

RAND CAPITAL CORP
Form 10-Q
November 04, 2014
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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, 2014

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

For the Transition Period from _____ to _____

Commission File Number: 814-00235

Rand Capital Corporation

(Exact Name of Registrant as specified in its Charter)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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, 2014, there were 6,359,541 shares of the registrant's common stock outstanding.

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RAND CAPITAL CORPORATION

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	September 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
Investments at fair value:		
Control investments (cost of \$1,404,803 and \$1,640,156, respectively)	\$ 10,079,803	\$ 10,309,819
Affiliate investments (cost of \$14,183,396 and \$12,844,406, respectively)	13,911,839	12,542,869
Non-affiliate investments (cost of \$7,631,488 and \$5,410,248, respectively)	8,758,199	5,495,865
Total investments, at fair value (cost of \$23,219,687 and \$19,894,810, respectively)	32,749,841	28,348,553
Cash	4,647,673	9,764,810
Interest receivable (net of allowance of \$128,311 at 9/30/14 and \$122,000 at 12/31/13)	83,338	58,093
Other assets	292,868	1,578,914
Total assets	\$ 37,773,720	\$ 39,750,370
LIABILITIES AND STOCKHOLDERS EQUITY (NET ASSETS)		
Liabilities:		
Debentures guaranteed by the SBA	\$ 7,000,000	\$ 7,000,000
Deferred tax liability	1,621,260	2,206,808
Income tax payable	404,691	1,223,427
Accounts payable and accrued expenses	160,970	1,224,339
Deferred revenue	31,914	26,464
Total liabilities	9,218,835	11,681,038
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 6,383,421 as of 9/30/14 and 6,411,918 as of 12/31/13	686,304	686,304
Capital in excess of par value	10,581,789	10,581,789
Accumulated net investment (loss)	(310,438)	(889,317)
Undistributed net realized gain on investments	12,821,688	13,522,890
Net unrealized appreciation on investments	6,053,713	5,357,785
Treasury stock, at cost; 479,613 as of 9/30/14 and 451,116 shares as of 12/31/13	(1,278,171)	(1,190,119)

Total stockholders equity (net assets) (per share 9/30/14 - \$4.47 and 12/31/13 - \$4.38)	28,554,885	28,069,332
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Total liabilities and stockholders equity	\$ 37,773,720	\$ 39,750,370
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See accompanying notes

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three Months and Nine Months Ended September 30, 2014 and 2013

(Unaudited)

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Investment income:				
Interest from portfolio companies:				
Control investments	\$ 26,660	\$ 37,669	\$ 88,419	\$ 119,662
Affiliate investments	122,113	110,189	375,486	370,007
Non-Control/Non-Affiliate investments	57,576	38,213	136,920	108,572
Total interest from portfolio companies	206,349	186,071	600,825	598,241
Interest from other investments	2,326	2,110	10,523	7,452
Total interest from other investments	2,326	2,110	10,523	7,452
Dividend and other investment income:				
Control investments	351,380	234,727	1,034,361	1,247,652
Affiliate investments		79,964	90,065	124,761
Non-Control/Non-Affiliate investments			2,531	16,670
Total dividend and other investment income	351,380	314,691	1,126,957	1,389,083
Fee income:				
Control investments	4,000	5,500	10,000	10,500
Affiliate investments	1,767	600	4,467	3,800
Non-Control/Non-Affiliate investments	3,527	1,250	6,083	3,750
Total fee income	9,294	7,350	20,550	18,050
Total investment income	569,349	510,222	1,758,855	2,012,826
Operating expenses:				
Salaries	147,668	135,375	443,006	406,125
Bonus and profit sharing			(45,635)	
Employee benefits	26,431	27,297	89,187	114,792
Directors fees	14,250	14,250	88,500	86,250
Professional fees	25,724	27,595	126,236	102,957
Stockholders and office operating	23,789	25,457	109,439	104,824
Insurance	7,700	7,500	27,609	27,004

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Corporate development	14,385	19,730	41,941	57,743
Other operating	2,385	1,360	5,641	3,863
	262,332	258,564	885,924	903,558
Interest on SBA obligations	69,243	33,806	195,660	129,730
Bad debt expense (recovery)			6,311	(64,654)
Total expenses	331,575	292,370	1,087,895	968,634
Investment gain before income taxes	237,774	217,852	670,960	1,044,192
Income tax (benefit) expense	(5,762)	74,324	92,081	357,440
Net investment gain	243,536	143,528	578,879	686,752
Realized gain (loss) on investments:				
Affiliate investments	160,634		(617,619)	(1,063,698)
Non-Control/Non-Affiliate investments			(446,939)	1,842,265
Realized gain (loss) on investments before income taxes	160,634		(1,064,558)	778,567
Income tax expense (benefit)	58,870		(363,356)	291,100
Net realized gain (loss) on investments	101,764		(701,202)	487,467
Net (decrease) increase in unrealized appreciation on investments:				
Control investments	5,336	8,381	5,336	15,033
Affiliate investments		(440,707)	29,980	622,991
Non-Control/Non-Affiliate investments	(195,157)	(205,650)	1,041,094	(2,799,520)
Change in unrealized appreciation before income taxes	(189,821)	(637,976)	1,076,410	(2,161,496)
Deferred income tax (benefit) expense	(67,963)	(250,156)	380,482	(820,992)
Net (decrease) increase in unrealized appreciation on investments	(121,858)	(387,820)	695,928	(1,340,504)
Net realized and unrealized loss on investments	(20,094)	(387,820)	(5,274)	(853,037)
Net increase (decrease) in net assets from operations	\$ 223,442	(\$244,292)	\$ 573,605	(\$166,285)
Weighted average shares outstanding	6,407,199	6,481,172	6,408,763	6,551,116
Basic and diluted net increase (decrease) in net assets per share from operations	\$ 0.03	(\$0.04)	\$ 0.09	(\$0.03)

See accompanying notes

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months Ended September 30, 2014 and 2013

(Unaudited)

	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Cash flows from operating activities:		
Net increase (decrease) in net assets from operations	\$ 573,605	(\$166,285)
Adjustments to reconcile net increase (decrease) in net assets to net cash (used in) operating activities:		
Depreciation and amortization	20,604	32,238
Original issue discount accretion	(11,619)	(11,619)
Change in interest receivable allowance	6,311	(74,795)
(Increase) decrease in unrealized appreciation of investments	(1,076,410)	2,161,496
Deferred tax (benefit)	(585,548)	(982,723)
Realized loss (gain) on portfolio investments, net	1,064,558	(778,567)
Non-cash conversion of debenture interest	(116,962)	(245,501)
Changes in operating assets and liabilities:		
(Increase) decrease in interest receivable	(31,556)	80,847
Decrease (increase) in other assets	812,983	(185,835)
(Increase) in prepaid income taxes		(125,623)
Decrease in accounts payable and accrued expenses	(1,063,369)	(442,608)
Decrease in income taxes payable	(818,736)	(27,695)
Increase (decrease) in deferred revenue	5,450	(5,550)
Total adjustments	(1,794,294)	(605,935)
Net cash used in operating activities	(1,220,689)	(772,220)
Cash flows from investing activities:		
Investments originated	(5,131,152)	(2,875,002)
Proceeds from sale of investments	420,593	2,977,145
Proceeds from loan repayments	911,301	382,282
Capital expenditures	(9,138)	(7,547)
Net cash (used in) provided by investing activities	(3,808,396)	476,878
Cash flows from financing activities:		
Repayment of SBA debentures		(900,000)
Proceeds from SBA debentures		1,500,000
Origination costs to SBA		(36,376)
Purchase of treasury stock	(88,052)	(546,541)

Net cash (used in) provided by financing activities	(88,052)	17,083
Net decrease in cash	(5,117,137)	(278,259)
Cash balance:		
Beginning of period	9,764,810	4,224,763
End of period	\$ 4,647,673	\$ 3,946,504
Supplemental cash flow disclosures:		
Interest paid	\$ 220,667	\$ 128,083
Taxes paid	\$ 1,513,491	\$ 963,589
Non-cash investing activities:		
Exchange of membership interest for common stock	\$ 143,285	\$

See accompanying notes

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the Three Months and Nine Months Ended September 30, 2014 and 2013

(Unaudited)

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Net assets at beginning of period	\$ 28,419,415	\$ 25,521,216	\$ 28,069,332	\$ 25,782,300
Net investment gain	243,536	143,528	578,879	686,752
Net realized gain (loss) on investments	101,764		(701,202)	487,467
Net (decrease) increase in unrealized appreciation on investments	(121,858)	(387,820)	695,928	(1,340,504)
Net increase (decrease) in net assets from operations	223,442	(244,292)	573,605	(166,285)
Purchase of treasury stock	(87,972)	(207,450)	(88,052)	(546,541)
Total increase (decrease) in net assets	135,470	(451,742)	485,553	(712,826)
Net assets at end of period	\$ 28,554,885	\$ 25,069,474	\$ 28,554,885	\$ 25,069,474
Accumulated net investment (loss)	(\$310,438)	(\$357,043)	(\$310,438)	(\$357,043)

See accompanying notes

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

September 30, 2014

(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
Non-Control/Non-Affiliate Investments						
30.7% of net assets (j)						
BinOptics Corporation (e)(g) Ithaca, NY. Design and manufacturer of semiconductor FP and DFB lasers. (Electronics Developer) www.binoptics.com	20,891,357 Series 2 convertible preferred shares.	11/8/11	4%	\$ 1,799,999	\$ 3,000,000	10.5%
Crashmob, Inc. (e)(g) Boston, MA. Marketing technology platform for engagement, advertising and surveying. (Software) www.statisfy.co	250,000 Series seed preferred shares.	8/18/14	4%	250,000	250,000	0.9%
Empire Genomics, LLC (e)(g) Buffalo, NY. Molecular diagnostics company that offers a comprehensive menu of assay services for diagnosing and guiding precise therapeutic treatments for patients. (Health Care) www.empiregenomics.com	\$600,000 senior secured convertible term note at 10% due December 1, 2015.	6/13/14	<1%	600,000	600,000	2.1%
Kinex Pharmaceuticals, Inc. (e)(g) Buffalo, NY. Specialty pharmaceutical company. (Manufacturing) www.kinexpharma.com	11,574 common shares.	9/8/14	<1%	143,285	254,628	0.9%
KnowledgeVision Systems, Inc. (e)(g) Lincoln, MA. Online presentation software. (Software)	200,000 Series A-1 preferred shares.	11/13/13	<5%	550,000	550,000	1.9%

www.knowledgevision.com	214,285 Series A-2 preferred shares.						
Mercantile Adjustment Bureau, LLC (g)	\$1,099,039 subordinated secured note at 13% due October 30, 2017.	10/22/12	<5%	1,068,198	1,068,198		
Williamsville, NY. Full service accounts receivable management and collections company. (Contact Center) 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% interest.			97,625	97,625		
	Total Mercantile			1,315,823	1,315,823	4.6%	
SocialFlow, Inc. (e)(g)	1,049,538 Series B preferred shares.	4/5/13	4%	1,250,000	1,250,000	4.4%	
New York, NY. Provides instant analysis of social networks using proprietary, predictive analytic algorithm to determine best time for its customers to publish or advertise. (Software) www.socialflow.com	1,204,819 Series B-1 preferred shares.						
Somerset Gas Transmission Company, LLC	26.5337 units.	7/10/02	3%	719,097	786,748	2.8%	
Columbus, OH. Natural gas transportation. (Oil and Gas) www.somersetgas.com							
Synacor, Inc. NASDAQ: SYNC (e)(g)(n)(o)	403,643 unrestricted common shares valued at \$1.86 per share.	11/18/02	2%	592,427	751,000	2.6%	
Buffalo, NY. Develops provisioning platforms for aggregation and delivery of content and services across multiple digital devices. (Software) www.synacor.com							

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

September 30, 2014 (Continued)

(Unaudited)

(a)

Company, Geographic Location, Business		(b) Date	(c) Equity	Cost	(d)(f) Fair Value	Percent of Net Assets
Description, (Industry) and Website	Type of Investment					
Other Non-Control/Non-Affiliate Investments: (e)						
DataView, LLC (Software) (e)	Membership Interest			310,357	0	0.0%
UStec/Wi3 (Software) (e)	Common Stock			100,500	0	0.0%
Subtotal Non-Control/Non-Affiliate Investments				\$ 7,631,488	\$ 8,758,199	
Affiliate Investments 48.7% 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	
Waycross, GA. Manufacturer of fresh water, ocean fishing and pleasure boats. (Manufacturing) www.carolinaskiff.com	\$250,000 subordinated promissory note at 14% due December 31, 2016.			125,000	125,000	
	6.0825% Class A common membership interest.			15,000	600,000	
Total Carolina Skiff				1,125,000	1,710,000	6.0%
Chequed.com, Inc. (e)(g)	408,476 Series A preferred shares.	11/18/10	16%	1,383,222	1,383,222	4.8%
Saratoga Springs, NY. Predictive employee selection and development software. (Software) www.chequed.com						
CrowdBouncer, LLC (e)(g)	270,000 Series A preferred shares.	1/22/14	12%	270,000	270,000	0.9%
Buffalo, NY. Platform-as-a-Service (PaaS) solution for JOBS Act compliance and back-end transactional processing for broker-dealers, equity and crowdfunding portals. (Software) www.crowdbouncer.com						

First Wave Products Group, LLC (g) (p)	\$500,000 senior term notes at 10%						
Batavia, NY. Develops medical devices including First Crush, a dual action pill crusher that crushes and grinds medical pills. (Manufacturing) www.firstwaveproducts.com	Payment in Kind (PIK) due December 31, 2016.	4/19/12	7%	620,722	620,722		
	\$280,000 junior term notes at 10% PIK due December 31, 2016.			301,097	301,097		
	Warrant for 41,619 capital securities.			22,000	22,000		
	Total First Wave			943,819	943,819	3.3%	
GiveGab, Inc. (e)(g)	2,254,822 Series A preferred shares.	3/13/13	6%	403,388	403,388	1.4%	
Ithaca, NY. Social network program that connects volunteers with nonprofit organizations. (Software) www.givegab.com							
G-TEC Natural Gas Systems (e)	18.545% Class A membership interest.	8/31/99	19%	400,000	100,000	0.3%	
Buffalo, NY. Manufactures and distributes systems that allow natural gas to be used as an alternative fuel to gases. (Manufacturing) www.gas-tec.com	8% cumulative dividend.						
Intrinsiq Materials, Inc. (e)(g)	599,055 Series 2 Preferred shares.	9/19/13	7%	600,002	600,002	2.1%	
Rochester, NY. Produces a variety of printable electronics utilizing a unique process of making nanomaterial based ink used in a room-temperature manufacturing environment. (Manufacturing) www.intrinsiqmaterials.com							
Knoa Software, Inc. (e)(g)	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	3.1%	
New York, NY. End user experience management and performance (EMP) solutions utilizing enterprise applications. (Software) www.knoa.com							

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RAND CAPITAL CORPORATION AND SUBSIDIARY

CONDENSED CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

September 30, 2014 (Continued)

(Unaudited)

(a) Company, Geographic Location, Business Description, (Industry) and Website	Type of Investment	(b) Date Acquired	(c) Equity	Cost	(d)(f) Fair Value	Percent of Net Assets
Mezmeriz, Inc. (e)(g)						
Ithaca, NY. Micro-electronic mechanical systems (MEMS) developer of carbon fiber MEMS mirror modules (Electronics Developer) www.mezmeriz.com	360,526 Series A preferred shares. \$200,000 convertible notes at 8% due December 31, 2014.	1/9/08	10%	391,373	0	
Total Mezmeriz				591,373	200,000	0.7%
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. Class A common membership interest.	9/24/09	15%	1,891,965	1,891,965	6.6%
New Monarch Machine Tool, Inc. (g)	22.84 common shares.	9/24/03	15%	22,841	22,841	0.1%
Cortland, NY. Manufactures and services vertical/horizontal machining centers. (Manufacturing) www.monarchmt.com						

Rheonix, Inc. (e)(g)							
Ithaca, NY. Developer of microfluidic testing devices including channels, pumps, reaction vessels, & diagnostic chambers, for testing of small volumes of chemicals and biological fluids. (Manufacturing) www.rheonix.com	9,676 common shares. (g) 1,839,422 Series A preferred shares. (g) 50,593 common shares.	10/29/09	5%	0	11,000		
				2,099,999	2,165,999		
				0	59,000		
	Total Rheonix			2,099,999	2,235,999	7.8%	
SciAps, Inc. (e)(g)	187,500 Series A preferred shares.	7/12/13	9%	1,500,000	1,500,000	5.3%	
Woburn, MA. Instrumentation company specializing in portable analytical instruments. Provides durable, field-tested, portable instruments to identify any compound, any mineral, and any element. (Manufacturing) www.sciaps.com							
SOMS Technologies, LLC (e)(g)	5,959,490 Series B membership interests.	12/2/08	10%	472,632	528,348	1.9%	
Valhalla, NY. Produces and markets the microGreen Extended Performance Oil Filter. (Auto Parts Developer) www.microgreenfilter.com							
Teleservices Solutions Holdings, LLC (e)(g)	250,000 Class B shares. 1,000,000 Class C shares.	5/30/14	9%	1,250,000	1,250,000	4.4%	
Montvale, NJ. Customer contact center specializing in customer acquisition and retention. (Contact Center) www.ipacesetters.com							
Subtotal Affiliate Investments				\$ 14,183,396	\$ 13,911,839		
Control Investments 35.3% of net assets (l)							
Advantage 24/7 LLC (g)	53% Membership interest.	12/30/10	53%	\$ 99,500	\$ 99,500	0.3%	
Williamsville, NY. Marketing program for wine and spirits dealers. (Marketing Company) www.advantage24-7.com							
Gemcor II, LLC (g)(h)(m)	\$500,000 subordinated promissory note at 15% due November 1,	6/28/04	31%	10,663	10,663		
West Seneca, NY. Designs and sells automatic riveting machines used in the assembly of aircraft. (Manufacturing) www.gemcor.com							

2014. \$1,000,000 subordinated promissory note at 15% due September 1, 2017.	669,640	669,640	
31.25 membership units.	625,000	9,300,000	
	Total Gemcor	1,305,303	9,980,303 35.0%
Subtotal Control Investments	\$ 1,404,803	\$ 10,079,803	
TOTAL INVESTMENTS - 114.7%	\$ 23,219,687	\$ 32,749,841	
LIABILITIES IN EXCESS OF OTHER ASSETS (14.7%)		(4,194,956)	
NET ASSETS 100%		\$ 28,554,885	

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

September 30, 2014 (Continued)

(Unaudited)

Notes to the Condensed Consolidated Schedule of Portfolio Investments

- (a) At September 30, 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 September 30, 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 Condensed 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, 2014, the total cost of investment securities approximated \$23.2 million. Net unrealized appreciation was approximately \$9.5 million, which was comprised of \$11.0 million of unrealized appreciation of investment securities and (\$1.5) million related to unrealized depreciation of investment securities. At September 30, 2014 the aggregate gross unrealized gain for federal income tax purposes was \$7,058,667 and the aggregate gross unrealized loss for federal income tax purposes was (\$1,729,356). The net unrealized gain was \$5,329,311 based on a tax cost of \$27,420,529.

- (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. As of September 30, 2014 there were no interest receivable amounts exceeding \$50,000.
- (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 September 30, 2014, the Corporation's shares of Synacor were valued at \$1.86 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
CONDENSED CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

September 30, 2014 (Continued)

(Unaudited)

Investments in and Advances to Affiliates

Company	Type of Investment	December 31, 2013 Fair Value	Gross Additions (1)	Gross Reductions (2)	September 30, 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		(99,531)	10,663	6,425
	\$1,000,000 subordinated promissory note at 15%	800,125		(130,485)	669,640	81,994
	31.25 membership units.	9,300,000			9,300,000	999,998
	Total Gemcor	10,210,319			9,980,303	1,088,417
NDT Acquisitions, LLC	Common Stock					2,668
	Total Control Investments	\$ 10,309,819	\$	(230,016)	\$ 10,079,803	\$ 1,132,780
Affiliate Investments:						
Carolina Skiff LLC	\$985,000 Class A preferred membership interest at 9.8%.	\$ 985,000	\$	\$	\$ 985,000	\$ 142,107
	\$250,000 subordinated	250,000			125,000	

	promissory note at 14% 6.0825% Class A common membership interest.	600,000		(125,000)	600,000	
	Total Carolina Skiff	1,835,000			1,710,000	
Chequed.com, Inc.	408,476 Series A preferred shares.	1,033,222	350,000		1,383,222	
CrowdBouncer, LLC	270,000 Series A preferred shares.		270,000		270,000	
First Wave Products Group, LLC	\$500,000 senior term notes at 10%	571,301	49,421		620,722	50,838
	\$280,000 junior term notes at 10%	204,533	96,564		301,097	16,564
	Warrant for 41,619 capital securities.	22,000			22,000	
	Total First Wave	797,834			943,819	67,402
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	
Intrinsiq Materials, Inc.	599,055 Series 2 Preferred shares.	600,002			600,002	
Knoa Software, Inc.	973,533 Series A-1 convertible preferred shares.	750,000	479,155	(356,900)	872,255	1,391
	1,876,922 Series B preferred shares. (Fully diluted common share					

	equivalent of 3,336,010).			
Mezmeriz, Inc.	360,526 Series A preferred shares.	391,373	(391,373)	0
	Convertible notes at 8% due December 31, 2014.	200,000		200,000
	Total Mezmeriz	591,373		200,000
Microcision LLC	\$1,500,000 subordinated promissory note at 11% due January 31, 2017.			
	Class A common membership interest.	1,891,965		156,087
New Monarch Machine Tool, Inc.	22.84 common shares.	22,841		47,682
QuaDPharma, LLC	\$556,285.22 second note allonge at 10%			55,349
	141.75 Class A units of membership interest.	556,285	(556,285)	
		350,000	(350,000)	
	Total QuaDPharma	906,285	(906,285)	
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.		1,000,000	500,000	1,500,000

	187,500 Series A preferred shares.					
SOMS Technologies, LLC	5,959,490 Series B membership interests.	528,348			528,348	
Teleservices Solutions Holdings, LLC	250,000 Class B shares. 1,000,000 Class C shares.		1,250,000		1,250,000	
	Total Affiliate Investments	\$ 12,542,869	3,148,528	(1,779,558)	\$ 13,911,839	\$ 470,018
	Total Control and Affiliate Investments	\$ 22,852,688	\$ 3,148,528	(\$2,009,574)	\$ 23,991,642	\$ 1,602,798

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This schedule should be read in conjunction with the Corporation's Condensed Consolidated Financial Statements, including the Condensed Consolidated Schedule of Portfolio Investments and Notes to the Condensed 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, 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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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

September 30, 2014 (Continued)

(Unaudited)

Industry Classification	Percentage of Total Investments (at fair value) as of September 30, 2014
Manufacturing	58.8%
Software	17.5%
Electronics	9.8%
Contact Center	7.8%
Oil and Gas	2.4%
Healthcare	1.8%
Auto Parts	1.6%
Marketing	0.3%
Total Investments	100%

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RAND CAPITAL CORPORATION AND SUBSIDIARY

CONDENSED CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

December 31, 2013

(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
Non-Control/Non-Affiliate Investments						
19.6% of net assets (j)						
BinOptics Corporation (e)(g)						
Ithaca, NY. Design and manufacture of semiconductor FP and DFB lasers. (Electronics Developer) www.binoptics.com	20,891,357 Series 2 convertible preferred shares.	11/8/11	4%	\$ 1,799,999	\$ 1,799,999	6.4%
KnowledgeVision Systems, Inc. (e)(g)						
Lincoln, MA. Online presentation software. (Software) www.knowledgevision.com	200,000 Series A-1 preferred shares.	11/13/13	3%	250,000	250,000	0.9%
Mercantile Adjustment Bureau, LLC (g)						
Williamsville, NY. Full service accounts receivable management and collections company. (Contact Center) www.mercantilesolutions.com	\$1,075,000 subordinated secured note at 13% due October 30, 2017. Warrant for 2.47% membership interests.	10/22/12	2%	1,054,618	1,054,618	
				50,000	50,000	
	Total Mercantile			1,104,618	1,104,618	3.9%
SocialFlow, Inc. (e)(g)						
New York, NY. Provides instant analysis of current opportunities on social networks using proprietary, predictive analytic algorithm to determine best time for its	1,049,538 Series B preferred shares.	4/5/13	2%	500,000	500,000	1.8%

customers to publish or advertise. (Software)
www.socialflow.com

**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

2.8%

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)

www.synacor.com

428,643

unrestricted
common
shares valued
at \$2.46 per
share.

11/18/02

2%

625,677

1,054,500

3.8%

**Other Non-Control/Non-Affiliate
Investments: (e)**

DataView, LLC (Software) (e)

Membership
Interest

310,357

0

0.0%

UStec/Wi3 (Software) (e)

Common
Stock

100,500

0

0.0%

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

\$ 5,410,248

\$ 5,495,865

Affiliate Investments 44.7% 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

Waycross, GA. Manufacturer of fresh water,
ocean fishing and pleasure boats.

(Manufacturing)

www.carolinaskiff.com

\$250,000
subordinated
promissory
note at 14%
due
December
31, 2016.

250,000

250,000

6.0825%
Class A
common
membership
interest.

15,000

600,000

**Total
Carolina
Skiff**

1,250,000

1,835,000

6.5%

Chequed.com, Inc. (e)(g)

11/18/10

12%

1,033,222

1,033,222

3.7%

Saratoga Springs, NY. Predictive employee selection and development software. (Software) www.chequed.com	305,118 Series A preferred shares.
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RAND CAPITAL CORPORATION AND SUBSIDIARY

CONDENSED CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

December 31, 2013 (Continued)

(Unaudited)

(a) Company, Geographic Location, Business		(b) Date	(c) Equity	Cost	(d)(f) Fair Value	Percent of Net Assets
Description, (Industry) and Website	Type of Investment					
EmergingMed.com, Inc. (Software)	Senior subordinated debt.			778,253	0	0.0%
First Wave Products Group, LLC (e)(g) (p)	\$500,000 senior term notes at 10%					
Batavia, NY. Develops medical devices including First Crush, a dual action pill crusher that crushes and grinds medical pills. (Manufacturing)	Payment in Kind (PIK) due December 31, 2016.	4/19/12	5%	571,301	571,301	
www.firstwaveproducts.com	\$200,000 junior term note at 10%					
	PIK due December 31, 2016.			204,533	204,533	
	Warrant for 34,228 capital securities.			22,000	22,000	
	Total First Wave			797,834	797,834	2.8%
GiveGab, Inc. (e)(g)						
Ithaca, NY. Social network program that connects volunteers with nonprofit organizations. (Software)	2,254,822 Series A preferred shares.	3/13/13	6%	250,000	250,000	0.9%
www.givegab.com						
G-TEC Natural Gas Systems (e)	18.545% Class A membership interest. 8% cumulative	8/31/99	19%	400,000	100,000	0.4%
Buffalo, NY. Manufactures and distributes systems that allow natural gas to be used as						

an alternative fuel to gases. (Manufacturing) dividend.

www.gas-tec.com

Intrinsiq Materials, Inc. (e)(g)

Rochester, NY. Produces a variety of printable electronics utilizing a unique process of making nanomaterial based ink used in a room-temperature manufacturing environment. (Manufacturing)

www.intrinsiqmaterials.com	599,055 Series 2 Preferred shares.	9/19/13	7%	600,002	600,002	2.1%
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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.	11/20/12	6%	750,000	750,000	2.7%
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Mezmeriz, Inc. (e)(g)

Ithaca, NY. Micro-electronic mechanical systems (MEMS) developer of carbon fiber MEMS mirror modules to be embedded into mobile electronics for gesture recognition and 3D scanning. (Electronics Developer)

www.mezmeriz.com	360,526 Series A preferred shares. \$200,000 convertible notes at 8% due December 31, 2014.	1/9/08	10%	391,373	391,373	
				200,000	200,000	

**Total
Mezmeriz**

591,373 591,373 2.1%

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. Class A common membership interest.	9/24/09	15%	1,891,965	1,891,965	6.7%
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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%
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QuaDPharma, LLC (g)(h)

6/26/12 14% 556,285 556,285

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Clarence, NY. Small scale pre-commercial and commercial manufacturing for the Pharmaceutical industry. (Manufacturing) www.quadpharmainc.com	\$556,285.22 second note allonge at 10% due November 1, 2017. 141.75 Class A units of membership interest.	350,000	350,000
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	Total QuaDPharma	906,285	906,285	3.2%
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Rheonix, Inc. (e)(g)

Ithaca, NY. Developer of microfluidic testing devices including channels, pumps, reaction vessels, & diagnostic chambers, for testing of small volumes of chemicals and biological fluids. (Manufacturing) www.rheonix.com	9,676 common shares. (g) 1,839,422 Series A preferred shares. (g) 50,593 common shares.	10/29/09 5%	0 2,099,999 0	11,000 2,165,999 59,000
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	Total Rheonix	2,099,999	2,235,999	8.0%
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**RAND CAPITAL CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**

December 31, 2013 (Continued)

(Unaudited)