LLC	1,119,024 Series A-2 Preferred Membership Units.	$359,000	$ -	$ -	$359,000	$ -
		-	150,000	-	150,000	3,452
	$150,000 convertible					

	promissory note at 8%.					
	Total BeetNPath	359,000	150,000	-	509,000	3,452
Carolina Skiff LLC	6.0825% Class A common membership interest.	600,000	-	-	600,000	97,684
ClearView Social, Inc.	312,500 Series seed plus preferred shares.	-	200,000	-	200,000	-
First Wave Products Group, LLC	$500,000 senior term notes at 10%.					
	$280,000 junior term notes at 10%.	250,000	-	-	250,000	833
	Warrant for 41,619 capital securities.	-	-	-	-	-
		-	-	-	-	-
	Total First Wave	250,000	-	-	250,000	833
Genicon, Inc.	1,586,902 Series B preferred shares.					
	$1,100,000 senior term loans at 12%.	1,000,000	-	-	1,000,000	2,112
		-	1,100,000	-	1,100,000	75,967
	$600,000 term loan at 14%.	-	600,000	-	600,000	7,233
	Total Genicon	1,000,000	1,700,000	-	2,700,000	85,312
GiveGab, Inc.	5,084,329 Series Seed preferred shares.	424,314	-	-	424,314	-
G-TEC Natural Gas Systems	17.845% Class A membership interest. 8% cumulative dividend.	100,000	-	-	100,000	-
Intrinsiq Materials, Inc.	4,161,747 Series A preferred shares.					
		-	780,000	-	780,000	-
	$95,000 convertible promissory note at 8%.	95,000	-	(95,000)	-	6,689
	Total Intrinsiq	95,000	780,000	(95,000)	780,000	6,689
		381,503	-	(381,503)	-	-

Knoa Software, Inc.	973,533 Series A-1 convertible preferred shares.	490,752	-	(41,297)	449,455	-
	1,876,922 Series B preferred shares.	-	48,466	-	48,466	1,529
	$48,466 convertible promissory note at 8%.					
	Total Knoa	872,255	48,466	(422,800)	497,921	1,529
KnowledgeVision Systems, Inc.	200,000 Series A-1 preferred shares.					
	214,285 Series A-2 preferred shares.					
	129,033 Series A-3 preferred shares.	-	-	-	-	-
		300,000	-	-	300,000	-
	Warrant for 46,743 Series A-3 shares.	165,001	-	-	165,001	-
		35,000	-	-	35,000	-
	Total Knowledge Vision	500,001	-	-	500,001	-
Mezmeriz, Inc.	1,554,565 Series seed preferred shares.	351,477	-	-	351,477	-
Microcision LLC	$1,500,000 subordinated promissory note at 11%.					
	15% Class A common membership interest.	1,891,964	-	-	1,891,964	156,087
		-	-	-	-	-
	Total Microcision	1,891,964	-	-	1,891,964	156,087
New Monarch Machine Tool, Inc.	22.84 common shares.	22,841	-	-	22,841	28,409
OnCore Golf Technology, Inc.	150,000 Series AA preferred shares.	187,500	-	-	187,500	-
		150,000	150,000	-	300,000	12,649

$300,000 subordinated convertible promissory notes at 6%.					
Total OnCore	337,500	150,000	-	487,500	12,649

12

RAND CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

September 30, 2016 (Continued)

(Unaudited)

Investments in and Advances to Affiliates

Company	Type of Investment	December 31, 2015 Fair Value	Gross Additions (1)	Gross Reductions (2)	September 30, 2016 Fair Value	Amount of Interest/ Dividend/ Fee Income (3)
Rheonix, Inc.	9,676 common shares.	11,000	-	(11,000)	-	-
	1,839,422 Series A preferred shares.	2,165,999	-	(2,165,999)	-	-
	50,593 common shares.	59,000	-	(59,000)	-	-
	589,420 Series B preferred shares.	702,732	-	(702,732)	-	-
	Total Rheonix	2,938,731	-	(2,938,731)	-	-
SciAps, Inc.	187,500 Series A convertible preferred shares.	1,000,000	-	-	1,000,000	-
	274,299 Series A-1 convertible preferred shares.	504,710	-	-	504,710	-
	117,371 Series B preferred shares.	250,000	-	-	250,000	-
	$200,000 subordinated promissory note at 10%.	-	200,000	-	200,000	9,612
	$100,000 secured subordinated convertible note at 10%.	-	100,000	-	100,000	-
	Total SciAps	1,754,710	300,000	-	2,054,710	9,612
SOMS Technologies, LLC	5,959,490 Series B membership interests.	528,348	-	-	528,348	13,464

Statisfy, Inc.	65,000 Series seed preferred shares.	20,968	-	(20,968)	-	-
	Warrant for 1,950,000 Series seed preferred shares.	629,032	-	(629,032)	-	-
	Total Statisfy	650,000	-	(650,000)	-	-
Teleservices Solutions Holdings, LLC	250,000 Class B shares.	-	-	-	-	-
	1,000,000 Class C shares.	1,190,680	-	(595,340)	595,340	-
	80,000 Class D preferred units.	91,200	-	-	91,200	-
	104,198 Class E preferred units.	104,198	-	-	104,198	-
	Total Teleservices	1,386,078	-	(595,340)	790,738	
Tilson Technology Management, Inc.	12 Series B preferred shares.	600,000	-	-	600,000	11,250
	21,390 Series C convertible preferred shares.	-	200,000	-	200,000	
	$200,000 subordinated promissory note at 8%.	-	200,000	-	200,000	
	Total Tilson	600,000	400,000	-	1,000,000	
	Total Affiliate Investments	**$14,662,219**	**$3,728,466**	**($4,701,871)**	**$13,688,814**	**$426,970**
	Total Control and Affiliate Investments	**$28,578,691**	**$3,728,466**	**($18,518,843)**	**$13,788,314**	**$440,798**

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

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

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

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

RAND CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

September 30, 2016 (Continued)

(Unaudited)

Industry Classification	**Percentage of Total Investments (at fair value) as of September 30, 2016**
Healthcare	32.5%
Software	27.3%
Manufacturing	20.8%
Contact Center	6.8%
Consumer Product	5.5%
Professional Services	3.6%
Oil and Gas	1.8%
Electronics	1.3%
Marketing	0.4%
Total Investments	**100%**

RAND CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

December 31, 2015

(a) Company, Geographic Location, Business Description, (Industry) and Website	Type of Investment	(b) Date Acquired	(c) Equity	Cost	(d)(f) Fair Value	Percent of Net Assets
Non-Control/Non-Affiliate Investments 24.4% of net assets: (j)						
Athenex, Inc. (e)(g) **(Formerly Kinex Pharmaceuticals, Inc.)** Buffalo, NY. Specialty pharmaceutical and drug development. (Health Care) www.athenex.com	46,296 common shares.	9/8/14	<1%	$143,285	$347,220	1.0%
City Dining Cards, Inc. (Loupe) (e)(g) Buffalo, NY. Customer loyalty technology company that helps businesses attract and retain customers. (Software) www.citydiningcards.com	9,525.25 Series B preferred shares.	9/1/15	4%	500,000	500,000	1.5%
Empire Genomics, LLC (e)(g) Buffalo, NY. Molecular diagnostics company that offers a comprehensive menu of assay services for diagnosing and guiding patient therapeutic treatments. (Health Care) www.empiregenomics.com	$600,000 senior secured convertible term note at 10% due April 1, 2017. **(i)** Interest receivable $92,833.	6/13/14	-	600,000	600,000	1.8%
GoNoodle, Inc. (g)		2/6/15	<1%	1,008,974	1,008,974	3.0%

(Formerly HealthTeacher, Inc.) Nashville, TN. Student engagement education software providing core aligned physical activity breaks. (Software) www.gonoodle.com	$1,000,000 secured note at 12% due January 31, 2020, (1% Payment in Kind (PIK)).			25	25	
	Warrant for 47,324 Series C Preferred shares.					
	Total GoNoodle			1,008,999	1,008,999	
Mercantile Adjustment Bureau, LLC (g) Williamsville, NY. Full service accounts receivable management and collections company. (Contact Center) www.mercantilesolutions.com	$1,099,039 subordinated secured note at 13% (3% for the calendar year 2015) due October 30, 2017.	10/22/12	4%	1,080,694	1,080,694	3.2%
	(e) $150,000 subordinated debenture at 8% due June 30, 2018.			150,000	0	
	Warrant for 3.29% membership interests. Option for 1.5% membership interests.			97,625	0	
	(i) Interest receivable $93,455.					
	Total Mercantile			1,328,319	1,080,694	
Outmatch (e)(g) **(Formerly Chequed Holdings, LLC)** Saratoga Springs, NY. Web based predictive employee selection and reference checking. (Software) www.outmatch.com	2,264,995 Class P1 Units.	11/18/10	4%	2,140,007	2,140,007	6.3%
	109,788 Class C1 Units.			5,489	5,489	
	Total Outmatch			2,145,496	2,145,496	

SocialFlow, Inc. (e)(g) New York, NY. Provides instant analysis of social networks using a proprietary, predictive analytic algorithm to optimize advertising and publishing. (Software) www.socialflow.com	1,049,538 Series B preferred shares.	4/5/13	4%	500,000	731,431	6.1%
	1,204,819 Series B-1 preferred shares.			750,000	839,648	
	717,772 Series C preferred			500,000	500,221	
Total Social Flow				1,750,000	2,071,300	
Somerset Gas Transmission Company, LLC (e) Columbus, OH. Natural gas transportation. (Oil and Gas) www.somersetgas.com	26.5337 units.	7/10/02	3%	719,097	500,000	1.5%
Other Non-Control/Non-Affiliate Investments:						
DataView, LLC (Software) (e)	Membership Interest.	-	-	310,357	-	0.0%

RAND CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

December 31, 2015 (Continued)

(a) Company, Geographic Location, Business Description, (Industry) and Website	Type of Investment	(b) Date Acquired	(c) Equity	Cost	(d)(f) Fair Value	Percent of Net Assets
UStec/Wi3 (Manufacturing) (e)	Common Stock.	-	-	100,500	-	0.0%
Subtotal Non-Control/Non-Affiliate Investments				$8,606,053	$8,253,709	
Affiliate Investments 43.3% of net assets (k)						
BeetNPath, LLC (e)(g) Ithaca, NY. Frozen entrées and packaged dry side dishes made from 100% whole grain steel cut oats under Grainful brand name. (Consumer Product) www.grainful.com	1,119,024 Series A-2 Preferred Membership Units.	10/20/14	9%	$359,000	$359,000	1.0%
Carolina Skiff LLC (g) Waycross, GA. Manufacturer of fresh water, ocean fishing and pleasure boats. (Manufacturing) www.carolinaskiff.com	6.0825% Class A common membership interest.	1/30/04	7%	15,000	600,000	1.8%
First Wave Products Group, LLC (e)(g)	$500,000 senior term notes at 10% due December 31, 2016.	4/19/12	7%	661,563	250,000	0.7%

Batavia, NY. Sells First Crush automated pill crusher that crushes and grinds medical pills for nursing homes and medical institutions. (Health Care) www.firstwaveproducts.com	$280,000 junior term notes at 10% due December 31, 2016.			316,469	0	
	Warrant for 41,619 capital securities.			22,000	0	
	Total First Wave			1,000,032	250,000	
Genicon, Inc. (e)(g) Winter Park, FL. Designs, produces and distributes patented surgical instrumentation. (Health Care) www.geniconendo.com	1,586,902 Series B preferred shares.	4/10/15	6%	1,000,000	1,000,000	3.0%
GiveGab, Inc. (e)(g) Ithaca, NY. Online fundraising, day of giving supporter engagement software for non-profit organizations. (Software) www.givegab.com	5,084,329 Series Seed preferred shares.	3/13/13	9%	616,221	424,314	1.2%
G-TEC Natural Gas Systems (e) Buffalo, NY. Manufactures and distributes systems that allow natural gas to be used as an alternative fuel to gases. (Manufacturing) www.gas-tec.com	17.845% Class A membership interest. 8% cumulative dividend.	8/31/99	18%	400,000	100,000	0.3%
Intrinsiq Materials, Inc. (e)(g) Rochester, NY. Produces printable electronics utilizing a unique process of nanomaterial based ink in a room-temperature environment. (Manufacturing) www.intrinsiqmaterials.com	599,055 Series 2 preferred shares.	9/19/13	7%	600,002	0	0.3%
	$95,000 convertible promissory note at 8% due March 31, 2016.			95,000	95,000	
	Total Intrinsiq			695,002	95,000	
Knoa Software, Inc. (e)(g) New York, NY. End user experience management and	973,533 Series A-1 convertible preferred shares.	11/20/12	7%	750,000	381,503	2.6%

performance (EMP) solutions utilizing enterprise applications. (Software) www.knoa.com	1,876,922 Series B preferred shares.			479,155 1,229,155	490,752 872,255	
KnowledgeVision Systems, Inc. (e)(g)	200,000 Series A-1 preferred shares.	11/13/13	7%			1.5%
Lincoln, MA. Online presentation and training software. (Software)	214,285 Series A-2 preferred shares.			250,000	0	
	129,033 Series A-3 preferred shares.			300,000	300,000	
www.knowledgevision.com				165,001	165,001	
	Warrant for 46,743 Series A-3 shares.			35,000	35,000	
	Total KnowledgeVision			750,001	500,001	

RAND CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

December 31, 2015 (Continued)

(a) Company, Geographic Location, Business Description, (Industry) and Website	Type of Investment	(b) Date Acquired	(c) Equity	Cost	(d)(f) Fair Value	Percent of Net Assets
Mezmeriz, Inc. (e)(g) 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	1,554,565 Series Seed preferred shares.	1/9/08	15%	742,850	351,477	1.0%
Microcision LLC (g) Philadelphia, PA. Manufacturer of precision machined medical implants, components and assemblies. (Manufacturing) www.microcision.com	$1,500,000 subordinated promissory note at 11% due January 31, 2017.	9/24/09	15%	1,891,964	1,891,964	5.6%
	15% Class A common membership interest.			-	-	
	Total Microcision			1,891,964	1,891,964	
New Monarch Machine Tool, Inc. (g) Cortland, NY. Manufactures and services vertical/horizontal machining centers. (Manufacturing) www.monarchmt.com	22.84 common shares.	9/24/03	15%	22,841	22,841	0.1%
OnCore Golf Technology, Inc. (e)(g) Buffalo, NY. Maker of patented hollow-metal core golf balls. (Consumer	150,000 Series AA preferred shares.	12/31/14	7%	375,000	187,500	1.0%

Product)	$150,000 subordinated convertible promissory note at 6% due January 24, 2017.			150,000	150,000	
www.oncoregolf.com						
	Total OnCore			525,000	337,500	
Rheonix, Inc. (e)	9,676 common shares.	10/29/09	5%	-	11,000	8.7%
Ithaca, NY. Developer of fully automated microfluidic based molecular assay and diagnostic testing devices. (Health Care)	**(g)** 1,839,422 Series A preferred shares.			2,099,999	2,165,999	
www.rheonix.com	**(g)** 50,593 common shares.			-	59,000	
	(g) 589,420 Series B preferred shares.			702,732	702,732	
	Total Rheonix			2,802,731	2,938,731	
SciAps, Inc. (e)(g)	187,500 Series A convertible preferred shares.	7/12/13	9%	1,500,000	1,000,000	5.2%
Woburn, MA. Instrumentation company producing portable analytical devices using XRF, LIBS and RAMAN spectroscopy to identify compounds, minerals, and elements. (Manufacturing)	274,299 Series A-1 convertible preferred shares.			504,710	504,710	
www.sciaps.com	117,371 Series B preferred shares.			250,000	250,000	
	Total SciAps			2,254,710	1,754,710	
SOMS Technologies, LLC (e)(g)		12/2/08	9%	472,632	528,348	1.5%

Valhalla, NY. Produces and markets the microGreen Extended Performance Oil Filter. (Consumer Products) www.microgreenfilter.com	5,959,490 Series B membership interests.					
Statisfy, Inc. (e)(g) Boston, MA. Mobile marketing platform for engagement, advertising and surveys. (Software) www.statisfy.co	65,000 Series seed preferred shares. Warrant for 1,950,000 Series seed preferred shares.	8/18/14	10%	20,968 629,032	20,968 629,032	1.9%
	Total Statisfy			650,000	650,000	
Teleservices Solutions Holdings, LLC (g)(n) Montvale, NJ. Customer contact center specializing in customer acquisition and retention for selected industries. (Contact Center) www.ipacesetters.com	250,000 Class B preferred units. 1,000,000 Class C preferred units. 80,000 Class D preferred units. 104,198 Class E preferred units. PIK dividend for Series C and D at 12% and 14%, respectively.	5/30/14	6%	250,000 1,190,680 91,200 104,198	0 1,190,680 91,200 104,198	4.1%
	Total Teleservices			1,636,078	1,386,078	
Tilson Technology Management, Inc.(g) Portland, ME. Cellular, fiber optic and wireless information systems, construction,	12 Series B preferred shares.	1/20/15	8%	600,000	600,000	1.8%

and management. (Professional Services)

www.tilsontech.com

Subtotal Affiliate Investments	$17,663,217	$14,662,219

RAND CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

December 31, 2015 (Continued)

(a) Company, Geographic Location, Business Description, (Industry) and Website	Type of Investment	(b) Date Acquired	(c) Equity	Cost	(d)(f) Fair Value	Percent of Net Assets
Control Investments 41.1% of net assets (l)						
Advantage 24/7 LLC (e)(g) Williamsville, NY. Marketing program for wine and spirits dealers. (Marketing Company) www.advantage24-7.com	53% Membership interest.	12/30/10	53%	$99,500	$99,500	0.3%
Gemcor II, LLC (g)(h)(m) West Seneca, NY. Designs and sells automatic riveting machines used in the assembly of aircraft. (Manufacturing) www.gemcor.com	$1,000,000 subordinated promissory note at 15% due September 1, 2017. 31.25 membership units.	6/28/04	31%	416,972 625,000	416,972 13,400,000	40.8%
	Total Gemcor			1,041,972	13,816,972	
Subtotal Control Investments				$1,141,472	$13,916,472	
TOTAL INVESTMENTS 108.8%				$27,410,742	$36,832,400	
LIABILITIES IN EXCESS OF OTHER ASSETS (8.8%)					(2,978,740)	
NET ASSETS 100%					$33,853,660	

RAND CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

December 31, 2015 (Continued)

Notes to the Consolidated Schedule of Portfolio Investments

(a) At December 31, 2015, 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. Freed Maxick CPAs P.C. has not audited the business descriptions of the portfolio companies.

(b) The Date Acquired column indicates the year in which the Corporation acquired its first 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, 2015, ASC 820 designates 100% of the Corporation s investments as Level 3 assets. Under the valuation policy of the Corporation, unrestricted publicly held securities are valued at the average closing bid price for these securities for the last three trading days of the month. Restricted securities are subject to restrictions on resale, and are valued at fair value as determined by the management of the Corporation and submitted to the Board of Directors for approval. Fair value is considered to be the amount that the Corporation may reasonably expect to receive for portfolio securities when sold on the valuation date. Valuations as of any particular date, however, are not necessarily indicative of amounts which may ultimately be realized as a result of future sales or other dispositions of securities and these favorable or unfavorable differences could be material. Among the factors considered in determining the fair value of restricted securities are the financial condition and operating results, projected operations, and other analytical data relating to the investment. Also considered are the market prices for unrestricted securities of the same class (if applicable) and other matters which may have an impact on the value of the portfolio company (see Note 3 Investments to the Consolidated Financial Statements).

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

(f) As of December 31, 2015, the total cost of investment securities was approximately $27.5 million. Net unrealized appreciation was approximately $9.4 million, which was comprised of $14.1 million of unrealized appreciation of investment securities and ($4.7) million related to unrealized depreciation of investment securities. At December 31, 2015, the aggregate gross unrealized gain for federal income tax purposes was $10.2 million and the aggregate gross unrealized loss for federal income tax purposes was ($4.4) million. The net unrealized gain for federal income tax purposes was $5.8 million based on a tax cost of $31.0 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 net of reserves) from investment included as interest receivable on the Corporation s Statement of Financial Position.

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

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

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

(m) Gemcor II, LLC is an unconsolidated significant subsidiary as defined in SEC s Regulation S-X.

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

RAND CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

December 31, 2015 (Continued)

Investments in and Advances to Affiliates

Company	Type of Investment	December 31, 2014 Fair Value	Gross Additions (1)	Gross Reductions (2)	December 31, 2015 Fair Value	Amount of Interest/ Dividend/ Fee Income (3)
Control Investments:						
Advantage 24/7 LLC	53% Membership interest.	$99,500	$ -	$ -	$99,500	$ -
Gemcor II, LLC	$1,000,000 subordinated promissory note at 15%.					
	31.25 membership	622,800	-	(205,828)	416,972	77,077
	units.	9,300,000	4,100,000	-	13,400,000	1,743,934
	Total Gemcor	9,922,800	4,100,000	(205,828)	13,816,972	1,821,011
	Total Control Investments	**$10,022,300**	**$4,100,000**	**($205,828)**	**$13,916,472**	**$1,821,011**
Affiliate Investments:						
BeetNPath, LLC	1,119,024 Series A-2 Preferred Membership Units.	$ -	$359,000	$ -	$359,000	$7,250
Carolina Skiff LLC	$985,000 Class A preferred	985,000	-	(985,000)	-	81,782
	membership	125,000	-	(125,000)	-	14,778
	interest at 9.8%.	600,000	-	-	600,000	116,052
	$250,000 subordinated					

	promissory note at 14%. 6.0825% Class A common membership interest.					
	Total Carolina Skiff	1,710,000	-	(1,110,000)	600,000	212,612
Chequed.com, Inc.	408,476 Series A preferred shares.					
	$250,000 convertible promissory note	1,383,222	-	(1,383,222)	-	-
	at 8%.	250,000	-	(250,000)	-	11,507
	Total Chequed	1,633,222	-	(1,633,222)	-	11,507
CrowdBouncer, Inc.	300,000 Series A preferred shares.	-	-	-	-	-
First Wave Products Group, LLC	$500,000 senior term notes at 10%.					
	$280,000 junior term notes at 10%.	637,992	23,571	(411,563)	250,000	24,571
	Warrant for 41,619 capital	308,687	7,782	(316,469)	-	8,447
	securities.	22,000	-	(22,000)	-	-
	Total First Wave	968,679	31,353	(750,032)	250,000	33,018
Genicon, Inc.	1,586,902 Series B preferred shares.	-	1,000,000	-	1,000,000	-
GiveGab, Inc.	5,084,329 Series Seed preferred shares.	403,388	212,833	(191,907)	424,314	-
G-TEC Natural Gas Systems	17.8% Class A membership interest. 8% cumulative dividend.	100,000	-	-	100,000	-
Intrinsiq Materials, Inc.	599,055 Series 2 preferred shares.	600,002	-	(600,002)	-	-
		-	95,000	-	95,000	2,436
	$95,000					

	convertible promissory note at 8%.					
	Total Intrinsiq	600,002	95,000	(600,002)	95,000	2,436
Knoa Software, Inc.	973,533 Series A-1 convertible preferred shares.					
	1,876,922 Series B preferred shares.	381,503	-	-	381,503	-
		490,752	-	-	490,752	-
		872,255	-	-	872,255	-
KnowledgeVision Systems, Inc.	200,000 Series A-1 preferred shares.					
	214,285 Series A-2 preferred shares.					
	129,033 Series A-3 preferred shares.	250,000	-	(250,000)	-	-
		300,000	-	-	300,000	-
	Warrant for 46,743 Series A-3 shares.	-	165,001	-	165,001	-
		-	35,000	-	35,000	-
	Total Knowledge Vision	550,000	200,001	(250,000)	500,001	-
Mezmeriz, Inc.	1,554,565 Series seed preferred shares.					
	$200,000 convertible notes at 8%.	-	351,477	-	351,477	-
		200,000	-	(200,000)	-	-
	Total Mezmeriz	200,000	351,477	(200,000)	351,477	-
Microcision LLC	$1,500,000 subordinated promissory note at 11%.					
	15% Class A common membership interest.	1,891,964	-	-	1,891,964	208,116
		-	-	-	-	-
		1,891,964	-	-	1,891,964	208,116

	Total Microcision					
New Monarch Machine Tool, Inc.	22.84 common shares.	22,841	-	-	22,841	30,409
OnCore Golf Technology, Inc.	150,000 Series AA preferred shares.					
	$150,000 subordinated convertible promissory note	-	375,000	(187,500)	187,500	-
	at 6%.	-	150,000	-	150,000	3,945
	Total OnCore	-	525,000	(187,500)	337,500	3,945

20

RAND CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

December 31, 2015 (Continued)

Investments in and Advances to Affiliates

Company	Type of Investment	December 31, 2014 Fair Value	Gross Additions (1)	Gross Reductions (2)	December 31, 2015 Fair Value	Amount o[f] Interest/ Dividend[/] Fee Income
eonix, Inc.	9,676 common shares.	11,000	-	-	11,000	
	1,839,422 Series A preferred shares.	2,165,999	-	-	2,165,999	
	50,593 common shares.	59,000	-	-	59,000	
	589,420 Series B preferred shares.	-	702,732	-	702,732	
	$680,475 convertible promissory notes at 8%.	-	702,732	(702,732)	-	22,2
	Total Rheonix	2,235,999	1,405,464	(702,732)	2,938,731	22,2
Aps, Inc.	187,500 Series A convertible preferred shares.	1,500,000	-	(500,000)	1,000,000	
	274,299 Series A-1 convertible preferred shares.	-	504,710	-	504,710	4,7
	117,371 Series B preferred shares.	-	250,000	-	250,000	
	Total SciAps	1,500,000	754,710	(500,000)	1,754,710	4,7
MS chnologies, C	5,959,490 Series B membership interests.	528,348	-	-	528,348	4,3
tisfy, Inc.	65,000 Series seed preferred shares.	-	20,968	-	20,968	
	Warrant for 1,950,000 Series seed preferred shares.	-	629,032	-	629,032	
	Total Statisfy	-	650,000	-	650,000	
eservices utions ldings,	250,000 Class B shares.	250,000	-	(250,000)	-	
	1,000,000 Class C shares.	1,070,680	120,000	-	1,190,680	168,0

C	80,000 Class D preferred units.	80,000	11,200	-	91,200	15,68
	104,198 Class E preferred units.	-	104,198	-	104,198	
	Total Teleservices	1,400,680	235,398	(250,000)	1,386,078	183,68
son chnology nagement, .	12 Series B preferred shares.	-	600,000	-	600,000	14,4
	Total Affiliate Investments	**$14,617,378**	**$6,420,236**	**($6,375,395)**	**$14,662,219**	**$738,7**
	Total Control and Affiliate Investments	**$24,639,678**	**$10,520,236**	**($6,581,223)**	**$28,578,691**	**$2,559,7**

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

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

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

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

RAND CAPITAL CORPORATION AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

December 31, 2015 (Continued)

Industry Classification	**Percentage of Total Investments (at fair value) as of December 31, 2015**
Manufacturing	49.6%
Software	22.2%
Healthcare	13.9%
Contact Center	6.7%
Consumer Product	3.3%
Professional Services	1.6%
Oil and Gas	1.4%
Electronics	1.0%
Marketing	0.3%
Total Investments	100%

Rand Capital Corporation and Subsidiary

Notes to the Consolidated Financial Statements

For the Nine Months Ended September 30, 2016 and 2015

(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, 2015.

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

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 refe Rand Corporation and Rand SBIC.

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

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation It is our opinion that the accompanying consolidated financial statements include all adjustments of a normal recurring nature necessary for a fair presentation in accordance with United States generally accepted accounting principles (GAAP) of the consolidated financial position, results of 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, 2016 are not necessarily indicative of the results for the full year.

These statements should be read in conjunction with the consolidated financial statements and the notes included in our Annual Report on Form 10-K for the year ended December 31, 2015. 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	2016 Definitive Proxy Statement submitted to shareholders
Form 10-K	Annual Report on Form 10-K for the year ended December 31, 2015
Form 10-Q	Quarterly Reports on Form 10-Q for the quarters ended June 30, 2016 and March 31, 2016

Principles of Consolidation - The consolidated financial statements include the accounts of Rand and its wholly-owned subsidiary Rand SBIC. 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 maturity of these financial instruments.

***Fair Value of SBA Debentures* -** In September 2016, the SBIC Funding Corporation completed a pooling of SBA debentures that have a coupon rate of 2.051%, excluding a mandatory SBA annual charge estimated to be 0.804%, resulting in a total estimated fixed rate for ten years of 2.855%. The carrying value of Rand s SBA debentures is a reasonable estimate of fair value because stated interest rates approximate current interest rates that are available for debt with similar terms.

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

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

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

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.

After reviewing each of our portfolio companies performance and the circumstances surrounding each investment, the Corporation ceased accruing interest income on First Wave Products Group, LLC (First Wave) and a portion of the Mercantile Adjustment Bureau, LLC (Mercantile) outstanding loans in 2015 and G-TEC Natural Gas Systems in 2004.

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

Revenue Recognition - Fee Income - Consists of the revenue associated with the amortization of financing fees charged to the portfolio companies upon successful closing of Rand SBIC financings and income associated with portfolio company board attendance fees. The income associated with the amortization of financing fees was $15,948 and $13,667 for the nine months ended September 30, 2016 and 2015, respectively. The board fees were $3,000 and $8,000 for the nine months ended September 30, 2016 and 2015, respectively.

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

Original Issue Discount Investments may include original issue discount or OID income. This occurs when the Corporation purchases a warrant and a note from a portfolio company simultaneously, which requires an allocation of a portion of the purchase price to the warrant and reduces the note or debt instrument by an equal amount in the form of a note discount or OID. The note is reported net of the OID and the OID is accreted into interest income over the life of the loan. The Corporation recognized $7,497 and $11,619 in OID income for the nine months ended September 30, 2016 and 2015, respectively. OID income is estimated to be approximately $2,500 for the remainder of 2016 and $8,350 for 2017.

Deferred Debenture Costs - The Financial Accounting Standards Board (FASB) issued an Accounting Standard Update 2015-03 (ASU) requiring that debt issuance costs be presented as a direct deduction from the related debt liability. Therefore, the SBA debenture origination and commitment costs are presented as a direct deduction from the debt liability (see Note 6). As a result $199,627 was reclassified from other assets to debentures guaranteed by the SBA in the accompanying consolidated statement of financial position as of

December 31, 2015. As of September 30, 2016, the balance in debt issuance costs was $179,077. These costs are amortized ratably over the terms of the SBA debentures and are expensed when the debt is repaid early. Amortization expense was $20,550 for each of the nine months ended September 30, 2016 and 2015. Amortization over the next five years is estimated to be approximately $27,000 per year.

SBA Debenture - The Corporation had $8,000,000 in outstanding SBA debentures at September 30, 2016 and December 31, 2015 with a weighted average interest rate of 3.54% as of September 30, 2016. The debentures are presented net of deferred debenture costs (see Note 6). The $8,000,000 in outstanding SBA leverage matures from 2022 through 2025.

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

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

Supplemental Cash Flow Information - Income taxes paid during the nine months ended September 30, 2016 and 2015 was $1,995,948 and $2,347,317, respectively. Interest paid during the nine months ended September 30, 2016 and 2015 was $283,650 and $269,066, respectively. The Corporation converted $16,711 and $69,710 of interest receivable into investments during the nine months ended September 30, 2016 and 2015, 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, 2016 and December 31, 2015, there were 500,000 shares of $10.00 par value preferred stock authorized and unissued.

On October 19, 2016, the Board of Directors extended the repurchase authorization for up to 1,000,000 shares of the Corporation s outstanding common stock on the open market through October 19, 2017 at prices that are no greater than the then current net asset value. There were 6,550 shares repurchased during the nine months ended September 30, 2016 and the total treasury shares held was 541,046 shares with a total cost of $1,469,105 at September 30, 2016. Therefore, at September 30, 2016, the Corporation had authorization to purchase up to an additional 458,954 shares of common stock.

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, 2016, no stock options had been awarded under the Option Plan. Because Section 57(n) of the 1940 Act prohibits maintenance of a profit sharing plan for the officers and employees of a BDC where any option, warrant or right is outstanding under an executive compensation plan, no stock options will be granted under the Option Plan while any profit sharing plan is in effect with respect to the Corporation.

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

The Corporation accrued $1,411,659 under the Plan for the nine months ended September 30, 2016. There were no amounts earned pursuant to the Plan for the nine months ended September 30, 2015. Estimated payroll taxes and benefits on the profit sharing under the Plan have been accrued at September 30, 2016. The amounts accrued do not exceed the defined limits under the Plan. During the year ended December 31, 2014, the Corporation approved and accrued $899,500 under the Plan, of which $717,500 was paid during the nine months ended September 30, 2015.

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. During the nine months ended September 30, 2016 there was an $18,500 increase in the current tax liability offset by an $8,500 decrease in previous reserves, resulting in a net $10,000 change in uncertain tax positions. There were no new uncertain tax positions recorded at December 31, 2015.

It is the Corporation s policy to include interest and penalties related to income tax liabilities in income tax expense. There were no amounts recognized for interest or penalties related to tax expense for the nine months ended September 30, 2016 or 2015.

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

At September 30, 2016, Rheonix, Inc. (Rheonix), Genicon, Inc. (Genicon), Outmatch (formerly Chequed Holdings, LLC) (Outmatch), Social Flow, Inc. (Social Flow) and SciAps, Inc. (Sciaps) represented 11%, 10%, 8%, 8% and 7%, respectively, of the fair value of the Corporation s investment portfolio.

Reclassification Certain balances in prior years were reclassified to conform to presentations adopted in 2016.

Note 3. INVESTMENTS

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

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

27

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.

The loan and debt securities are typically carried at cost, however, may be valued at an amount other than the price the security would command given the rate and related inherent portfolio risk of the investment.

A loan or debt instrument may be reduced in value if it is judged to be of poor quality, collection is in doubt or insufficient liquidation proceeds exist.

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

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

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

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

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

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

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

Under the valuation policy, the Corporation values unrestricted publicly traded companies, categorized as Level 1 investments, at the average closing bid price for the last three trading days of the reporting period. There were no such Level 1 investments as of September 30, 2016.

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

Financial information obtained from each portfolio company, including audited and unaudited statements of operations, balance sheets and operating budgets;

Current and projected financial, operational and technological developments of the portfolio company;

Current and projected ability of the portfolio company to service its debt obligations;

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

Pending debt or capital restructuring of the portfolio company;

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

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

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

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

Qualitative assessment of key management;

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

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

This information is used to determine financial condition, performance, and valuation of the portfolio companies. The valuation may be reduced if a portfolio company s performance and potential have deteriorated significantly. If the factors that led to a reduction in valuation are overcome, the valuation may be readjusted.

Equity Securities

Equity Securities may include Preferred Stock, Common Stock, Warrants and Limited Liability Company Membership Interests.

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

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

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

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

Loan and Debt Securities

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

Corporation s loan and debt investments are often junior secured or unsecured debt securities. Fair value may also be determined based on other criteria where appropriate. Significant changes to the unobservable inputs may result in a change in fair value. For recent investments, the Corporation generally relies on the cost basis, which is deemed to represent the fair value, unless other fair market value inputs are identified causing the Corporation to depart from this basis.

The following table provides a summary of the significant unobservable inputs used to determine the fair value of the Corporation s Level 3 portfolio investments as of September 30, 2016:

nvestment Type	**Market Approach EBITDA Multiple**	**Market Approach Liquidation Seniority**	**Market Approach Revenue Multiple**	**Market Approach Transaction Pricing**	**Asset Approach Liquidation Method**	**Totals**
on-Control/Non-Affiliate quity	$ 1,088,191	$	$	$ 8,735,216	$	$ 9,823,407
on-Control/Non-Affiliate ebt					3,966,560	3,966,560
otal on-Control/Non-Affiliate	**$ 1,088,191**	**$**	**$**	**$ 8,735,216**	**$ 3,966,560**	**$ 13,789,967**
ffiliate Equity	$ 1,128,348	$ 22,841	$ 600,001	$ 7,097,194	$	$ 8,848,384
ffiliate Debt				300,000	4,540,430	4,840,430
otal Affiliate	**$ 1,128,348**	**$ 22,841**	**$ 600,001**	**$ 7,397,194**	**$ 4,540,430**	**$ 13,688,814**
ontrol Equity	$	$	$ 99,500	$	$	$ 99,500
ontrol Debt						
otal Control	**$**	**$**	**$ 99,500**	**$**	**$**	**$ 99,500**
otal Level 3 Investments	**$ 2,216,539**	**$ 22,841**	**$ 699,501**	**$ 16,132,410**	**$ 8,506,990**	**$ 27,578,281**
ange	3.6X-7.5X	1X	0.75X-2.5X	0.0X 1.0X	Not Applicable	
nobservable Input	EBITDA Multiple	Asset Value	Revenue Multiple	Discount	Asset Value	
eighted Average	5.4X	1X	2X	0 .89X	Not Applicable	

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 September 30, 2016:

		Fair Value Measurements at Reported Date Using		
Description	**September 30, 2016**	**Quoted Prices in Active Markets for**	**Significant Observable Inputs**	**Other Significant Unobservable**

		Identical Assets (Level 1)	(Level 2)	Inputs (Level 3)
Loan investments	$ 3,200,000	$	$	$ 3,200,000
Debt investments	6,695,181			6,695,181
Equity investments	17,683,100			17,683,100
Total	$ 27,578,281	$	$	$ 27,578,281

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, 2015:

		Fair Value Measurements at Reported Date Using		
Description	**December 31, 2015**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Other Significant Unobservable Inputs (Level 3)**
Loan investments	$ 416,972	$	$	$ 416,972
Debt investments	5,076,632			5,076,632
Equity investments	31,338,796			31,338,796
Total	$ 36,832,400	$	$	$ 36,832,400

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

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Venture Capital Investments			
Description	**Loan Investments**	**Debt Investments**	**Equity Investments**	**Total**
Ending Balance, December 31, 2015, of Level 3 Assets	$ 416,972	$ 5,076,632	$ 31,338,796	$ 36,832,400
Realized Gains included in net change in net assets from operations:				
Gemcor II, LLC (Gemcor)			14,588,813	14,588,813
Total Realized Gains			14,588,813	14,588,813
Unrealized Gains and Losses included in net change in net assets from operations:				
Athenex, Inc. (Athenex)			69,444	69,444
Gemcor II, LLC (Gemcor)			(12,775,000)	(12,775,000)
Intrinsiq Material, Inc. (Intrinsiq)			254,329	254,329
Knoa Software, Inc. (Knoa)			(422,800)	(422,800)
Statisfy, Inc. (Statisfy)			(650,000)	(650,000)
Teleservices Solutions Holdings, LLC (Teleservices)			(595,340)	(595,340)
Total Unrealized Gains and Losses			(14,119,367)	(14,119,367)
Purchases of Securities/Changes to Securities/Non-cash conversions:				
ACV Auctions, Inc. (ACV Auctions)			163,000	163,000

BeetNPath, LLC (Beetnpath)		150,000		150,000
ClearView Social, Inc. (Clearview Social)			200,000	200,000
eHealth Global Technologies, Inc. (eHealth)	1,500,000			1,500,000
Empire Genomics, LLC (Empire Genomics)		550,000		550,000
Genicon, Inc. (Genicon)	1,700,000			1,700,000
GoNoodle, Inc. (GoNoodle)		7,586		7,586
Intrinsiq			430,671	430,671
Knoa Software, Inc. (Knoa)		48,466		48,466
Mercantile Adjustment Bureau, LLC (Mercantile)		7,497		7,497
OnCore Golf Technology, Inc. (Oncore Golf)		150,000		150,000
PostProcess Technologies, Inc. (Post Process)		300,000		300,000
SciAps, Inc. (Sciaps)		300,000		300,000
Tilson Technology Management, Inc. (Tilson)		200,000	200,000	400,000
Total Purchases of Securities/Changes to Securities/Non-cash conversions	3,200,000	1,713,549	993,671	5,907,220
Repayments and Sale of Securities:				
Gemcor	(416,972)		(15,213,813)	(15,630,785)
Total Repayments and Sale of Securities	(416,972)		(15,213,813)	(15,630,785)
Transfers within Level 3		(95,000)	95,000	
Ending Balance, September 30, 2016, of Level 3 Assets	$ 3,200,000	$ 6,695,181	$ 17,683,100	$ 27,578,281
Change in unrealized appreciation on investments for the period included in changes in net assets				($14,119,367)
Net realized gain on investments for the period included in changes in net assets				$ 14,756,953

The following table provides a summary of changes in Assets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3) for the nine months ended September 30, 2015:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Venture Capital Investments			
Description	**Loan Investments**	**Debt Investments**	**Equity Investments**	**Total**
Ending Balance, December 31, 2014, of Level 3 Assets	$ 622,801	$ 5,384,339	$ 23,692,236	$ 29,699,376
Unrealized Gains or Losses included in net change in net assets from operations				
First Wave Products Group, LLC (First Wave)		(193,436)		(193,436)
Athenex, Inc. (Athenex)			92,592	92,592
SocialFlow, Inc. (Social Flow)			321,300	321,300
Teleservices Solutions Holdings, LLC (Teleservices)			(250,000)	(250,000)
Total Unrealized Gains and Losses		(193,436)	163,892	(29,544)
Purchases of Securities/Changes to Securities/Non-cash conversions:				
Chequed.com, Inc. (Chequed)		(250,000)	(1,383,222)	(1,633,222)
Chequed Holdings, LLC (Chequed Holdings)			2,145,496	2,145,496
City Dining Cards, Inc. (City Dining)			500,000	500,000
First Wave		28,132		28,132
Genicon, Inc. (Genicon)			1,000,000	1,000,000
GiveGab, Inc. (Give Gab)			212,833	212,833
GoNoodle, Inc. (GoNoodle)		1,006,458	25	1,006,483
Intrinsiq Material, Inc. (Intrinsiq)		95,000		95,000
KnowledgeVision Systems, Inc. (Knowledge Vision)			200,001	200,001
Mercantile Adjustment Bureau, LLC (Mercantile)		7,497		7,497
Mezmeriz, Inc. (Mezmeriz)		(200,000)	351,477	151,477
OnCore Golf Technology, Inc. (Oncore Golf)		150,000	175,000	325,000
Rheonix, Inc. (Rheonix)			702,732	702,732
SciAps, Inc. (Sciaps)			754,710	754,710
Social Flow			500,000	500,000
Statisfy, Inc.(Statisfy)			150,000	150,000
Teleservices			104,198	104,198
Tilson Technology Management, Inc. (Tilson)			600,000	600,000
Total Purchases of Securities/Changes to Securities/Non-cash conversions		837,087	6,013,250	6,850,337

<u>**Repayments of Securities**</u>				
Gemcor II, LLC (Gemcor)	(151,460)			(151,460)
Total Repayments of Securities	(151,460)			(151,460)
Transfers within Level 3				
Ending Balance, September 30, 2015, of Level 3 Assets	$ 471,341	$ 6,027,990	$ 29,869,378	$ 36,368,709
Change in unrealized appreciation on investments for the period included in changes in net assets				($29,544)
Net realized (losses) on investments for the period included in changes in net assets				$

NOTE 4. OTHER ASSETS

At September 30, 2016 and December 31, 2015, other assets was comprised of the following:

	September 30, 2016	December 31, 2015
Escrow receivable from BinOptics Corporation	$1,504,854	$1,504,854
Escrow receivable from Gemcor II, LLC	1,068,750	
Prepaid expenses	24,118	
Equipment (net)	7,192	11,676
Operating receivables	2,281	1,159
Total other assets	$2,607,195	$1,604,413

During 2014, the Corporation sold its investment in BinOptics Corporation and a portion of the proceeds are held in escrow and scheduled to be released to the Corporation during 2016. During the first quarter of 2016, Gemcor II, LLC sold its assets, and a portion of the proceeds are held in escrow and will be released during 2017. Both escrow receivables are subject to potential claims.

Note 5. COMMITMENTS AND CONTINGENCIES

The Corporation did not have any commitments to fund any investments as of September 30, 2016.

Note 6. SBA DEBENTURES

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

	September 30, 2016	December 31, 2015
Debentures guaranteed by the SBA	$8,000,000	$8,000,000
Less unamortized issue costs	(179,077)	(199,627)
Debentures guaranteed by the SBA, net	$7,820,923	$7,800,373

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, 2016 and the year ended December 31, 2015:

	Nine months ended September 30, 2016 (Unaudited)	Year ended December 31, 2015
Income from investment operations (1):		
Investment income	$ 0.12	$ 0.45
Operating expenses	0.46	0.29
Investment (loss) income before income taxes	(0.34)	0.16
Income tax (benefit) expense	(0.13)	0.02
Net investment (loss) income	(0.21)	0.14
Purchase of treasury stock	0.00	0.00
Net realized and unrealized gain on investments	0.06	0.10
(Decrease) increase in net asset value	(0.15)	0.24
Net asset value, beginning of period	5.35	5.11
Net asset value, end of period	$ 5.20	$ 5.35
Per share market price, end of period	$ 3.64	$ 3.77
Total return based on market value	(3.45%)	(7.82%)
Total return based on net asset value	(2.98%)	4.64%
Supplemental data:		
Ratio of operating expenses before income taxes to average net assets	8.74%	5.49%
Ratio of operating expenses including income taxes to average net assets	7.06%	7.89%
Ratio of net investment (loss) income to average net assets	(4.05%)	2.55%
Portfolio turnover	18.3%	21.4%
Net assets, end of period	$ 32,845,134	$ 33,853,660
Weighted shares outstanding, end of period	6,327,074	6,328,538

(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.

34

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 simila 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 the 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, 2015.

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 invests in and lends to small and medium-sized companies primarily in connection with loans or investments made concurrently by 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 make 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. We anticipate that most, if not all, of our investments made in the next year will be originated through our SBIC subsidiary.

Outlook

At the end of the third quarter of 2016, we had approximately $12 million in cash on hand, which is available for future investment and operating needs. We believe the combination of cash on hand and prospective investment income provides sufficient capital for us to continue to add new investments to our portfolio, while continuing to reinvest in existing portfolio companies that continue to demonstrate growth potential. The following short and long-term trends provide us with confidence in our ability to grow Rand:

- We expect that well run U.S. businesses will require capital to continue to grow given the low cost of capital, strong business and consumer spending, and eager reception of new technologies and service concepts. We believe Rand will be able to participate in financing these businesses.

- We have sufficient cash on hand to invest in new opportunities.

- Given our available cash on hand, we are able to invest larger amounts in companies, which, we believe, will provide an opportunity to accelerate our rate of growth.

- We will 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 to facilitate their growth.

- As our portfolio of investments continues to expand, 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, 2015 under Item 7   Management s Discussion and Analysis of Financial Condition and Results of Operations.

Financial Condition

Overview:	9/30/16	12/31/15	(Decrease)	% (Decrease)
Total assets	$ 43,293,415	$ 44,562,060	($ 1,268,645)	(2.8%)
Total liabilities	10,448,281	10,708,400	(260,119)	(2.4%)
Net assets	$ 32,845,134	$ 33,853,660	($ 1,008,526)	(3.0%)

Net asset value per share (NAV) was $5.20 at September 30, 2016 and $5.35 at December 31, 2015.

Our outstanding SBA debentures at September 30, 2016 were $8,000,000 and will mature from 2022 through 2025. Cash approximated 36% of net assets at September 30, 2016 as compared to 17% at December 31, 2015. The change is primarily due to the receipt of proceeds from the asset sale of one of our investments, Gemcor II, LLC, in March 2016.

Composition of Our Investment Portfolio

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

	9/30/16	12/31/15	Increase (Decrease)	% Increase (Decrease)
Investments, at cost	$ 32,275,990	$ 27,410,742	$ 4,865,248	17.7%
Unrealized (depreciation) appreciation, net	(4,697,709)	9,421,658	(14,119,367)	(149.9%)
Investments at fair value	$ 27,578,281	$ 36,832,400	($ 9,254,119)	(25.1%)

Our total investments at fair value, as estimated by management and approved by our Board of Directors, approximated 84% of net assets at September 30, 2016 versus 109% of net assets at December 31, 2015 with the change primarily due to the asset sale of one of our investments, Gemcor II, LLC.

The change in investments during the nine months ended September 30, 2016, at cost, is comprised of the following:

	Cost Increase (Decrease)
New investments:	
Genicon, Inc. (Genicon)	$ 1,700,000
eHealth Global Technologies, Inc. (eHealth)	1,500,000
Empire Genomics, LLC (Empire Genomics)	550,000
Intrinsiq Materials, Inc. (Intrinsiq)	421,546
Tilson Technology Management, Inc. (Tilson)	400,000
PostProcess Technologies LLC (Post Process)	300,000

SciAps, Inc. (Sciaps)	300,000
ClearView Social, Inc. (Clearview Social)	200,000
ACV Auctions, Inc. (ACV Auctions)	163,000
BeetNPath, LLC (Beetnpath)	150,000
OnCore Golf Technology, Inc. (Oncore Golf)	150,000
Knoa Software, Inc. (Knoa)	48,466
Total of new investments	5,883,012
Other changes to investments:	
Intrinsiq	9,125
GoNoodle, Inc. (GoNoodle) interest conversion	7,586
Mercantile Adjustment Bureau, LLC (Mercantile) OID amortization	7,497
Total of other changes to investments	24,208
Investments repaid, sold or liquidated:	
Gemcor II, LLC (Gemcor) repayment	(1,041,972)
Total investments repaid, sold or liquidated	(1,041,972)
Net change in investments, at cost	**$ 4,865,248**

Results of Operations

Investment Income

Our investment objective is to achieve long-term capital appreciation on our equity investments while investing in a mixture of loan, debenture and equity instruments, which are structured to provide a current return on a portion of the investment portfolio.

Comparison of the nine months ended September 30, 2016 to the nine months ended September 30, 2015

	September 30, 2016	September 30, 2015	(Decrease) Increase	% (Decrease) Increase
Interest from portfolio companies	$ 525,073	$ 549,619	($ 24,546)	(4.5%)
Interest from other investments	33,683	18,719	14,964	79.9%
Dividend and other investment income	152,818	1,488,545	(1,335,727)	(89.7%)
Fee income	18,949	21,667	(2,718)	(12.5%)
Total investment income	$ 730,523	$ 2,078,550	($ 1,348,027)	(64.9%)

Interest from portfolio companies Interest income from portfolio companies decreased during the nine months ended September 30, 2016 versus the nine months ended September 30, 2015 due to decreases in the principal balances outstanding on loan and debt investments with Gemcor, II, LLC (Gemcor) and Carolina Skiff, LLC (Carolina Skiff), respectively, and the timing of our new debt investments made during 2016 which offset these repayments.

After reviewing their performance and the circumstances surrounding our investments, we ceased accruing interest income on First Wave Products Group, LLC (First Wave) and a portion of the Mercantile Adjustment Bureau, LLC (Mercantile) outstanding loan balances during 2015.

Interest from other investments - The increase in interest from other investments is primarily due to higher average cash balances during the nine months ended September 30, 2016 versus the same period in 2015.

Dividend and other investment income - Dividend income is comprised of 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. Dividend and other investment income decreased in 2016 due to the asset sale of Gemcor II, LLC during March 2016. The dividend distributions for the respective periods were:

	September 30, 2016	September 30, 2015
Carolina Skiff LLC (Carolina Skiff)	$ 97,684	$ 81,808
New Monarch Machine Tool LLC (Monarch)	27,409	27,409
SOMS Technologies, LLC (SOMS)	13,464	4,355

Tilson Technology Management, Inc. (Tilson)		11,250		10,667
Empire Genomics		3,011		
Gemcor, II, LLC (Gemcor)				1,364,306
Total dividend and other investment income	$	152,818	$	1,488,545

Fee income - Fee income consists of the revenue associated with the amortization of financing fees charged to the portfolio companies upon successful closing of Rand SBIC financings and income from portfolio company board attendance fees. The financing fees are amortized ratably over the life of the instrument associated with the fees. The unamortized fees are carried on the balance sheet under the line item Deferred revenue.

The income associated with the amortization of financing fees was $15,948 and $13,667 for the nine months ended September 30, 2016 and 2015, respectively. The income from board fees was $3,000 and $8,000 for the nine months ended September 30, 2016 and 2015, respectively.

Operating Expenses

Comparison of the nine months ended September 30, 2016 to the nine months ended September 30, 2015

	September 30, 2016	September 30, 2015	Increase	% Increase
Total operating expenses	$ 2,915,300	$ 1,221,995	$ 1,693,305	138.6%

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

The increase in operating expenses during the nine months ended September 30, 2016 was comprised primarily of a $1,411,659 increase in bonus and profit sharing expense and an 87%, or $110,782, increase in professional fees.

Our largest portfolio company, in terms of fair value, Gemcor II, LLC (Gemcor) sold its assets during March 2016 and based on our ownership percentage, we received gross cash proceeds of approximately $14.1 million. The realized gain from the sale, before income taxes, was $14,588,813 and included $1,068,750 that continued to be held in escrow at September 30, 2016. The escrow holdback is recorded in Other Assets on the accompanying consolidated statement of financial position. The escrow is scheduled to be released during 2017, subject to potential claims. Related to this asset sale, we accrued $1,411,659 under our Profit Sharing Plan for the nine months ended September 30, 2016, that is payable to our executive officers. There were no amounts earned pursuant to the Profit Sharing Plan for the nine months ended September 30, 2015.

Professional fees were also higher during the nine months ended September 30, 2016 versus the same period in 2015 because we incurred additional expenses in connection with 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.

Realized Gains and Losses on Investments

Comparison of the nine months ended September 30, 2016 to the nine months ended September 30, 2015

	September 30, 2016	September 30, 2015	Increase
Realized gain on investments before income taxes	$ 14,756,953	$ 262,925	$ 14,494,028

During the first quarter of 2016, our portfolio company Gemcor II, LLC sold its assets, and accordingly, we received gross cash proceeds of approximately $14.1 million, excluding amounts that continue to be held in escrow, and recognized a realized gain, before income taxes, of $14,588,813.

In addition, we recorded a realized gain of $168,140 during the nine months ended September 30, 2016 from the earn out provision in connection with the 2014 sale of QuaDPharma, LLC to Athenex Inc.

During the nine months ended September 30, 2015, we recognized a net realized gain, before income taxes, of $262,925 on the sale of 301,582 shares of Synacor, Inc. (Synacor). As of September 30, 2015, we did not own any shares of Synacor.

Change in Unrealized Depreciation or Appreciation of Investments

Comparison of the nine months ended September 30, 2016 to the nine months ended September 30, 2015

	September 30, 2016	September 30, 2015	Decrease
Change in unrealized depreciation or appreciation before income taxes	($ 14,119,367)	($ 249,864)	($ 13,869,503)

The decrease in unrealized depreciation or appreciation before income taxes for the nine months ended September 30, 2016 was comprised of the following:

	September 30, 2016
Reclassify Gemcor II, LLC (Gemcor) to a realized gain	($ 12,775,000)
Statisfy, Inc. (Statisfy)	(650,000)
Teleservices Solutions Holdings, LLC (Teleservices)	(595,340)
Knoa Software, Inc. (Knoa)	(422,800)
Athenex, Inc. (Athenex)	69,444
Intrinsiq Materials, Inc. (Intrinsiq)	254,329
Total change in net unrealized depreciation of investments before income taxes during the nine months ended September 30, 2016	($ 14,119,367)

During the first quarter of 2016, our portfolio company, Gemcor II, LLC sold its assets and we received gross cash proceeds of approximately $14.1 million. The realized gain from the sale, before income taxes, was $14,588,813 and included $1,068,750 that was held in escrow at September 30, 2016. The escrow holdback is recorded in Other Assets on the accompanying consolidated statement of financial position. The escrow is scheduled to be released during 2017, subject to potential claims.

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

Our investment in Teleservices was revalued after we reviewed their operations and their current and past financial performance. This review indicated that a further deterioration of their business had occurred. If the factors that led to this reduction in valuation are overcome, the value may be restored. The portfolio company remains in operation and is developing new business strategies.

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

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

Intrinsiq s value was increased based on a financial analysis of the portfolio company, completed by management, indicating continued improved performance and the completion of an equity refinancing in the third quarter of 2016.

The decrease in unrealized appreciation before income taxes for the nine months ended September 30, 2015 was comprised of the following:

	September 30, 2015
Athenex, Inc. (Athenex) *(formerly Kinex Pharmaceuticals, Inc.)*	$ 92,592
First Wave Products Group, LLC (First Wave)	(193,436)
SocialFlow, Inc. (SocialFlow)	321,300
Synacor, Inc. (Synacor) reclass to a realized gain	(220,320)
Teleservices Solutions Holdings, LLC (Teleservices)	(250,000)
Total change in net unrealized appreciation of investments before income taxes during the nine months ended September 30, 2015	($ 249,864)

In accordance with our valuation policy, we increased the value of our holdings in Athenex and Social Flow based on significant equity financings for each made during 2015 by new non-strategic outside investors at a higher valuation for each than their prior financing round valuation.

The First Wave investment was revalued after our management reviewed the portfolio company and its financial condition and determined that a valuation adjustment was necessary.

We sold our remaining shares of Synacor during the nine months ended September 30, 2015.

The Teleservices investment was revalued during the nine months ended September 30, 2015 after our management reviewed the portfolio company and determined that the business had deteriorated since the time of the original funding.

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 nine months ended September 30, 2016 and 2015, the net (decrease) increase in net assets from operations was ($986,912) and $609,141, respectively.

Liquidity and Capital Resources

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

As of September 30, 2016, our total liquidity consisted of approximately $11.7 million in cash on hand.

Management expects that the cash on hand at September 30, 2016, coupled with the scheduled interest payments from our portfolio investments, will be sufficient to meet our liquidity needs through the next twelve months. As a result of the reduction of investment income related to the Gemcor asset sale, we expect to continue to look for new investment opportunities that provide interest and dividend payments so as to provide cash flow to cover operating costs. Future exits from portfolio companies may increase the amount of liquidity available for new investments, operating activities and future SBA debenture 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 (decrease) increase in unrealized appreciation 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, 2016, we did not have any off-balance sheet arrangements or hedging or similar derivative financial instrument investments.

Item 4. Controls and Procedures

Disclosure Controls and Procedures. The Corporation maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC s rules and forms, and that this information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Chief Executive Officer and the Chief Financial Officer carried out an evaluation of the effectiveness of the design and operation of the Corporation s disclosure controls and procedures as of September 30, 2016. 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, 2016.

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

PART II.

OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

See Part I, Item 1A, Risk Factors, of the Annual Report on Form 10-K for the year ended December 31, 2015.

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
7/1/2016	7/31/2016				465,504
8/1/2016	8/31/2016	6,550	$ 3.30	6,550	458,954
9/1/2016	9/30/2016				458,954

(1) The total number of shares purchased was 6,550 during the third quarter of 2016. All transactions were made in the open market.
(2) The average price paid per share is calculated on a settlement basis and includes commission.
(3) On October 19, 2016, the Board of Directors extended the repurchase authorization of up to 1,000,000 shares of the Corporation s common stock on the open market at prices no greater than the then current net asset value through October 19, 2017.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits

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

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

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 2, 2016

RAND CAPITAL CORPORATION

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

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