

RAND CAPITAL CORP
Form 10-Q
November 03, 2015
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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, 2015

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

For the Transition Period from _____ to _____

Commission File Number: 814-00235

Rand Capital Corporation

(Exact Name of Registrant as specified in its Charter)

New York
(State or Other Jurisdiction of
Incorporation or Organization)
2200 Rand Building, Buffalo, NY
(Address of Principal executive offices)

16-0961359
(IRS Employer
Identification No.)
14203
(Zip Code)

(716) 853-0802

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

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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 (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

As of November 3, 2015, there were 6,328,538 shares of the registrant's common stock outstanding.

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RAND CAPITAL CORPORATION

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Table of Contents**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, 2015 and December 31, 2014

	September 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Investments at fair value:		
Control investments (cost of \$1,195,841 and \$1,347,300, respectively)	\$ 9,870,841	\$ 10,022,300
Affiliate investments (cost of \$18,579,796 and \$15,188,935, respectively)	17,564,802	14,617,378
Non-affiliate investments (cost of \$8,751,037 and \$5,677,241, respectively)	8,933,066	5,665,698
Total investments, at fair value (cost of \$28,526,674 and \$22,213,476, respectively)	36,368,709	30,305,376
Cash	4,763,631	13,230,717
Interest receivable (net of allowance: \$122,000 at 9/30/15 and \$128,311 at 12/31/14)	209,216	165,094
Prepaid income tax	51,230	
Other assets	1,768,320	1,824,800
Total assets	\$ 43,161,106	\$ 45,525,987
LIABILITIES AND STOCKHOLDERS EQUITY (NET ASSETS)		
Liabilities:		
Debentures guaranteed by the SBA	\$ 8,000,000	\$ 8,000,000
Income tax payable		2,065,795
Deferred tax liability	1,868,534	1,838,351
Profit sharing and bonus payable – officers	194,740	953,490
Accounts payable and accrued expenses	104,653	290,646
Deferred revenue	30,597	24,264
Total liabilities	10,198,524	13,172,546
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 6,328,538 at 9/30/15 and 12/31/14	686,304	686,304
Capital in excess of par value	10,581,789	10,581,789
Accumulated net investment (loss)	(273,212)	(867,482)
Undistributed net realized gain on investments	18,463,557	18,290,374

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Net unrealized appreciation on investments	4,951,635	5,109,947
Treasury stock, at cost; 534,496 shares at 9/30/15 and 12/31/14	(1,447,491)	(1,447,491)
Total stockholders' equity (net assets) (per share 9/30/15: \$5.21, 12/31/14: \$5.11)	32,962,582	32,353,441
Total liabilities and stockholders' equity	\$ 43,161,106	\$ 45,525,987

See accompanying notes

Table of Contents**RAND CAPITAL CORPORATION AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF OPERATIONS****For the Three Months and the Nine Months Ended September 30, 2015 and 2014****(Unaudited)**

	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Investment income:				
Interest from portfolio companies:				
Control investments	\$ 18,336	\$ 26,660	\$ 60,756	\$ 88,419
Affiliate investments	100,678	122,113	312,329	375,486
Non-Control/Non-Affiliate investments	61,312	57,576	176,534	136,920
Total interest from portfolio companies	180,326	206,349	549,619	600,825
Interest from other investments:				
Non-Control/Non-Affiliate investments	3,529	2,326	18,719	10,523
Total interest from other investments	3,529	2,326	18,719	10,523
Dividend and other investment income:				
Control investments	460,947	351,380	1,364,306	1,034,361
Affiliate investments	65,810		124,239	90,065
Non-Control/Non-Affiliate investments				2,531
Total dividend and other investment income	526,757	351,380	1,488,545	1,126,957
Fee income:				
Control investments	2,000	4,000	6,000	10,000
Affiliate investments	1,417	1,767	3,250	4,467
Non-Control/Non-Affiliate investments	4,250	3,527	12,417	6,083
Total fee income	7,667	9,294	21,667	20,550
Total investment income	718,279	569,349	2,078,550	1,758,855
Operating expenses:				
Salaries	149,555	147,668	448,665	443,006
Bonus and profit sharing				(45,635)
Employee benefits	27,745	26,431	87,546	89,187
Directors fees	37,950	14,250	89,000	88,500
Professional fees	33,702	25,724	127,204	126,236
Stockholders and office operating	41,716	23,789	156,830	109,439
Insurance	8,400	7,700	25,954	27,609
Corporate development	16,982	14,385	48,363	41,941

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Other operating	3,099	2,385	8,973	5,641
	319,149	262,332	992,535	885,924
Interest on SBA obligations	77,569	69,243	229,460	195,660
Bad debt expense				6,311
Total operating expenses	396,718	331,575	1,221,995	1,087,895
Net investment income before income taxes	321,561	237,774	856,555	670,960
Income tax expense (benefit)	88,298	(5,762)	262,285	92,081
Net investment income	233,263	243,536	594,270	578,879
Net realized gain (loss) on investments:				
Affiliate investments		160,634		(617,619)
Non-Control/Non-Affiliate investments			262,925	(446,939)
Net realized gain (loss) before income taxes		160,634	262,925	(1,064,558)
Income tax expense (benefit)		58,870	89,742	(363,356)
Net realized gain (loss) on investments		101,764	173,183	(701,202)
Net increase (decrease) in unrealized appreciation on investments:				
Control investments		5,336		5,336
Affiliate investments	(250,000)		(443,436)	29,980
Non-Control/Non-Affiliate investments	321,300	(195,157)	193,572	1,041,094
Change in unrealized appreciation before income taxes	71,300	(189,821)	(249,864)	1,076,410
Deferred income tax expense (benefit)	18,066	(67,963)	(91,552)	380,482
Net increase (decrease) in unrealized appreciation on investments	53,234	(121,858)	(158,312)	695,928
Net realized and unrealized gain (loss) on investments	53,234	(20,094)	14,871	(5,274)
Net increase in net assets from operations	\$ 286,497	\$ 223,442	\$ 609,141	\$ 573,605
Weighted average shares outstanding	6,328,538	6,407,199	6,328,538	6,408,763
Basic and diluted net increase in net assets from operations per share	\$ 0.05	\$ 0.03	\$ 0.10	\$ 0.09

See accompanying notes

Table of Contents**RAND CAPITAL CORPORATION AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS****For the Three Months and the Nine Months Ended September 30, 2015 and 2014****(Unaudited)**

	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Net assets at beginning of period	\$ 32,676,085	\$ 28,419,415	\$ 32,353,441	\$ 28,069,332
Net investment income	233,263	243,536	594,270	578,879
Net realized gain (loss) on investments		101,764	173,183	(701,202)
Net increase (decrease) in unrealized appreciation on investments	53,234	(121,858)	(158,312)	695,928
Net increase in net assets from operations	286,497	223,442	609,141	573,605
Purchase of treasury stock		(87,972)		(88,052)
Total increase in net assets	286,497	135,470	609,141	485,553
Net assets at end of period	\$ 32,962,582	\$ 28,554,885	\$ 32,962,582	\$ 28,554,885
Accumulated net investment (loss)	(\$ 273,212)	(\$ 310,438)	(\$ 273,212)	(\$ 310,438)

See accompanying notes

Table of Contents**RAND CAPITAL CORPORATION AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF CASH FLOWS****For the Nine Months Ended September 30, 2015 and 2014****(Unaudited)**

	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Cash flows from operating activities:		
Net increase in net assets from operations	\$ 609,141	\$ 573,605
Adjustments to reconcile net increase in net assets to net cash used in operating activities:		
Depreciation and amortization	24,698	20,604
Original issue discount amortization	(11,619)	(11,619)
Change in interest receivable allowance	(6,311)	6,311
Decrease (increase) in unrealized appreciation on investments before income taxes	249,864	(1,076,410)
Deferred tax expense (benefit)	30,183	(585,548)
Realized (gain) loss on portfolio investments before income taxes	(262,925)	1,064,558
Non-cash conversion of debenture interest	(69,710)	(116,962)
Changes in operating assets and liabilities:		
Increase in interest receivable	(37,811)	(31,556)
Decrease in other assets	33,194	812,983
Increase in prepaid income taxes	(51,230)	
Decrease in income taxes payable	(2,065,795)	(818,736)
Decrease in accounts payable and accrued expenses	(185,993)	(185,136)
Decrease in profit sharing and bonus payable	(758,750)	(878,233)
Increase in deferred revenue	6,333	5,450
Total adjustments	(3,105,872)	(1,794,294)
Net cash used in operating activities	(2,496,731)	(1,220,689)
Cash flows from investing activities:		
Investments originated	(6,769,008)	(5,131,152)
Proceeds from sale of investments	648,605	420,593
Proceeds from loan repayments	151,460	911,301
Capital expenditures	(1,412)	(9,138)
Net cash used in investing activities	(5,970,355)	(3,808,396)
Cash flows from financing activities:		
Purchase of treasury shares		(88,052)
Net cash used in financing activities		(88,052)

Net decrease in cash	(8,467,086)	(5,117,137)
Cash:		
Beginning of period	13,230,717	9,764,810
End of period	\$ 4,763,631	\$ 4,647,673

See accompanying notes

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

September 30, 2015

(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						
27.2% of net assets: (j)						
Athenex, Inc. (e)(g) (Formerly Kinex Pharmaceuticals, Inc.) Buffalo, NY. Specialty pharmaceutical and drug development. (Health Care) www.kinexpharma.com	11,574 common shares.	9/8/14	<1%	\$ 143,285	\$ 347,220	1.1%
BeetNPath, LLC (e)(g) Ithaca, NY. Frozen entrées and sides dishes made from 100% whole grain steel cut oats. (Consumer Product) www.grainful.com	\$150,000 convertible promissory note at 6% due October 20, 2016.	10/20/14		150,000	150,000	0.5%
Chequed Holdings, LLC (e)(g) Saratoga Springs, NY. Web based predictive employee selection and reference checking. (Software) www.chequed.com	2,195,763 Class P1 Units 109,788 Class C1 Units	11/18/10	4%	2,140,007 5,489	2,140,007 5,489	6.5%
Total Chequed				2,145,496	2,145,496	
City Dining Cards, Inc. (e)(g) Buffalo, NY. Customer loyalty technology company that helps businesses attract and	9,525.25 Series B preferred shares.	9/1/15	4%	500,000	500,000	1.5%

retain customers.

(Consumer Product)

www.citydiningcards.com

Empire Genomics, LLC (e)(g)	\$600,000	6/13/14		600,000	600,000	1.8%
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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

senior secured convertible term note at 10% due April 1, 2017.

(i) Interest receivable \$77,833.

GoNoodle, Inc. (g)	\$1,000,000	2/6/15	<1%	1,006,458	1,006,458	3.1%
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(Formerly HealthTeacher, Inc.)

Nashville, TN. Online resource of health education tools for classroom integration. (Software)

www.healthteacher.com

secured note at 12% due January 31, 2020.

Warrant for 47,324 Series C Preferred shares.

25 25

**Total
GoNoodle**

1,006,483 1,006,483

Mercantile Adjustment Bureau, LLC (g)	\$1,099,039	10/22/12	4%			4.0%
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Williamsville, NY. Full service accounts receivable management and collections company.

(Contact Center)

www.mercantilesolutions.com

subordinated secured note at 13% (3% for the period January 1 through December 31, 2015) due October 30, 2017.

1,078,194 1,078,194

150,000 150,000

97,625 97,625

\$150,000 subordinated debenture at 8% due June 30, 2018. (e) Warrant for 3.29% membership

interests.
Option for
1.5%

membership
interests.

(i) Interest
receivable
\$95,528.

	Total Mercantile			1,325,819	1,325,819	
SocialFlow, Inc. (e)(g)	1,049,538	4/5/13	4%			6.3%
New York, NY. Provides instant analysis of social networks using a proprietary, predictive analytic algorithm to optimize advertising and publishing.	Series B preferred			500,000	731,431	
	shares. 1,204,819			750,000	839,648	
(Software)	Series B-1 preferred					
www.socialflow.com	shares. 717,772			500,000	500,221	
	Series C preferred					
	Total Social Flow			1,750,000	2,071,300	
Somerset Gas Transmission Company, LLC (e)	26.5337	7/10/02	3%	719,097	786,748	2.4%
Columbus, OH. Natural gas transportation. (Oil and Gas)	units.					
www.somersetgas.com						

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

September 30, 2015 (Continued)

(Unaudited)

(a) Company, Geographic Location, Business Description, (Industry) and Website	(b) Type of Investment	(b) Date Acquired	(c) Equity	Cost	(d)(f) Fair Value	Percent of Net Assets
Other Non-Control/Non-Affiliate Investments:						
DataView, LLC (Software) (e)	Membership Interest			310,357		0.0%
UStec/Wi3 (Software) (e)	Common Stock			100,500		0.0%
Subtotal Non-Control/Non-Affiliate Investments				\$ 8,751,037	\$ 8,933,066	
Affiliate Investments 53.2% of net assets						
(k)						
Carolina Skiff LLC (g)	\$985,000 Class A preferred membership interest at 9.8%.	1/30/04	7%	\$ 985,000	\$ 985,000	5.2%
Waycross, GA. Manufacturer of fresh water, ocean fishing and pleasure boats.				125,000	125,000	
(Consumer Product)	\$250,000 subordinated promissory note at 14% due December 31, 2016.			15,000	600,000	
www.carolinaskiff.com	6.0825% Class A common membership interest.					
Total Carolina Skiff				1,125,000	1,710,000	
First Wave Products Group, LLC (e)(g)(n)		4/19/12	7%			2.4%

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Batavia, NY. Sells First Crush automated pill crusher that crushes and grinds medical pills for nursing homes and medical institutions. (Manufacturing) www.firstwaveproducts.com	\$500,000 senior term notes at 10% (PIK) through May 31, 2015) due December 31, 2016. \$280,000 junior term notes at 10% (PIK through May 31, 2015) due December 31, 2016. Warrant for 41,619 capital securities.				658,342	501,374	
Total First Wave					996,811	803,374	
Genicon, Inc. (e)(g) Winter Park, FL. Designs, produces and distributes patented surgical instrumentation. (Manufacturing) 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. Social network program that connects volunteers with nonprofit organizations. (Software) www.givegab.com	5,084,329 Series Seed preferred shares.	3/13/13	10%	616,221	616,221	1.9%	
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	18.545% Class A membership interest. 8% cumulative dividend.	8/31/99	19%	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.	599,055 Series 2 preferred shares. \$95,000 convertible promissory note at 8% due June 3, 2016.	9/19/13	7%	600,002	600,002	2.1%	
					95,000	95,000	

(Manufacturing)

www.intrinsicmaterials.com

	Total Intrinsic			695,002	695,002	
Knoa Software, Inc. (e)(g)	973,533 Series A-1	11/20/12	7%			2.6%
New York, NY. End user experience management and performance (EMP) solutions utilizing enterprise applications. (Software)	convertible preferred shares.			750,000	381,503	
	1,876,922 Series B preferred shares.			479,155	490,752	
www.knoa.com				1,229,155	872,255	
KnowledgeVision Systems, Inc. (e)(g)	200,000 Series A-1	11/13/13	7%	250,000	250,000	2.3%
Lincoln, MA. Online presentation and training	preferred shares.			300,000	300,000	
	214,285 Series A-2 preferred shares.			165,001	165,001	
software. (Software)	129,033 Series A-3 preferred shares.			35,000	35,000	
www.knowledgevision.com	Warrant for 46,743 Series A-3 shares.					
	Total KnowledgeVision			750,001	750,001	

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

September 30, 2015 (Continued)

(Unaudited)

(a) Company, Geographic Location, Business Description, (Industry) and Website	(b) 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	1,554,568 Series Seed preferred shares.	1/9/08	13%	742,850	351,477	1.1%
Microcision LLC (g) Philadelphia, PA. Custom manufacturer of medical and dental implants. (Manufacturing) www.microcision.com	\$1,500,000 subordinated promissory note at 11% due January 31, 2017. 15% Class A common membership interest.	9/24/09	15%	1,891,964	1,891,964	5.7%
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)		12/31/14	7%	375,000	375,000	1.6%

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Buffalo, NY. Maker of patented hollow-metal core golf balls. (Consumer Product)	150,000 Series AA preferred shares.						
www.oncoregolf.com	\$150,000 subordinated convertible promissory note at 6% due January 24, 2017.				150,000	150,000	
	Total OnCore				525,000	525,000	
Rheonix, Inc. (e)	9,676 common shares.	10/29/09	5%			11,000	8.9%
Ithaca, NY. Developer of fully automated microfluidic based molecular assay and diagnostic testing. (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 preferred shares.	7/12/13	9%	1,500,000		1,500,000	6.8%
Woburn, MA. Instrumentation company specializing in portable analytical instruments utilizing LIBS and RAMAN spectroscopy to identify compounds, minerals, and elements. (Manufacturing)	274,299 Series A-1 preferred shares.				504,710	504,710	
www.sciaps.com	117,371 Series B preferred shares.				250,000	250,000	
	Total SciAps				2,254,710	2,254,710	
SOMS Technologies, LLC (g)	5,959,490 Series B membership	12/2/08	9%	472,632		528,348	1.6%

Valhalla, NY. Produces and markets the microGreen Extended Performance Oil Filter. (Consumer Products) www.microgreenfilter.com	interests.						
Statisfy, Inc. (e)(g)	65,000 Series seed preferred shares. Warrant for 1,950,000 Series seed preferred shares.	8/18/14	11%	20,968	20,968	2.0%	
Boston, MA. Mobile marketing platform for engagement, advertising and surveys. (Software) www.statisfy.co				629,032	629,032		
	Total Statisfy			650,000	650,000		
Teleservices Solutions Holdings, LLC (g)	250,000 Class B preferred units.	5/30/14	10%	250,000	0	3.8%	
Montvale, NJ. Customer contact center specializing in customer acquisition and retention for selected industries. (Contact Center) www.ipacesetters.com	1,000,000 Class C preferred units. 80,000 Class D preferred units. 104,198 Class E preferred units.			1,070,680	1,070,680		
				80,000	80,000		
				104,198	104,198		
	Total Teleservices			1,504,878	1,254,878		
Tilson Technology Management, Inc.(g)	12 Series B preferred shares.	1/20/15	8%	600,000	600,000	1.8%	
Portland, ME. Cellular, fiber optic and wireless information systems, construction, and management. (Professional Services) www.tilsonotech.com							
Other Affiliate Investments:							
CrowdBouncer, Inc. (e)(g) (Software)	300,000 Series A preferred	1/22/14	15%	300,000		0%	

shares

Subtotal Affiliate Investments	\$ 18,579,796	\$ 17,564,802
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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

September 30, 2015 (Continued)

(Unaudited)

(a) Company, Geographic Location, Business Description, (Industry) and Website	(b) Type of Investment	(b) Date Acquired	(c) Equity	Cost	(d)(f) Fair Value	Percent of Net Assets
Control Investments 29.9% of net assets						
(l)						
Advantage 24/7 LLC (g)	53% Membership interest.	12/30/10	53%	\$ 99,500	\$ 99,500	0.3%
<p>Williamsville, NY. Marketing program for wine and spirits dealers. (Marketing Company)</p> <p>www.advantage24-7.com</p>						
Gemcor II, LLC (g)(h)(m)	\$1,000,000 subordinated promissory note at 15% due September 1, 2017. 31.25 membership units.	6/28/04	31%	471,341	471,341	29.6%
<p>West Seneca, NY. Designs and sells automatic riveting machines used in the assembly of aircraft. (Manufacturing)</p> <p>www.gemcor.com</p>						
				Total Gemcor	1,096,341	9,771,341
Subtotal Control Investments				\$ 1,195,841	\$ 9,870,841	
TOTAL INVESTMENTS 110.3%				\$ 28,526,674	\$ 36,368,709	
LIABILITIES IN EXCESS OF OTHER ASSETS (10.3%)					(3,406,127)	
NET ASSETS 100%					\$ 32,962,582	

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

September 30, 2015 (Continued)

(Unaudited)

Notes to the Consolidated Schedule of Portfolio Investments

- a) At September 30, 2015, restricted securities represented approximately 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 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 September 30, 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 September 30, 2015, the total cost of investment securities was approximately \$28.5 million. Net unrealized appreciation was approximately \$7.8 million, which was comprised of \$10.0 million of unrealized appreciation of investment securities and (\$2.2) million related to unrealized depreciation of investment securities. At September 30, 2015, the aggregate gross unrealized gain for federal income tax purposes was \$6.5 million and the aggregate gross unrealized loss for federal income tax purposes was (\$1.8) million. The net unrealized gain for federal income tax purposes was \$4.7 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.
- (i)

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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 represents earned interest that is added to the cost basis of the investment.

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

September 30, 2015 (Continued)

(Unaudited)

Investments in and Advances to Affiliates

Company	Type of Investment	December 31, 2014 Fair Value	Gross Additions (1)	Gross Reductions (2)	September 30, 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 units.	622,800 9,300,000		(151,459)	471,341 9,300,000	60,756 1,370,306
	Total Gemcor	9,922,800		(151,459)	9,771,341	1,431,062
	Total Control Investments	\$ 10,022,300	\$	(\$ 151,459)	\$ 9,870,841	\$ 1,431,062

Affiliate

Investments:

Carolina Skiff LLC	\$985,000 Class A preferred membership interest at 9.8%. \$250,000 subordinated promissory note at 14% 6.0825% Class A common membership interest.	\$ 985,000 125,000 600,000	\$ 	\$ 	\$ 985,000 125,000 600,000	\$ 72,397 13,125 81,808
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	Total Carolina Skiff	1,710,000			1,710,000	167,330
Chequed.com, Inc.	408,476 Series A preferred shares.	1,383,222		(1,383,222)		
	\$250,000 convertible promissory note 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%	637,992	20,350	(156,968)	501,374	21,100
	\$280,000 junior term notes at 10%	308,687	7,782	(36,469)	280,000	8,282
	Warrant for 41,619 capital securities.	22,000			22,000	
	Total First Wave	968,679	28,132	(193,437)	803,374	29,382
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		616,221	
G-TEC Natural Gas Systems	18.545% 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 convertible promissory note at 8%		95,000		95,000	2,436
	Total Intrinsiq	600,002	95,000		695,002	2,436
Knoa Software, Inc.	973,533 Series A-1 convertible preferred shares.	381,503			381,503	
	1,876,922 Series B preferred shares.	490,752			490,752	
		872,255			872,255	
KnowledgeVision		250,000			250,000	

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Systems, Inc.	200,000 Series A-1 preferred shares.				
	214,285 Series A-2 preferred shares.	300,000			300,000
	129,033 Series A-3 preferred shares.		165,001		165,001
	Warrant for 46,743 Series A-3 shares.		35,000		35,000
	Total Knowledge Vision	550,000	200,001		750,001
Mezmeriz, Inc.	1,554,568 Series seed preferred shares		351,477		351,477
	\$200,000 convertible notes at 8%	200,000		(200,000)	
	Total Mezmeriz	200,000	351,477	(200,000)	351,477
Microcision LLC	\$1,500,000 subordinated promissory note at 11%	1,891,964			1,891,964
	15% Class A common membership interest.				156,087
	Total Microcision	1,891,964			1,891,964
New Monarch Machine Tool, Inc.	22.84 common shares.	22,841			22,841
OnCore Golf Technology, Inc.	150,000 Series AA preferred shares.		375,000		375,000
	\$150,000 subordinated convertible promissory note at 6%		150,000		150,000
	Total OnCore		525,000		525,000
					1,676

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

September 30, 2015 (Continued)

(Unaudited)

Investments in and Advances to Affiliates

Company	Type of Investment	December 31, 2014 Fair Value	Gross Additions (1)	Gross Reductions (2)	September 30, 2015 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	
	\$680,475.29 convertible promissory notes at 8%		702,732	(702,732)		22,258
	Total Rheonix	2,235,999	1,405,464	(702,732)	2,938,731	22,258
SciAps, Inc.	187,500 Series A preferred shares.	1,500,000			1,500,000	
	274,299 Series A-1 preferred shares		504,710		504,710	4,711
			250,000		250,000	

	117,371 Series B preferred shares					
	Total SciAps	1,500,000	754,710		2,254,710	4,711
SOMS Technologies, LLC Statisfy, Inc.	5,959,490 Series B membership interests.	528,348			528,348	4,355
	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.	250,000		(250,000)	0	
	1,000,000 Class C shares	1,070,680			1,070,680	
	80,000 Class D preferred units	80,000			80,000	
	104,198 Class E preferred units		104,198		104,198	
	Total Teleservices	1,400,680	104,198	(250,000)	1,254,878	
Tilson Technology Management, Inc.	12 Series B preferred shares		600,000		600,000	10,667
	Total Affiliate Investments	\$ 14,617,378	\$ 5,926,815	(\$ 2,979,391)	\$ 17,564,802	\$ 439,818
	Total Control and	\$ 24,639,678	\$ 5,926,815	(\$ 3,130,850)	\$ 27,435,643	\$ 1,870,880

**Affiliate
Investments**

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

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CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**September 30, 2015 (Continued)****(Unaudited)**

Industry Classification	Percentage of Total Investments (at fair value) as of September 30, 2015
Manufacturing	45.4%
Software	22.3%
Healthcare	10.7%
Consumer Product	9.4%
Contact Center	7.1%
Oil and Gas	2.2%
Professional Services	1.6%
Electronics	1.0%
Marketing	0.3%
Total Investments	100%

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

December 31, 2014

(a) Company, Geographic Location, Business Description, (Industry) and Website	(b) Type of Investment	(b) Date Acquired	(c) Equity	Cost	(d)(f) Fair Value	Percent of Net Assets
Non-Control/Non-Affiliate Investments						
17.5% of net assets (j)						
BeetNPath, LLC (e)(g)						
Ithaca, NY. Frozen entrées made from 100% whole grain steel cut oats. (Consumer Product)	\$150,000 convertible promissory note at 6% due October 20, 2016.	10/20/14		\$ 150,000	\$ 150,000	0.5%
www.grainful.com						
Crashmob, Inc. (e)(g)						
Boston, MA. Mobile marketing platform for engagement, advertising and surveys. (Software)	500,000 Series seed preferred shares.	8/18/14	4%	500,000	500,000	1.5%
www.satisfy.co						
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)	\$600,000 senior secured convertible term note at 10% due December 1, 2015.	6/13/14		600,000	600,000	1.9%
www.empiregenomics.com						
Kinex Pharmaceuticals, Inc. (e)(g)						
Buffalo, NY. Specialty pharmaceutical and drug development. (Health Care)	11,574 common shares.	9/8/14	<1%	143,285	254,628	0.8%

www.kinexpharma.com

Mercantile Adjustment Bureau, LLC

(e)(g)

Williamsville, NY. Full service accounts receivable management and collections company. (Contact Center)	\$1,099,039 subordinated secured note at 13% due October 30, 2017.	10/22/12	4%	1,070,697	1,070,697	4.1%
www.mercantilesolutions.com	\$150,000 subordinated debenture at 8% due June 30, 2018.			150,000	150,000	
	Warrant for 3.29% membership interests.					
	Option for 1.5% membership interests.			97,625	97,625	
	(i) Interest receivable \$79,025.					
	Total Mercantile			1,318,322	1,318,322	

OnCore Golf Technology, Inc. (e)(g)

Buffalo, NY. Maker of patented hollow-metal core golf balls. (Consumer Product)

www.oncoregolf.com	80,000 Series AA preferred shares.	12/31/14	4%	200,000	200,000	0.6%
SocialFlow, Inc. (e)(g)	1,049,538 Series B preferred shares.					
New York, NY. Provides instant analysis of social networks using proprietary, predictive analytic algorithm to optimize advertising and publishing. (Software)	1,204,819 Series B-1 preferred shares.					
www.socialflow.com		4/5/13	4%	1,250,000	1,250,000	3.9%

Somerset Gas Transmission Company, LLC

Columbus, OH. Natural gas transportation. (Oil and Gas)

www.somersetgas.com	26.5337 units.	7/10/02	3%	719,097	786,748	2.4%
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Synacor, Inc. NASDAQ: SYNC**(e)(g)(n)(o)**

Buffalo, NY. Develops provisioning platforms for aggregation and delivery of content and services across multiple digital devices. (Software)

301,582
unrestricted
common
shares valued
at \$2.01 per
share.

11/18/02

1%

385,680

606,000

1.9%

www.synacor.com

Other Non-Control/Non-Affiliate
Investments:

DataView, LLC (Software) (e)

Membership
Interest

310,357

0.0%

UStec/Wi3 (Software) (e)

Common
Stock

100,500

0.0%

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

\$ 5,677,241

\$ 5,665,698

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

December 31, 2014 (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
Affiliate Investments 45.2% of net assets						
(k)						
Carolina Skiff LLC (g)						
Waycross, GA. Manufacturer of fresh water, ocean fishing and pleasure boats.	\$985,000 Class A preferred membership interest at 9.8%.	1/30/04	7%	\$ 985,000 125,000	\$ 985,000 125,000	5.3%
(Consumer Product)						
www.carolinaskiff.com	\$250,000 subordinated promissory note at 14% due December 31, 2016.					
	6.0825% Class A common membership interest.			15,000	600,000	
	Total Carolina Skiff			1,125,000	1,710,000	
Chequed.com, Inc. (e)(g)	408,476 Series A preferred shares.	11/18/10	16%	1,383,222	1,383,222	5.0%
Saratoga Springs, NY. Web based predictive employee selection and reference checking. (Software)						

www.chequed.com

\$250,000 convertible promissory note at 8% due December 31, 2015				250,000	250,000	
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Total Chequed.com				1,633,222	1,633,222	
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CrowdBouncer, Inc. (e)(g)

Buffalo, NY. JOBS Act compliance for broker-dealers and crowdfunding portals. (Software)

www.crowdbouncer.com	300,000 Series A preferred shares.	1/22/14	15%	300,000		0.0%
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First Wave Products Group, LLC (e)(g)(p)

Batavia, NY. Sells First Crush automated pill crusher that crushes and grinds medical pills for nursing homes and medical institutions. (Manufacturing)

www.firstwaveproducts.com

\$500,000 senior term notes at 10% (Payment in Kind (PIK) through May 31, 2015) due December 31, 2016.						
\$280,000 junior term notes at 10% (PIK through May 31, 2015) due December 31, 2016.	4/19/12	7%	637,992	637,992	3.0%	
Warrant for 41,619 capital securities.			308,687	308,687		
			22,000	22,000		

Total First Wave				968,679	968,679	
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GiveGab, Inc. (e)(g)

Ithaca, NY. Social network program that connects volunteers with nonprofit organizations. (Software)

www.givegab.com	2,254,822 Series A preferred shares.	3/13/13	7%	403,388	403,388	1.2%
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G-TEC Natural Gas Systems (e)	18.545% Class A membership	8/31/99	19%	400,000	100,000	0.3%
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Buffalo, NY. Manufactures and distributes systems that allow natural gas to be used as an alternative fuel to gases. (Manufacturing) interest. 8% cumulative dividend.

www.gas-tec.com

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	600,002	1.9%
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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. 1,876,922 Series B preferred shares. (Fully diluted common share equivalent of 3,336,010).	11/20/12	7%	1,229,155	872,255	2.7%
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KnowledgeVision Systems, Inc. (e)(g)

Lincoln, MA. Online presentation and training software. (Software)

www.knowledgevision.com

	200,000 Series A-1 preferred shares.					
	214,285 Series A-2 preferred shares.	11/13/13	5%	550,000	550,000	1.7%

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RAND CAPITAL CORPORATION AND SUBSIDIARY
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December 31, 2014 (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)	360,526 Series A preferred shares.	1/9/08	8%	391,373	0	0.6%
Ithaca, NY. Micro-electronic mechanical systems (MEMS) developer of carbon fiber MEMS mirror modules for gesture recognition and 3D scanning. (Electronics Developer)	\$200,000 convertible notes at 8% due December 31, 2014.			200,000	200,000	
www.mezmeriz.com						
	Total Mezmeriz			591,373	200,000	
Microcision LLC (g)	\$1,500,000 subordinated promissory note at 11% due January 31, 2017.	9/24/09	15%	1,891,964	1,891,964	5.8%
Philadelphia, PA. Custom manufacturer of medical and dental implants. (Manufacturing).	15% Class A common membership interest.					
www.microcision.com						
	Total Microcision			1,891,964	1,891,964	
New Monarch Machine Tool, Inc. (g)		9/24/03	15%	22,841	22,841	0.1%

Cortland, NY. Manufactures and services vertical/horizontal machining centers. (Manufacturing) www.monarchmt.com	22.84 common shares.					
Rheonix, Inc. (e)(g)						
Ithaca, NY. Developer of fully automated microfluidic based molecular assay and diagnostic testing. (Health Care) www.rheonix.com	9,676 common shares. (g) 1,839,422 Series A preferred shares. (g) 50,593 common shares.	10/29/09	5%		11,000	6.9%
				2,099,999	2,165,999	
					59,000	
	Total Rheonix			2,099,999	2,235,999	
SciAps, Inc. (e)(g)						
Woburn, MA. Instrumentation company specializing in portable analytical instruments utilizing LIBS and RAMAN spectroscopy to identify compounds, minerals, and elements. (Manufacturing) www.sciaps.com	187,500 Series A preferred shares.	7/12/13	9%	1,500,000	1,500,000	4.6%
SOMS Technologies, LLC (e)(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%
Teleservices Solutions Holdings, LLC (g)						
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.	5/30/14	9%	250,000	250,000	4.3%
				1,070,680	1,070,680	
				80,000	80,000	
	Total Teleservices			1,400,680	1,400,680	

Subtotal Affiliate Investments \$ 15,188,935 \$ 14,617,378

**Control Investments 31.0% of net assets
(I)**

Advantage 24/7 LLC (g)

Williamsville, NY. Marketing program for wine and spirits dealers. (Marketing Company)

	53%						
	Membership						
	interest.	12/30/10	53%	\$	99,500	\$	99,500
www.advantage24-7.com							0.3%

Gemcor II, LLC (g)(h)(m)

West Seneca, NY. Designs and sells automatic

	\$1,000,000						
	subordinated						
	promissory						
	note at 15%						
	due						
	September 1,						
	2017.	6/28/04	31%	\$	622,800	\$	622,800
www.gemcor.com							30.7%
	31.25						
	membership						
	units.				625,000	9,300,000	

	Total						
	Gemcor				1,247,800	9,922,800	

Subtotal Control Investments \$ 1,347,300 \$ 10,022,300

TOTAL INVESTMENTS 93.7% \$ 22,213,476 \$ 30,305,376

OTHER ASSETS IN EXCESS OF LIABILITIES 6.3% 2,048,065

NET ASSETS 100% \$ 32,353,441

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

December 31, 2014 (Continued)

Notes to the Consolidated Schedule of Portfolio Investments

- (a) At December 31, 2014, restricted securities represented approximately 98% 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. Freed Maxick CPAs, P.C. has not audited the date acquired of the portfolio companies.
- (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. Freed Maxick CPAs, P.C. has not audited the equity percentages of the portfolio companies. 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 which defines fair value and establishes guidelines for measuring fair value. At December 31, 2014, ASC 820 designates 2% of the Corporation's investments as Level 1 and 98% 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 which 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, 2014, the total cost of investment securities approximated \$22.2 million. Net unrealized appreciation was approximately \$8.1 million, which was comprised of \$9.9 million of unrealized appreciation of investment securities and (\$1.8) million related to unrealized depreciation of investment securities. At December 31, 2014, the aggregate gross unrealized gain for federal income tax purposes was \$6.1 million and the aggregate gross unrealized loss for federal income tax purposes was (\$1.5) million. The net unrealized gain was \$4.6 million based on a tax cost of \$25.8 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.
- (l) Control Investments are defined by the 1940 Act as investments in companies in which more than 25% of the voting securities are owned 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) Publicly owned company.
- (o) On December 31, 2014, the Corporation's shares of Synacor were valued at \$2.01 per share in accordance with the Corporation's valuation policy for unrestricted publicly held securities (Level 1). See Synacor's publicly disclosed financial reports at sec.gov for additional information on Synacor's industry, financial results and business operations.
- (p) Payment in kind represents earned interest that is added to the cost basis of the investment.

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

December 31, 2014 (Continued)

Investments in and Advances to Affiliates

Company	Type of Investment	December 31, 2013 Fair Value	Gross Additions (1)	Gross Reductions (2)	December 31, 2014 Fair Value	Amount of Interest/ Dividend/ Fee Income (3)
Control Investments:						
Advantage 24/7 LLC	53% Membership interest	\$ 99,500	\$	\$	\$ 99,500	\$ 41,695
Gemcor II, LLC	\$500,000 subordinated promissory note at 15%	110,194		(110,194)	0	6,279
	\$1,000,000 subordinated promissory note at 15%	800,125		(177,325)	622,800	105,939
	31.25 membership units.	9,300,000			9,300,000	1,516,822
	Total Gemcor	10,210,319		(287,519)	9,922,800	1,629,040
NDT Acquisitions	Common Stock		5,336	(5,336)		2,668
	Total Control Investments	\$ 10,309,819	\$ 5,336	(292,855)	\$ 10,022,300	\$ 1,673,403
Affiliate Investments:						
Carolina Skiff LLC	\$985,000 Class A preferred membership interest at 9.8%.	\$ 985,000	\$	\$	\$ 985,000	\$ 96,530
		250,000		(125,000)	125,000	29,701

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	\$250,000 subordinated promissory note at 14% 6.0825% Class A common membership interest.	600,000		600,000	54,089	
	Total Carolina Skiff	1,835,000		(125,000)	1,710,000	180,320
Chequed.com, Inc.	408,476 Series A preferred shares. \$250,000 convertible promissory note at 8%	1,033,222	350,000		1,383,222	
			250,000		250,000	767
	Total Chequed	1,033,222	600,000		1,633,222	767
CrowdBouncer, Inc.	270,000 Series A preferred shares.		300,000	(300,000)		
First Wave Products Group, LLC	\$500,000 senior term notes at 10%	571,301	66,691		637,992	68,524
	\$280,000 junior term notes at 10%	204,533	104,154		308,687	24,154
	Warrant for 41,619 capital securities.	22,000			22,000	
	Total First Wave	797,834	170,845		968,679	92,678
GiveGab, Inc.	2,254,822 Series A preferred shares.	250,000	153,388		403,388	
G-TEC Natural Gas Systems	18.545% Class A membership interest. 8% cumulative dividend.				100,000	
		100,000			100,000	
Intrinsiq Materials, Inc.	599,055 Series 2 preferred shares.	600,002			600,002	
Knoa Software, Inc.	973,533 Series A-1 convertible preferred shares. 1,876,922 Series B preferred shares. (Fully diluted common share equivalent of 3,336,010).	750,000	479,155	(356,900)	872,255	1,391
KnowledgeVision Systems, Inc.	200,000 Series A-1 preferred shares	250,000			250,000	

	214,285 Series A-2 preferred shares		300,000		300,000	
	Total Knowledge Vision	250,000	300,000		550,000	
Mezmeriz, Inc.	360,526 Series A preferred shares.	391,373		(391,373)		
	Convertible notes at 8% due December 31, 2014.	200,000			200,000	
	Total Mezmeriz	591,373		(391,373)	200,000	
Microcision LLC	\$1,500,000 subordinated promissory note at 11% due January 31, 2017.	1,891,965		(1)	1,891,964	208,116
	Class A common membership interest.					
	Total Microcision	1,891,965		(1)	1,891,964	208,116
New Monarch Machine Tool, Inc.	22.84 common shares.	22,841			22,841	47,682
QuaDPharma, LLC	\$556,285.22 second note allonge at 10%	556,285		(556,285)		59,332
	141.75 Class A units of membership interest.	350,000		(350,000)		
	Total QuaDPharma	906,285		(906,285)		59,332
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	
	Total Rheonix	2,235,999			2,235,999	
SciAps, Inc.	187,500 Series A preferred shares.	1,000,000	500,000		1,500,000	
SOMS Technologies, LLC	5,959,490 Series B membership interests.	528,348			528,348	

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

December 31, 2014 (Continued)

Investments in and Advances to Affiliates

Company	Type of Investment	December 31, 2013 Fair Value	Gross Additions (1)	Gross Reductions (2)	December 31, 2014 Fair Value	Amount of Interest/ Dividend/ Fee Income (3)
Teleservices Solutions Holdings, LLC	250,000 Class B shares.		250,000		250,000	
	1,000,000 Class C shares		1,070,680		1,070,680	98,952
	80,000 Class D preferred units		80,000		80,000	
	Total Teleservices		1,400,680		1,400,680	98,952
	Total Affiliate Investments	\$ 12,792,869	3,904,068	(2,079,559)	\$ 14,617,378	\$ 689,238
	Total Control and Affiliate Investments	\$ 23,102,688	\$ 3,909,404	(\$ 2,372,414)	\$ 24,639,678	\$ 2,362,641

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.
- (2) Gross reductions include decreases in the cost basis of investments resulting from principal repayments, sales, and net increases in unrealized depreciation and net decreases in unrealized appreciation.
- (3) Represents the total amount of interest, fees or dividends credited to income for the portion of the period an investment was included in Control or Affiliate categories, respectively.

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CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**December 31, 2014 (Continued)****(Unaudited)**

Industry Classification	Percentage of Total Investments (at fair value) as of December 31, 2014
Manufacturing	49.5%
Software	19.2%
Healthcare	10.2%
Contact Center	9.0%
Consumer Product	8.5%
Oil and Gas	2.6%
Electronics	0.7%
Marketing	0.3%
Total Investments	100%

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Rand Capital Corporation and Subsidiary

Notes to the Consolidated Financial Statements

For the Nine Months Ended September 30, 2015 and 2014

(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, 2014.

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. 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 refer to Rand Corporation and Rand Capital SBIC, Inc.

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, and cash flows 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, 2015 are not necessarily indicative of the results for the full year.

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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, 2014. 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	2015 Definitive Proxy Statement submitted to shareholders
Form 10-K	Annual Report on Form 10-K for the year ended December 31, 2014
Form 10-Q	Quarterly Report on Form 10-Q for the quarters ended June 30, 2015 and March 31, 2015

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.

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 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.

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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 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, 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 \$13,667 and \$8,550 for the nine months ended September 30, 2015 and 2014, respectively. The board fees were \$8,000 and \$12,000 for the nine months ended September 30, 2015 and 2014, respectively.

Original Issue Discount Investments may include original issue discount or OID income. This occurs when the Corporation simultaneously purchases a warrant and a note or debt instrument from a portfolio company, 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 \$11,619 in OID income for each of the nine months ended September 30, 2015 and 2014. OID income is estimated to be approximately \$3,900 for the remainder of 2015, \$12,000 for 2016 and \$8,000 for 2017.

Deferred Debenture Costs - SBA debenture origination and commitment costs, which are included in other assets, are amortized ratably over the terms of the SBA debentures and are expensed when the debt is repaid. Amortization expense for the nine months ended September 30, 2015 and 2014 was \$20,550 and \$18,265, respectively. 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, 2015 and December 31, 2014 with a weighted average interest rate of 3.54% as of September 30, 2015. The \$8,000,000 in outstanding SBA leverage matures from 2022 through 2025.

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, which may include our automatic consent to the appointment of SBA or its designee as receiver under Section 311(c) of the Small Business Investment Act of 1958.

Fair Value of SBA Debentures - In March 2015, the SBA pooled its debenture borrowings and they were put to market and competitively priced. The market rate for these debentures was set at 2.517% excluding a mandatory SBA annual charge estimated to be 0.804%, resulting in a total estimated fixed rate for ten years of 3.321%. The carrying value of 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.

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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, net of refunds, during the nine months ended September 30, 2015 and 2014 was \$2,347,317 and \$1,513,491, respectively. Interest paid during the nine months ended September 30, 2015 and 2014 was \$269,066 and \$220,667, respectively. The Corporation converted \$69,710 and \$116,962 of interest receivable into investments during the nine months ended September 30, 2015 and 2014, respectively. During the nine months ended September 30, 2014, there was an exchange of membership interest for common stock in the amount of \$143,285.

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, 2015 and December 31, 2014, there were 500,000 shares of \$10.00 par value preferred stock authorized and unissued.

On October 22, 2015, 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 22, 2016 at prices no greater than the Corporation's then current net asset value. No shares were repurchased during the nine months ended September 30, 2015 and the total treasury shares held was 534,496 shares with a total cost of \$1,447,491 at September 30, 2015. Therefore, at September 30, 2015, the Corporation had authorization to purchase up to an additional 465,504 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, 2015, 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.

There were no amounts earned pursuant to the Plan for the nine months ended September 30, 2015 and September 30, 2014, respectively. 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. During the year ended December 31, 2013, the Corporation approved and accrued \$887,244 under the Plan, of which \$833,960 was paid

during the nine months ended September 30, 2014.

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Income Taxes - The Corporation reviews the tax positions it has taken to determine if they meet a more likely than not threshold for the benefit of the tax position to be recognized in the consolidated financial statements. A tax position that fails to meet the more likely than not recognition threshold will result in either a reduction of a current or deferred tax asset or receivable, or the recording of a current or deferred tax liability.

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, 2015 or 2014.

The Corporation's uncertain tax positions are not material and are not expected to change significantly within the next 12 months.

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, 2015, Gemcor II, LLC (Gemcor), Rheonix, Inc. (Rheonix), SciAps, Inc. (SciAps), Chequed Holdings, LLC (Chequed) and Social Flow, Inc. (Social Flow) represented 27%, 8%, 6%, 6% and 6%, respectively, of the fair value of the Corporation's investment portfolio.

Note 3. INVESTMENTS

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

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

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

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

The loan and debt securities may also be valued at an amount other than the price the security would command in order to provide a yield to maturity equivalent to the current yield of similar debt securities. 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 market approach or income approach. 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.

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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 increase (decrease) in unrealized 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.

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 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 fund raising 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 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.

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Another key factor used in valuing equity investments is a significant recent arms-length equity transaction with a 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, 2015:

Investment Type	Market	Market	Market	Market	Black Scholes	Face Value	Totals
	Approach EBITDA Multiple	Approach Liquidation Seniority	Approach Revenue Multiple	Approach Transaction Pricing	Stock Pricing & Volatility		
Non-Control/Non-Affiliate Equity	\$	\$	\$	\$ 5,850,789	\$ 97,625	\$	\$ 5,948,414
Non-Control/Non-Affiliate Debt						2,984,652	2,984,652
Total							
Non-Control/Non-Affiliate	\$	\$	\$	\$ 5,850,789	\$ 97,625	\$ 2,984,652	\$ 8,933,066
Affiliate Equity	\$ 1,585,000	\$ 22,841	\$ 100,000	\$ 12,791,623	\$ 22,000	\$	\$ 14,521,464

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Affiliate Debt							3,043,338	3,043,338
Total Affiliate	\$ 1,585,000	\$ 22,841	\$ 100,000	\$ 12,791,623	\$ 22,000	\$ 3,043,338	\$ 17,564,802	
Control Equity	\$ 9,399,500	\$	\$	\$	\$	\$	\$	\$ 9,399,500
Control Debt							471,341	471,341
Total Control	\$ 9,399,500	\$	\$	\$	\$	\$ 471,341	\$ 9,870,841	
Total Level 3 Investments	\$ 10,984,500	\$ 22,841	\$ 100,000	\$ 18,642,412	\$ 119,625	\$ 6,499,331	\$ 36,368,709	
Range	1X-5X	1X	1X	Not Applicable	\$ 1.13	Not Applicable		
Weighted Average	5X	1X	1X	Not Applicable	\$ 1.13	Not Applicable		

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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, 2015:

Description	Fair Value Measurements at Reported Date Using			
	September 30, 2015	Quoted Prices in Active Markets for Identical Assets		Other Significant Unobservable Inputs
		(Level 1)	Significant Observable Inputs (Level 2)	(Level 3)
Loan investments	\$ 471,341	\$	\$	\$ 471,341
Debt investments	6,027,990			6,027,990
Equity investments	29,869,378			29,869,378
Total	\$ 36,368,709	\$	\$	\$ 36,368,709

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, 2014:

Description	Fair Value Measurements at Reported Date Using			
	December 31, 2014	Quoted Prices in Active Markets for Identical Assets		Other Significant Unobservable Inputs
		(Level 1)	Significant Observable Inputs (Level 2)	(Level 3)
Loan investments	\$ 622,801	\$	\$	\$ 622,801
Debt investments	5,384,339			5,384,339
Equity investments	24,298,236	606,000		23,692,236
Total	\$ 30,305,376	\$ 606,000	\$ 0	\$ 29,699,376

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:

Description	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	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				

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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)
<i>Total Unrealized Gains and Losses</i>	(193,436)	163,892	(29,544)

Table of Contents**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
Satisfy, Inc.(Satisfy)		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
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Repayments of Securities

Gemcor II, LLC (Gemcor)	(151,460)		(151,460)
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Total Repayments of Securities

	(151,460)		(151,460)
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Transfers within Level 3**Ending Balance, September 30, 2015, of**

Level 3 Assets	\$ 471,341	\$ 6,027,990	\$ 29,869,378	\$ 36,368,709
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Change in unrealized appreciation on investments for the period included in changes in net assets

	(\$ 29,544)
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Net realized (losses) on investments for the period included in changes in net assets

	\$
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The following table provides a summary of changes in Assets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3) for the nine months ended September 30, 2014:

**Fair Value Measurements Using Significant
Unobservable Inputs (Level 3)
Venture Capital Investments**

Description	Loan Investments	Debt Investments	Equity Investments	Total
Ending Balance, December 31, 2013, of Level 3 Assets	\$ 1,466,604	\$ 4,172,417	\$ 21,655,032	\$ 27,294,053
Realized Losses included in net <u>change in net assets from operations</u>				
EmergingMed.com, Inc. (Emerging Med)		(778,253)		(778,253)
Liazon Corporation (Liazon)			(476,334)	(476,334)
QuaDPharma, LLC (Quadpharma)			160,634	160,634
<i>Total Realized Losses</i>		(778,253)	(315,700)	(1,093,953)

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Unrealized Gains or Losses included in net change in net assets from operations			
BinOptics Corporation (Binoptics)		1,200,001	1,200,001
Emerging Med	778,253		778,253
Kinex Pharmaceuticals, Inc. (Kinex)		111,343	111,343
Knoa Software, Inc. (Knoa)		(356,900)	(356,900)
Mezmeriz, Inc. (Mezmeriz)		(391,373)	(391,373)
NDT Acquisitions, LLC (NDT)		5,336	5,336
Total Unrealized Gains and Losses	778,253	568,407	1,346,660
Purchases of Securities/Changes to Securities/Non-cash conversions:			
Chequed.com, Inc. (Chequed)		350,000	350,000
Crashmob, Inc. (Crashmob)		250,000	250,000
CrowdBouncer, LLC (Crowdbouncer)		270,000	270,000
Empire Genomics, LLC (Empire Genomics)	600,000		600,000
First Wave Products Group, LLC (First Wave)	145,985		145,985
GiveGab, Inc. (Give Gab)		153,388	153,388
Kinex		143,285	143,285
Knoa		479,155	479,155
KnowledgeVision Systems, Inc. (Knowledge Vision)		300,000	300,000
Liazon		476,334	476,334
Mercantile Adjustment Bureau, LLC (Mercantile)	163,580	47,625	211,205
Quadpharma		(143,285)	(143,285)
SciAps, Inc. (Sciaps)		500,000	500,000
SocialFlow, Inc. (Social Flow)		750,000	750,000
Teleservices Solutions Holdings, LLC (Teleservices Holdings)		1,250,000	1,250,000
Total Purchases of Securities/Changes to Securities/Non-cash conversions	909,565	4,826,502	5,736,067
Repayments of Securities			
Carolina Skiff LLC (Carolina Skiff)	(125,000)		(125,000)
Gemcor II, LLC (Gemcor)	(230,016)		(230,016)
Quadpharma	(556,285)	(367,349)	(923,634)
NDT		(5,336)	(5,336)
Total Repayments of Securities	(786,301)	(125,000)	(372,685)
Transfers within Level 3			
Ending Balance, September 30, 2014, of Level 3 Assets			
	\$ 680,303	\$ 4,956,982	\$ 26,361,556
			\$ 31,998,841
			\$ 1,346,660

Change in unrealized appreciation on investments for the period included in changes in net assets

Net realized (losses) on investments for the period included in changes in net assets (\$ 1,093,953)

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

At September 30, 2015 and December 31, 2014 other assets was comprised of the following:

	September 30, 2015	December 31, 2014
Escrow receivable from BinOptics Corporation	\$ 1,510,248	\$ 1,510,248
Deferred debenture costs, net	206,477	227,027
Prepaid expenses	39,566	
Equipment (net)	11,822	14,558
Operating receivables	207	2,027
Dividend receivable		37,978
Escrow receivable from Ultra-Scan		32,962
 Total other assets	 \$ 1,768,320	 \$ 1,824,800

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 during 2016. During 2013, the Corporation sold its investment in Ultra-Scan Corporation (Ultra-Scan) and a portion of the sales proceeds were held in escrow and released in 2014 with the remainder released in the first quarter of 2015.

Note 5. COMMITMENTS AND CONTINGENCIES

The Corporation did not have any commitments to fund any investments as of September 30, 2015.

Note 6. UNCONSOLIDATED SIGNIFICANT SUBSIDIARY

In accordance with Rule 4-08(g) of Regulation S-X, the Corporation has an unconsolidated significant subsidiary that is not required to be consolidated. Accordingly, certain comparative financial information is presented below.

	For the nine month periods ended (Unaudited)	
	September 30, 2015	
	(in thousands)	September 30, 2014 (in thousands)
Income Statement:		
Net sales	\$ 27,852	\$ 20,164
Gross profit	6,372	4,664
Net income	4,583	2,801

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

The following schedule provides the financial highlights, calculated based on weighted average shares outstanding, for the nine months ended September 30, 2015 and the year ended December 31, 2014:

	Nine months ended September 30, 2015 (Unaudited)	Year ended December 31, 2014
Income from investment operations (1):		
Investment income	\$ 0.33	\$ 0.40
Operating expenses	0.19	0.39
Investment income before income taxes	0.14	0.01
Income tax expense	0.04	0.01
Net investment income	0.10	0.00
Purchase of treasury stock (2)	0.00	0.02
Net realized and unrealized gain on investments	0.00	0.71
Increase in net asset value	0.10	0.73
Net asset value, beginning of period	5.11	4.38
Net asset value, end of period	\$ 5.21	\$ 5.11
Per share market price, end of period	\$ 3.83	\$ 4.09
Total return based on market value	(6.36%)	33.2%
Total return based on net asset value	1.88%	15.26%
Supplemental data:		
Ratio of operating expenses before income taxes to average net assets	3.74%	8.27%
Ratio of operating expenses including income taxes to average net assets	4.54%	16.28%
Ratio of net investment income to average net assets	1.82%	0.07%
Portfolio turnover	20.6%	21.5%
Net assets, end of period	\$ 32,962,582	\$ 32,353,441
Weighted shares outstanding, end of period	6,328,538	6,391,175

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

(2) *Net increase is due to purchase of common stock at prices less than beginning of period net asset value per share.*

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

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

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

FORWARD LOOKING STATEMENTS

Statements included in this Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this report that do not relate to present or historical conditions are forward-looking statements within the meaning of that term in Section 27A of the Securities Act of 1933, as amended, and in Section 21E of the Securities Exchange Act of 1934, as amended. Additional oral or written forward-looking statements may be made by us from time to time, and forward-looking statements may be included in documents that are filed with the Securities and Exchange Commission. Forward-looking statements involve risks and uncertainties that could cause our results or outcomes to differ materially from those expressed in the forward-looking statements. Forward-looking statements may include, without limitation, statements relating to our plans, strategies, objectives, expectations and intentions and are intended to be made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Words such as believes, forecasts, intends, possible, expects, estimates, anticipates, or plans and similar are intended to identify forward-looking statements. Among the important factors on which such statements are based are assumptions concerning the state of the United States economy and the local markets in which our portfolio companies operate, the state of the securities markets in which the securities of 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, 2014.

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

Overview

We are an internally managed investment company that lends to and invests in small 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 Rand SBIC.

Outlook

At the end of the third quarter of 2015, we had approximately \$4.8 million in cash on hand available for future investments. 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 still reinvesting 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 believe that economic conditions in the United States are relatively stable, and we expect that well run businesses should be able to compete effectively given the low cost of capital, strengthening business and consumer spending, and eager reception of new technologies and service concepts.

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Given our access to capital we are able to invest increasing amounts in companies, which will provide us with an opportunity to accelerate our rate of growth.

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

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

As our portfolio continues to expand, our operating expenses will decline as a percentage of net asset value.

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, 2014 under Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations.

Table of Contents**Financial Condition**

Overview:	9/30/15	12/31/14	(Decrease) Increase	% (Decrease) Increase
Total assets	\$ 43,161,106	\$ 45,525,987	(\$ 2,364,881)	(5.2%)
Total liabilities	10,198,524	13,172,546	(2,974,022)	(22.6%)
Net assets	\$ 32,962,582	\$ 32,353,441	\$ 609,141	1.9%

Net asset value per share (NAV) was \$5.21 at September 30, 2015 and \$5.11 at December 31, 2014.

Our outstanding SBA debentures at September 30, 2015 were \$8,000,000 and will mature from 2022 through 2025. Cash approximated 14% of net assets at September 30, 2015 as compared to 41% at December 31, 2014.

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.

	9/30/15	12/31/14	Increase (Decrease)	% Increase (Decrease)
Investments, at cost	\$ 28,526,674	\$ 22,213,476	\$ 6,313,198	28.4%
Unrealized appreciation, net	7,842,035	8,091,900	(249,865)	(3.1%)
Investments at fair value	\$ 36,368,709	\$ 30,305,376	\$ 6,063,333	20.0%

Our total investments at fair value, as estimated by management and approved by our Board of Directors, approximated 110% of net assets at September 30, 2015 versus 94% of net assets at December 31, 2014.

The change in investments during the nine months ended September 30, 2015, at cost, is comprised of the following:

	Cost Increase (Decrease)
New investments:	
GoNoodle, Inc. (GoNoodle) (formerly HealthTeacher, Inc.)	\$ 1,000,025
Genicon, Inc. (Genicon)	1,000,000
SciAps, Inc. (SciAps)	749,999
Rheonix, Inc. (Rheonix)	680,475
Tilson Technology Management, Inc. (Tilson)	600,000
Chequed Holdings, LLC (Chequed Holdings)	500,000
City Dining Cards, Inc. (City Dining)	500,000

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SocialFlow, Inc. (Social Flow)	500,000
OnCore Golf Technology, Inc. (Oncore Golf)	325,000
GiveGab, Inc. (Give Gab)	212,833
Knowledge Vision Systems Inc. (Knowledge Vision)	200,001
Mezmeriz, Inc. (Mezmeriz)	151,477
Satisfy, Inc. (Satisfy) (<i>formerly CrashMob, Inc.</i>)	150,000
Teleservices Solutions Holdings, LLC (Teleservices)	104,198
Intrinsiq Materials, Inc. (Intrinsiq)	95,000
Total of new investments	6,769,008
Other changes to investments:	
First Wave Products Group, LLC (First Wave) interest conversion and OID amortization	28,132
Rheonix interest conversion	22,257
Chequed.com, Inc. (Chequed) interest conversion	12,274
Mercantile Adjustment Bureau, LLC (Mercantile) OID amortization	7,497
GoNoodle interest conversion	6,458
SciAps interest conversion	4,711
Total of other changes to investments	81,329
Investments repaid, sold or liquidated	
Gemcor II, LLC (Gemcor) repayment	(151,460)
Synacor, Inc. (Synacor) shares sold	(385,680)
Total investments repaid, sold or liquidated	(537,140)
Net change in investments, at cost	\$ 6,313,197

Table of Contents**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 debenture and equity instruments. The debenture instruments are intended to provide a current return on a portion of our investment portfolio. The equity investments in our portfolio are structured to realize capital appreciation over the long-term.

Comparison of the nine months ended September 30, 2015 to the nine months ended September 30, 2014

	September 30, 2015	September 30, 2014	(Decrease) Increase	% (Decrease) Increase
Interest from portfolio companies	\$ 549,619	\$ 600,825	(\$ 51,206)	(8.5%)
Interest from other investments	18,719	10,523	8,196	77.9%
Dividend and other investment income	1,488,545	1,126,957	361,588	32.1%
Fee income	21,667	20,550	1,117	5.4%
Total investment income	\$ 2,078,550	\$ 1,758,855	\$ 319,695	18.2%

Interest from portfolio companies Interest income from portfolio companies decreased during the nine months ended September 30, 2015 versus the nine months ended September 30, 2014 due to decreases in the principal balances on loan and debt investments with Gemcor, II, LLC (Gemcor) and Carolina Skiff, LLC (Carolina Skiff), respectively.

After reviewing its performance and the circumstances surrounding our investment, we ceased accruing interest income on First Wave Products Group, LLC (First Wave) 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, 2015 versus the same period in 2014.

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.

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Dividend income for the nine months ended September 30, 2015 consisted of distributions from Gemcor for \$1,364,306, Carolina Skiff for \$81,808, New Monarch Machine Tool LLC (Monarch) for \$27,409, Tilson Technology Management, Inc. (Tilson) for \$10,667 and SOMS Technologies, LLC (SOMS) for \$4,355. Dividend income for the nine months ended September 30, 2014 consisted of distributions from Gemcor for \$993,998, New Monarch for \$45,682, Carolina Skiff for \$44,383, Advantage 24/7 LLC (Advantage 24/7) for \$37,695, Somerset Gas Transmission Company, LLC (Somerset Gas) for \$2,531 and NDT Acquisitions, LLC (NDT) for \$2,668.

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 \$13,667 and \$8,550 for the nine months ended September 30, 2015 and 2014, respectively. The income from board fees was \$8,000 and \$12,000 for the nine months ended September 30, 2015 and 2014, respectively.

Operating Expenses***Comparison of the nine months ended September 30, 2015 to the nine months ended September 30, 2014***

	September 30, 2015	September 30, 2014	Increase	% Increase
Total operating expenses	\$ 1,221,995	\$ 1,087,895	\$ 134,100	12.3%

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 12.3% or approximately \$134,000 increase in total operating expenses for the nine months ended September 30, 2015 as compared to the same nine month period in 2014 is due to an increase in interest expense and bonus and profit sharing expense. Interest expense on our SBA borrowings increased due to higher outstanding debt balances during the first nine months of 2015 versus the same period in 2014. The increase in our bonus and profit sharing expense of \$45,635 is due to a reduction in the Liazon Corporation escrow receivable amount during the nine months ended September 30, 2014 to reflect the amount actually received from escrow in the second quarter of 2014. There was no such adjustment during the nine months ended September 30, 2015.

Realized Gains and Losses on Investments***Comparison of the nine months ended September 30, 2015 to the nine months ended September 30, 2014***

	September 30, 2015	September 30, 2014	Increase
Realized gain (loss) on investments before income taxes	\$ 262,925	(\$ 1,064,558)	\$ 1,327,483

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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). Synacor trades on the NASDAQ Global Market under the symbol SYNC . As of September 30, 2015, we do not own any shares of Synacor.

During the nine months ended September 30, 2014, we recognized a realized loss of \$778,253 on our investment in Emerging Med.com when it was sold during January 2014. We did not receive any proceeds from the sale. We also recognized a loss of \$476,334 due to an adjustment to the Liazon Corporation escrow receivable during the nine months ended September 30, 2014.

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During the nine months ended September 30, 2014, the Corporation recognized a realized gain of \$29,395 on the sale of 25,000 shares of Synacor, Inc. (Synacor). We owned 403,643 shares of Synacor at September 30, 2014.

QuaDPharma, LLC (Quadpharma) was purchased by Athenex, Inc. (formerly Kinex Pharmaceuticals, Inc.) during the third quarter of 2014, and we received \$923,634 in net proceeds for our debt and equity. The realized gain from the sale of \$160,634 included \$14,737 that was held in escrow and received in 2015. As part of the sale, we also received 11,574 common shares of Athenex that had a fair value at the time of receipt of \$254,628.

Change in Unrealized Appreciation of Investments**Comparison of the nine months ended September 30, 2015 to the nine months ended September 30, 2014**

	September 30, 2015	September 30, 2014	Decrease
Change in unrealized appreciation before income taxes	(\$ 249,864)	\$ 1,076,410	(\$ 1,326,274)

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. The portfolio company remains in operation and is developing new business strategies.

The increase in unrealized appreciation for the nine months ended September 30, 2014 was comprised of the following:

	September 30, 2014
BinOptics Corporation (BinOptics)	\$ 1,200,001
Reclass EmergingMed.com, Inc. (Emerging Med) to a realized loss	778,253
Athenex, Inc. (Athenex) <i>(formerly Kinex Pharmaceuticals, Inc.)</i>	111,343
NDT Acquisitions, LLC (NDT)	5,336
Synacor, Inc. (Synacor)	(270,250)
Mezmeriz, Inc. (Mezmeriz)	(391,373)
Knoa Software, Inc. (Knoa)	(356,900)
Total change in net unrealized appreciation during the nine months ended September 30, 2014	\$ 1,076,410

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The fair value of BinOptics was increased in accordance with ASC 820 due to an overall improvement in the revenues and financial performance of the company.

The Emerging Med investment was written off during the nine months ended September 30, 2014, after the company was sold and we did not receive any proceeds.

The NDT investment value was adjusted for royalties received.

The shares of Athenex were received as part of the purchase of Quadpharma by Athenex. The proceeds from this sale included cash and stock. We valued the stock based on a 2014 financing by Athenex.

Synacor, as a publicly traded stock, is marked to market at the end of each quarter. We valued our 403,643 shares of Synacor at a three day average bid price of \$1.86 as of September 30, 2014.

The Mezmeriz investment was revalued during the nine months ended September 30, 2014 after our management reviewed the portfolio company and its financials and determined that the business of this portfolio company had deteriorated since the time of the original funding. The portfolio company remains in operation and is developing new business strategies.

The valuation of Knoa was decreased during the second quarter of 2014 to value our equity holdings at the price of the most recent insider round of financing.

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

Net Increase in Net Assets from Operations

We account for our operations under GAAP for investment companies. The principal measure of our financial performance is net increase in net assets from operations on our consolidated statements of operations. For the nine months ended September 30, 2015 and 2014, the net increase in net assets from operations was \$609,141 and \$573,605, 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, 2015, our total liquidity was approximately \$4.8 million in cash.

Management expects that the cash on hand at September 30, 2015, coupled with the scheduled interest payments from our portfolio investments, will be sufficient to meet our liquidity needs through the next twelve months. Future exits from portfolio companies may increase the amount of liquidity available for new investments, operating activities and future SBA debenture obligations.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our investment activities contain elements of risk. The portion of our investment portfolio consisting of equity and debt securities in private companies 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 increase (decrease) 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, 2015, 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, as amended, 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, 2015. Based on the evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures were effective as of September 30, 2015.

Changes in Internal Controls over Financial Reporting. There have been no changes in our internal controls 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 controls over financial reporting.

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

None.

Item 1A. Risk Factors

See Part I, Item 1A, Risk Factors, of the Annual Report on Form 10-K for the year ended December 31, 2014.

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
7/1/2015 - 7/31/2015				465,504
8/1/2015 - 8/31/2015				465,504
9/1/2015 - 9/30/2015				465,504

- (1) There were no shares repurchased during the third quarter of 2015.
(2) The average price paid per share is calculated on a settlement basis and includes commission.
(3) On October 22, 2015, 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 22, 2016.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

(a) Exhibits

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

- (3)(i) Certificate of Incorporation of the Corporation, incorporated by reference to Exhibit (a) (1) and (a) (2) of Form N-2 filed with the Securities Exchange Commission on April 22, 1997. (File No. 333-25617).
- (3)(ii) By-laws of the Corporation, incorporated by reference to Exhibit (b) of Form N-2 filed with the Securities Exchange Commission on April 22, 1997. (File No. 333-25617).
- (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

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Signatures

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

Dated: November 3, 2015

RAND CAPITAL CORPORATION

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

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