

RAND CAPITAL CORP
Form 10-Q
May 04, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended March 31, 2016

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

For the Transition Period from _____ to _____

Commission File Number: 814-00235

Rand Capital Corporation

(Exact Name of Registrant as specified in its Charter)

New York
(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 May 4, 2016, 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 March 31, 2016 and December 31, 2015

	March 31, 2016 (Unaudited)	December 31, 2015
ASSETS		
Investments at fair value:		
Control investments (cost of \$99,500 and \$1,141,472, respectively)	\$ 1,512,000	\$ 13,916,472
Affiliate investments (cost of \$19,013,217 and \$17,663,217, respectively)	15,589,419	14,662,219
Non-affiliate investments (cost of \$8,911,074 and \$8,606,053, respectively)	8,558,730	8,253,709
Total investments, at fair value (cost of \$ 28,023,791 and \$27,410,742, respectively)	25,660,149	36,832,400
Cash	17,945,585	5,844,795
Interest receivable (net of allowance: \$122,000 at 3/31/16 and 12/31/15)	208,934	215,224
Deferred tax asset	527,511	
Prepaid income taxes		65,228
Other assets	1,628,879	1,604,413
Total assets	\$ 45,971,058	\$ 44,562,060
LIABILITIES AND STOCKHOLDERS EQUITY (NET ASSETS)		
Liabilities:		
Debentures guaranteed by the SBA (net of debt issuance costs)	\$ 7,807,223	\$ 7,800,373
Income tax payable	2,686,997	
Deferred tax liability		2,361,186
Profit sharing and bonus payable	1,593,659	282,000
Accounts payable and accrued expenses	208,719	238,911
Deferred revenue	38,320	25,930
Total liabilities	12,334,918	10,708,400
Commitments and contingencies (See Note 5)		
Stockholders equity (net assets):		
Common stock, \$.10 par; shares authorized 10,000,000; shares issued 6,863,034; shares outstanding of 6,328,538 as of 3/31/16 and 12/31/15	686,304	686,304
Capital in excess of par value	10,581,789	10,581,789
Accumulated net investment loss	(1,106,558)	(24,580)
Undistributed net realized gain on investments	26,495,753	18,262,401
Net unrealized (depreciation) appreciation on investments	(1,573,657)	5,795,237

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Treasury stock, at cost; 534,496 shares as of 3/31/16 and 12/31/15	(1,447,491)	(1,447,491)
Total stockholders' equity (net assets) (per share 3/31/16: \$5.31, 12/31/15: \$5.35)	33,636,140	33,853,660
Total liabilities and stockholders' equity	\$ 45,971,058	\$ 44,562,060

See accompanying notes

Table of Contents**RAND CAPITAL CORPORATION AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF OPERATIONS****For the Three Months Ended March 31, 2016 and 2015****(Unaudited)**

	Three months ended March 31, 2016	Three months ended March 31, 2015
Investment income:		
Interest from portfolio companies:		
Control investments	\$ 11,828	\$ 22,145
Affiliate investments	64,962	115,129
Non-Control/Non-Affiliate investments	61,104	48,800
Total interest from portfolio companies	137,894	186,074
Interest from other investments:		
Non-Control/Non-Affiliate investments	3,061	6,821
Total interest from other investments	3,061	6,821
Dividend and other investment income:		
Control investments		412,151
Affiliate investments	47,565	29,368
Total dividend and other investment income	47,565	441,519
Fee income:		
Control investments	2,000	2,000
Affiliate investments	695	1,417
Non-Control/Non-Affiliate investments	2,916	3,916
Total fee income	5,611	7,333
Total investment income	194,131	641,747
Operating expenses:		
Salaries	155,438	149,555
Bonus and profit sharing	1,411,659	
Employee benefits	89,511	30,407
Directors fees	47,375	21,750
Professional fees	64,760	73,069
Stockholders and office operating	62,494	59,397
Insurance	11,260	11,254
Corporate development	15,470	16,981

Other operating	3,600	3,650
	1,861,567	366,063
Interest on SBA obligations	77,569	74,322
Total operating expenses	1,939,136	440,385
Net investment (loss) income before income taxes	(1,745,005)	201,362
Income tax (benefit) expense	(663,027)	72,067
Net investment (loss) income	(1,081,978)	129,295
Net realized gain on investments:		
Control investments	13,176,313	
Non-Control/Non-Affiliate investments		131,744
Net realized gain before income taxes	13,176,313	131,744
Income tax expense	4,942,961	47,151
Net realized gain on investments	8,233,352	84,593
Net (decrease) in unrealized appreciation on investments:		
Control investments	(11,362,500)	
Affiliate investments	(422,800)	
Non-Control/Non-Affiliate investments		(54,509)
Change in unrealized appreciation before income taxes	(11,785,300)	(54,509)
Deferred income tax benefit	(4,416,406)	(20,169)
Net decrease in unrealized appreciation on investments	(7,368,894)	(34,340)
Net realized and unrealized gain on investments	864,458	50,253
Net (decrease) increase in net assets from operations	(\$ 217,520)	\$ 179,548
Weighted average shares outstanding	6,328,538	6,328,538
Basic and diluted net (decrease) increase in net assets from operations per share	(\$ 0.04)	\$ 0.03

See accompanying notes

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

For the Three Months Ended March 31, 2016 and 2015

(Unaudited)

	Three months ended March 31, 2016	Three months ended March 31, 2015
Net assets at beginning of period	\$ 33,853,660	\$ 32,353,441
Net investment (loss) income	(1,081,978)	129,295
Net realized gain on investments	8,233,352	84,593
Net (decrease) in unrealized appreciation on investments	(7,368,894)	(34,340)
Net (decrease) increase in net assets from operations	(217,520)	179,548
Total (decrease) increase in net assets	(217,520)	179,548
Net assets at end of period	\$ 33,636,140	\$ 32,532,989
Accumulated net investment loss	(\$ 1,106,558)	(\$ 738,187)

See accompanying notes

Table of Contents**RAND CAPITAL CORPORATION AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF CASH FLOWS****For the Three Months Ended March 31, 2016 and 2015****(Unaudited)**

	Three months ended March 31, 2016	Three months ended March 31, 2015
Cash flows from operating activities:		
Net (decrease) increase in net assets from operations	(\$ 217,520)	\$ 179,548
Adjustments to reconcile net (decrease) increase in net assets to net cash used in operating activities:		
Investments in portfolio companies	(1,650,000)	(2,662,859)
Proceeds from sale of investments	13,801,313	335,234
Proceeds from loan repayments	416,972	48,617
Decrease in unrealized appreciation on investments before income taxes	11,785,300	54,509
Deferred tax (benefit) expense	(2,888,697)	22,431
Realized gain on portfolio investments before income taxes	(13,176,313)	(131,744)
Depreciation and amortization	8,350	8,223
Original issue discount amortization	(2,499)	(3,873)
Non-cash conversion of debenture interest	(2,522)	(25,454)
Changes in operating assets and liabilities:		
Decrease (increase) in interest receivable	6,290	(37,089)
Decrease in other assets	(25,965)	(32,639)
Increase (decrease) in prepaid income taxes	65,228	(102,187)
Increase (decrease) in income taxes payable	2,686,997	(2,065,795)
Decrease in accounts payable and accrued expenses	(30,192)	(157,181)
Increase (decrease) in profit sharing and bonus payable	1,311,659	(727,325)
Increase in deferred revenue	12,389	15,666
Total adjustments	12,318,310	(5,461,466)
Net cash provided by (used in) operating activities	12,100,790	(5,281,918)
Net increase (decrease) in cash	12,100,790	(5,281,918)
Cash:		
Beginning of period	5,844,795	13,230,717
End of period	\$ 17,945,585	\$ 7,948,799

See accompanying notes

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

March 31, 2016

(Unaudited)

(a)

Company, Geographic Location, Business Description, (Industry) and Website	Type of Investment	(b) Date Acquired	(c) Equity	Cost	(d)(f) Fair Value	Percent of Net Assets
Non-Control/Non-Affiliate Investments						
25.4% of net assets: (j)						
Athenex, Inc. (e)(g) (Formerly Kinex Pharmaceuticals, Inc.) Buffalo, NY. Specialty pharmaceutical and drug development. (Health Care) www.athenex.com	46,296 common shares.	9/8/14	<1%	\$ 143,285	\$ 347,220	1.0%
City Dining Cards, Inc. (Loupe) (e)(g) Buffalo, NY. Customer loyalty technology company that helps businesses attract and retain customers. (Software) www.loupeapp.io	9,525.25 Series B preferred shares.	9/1/15	4%	500,000	500,000	1.5%
Empire Genomics, LLC (e)(g) Buffalo, NY. Molecular diagnostics company that offers a comprehensive menu of assay services for diagnosing and guiding patient therapeutic treatments. (Health Care) www.empiregenomics.com	\$900,000 senior secured convertible term notes at 10% due April 1, 2017.	6/13/14	<1%	900,000	900,000	2.7%
GoNoodle, Inc. (g) (Formerly HealthTeacher, Inc.)	(i) Interest receivable \$112,833. \$1,000,000 secured note at 12%	2/6/15	<1%	1,011,496	1,011,496	3.0%

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Nashville, TN. Student engagement education software providing core aligned physical activity breaks. (Software)	due January 31, 2020, (1% Payment in Kind (PIK)).						
www.gonoodle.com	Warrant for 47,324 Series C Preferred shares.			25		25	
	Total GoNoodle			1,011,521		1,011,521	
Mercantile Adjustment Bureau, LLC (g)	\$1,099,039 subordinated secured note at 13% (3% for the calendar year 2016) due October 30, 2017.	10/22/12	4%	1,083,193		1,083,193	3.2%
Williamsville, NY. Full service accounts receivable management and collections company. (Contact Center) www.mercantilesolutions.com	(e) \$150,000 subordinated debenture at 8% due June 30, 2018. Warrant for 3.29% membership interests. Option for 1.5% membership interests. (i) Interest receivable \$68,776.			150,000		0	
	Total Mercantile			1,330,818		1,083,193	
Outmatch (e)(g)	2,264,995 Class P1 Units.	11/18/10	4%	2,140,007		2,140,007	6.4%
(Chequed Holdings, LLC)	109,788 Class C1			5,489		5,489	

Saratoga Springs, NY. Web based predictive employee selection and reference checking. (Software)		Units.					
www.outmatch.com							
		Total Outmatch			2,145,496	2,145,496	
SocialFlow, Inc. (e)(g)		1,049,538	4/5/13	4%			6.2%
New York, NY. Provides instant analysis of social networks using a proprietary, predictive analytic algorithm to optimize advertising and publishing. (Software)		Series B preferred shares.			500,000	731,431	
		1,204,819					
www.socialflow.com		Series B-1 preferred shares.			750,000	839,648	
		717,772					
		Series C preferred			500,000	500,221	
		Total Social Flow			1,750,000	2,071,300	
Somerset Gas Transmission Company, LLC (e)		26.5337	7/10/02	3%	719,097	500,000	1.5%
Columbus, OH. Natural gas transportation. (Oil and Gas)		units.					
www.somersetgas.com							
Other Non-Control/Non-Affiliate Investments:							
DataView, LLC (Software) (e)		Membership Interest			310,357		0.0%

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

March 31, 2016 (Continued)

(Unaudited)

Company, Geographic Location, Business Description, (Industry) and Website	Type of Investment	(b) Date Acquired	(c) Equity	Cost	(d)(f) Fair Value	(g) Percentage of Net Assets
Company, NY. Frozen entrées and packaged dry dishes made from 100% whole grain cut oats under Grainful brand name. (Consumer Product)	Common Stock.			100,500		0
Total Non-Control/Non-Affiliate Investments				\$ 8,911,074	\$ 8,558,730	
Investments 46.3% of net assets						
Grainful Path, LLC (Grainful) (e)(g)	1,119,024 Series A-2 Preferred Membership Units.	10/20/14	9%	\$ 359,000	\$ 359,000	1
Company, NY. Frozen entrées and packaged dry dishes made from 100% whole grain cut oats under Grainful brand name. (Consumer Product)						
www.grainful.com						
Carolina Skiff LLC (g)	6.0825% Class A common membership interest.	1/30/04	7%	15,000	600,000	1
Company, GA. Manufacturer of fresh water, fishing and pleasure boats. (Manufacturing)						
www.carolinaskiff.com						
Clearview Social, Inc. (e)(g)	312,500 Series seed plus preferred shares.	1/4/16	6%	200,000	200,000	0
Company, NY. Social media publishing tool for law, CPA and professional firms. (Software)						
www.clearviewsocial.com						
Wave Products Group, LLC (e)(g)	\$500,000 senior term notes at 10% due December 31, 2016.	4/19/12	7%	661,563	250,000	0

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via, NY. Sells First Crush automated pill er that crushes and grinds medical pills ursing homes and medical institutions. (Health Care)	\$280,000 junior term notes at 10% due December 31, 2016.			316,469 22,000	0 0	
www.firstwaveproducts.com	Warrant for 41,619 capital securities.					
	Total First Wave			1,000,032	250,000	
Genicon, Inc. (g)	1,586,902 Series B preferred shares.	4/10/15	6%	1,000,000	1,000,000	5
er Park, FL. Designs, produces and tributes patented surgical instrumentation. (Health Care)	\$1,000,000 Senior term loan at 12% due April 1, 2019.			1,000,000	1,000,000	
www.geniconendo.com	Total Genicon			2,000,000	2,000,000	
Give Gab, Inc. (e)(g)	5,084,329 Series Seed preferred shares.	3/13/13	9%			1
a, NY. Online fundraising, day of g supporter engagement software for profit organizations. (Software)				616,221	424,314	
www.givegab.com						
Gas-Tec Natural Gas Systems (e)	17.845% Class A membership interest.	8/31/99	18%			0
alo, NY. Manufactures and distributes ms that allow natural gas to be used as ternative fuel to gases. (Manufacturing)	8% cumulative dividend.			400,000	100,000	
www.gas-tec.com						
Intrinsic Materials, Inc. (e)(g)	599,055 Series 2 preferred shares.	9/19/13	7%	600,002	0	0
ester, NY. Produces printable ronics utilizing a unique process of material based ink in a n-temperature environment. (Manufacturing)	\$95,000 convertible promissory note at 8% due March 31, 2016.			95,000	95,000	
www.intrinsicmaterials.com	Total Intrinsic			695,002	95,000	
Knoa Software, Inc. (e)(g)	973,533 Series A-1 convertible preferred shares.	11/20/12	7%	750,000	0	1
York, NY. End user experience agement and performance (EMP) ions utilizing enterprise applications. (Software)	1,876,922 Series B preferred shares.			479,155	449,455	
www.knoa.com				1,229,155	449,455	

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

March 31, 2016 (Continued)

(Unaudited)

Name, Geographic Location, Business Description, (Industry) and Website	Type of Investment	(b) Date	(c) Equity	Cost	(d)(f) Fair Value
KnowledgeVision Systems, Inc. (e)(g) MA. Online presentation and software. (Software) knowledgevision.com	200,000 Series A-1 preferred shares.	11/13/13	7%	250,000	0
	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 KnowledgeVision				750,001	500,001
Microcision, Inc. (e)(g) Micro-electronic mechanical (MEMS) developer of carbon fiber error modules for gesture recognition and 3D scanning. (Electronics) microcision.com	1,554,565 Series Seed preferred shares.	1/9/08	15%	742,850	351,477
Microcision LLC (g) Plymouth, PA. Manufacturer of precision medical implants, components and services. (Manufacturing) microcision.com	\$1,500,000 subordinated promissory note at 11% due January 31, 2017.	9/24/09	15%	1,891,964	1,891,964
	15% Class A common membership interest.				
Total Microcision				1,891,964	1,891,964
Arch Machine Tool, Inc. (g) NY. Manufactures and services horizontal machining centers. archmt.com	22.84 common shares.	9/24/03	15%	22,841	22,841
Golf Technology, Inc. (e)(g)	150,000 Series AA preferred shares.	12/31/14	7%	375,000	187,500
				300,000	300,000

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Y. Maker of patented metal core golf balls. (Consumer Products) www.oncoregolf.com	\$300,000 subordinated convertible promissory notes at 6% due January 24, 2017.					
Total OnCore				675,000	487,500	
Inc. (e) Developer of fully automated microfluidic based molecular assay and diagnostic testing devices. (Health Care) www.rheonix.com	9,676 common shares. (g) 1,839,422 Series A preferred shares. (g) 50,593 common shares. (g) 589,420 Series B preferred shares.	10/29/09	5%		11,000	
				2,099,999	2,165,999	
					59,000	
				702,732	702,732	
Total Rheonix				2,802,731	2,938,731	
Inc. (e)(g) MA. Instrumentation company specializing in portable analytical devices using FTIR, Raman, and RAMAN spectroscopy to analyze samples (e.g., pharmaceuticals, minerals, and elements). www.sciaps.com	187,500 Series A convertible preferred shares. 274,299 Series A-1 convertible preferred shares. 117,371 Series B preferred shares.	7/12/13	9%	1,500,000	1,000,000	
				504,710	504,710	
				250,000	250,000	
Total SciAps				2,254,710	1,754,710	
Technologies, LLC (g) NY. Produces and markets the AquaGuard Extended Performance Oil Filter (Consumer Products) www.aqua-guard.com	5,959,490 Series B membership interests.	12/2/08	9%	472,632	528,348	
Inc. (e)(g) MA. Mobile marketing platform for retail, advertising and surveys. www.statistify.co	65,000 Series seed preferred shares. Warrant for 1,950,000 Series seed preferred shares.	8/18/14	10%	20,968	20,968	
				629,032	629,032	
Total Statistify				650,000	650,000	
es Solutions Holdings, LLC NJ. Customer contact center specializing in customer acquisition and retention for selected industries. (Contact Center)	250,000 Class B preferred units. 1,000,000 Class C preferred units. 80,000 Class D preferred units.	5/30/14	6%	250,000	0	
				1,190,680	1,190,680	
				91,200	91,200	
				104,198	104,198	

104,198 Class E preferred units.

esetters.com

PIK dividend for Series C and D at 12% and 14%, respectively.

Total Teleservices

1,636,078

1,386,078

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

March 31, 2016 (Continued)

(Unaudited)

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
Tilson Technology Management, Inc.(g) Portland, ME. Cellular, fiber optic and wireless information systems, construction, and management. (Professional services) www.tilsontech.com	12 Series B preferred shares.	1/20/15	8%	600,000	600,000	1.8%
Subtotal Affiliate Investments				\$ 19,013,217	\$ 15,589,419	
Control Investments 4.5% of net assets (l)						
Advantage 24/7 LLC (e)(g) Williamsville, NY. Marketing program for wine and spirits dealers. (Marketing Company) www.advantage24-7.com	53% Membership interest.	12/30/10	53%	\$ 99,500	\$ 99,500	0.3%
Gemcor II, LLC (e)(g)(h) West Seneca, NY. Holding company following sale of business. (Manufacturing) www.gemcor.com	Escrow receivable from sale of business in March 2016.	6/28/04	31%	0	1,412,500	4.2%
Subtotal Control Investments				\$ 99,500	\$ 1,512,000	
TOTAL INVESTMENTS 76.3%				\$ 28,023,791	\$ 25,660,149	
OTHER ASSETS IN EXCESS OF LIABILITIES 23.7%					7,975,991	
NET ASSETS 100%					\$ 33,636,140	

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

March 31, 2016 (Continued)

(Unaudited)

Notes to the Consolidated Schedule of Portfolio Investments

- (a) At March 31, 2016, restricted securities represented 100% of the fair value of the investment portfolio. Restricted securities are subject to one or more restrictions on resale and are not freely marketable.
- (b) The Date Acquired column indicates the year in which the Corporation first acquired an investment in the company or a predecessor company.
- (c) Each equity percentage estimates the Corporation's ownership interest in the applicable portfolio investment. The estimated ownership is calculated based on the percent of outstanding voting securities held by the Corporation or the potential percentage of voting securities held by the Corporation upon exercise of warrants or conversion of debentures, or other available data. If applicable, the symbol <1% indicates that the Corporation holds an equity interest of less than one percent.
- (d) The Corporation's investments are carried at fair value in accordance with Accounting Standards Codification (ASC) 820 Fair Value Measurements and Disclosures, which defines fair value and establishes guidelines for measuring fair value. At March 31, 2016, ASC 820 designates 100% of the Corporation's investments as Level 3 assets. Under the valuation policy of the Corporation, unrestricted publicly held securities are valued at the average closing bid price for these securities for the last three trading days of the month. Restricted securities are subject to restrictions on resale, and are valued at fair value as determined by the management of the Corporation and submitted to the Board of Directors for approval. Fair value is considered to be the amount that the Corporation may reasonably expect to receive for portfolio securities when sold on the valuation date. Valuations as of any particular date, however, are not necessarily indicative of amounts which may ultimately be realized as a result of future sales or other dispositions of securities and these favorable or unfavorable differences could be material. Among the factors considered in determining the fair value of restricted securities are the financial condition and operating results, projected operations, and other analytical data relating to the investment. Also considered are the market prices for unrestricted securities of the same class (if applicable) and other matters which may have an impact on the value of the portfolio company (see Note 3 Investments to the Consolidated Financial Statements).
- (e) These investments are non-income producing. All other investments are income producing. Non-income producing investments have not generated cash payments of interest or dividends including LLC tax-related distributions within the last twelve months, or are not expected to do so going forward.
- (f) As of March 31, 2016, the total cost of investment securities was approximately \$28.0 million. Net unrealized depreciation was approximately \$2.4 million, which was comprised of \$2.7 million of unrealized appreciation of investment securities and (\$5.1) million related to unrealized depreciation of investment securities. At March 31, 2016, the aggregate gross unrealized gain for federal income tax purposes was \$3.0 million and the aggregate gross unrealized loss for federal income tax purposes was (\$4.8) million. The net unrealized loss for federal income tax purposes was \$1.8 million based on a tax cost of \$27.5 million.
- (g) Rand Capital SBIC, Inc. investment.
- (h) Reduction in cost and value from previously reported balances reflects current principal repayment.
- (i) Represents interest due (amounts over \$50,000 net of reserves) from investment included as interest receivable on the Corporation's Statement of Financial Position.

- (j) Non-Control/Non-Affiliate Investments are investments that are neither Control Investments nor Affiliate Investments.
- (k) Affiliate Investments are defined by the Investment Company Act of 1940, as amended (1940 Act), as those Non-Control investments in companies in which between 5% and 25% of the voting securities are owned by the Corporation.
- (l) Control Investments are defined by the 1940 Act as investments in companies in which more than 25% of the voting securities are owned by the Corporation or where greater than 50% of the board representation is maintained.
- (m) Payment in kind (PIK) represents earned interest that is added to the cost basis of the investment.

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

March 31, 2016 (Continued)

(Unaudited)

Investments in and Advances to Affiliates

Company	Type of Investment	December 31, 2015 Fair Value	Gross Additions (1)	Gross Reductions (2)	March 31, 2016 Fair Value	Amount of Interest/ Dividend/ Fee Income (3)
Control Investments:						
Advantage 24/7 LLC	53% Membership interest.	\$ 99,500	\$	\$	\$ 99,500	\$
Gemcor II, LLC	\$1,000,000 subordinated promissory note at 15%.	416,972		(416,972)		11,828
	31.25 membership units.	13,400,000		(11,987,500)	1,412,500	2,000
	Total Gemcor	13,816,972		(12,404,472)	1,412,500	13,828
	Total Control Investments	\$ 13,916,472	\$	(\$ 12,404,472)	\$ 1,512,000	\$ 13,828
Affiliate Investments:						
BeetNPath, LLC	1,119,024 Series A-2 Preferred Membership Units.	\$ 359,000	\$	\$	\$ 359,000	\$
Carolina Skiff LLC	6.0825% Class A common membership interest.	600,000			600,000	34,101
ClearView Social, Inc.	312,500 Series seed plus preferred shares.		200,000		200,000	
First Wave Products	\$500,000 senior term notes at 10%.	250,000			250,000	417

Group, LLC	\$280,000 junior term notes at 10%. Warrant for 41,619 capital securities.				
	Total First Wave	250,000		250,000	417
Genicon, Inc.	1,586,902 Series B preferred shares.	1,000,000		1,000,000	
	\$1,000,000 senior term loan at 12%.		1,000,000	1,000,000	9,611
	Total Genicon	1,000,000	1,000,000	2,000,000	9,611
GiveGab, Inc.	5,084,329 Series Seed preferred shares.	424,314		424,314	
G-TEC Natural Gas Systems	17.845% Class A membership interest. 8% cumulative dividend.	100,000		100,000	
Intrinsiq Materials, Inc.	599,055 Series 2 preferred shares. \$95,000 convertible promissory note at 8%.	95,000		95,000	
	Total Intrinsiq	95,000		95,000	
Knoa Software, Inc.	973,533 Series A-1 convertible preferred shares.	381,503	(381,503)		
	1,876,922 Series B preferred shares.	490,752	(41,297)	449,455	
	Total Knoa	872,255	(422,800)	449,455	
KnowledgeVision 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	500,001		500,001	
Mezmeriz, Inc.		351,477		351,477	

	1,554,565 Series seed preferred shares.				
Microcision LLC	\$1,500,000 subordinated promissory note at 11%.	1,891,964		1,891,964	52,029
	15% Class A common membership interest.				
	Total Microcision	1,891,964		1,891,964	52,029
New Monarch Machine Tool, Inc.	22.84 common shares.	22,841		22,841	
OnCore Golf Technology, Inc.	150,000 Series AA preferred shares.	187,500		187,500	
	\$300,000 subordinated convertible promissory notes at 6%.	150,000	150,000	300,000	3,600
	Total OnCore	337,500	150,000	487,500	3,600

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

March 31, 2016 (Continued)

(Unaudited)

Investments in and Advances to Affiliates

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

shares.

Total SciAps	1,754,710			1,754,710
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SOMS Technologies, LLC	5,959,490 Series B membership interests.	528,348		528,348	13,464
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Satisfy, Inc.	65,000 Series seed preferred shares.	20,968		20,968	
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	Warrant for 1,950,000 Series seed preferred shares.	629,032		629,032	
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Total Satisfy	650,000			650,000	
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Teleservices Solutions Holdings, LLC	250,000 Class B shares.				
	1,000,000 Class C shares.	1,190,680		1,190,680	

	80,000 Class D preferred units.	91,200		91,200	
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	104,198 Class E preferred units.	104,198		104,198	
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Total Teleservices	1,386,078			1,386,078	
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Tilson Technology Management, Inc.	12 Series B preferred shares.	600,000		600,000	
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Total Affiliate Investments	\$ 14,662,219	\$ 1,350,000	(\$ 422,800)	\$ 15,589,419	\$ 113,222
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Total Control and Affiliate Investments	\$ 28,578,691	\$ 2,762,500	(\$ 14,239,772)	\$ 17,101,419	\$ 127,050
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This schedule should be read in conjunction with the Corporation's Consolidated Financial Statements, including the Consolidated Schedule of Portfolio Investments and Notes to the Consolidated Financial Statements.

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

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

March 31, 2016 (Continued)

(Unaudited)

Industry Classification	Percentage of Total Investments (at fair value) as of March 31, 2016
Software	31.0%
Healthcare	25.1%
Manufacturing	22.9%
Contact Center	9.6%
Consumer Product	5.4%
Professional Services	2.3%
Oil and Gas	1.9%
Electronics	1.4%
Marketing	0.4%
Total Investments	100%

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

December 31, 2015

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

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GoNoodle, Inc. (g) (Formerly HealthTeacher, Inc.) Nashville, TN. Student engagement education software providing core aligned physical activity breaks. (Software) www.gonoodle.com	\$1,000,000 secured note at 12% due January 31, 2020, (1% Payment in Kind (PIK)). Warrant for 47,324 Series C Preferred shares.	2/6/15	<1%				3.0%
					1,008,974	1,008,974	
					25	25	
	Total GoNoodle				1,008,999	1,008,999	
Mercantile Adjustment Bureau, LLC (g) Williamsville, NY. Full service accounts receivable management and collections company. (Contact Center) www.mercantilesolutions.com	\$1,099,039 subordinated secured note at 13% (3% for the calendar year 2015) due October 30, 2017. (e) \$150,000 subordinated debenture at 8% due June 30, 2018. Warrant for 3.29% membership interests. Option for 1.5% membership interests. (i) Interest receivable \$93,455.	10/22/12	4%	1,080,694	1,080,694		3.2%
					150,000	0	
					97,625	0	
	Total Mercantile				1,328,319	1,080,694	
Outmatch (e)(g) (Formerly Chequed Holdings, LLC) Saratoga Springs, NY. Web based predictive employee selection and reference checking.	2,264,995 Class P1 Units. 109,788 Class C1 Units.	11/18/10	4%	2,140,007	2,140,007		6.3%
					5,489	5,489	

(Software)							
www.outmatch.com							
					Total Outmatch		
					2,145,496	2,145,496	
SocialFlow, Inc. (e)(g)	1,049,538						
	Series B						
New York, NY. Provides instant analysis of social	preferred shares.	4/5/13	4%	500,000	731,431	6.1%	
	1,204,819						
networks using a proprietary, predictive analytic algorithm to optimize advertising and publishing.	Series B-1 preferred shares.			750,000	839,648		
	717,772 Series C preferred			500,000	500,221		
(Software)							
www.socialflow.com							
					Total Social Flow		
					1,750,000	2,071,300	
Somerset Gas Transmission Company, LLC (e)	26.5337 units.	7/10/02	3%	719,097	500,000	1.5%	
Columbus, OH. Natural gas transportation. (Oil and Gas)							
www.somersetgas.com							
Other Non-Control/Non-Affiliate Investments:							
DataView, LLC (Software) (e)	Membership Interest				310,357	0.0%	

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

December 31, 2015 (Continued)

Company, Geographic Location, Business Description, (Industry) and Website	Type of Investment	(b) Date Acquired	(c) Equity	Cost	(d)(f) Fair Value	Per c N Ass
Company/Wi3 (Manufacturing) (e)	Common Stock.			100,500		
Total Non-Control/Non-Affiliate Investments				\$ 8,606,053	\$ 8,253,709	
Private Investments 43.3% of net assets						
Path, LLC (e)(g)	1,119,024 Series A-2 Preferred Membership Units.	10/20/14	9%	\$ 359,000	\$ 359,000	
a, NY. Frozen entrées and packaged dry dishes made from 100% whole grain cut oats under Grainful brand name. (Consumer Product)						
.grainful.com						
Carolina Skiff LLC (g)	6.0825% Class A common membership interest.	1/30/04	7%	15,000	600,000	
cross, GA. Manufacturer of fresh water, fishing and pleasure boats. (Manufacturing) www.carolinaskiff.com						
First Wave Products Group, LLC (e)(g)	\$500,000 senior term notes at 10% due December 31, 2016.	4/19/12	7%	661,563	250,000	
ia, NY. Sells First Crush automated pill presser that crushes and grinds medical pills for nursing homes and medical institutions. (Health Care)						
.firstwaveproducts.com						
				\$280,000 junior term notes at 10% due December 31, 2016.		
				316,469	0	
				22,000	0	
				Warrant for 41,619 capital securities.		
				Total First Wave	1,000,032	250,000

Genicon, Inc. (e)(g)

er Park, FL. Designs, produces and
 utes patented surgical instrumentation.
 (Health Care) www.geniconendo.com

1,586,902 Series B preferred shares. 4/10/15 6% 1,000,000 1,000,000 3

GiveGab, Inc. (e)(g)

a, NY. Online fundraising, day of
 g supporter engagement software for
 profit organizations. (Software)
 www.givegab.com

5,084,329 Series Seed preferred
 shares. 3/13/13 9% 616,221 424,314 1

TEC Natural Gas Systems (e)

lo, NY. Manufactures and distributes
 ms that allow natural gas to be used as
 ernalive fuel to gases. (Manufacturing)

gas-tec.com 17.845% Class A membership interest.
 8% cumulative dividend. 8/31/99 18% 400,000 100,000 0

Intrinsic Materials, Inc. (e)(g)

ester, NY. Produces printable
 onics utilizing a unique process of
 material based ink in a
 -temperature environment.

599,055 Series 2 preferred shares. 9/19/13 7% 600,002 0 0

ufacturing)

www.intrinsicmaterials.com

Total Intrinsic

695,002 95,000

Knoa Software, Inc. (e)(g)

York, NY. End user experience
 gement and performance (EMP)
 ons utilizing enterprise applications.
 ware) www.knoa.com

973,533 Series A-1 convertible
 preferred shares. 11/20/12 7% 750,000 381,503 2

1,876,922 Series B preferred shares.
 479,155 490,752

1,229,155 872,255

KnowledgeVision Systems, Inc. (e)(g)

oln, MA. Online presentation and
 ng software.

200,000 Series A-1 preferred shares. 11/13/13 7% 250,000 0 1

214,285 Series A-2 preferred shares.
 300,000 300,000

129,033 Series A-3 preferred shares.
 165,001 165,001

ware)

www.knowledgevision.com

Warrant for 46,743 Series A-3 shares.
 35,000 35,000

Total KnowledgeVision

750,001 500,001

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

December 31, 2015 (Continued)

(a) Company, Geographic Location, Business Description, (Industry) and Website	Type of Investment	(b) Date Acquired	(c) Equity %	Cost	(d)(f) Fair Value	Percent of Net Assets
Mezmeriz, Inc. (e)(g) Ithaca, NY. Micro-electronic mechanical systems (MEMS) developer of carbon fiber MEMS mirror modules for gesture recognition and 3D scanning. (Electronics Developer) www.mezmeriz.com	1,554,565 Series Seed preferred shares.	1/9/08	15%	742,850	351,477	1.0%
Microcision LLC (g) Philadelphia, PA. Manufacturer of precision machined medical implants, components and assemblies. (Manufacturing) www.microcision.com	\$1,500,000 subordinated promissory note at 11% due January 31, 2017. 15% Class A common membership interest.	9/24/09	15%	1,891,964	1,891,964	5.6%
Total Microcision				1,891,964	1,891,964	
New Monarch Machine Tool, Inc. (g) Cortland, NY. Manufactures and services vertical/horizontal machining centers. (Manufacturing)	22.84 common shares.	9/24/03	15%	22,841	22,841	0.1%

www.monarchmt.com						
OnCore Golf Technology, Inc. (e)(g)	150,000	12/31/14	7%	375,000	187,500	1.0%
	Series AA preferred shares.					
Buffalo, NY. Maker of patented hollow-metal core golf balls. (Consumer Product)	\$150,000 subordinated convertible promissory note at 6% due January 24, 2017.			150,000	150,000	
www.oncoregolf.com						
	Total OnCore			525,000	337,500	
Rheonix, Inc. (e)						
	9,676 common shares.	10/29/09	5%		11,000	8.7%
Ithaca, NY. Developer of fully automated microfluidic based molecular assay and diagnostic testing devices. (Health Care)	(g) 1,839,422 Series A preferred shares.			2,099,999	2,165,999	
www.rheonix.com						
	(g) 50,593 common shares.				59,000	
	(g) 589,420 Series B preferred shares.			702,732	702,732	
	Total Rheonix			2,802,731	2,938,731	
SciAps, Inc. (e)(g)						
	187,500 Series A convertible preferred shares.	7/12/13	9%	1,500,000	1,000,000	5.2%
Woburn, MA. Instrumentation company producing portable analytical devices using XRF,	274,299 Series A-1 convertible preferred shares.			504,710	504,710	
LIBS and RAMAN spectroscopy to identify compounds, minerals, and elements.	117,371 Series B preferred shares.			250,000	250,000	
(Manufacturing)						
www.sciaps.com						
	Total SciAps			2,254,710	1,754,710	

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SOMS Technologies, LLC (e)(g)	5,959,490	12/2/08	9%	472,632	528,348	1.5%
Valhalla, NY. Produces and markets the microGreen Extended Performance Oil Filter. (Consumer Products)	Series B membership interests.					
www.microgreenfilter.com						
Statisfy, Inc. (e)(g)	65,000 Series seed preferred shares.	8/18/14	10%	20,968	20,968	1.9%
Boston, MA. Mobile marketing platform for engagement, advertising and surveys. (Software)	Warrant for 1,950,000 Series seed preferred shares.					
www.statisfy.co				629,032	629,032	
	Total Statisfy			650,000	650,000	
Teleservices Solutions Holdings, LLC (g)(n)	250,000 Class B preferred units.	5/30/14	6%	250,000	0	4.1%
Montvale, NJ. Customer contact center specializing in customer acquisition and retention for selected industries. (Contact Center)	1,000,000 Class C preferred units.			1,190,680	1,190,680	
www.ipacesetters.com	80,000 Class D preferred units.			91,200	91,200	
	104,198 Class E preferred units.			104,198	104,198	
	PIK dividend for Series C and D at 12% and 14%, respectively.					
	Total Teleservices			1,636,078	1,386,078	
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						

Subtotal Affiliate Investments	\$ 17,663,217	\$ 14,662,219
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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

December 31, 2015 (Continued)

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

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

December 31, 2015 (Continued)

Notes to the Consolidated Schedule of Portfolio Investments

- (a) At December 31, 2015, restricted securities represented 100% of the fair value of the investment portfolio. Restricted securities are subject to one or more restrictions on resale and are not freely marketable. Freed Maxick CPA's P.C. has not audited the business descriptions of the portfolio companies.
- (b) The Date Acquired column indicates the year in which the Corporation acquired its first investment in the company or a predecessor company.
- (c) Each equity percentage estimates the Corporation's ownership interest in the applicable portfolio investment. The estimated ownership is calculated based on the percent of outstanding voting securities held by the Corporation or the potential percentage of voting securities held by the Corporation upon exercise of warrants or conversion of debentures, or other available data. If applicable, the symbol <1% indicates that the Corporation holds an equity interest of less than one percent.
- (d) The Corporation's investments are carried at fair value in accordance with Accounting Standards Codification (ASC) 820 Fair Value Measurements and Disclosures, which defines fair value and establishes guidelines for measuring fair value. At December 31, 2015, ASC 820 designates 100% of the Corporation's investments as Level 3 assets. Under the valuation policy of the Corporation, unrestricted publicly held securities are valued at the average closing bid price for these securities for the last three trading days of the month. Restricted securities are subject to restrictions on resale, and are valued at fair value as determined by the management of the Corporation and submitted to the Board of Directors for approval. Fair value is considered to be the amount that the Corporation may reasonably expect to receive for portfolio securities when sold on the valuation date. Valuations as of any particular date, however, are not necessarily indicative of amounts which may ultimately be realized as a result of future sales or other dispositions of securities and these favorable or unfavorable differences could be material. Among the factors considered in determining the fair value of restricted securities are the financial condition and operating results, projected operations, and other analytical data relating to the investment. Also considered are the market prices for unrestricted securities of the same class (if applicable) and other matters which may have an impact on the value of the portfolio company (see Note 3 Investments to the Consolidated Financial Statements).
- (e) These investments are non-income producing. All other investments are income producing. Non-income producing investments have not generated cash payments of interest or dividends including LLC tax-related distributions within the last twelve months, or are not expected to do so going forward.
- (f) As of December 31, 2015, the total cost of investment securities was approximately \$27.5 million. Net unrealized appreciation was approximately \$9.4 million, which was comprised of \$14.1 million of unrealized appreciation of

investment securities and (\$4.7) million related to unrealized depreciation of investment securities. At December 31, 2015, the aggregate gross unrealized gain for federal income tax purposes was \$10.2 million and the aggregate gross unrealized loss for federal income tax purposes was (\$4.4) million. The net unrealized gain for federal income tax purposes was \$5.8 million based on a tax cost of \$31.0 million.

- (g) Rand Capital SBIC, Inc. investment.
- (h) Reduction in cost and value from previously reported balances reflects current principal repayment.
- (i) Represents interest due (amounts over \$50,000 net of reserves) from investment included as interest receivable on the Corporation's Statement of Financial Position.
- (j) Non-Control/Non-Affiliate Investments are investments that are neither Control Investments nor Affiliate Investments.
- (k) Affiliate Investments are defined by the Investment Company Act of 1940, as amended (1940 Act), as those Non-Control investments in companies in which between 5% and 25% of the voting securities are owned by the Corporation.
- (l) Control Investments are defined by the 1940 Act as investments in companies in which more than 25% of the voting securities are owned by the Corporation or where greater than 50% of the board representation is maintained.
- (m) Gemcor II, LLC is an unconsolidated significant subsidiary as defined in SEC's Regulation S-X.
- (n) Payment in kind (PIK) represents earned interest that is added to the cost basis of the investment.

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

December 31, 2015 (Continued)

Investments in and Advances to Affiliates

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

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	6.0825% Class A common membership interest.					
	Total Carolina Skiff	1,710,000		(1,110,000)	600,000	212,612
Chequed.com, Inc.	408,476 Series A preferred shares.	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	23,571	(411,563)	250,000	24,571
	\$280,000 junior term notes at 10%.	308,687	7,782	(316,469)		8,447
	Warrant for 41,619 capital securities.	22,000		(22,000)		
	Total First Wave	968,679	31,353	(750,032)	250,000	33,018
Genicon, Inc.	1,586,902 Series B preferred shares.		1,000,000		1,000,000	
GiveGab, Inc.	5,084,329 Series Seed preferred shares.	403,388	212,833	(191,907)	424,314	
G-TEC Natural Gas Systems	17.8% Class A membership interest. 8% cumulative dividend.	100,000			100,000	
Intrinsiq Materials, Inc.	599,055 Series 2 preferred shares.	600,002		(600,002)		
	\$95,000 convertible promissory note at 8%.		95,000		95,000	2,436
	Total Intrinsiq	600,002	95,000	(600,002)	95,000	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	200,000 Series A-1 preferred shares.	250,000		(250,000)		

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Systems, Inc.	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	(250,000)		500,001
Mezmeriz, Inc.	1,554,565 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	208,116
	15% Class A common membership interest.					
Total Microcision		1,891,964			1,891,964	208,116
New Monarch Machine Tool, Inc.	22.84 common shares.	22,841			22,841	30,409
OnCore Golf Technology, Inc.	150,000 Series AA preferred shares.		375,000	(187,500)	187,500	
	\$150,000 subordinated convertible promissory note at 6%.		150,000		150,000	3,945
Total OnCore			525,000	(187,500)	337,500	3,945

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

December 31, 2015 (Continued)

Investments in and Advances to Affiliates

Company	Type of Investment	December 31, 2014 Fair Value	Gross Additions (1)	Gross Reductions (2)	December 31, 2015 Fair Value	Amount of Interest/ Dividend/ Fee Income (3)
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 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 convertible preferred shares.	1,500,000		(500,000)	1,000,000	
	274,299 Series A-1 convertible preferred shares.		504,710		504,710	4,711
	117,371 Series B preferred shares.		250,000		250,000	
	Total SciAps	1,500,000	754,710	(500,000)	1,754,710	4,711
SOMS Technologies, LLC	5,959,490 Series B membership interests.	528,348			528,348	4,355
	Statisfy, Inc.	65,000 Series seed preferred shares.		20,968	20,968	
		Warrant for 1,950,000 Series seed preferred shares.		629,032		629,032
Total Statisfy			650,000	650,000		
TeleServices Solutions	250,000 Class B shares.	250,000		(250,000)		

Holdings, LLC	1,000,000 Class C shares.	1,070,680	120,000		1,190,680	168,000
	80,000 Class D preferred units.	80,000	11,200		91,200	15,680
	104,198 Class E preferred units.		104,198		104,198	
	Total Teleservices	1,400,680	235,398	(250,000)	1,386,078	183,680
Wilson Technology Management, Inc.	12 Series B preferred shares.		600,000		600,000	14,417
	Total Affiliate Investments	\$ 14,617,378	\$ 6,420,236	(\$ 6,375,395)	\$ 14,662,219	\$ 738,714
	Total Control and Affiliate Investments	\$ 24,639,678	\$ 10,520,236	(\$ 6,581,223)	\$ 28,578,691	\$ 2,559,725

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

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

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

December 31, 2015 (Continued)

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

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Rand Capital Corporation and Subsidiary

Notes to the Consolidated Financial Statements

For the Three Months Ended March 31, 2016 and 2015

(Unaudited)

Note 1. ORGANIZATION

Rand Capital Corporation (Rand , we , us and our) was incorporated under the laws of New York in February 1969. completed our initial public offering in 1971 as an internally managed, closed-end, diversified, management investment company. We have elected to be treated as a business development company (BDC) under the Investment Company Act of 1940, as amended (the 1940 Act). As a BDC, we are required to comply with certain regulatory requirements. For instance, we generally have to invest at least 70% of our total assets in qualifying assets and provide managerial assistance to the portfolio companies in which we invest. See Item 1. Business Regulation, Regulation as a Business Development Company in our Annual Report on Form 10-K for the year ended December 31, 2015.

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

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

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

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

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Our interim results for the three months ended March 31, 2016 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, 2015. Information contained in this filing should also be reviewed in conjunction with our related filings with the SEC prior to the date of this report. Those filings include, but are not limited to, the following:

N-54A Election to Adopt Business Development Company status

DEF-14A 2016 Definitive Proxy Statement submitted to shareholders

Form 10-K Annual Report on Form 10-K for the year ended December 31, 2015

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

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

Fair Value of SBA Debentures In March 2016, the SBIC Funding Corporation completed a pooling of SBA debentures that have a coupon rate of 2.507%, excluding a mandatory SBA annual charge estimated to be 0.804%, resulting in a total estimated fixed rate for ten years of 3.311%. The carrying value of Rand's SBA debentures is a reasonable estimate of fair value because stated interest rates approximate current interest rates that are available for debt with similar terms.

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

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

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

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

Rand SBIC's interest accrual is also regulated by the SBA's Accounting Standards and Financial Reporting Requirements for Small Business Investment Companies. Under these rules, interest income cannot be recognized if collection is doubtful, and a 100% reserve must be established.

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The collection of interest is presumed to be in doubt when there is substantial doubt about a portfolio company's ability to continue as a going concern or a loan is in default for more than 120 days. Management also uses other qualitative and quantitative measures to determine the value of a portfolio investment and the collectability of any accrued interest.

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

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

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

The Corporation holds preferred equity securities that contain cumulative dividend provisions. Cumulative dividends are recorded as dividend income, 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 \$3,611 and \$4,333 for the three months ended March 31, 2016 and 2015, respectively. The board fees were \$2,000 and \$3,000 for the three months ended March 31, 2016 and 2015, respectively.

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

Original Issue Discount Investments may include original issue discount or OID income. This occurs when the Corporation purchases a warrant and a note from a portfolio company simultaneously, which requires an allocation of a portion of the purchase price to the warrant and reduces the note or debt instrument by an equal amount in the form of a note discount or OID. The note is reported net of the OID and the OID is accreted into interest income over the life of the loan. The Corporation recognized \$2,499 and \$3,873 in OID income for the three months ended March 31, 2016 and 2015, respectively. OID income is estimated to be approximately \$7,500 for the remainder of 2016 and \$8,350 for 2017.

Deferred Debenture Costs - The Financial Accounting Standards Board (FASB) issued an Accounting Standard Update 2015-03 (ASU) that required the debt issuance costs be presented as a direct deduction from the related debt

liability. Therefore, the SBA debenture origination and commitment costs are presented as a direct deduction from the debt liability (see Note 6). As a result \$199,627 was reclassified from other assets to debentures guaranteed by the SBA in the accompanying consolidated statement of financial position as of December 31, 2015. These costs are amortized ratably over the terms of the SBA debentures and are expensed when the debt is repaid early. Amortization expense was \$6,850 for each of the three months ended March 31, 2016 and 2015. Amortization over the next five years is estimated to be approximately \$27,000 per year.

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

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.

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 three months ended March 31, 2015 was \$2,244,600. No income taxes were paid during the three months ended March 31, 2016. Interest paid during the three months ended March 31, 2016 and 2015 was \$141,050 and \$128,650, respectively. The Corporation converted \$2,522 and \$25,454 of interest receivable into investments during the three months ended March 31, 2016 and 2015, respectively.

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

Stockholders' Equity (Net Assets) - At March 31, 2016 and December 31, 2015, there were 500,000 shares of \$10.00 par value preferred stock authorized and unissued.

On October 22, 2015, the Board of Directors authorized the repurchase of up to 1,000,000 shares of the Corporation's outstanding common stock on the open market through October 22, 2016 at prices that are no greater than the then current net asset value. No shares were repurchased during the three months ended March 31, 2016 and the total treasury shares held was 534,496 shares with a total cost of \$1,447,491 at March 31, 2016. Therefore, at March 31, 2016, 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 March 31, 2016, no stock options had been awarded under the Option Plan. Because Section 57(n) of the 1940 Act prohibits maintenance of a profit sharing plan for the officers and employees of a BDC where any option, warrant or right is outstanding under an executive compensation plan, no stock options will be granted under the Option Plan while any profit sharing plan is in effect with respect to the Corporation.

In 2002, the Corporation established a Profit Sharing Plan (the Plan) for its executive officers in accordance with Section 57(n) of the 1940 Act. Under the Plan, the Corporation will pay its executive officers aggregate profit sharing payments equal to 12% of the net realized capital gains of its SBIC subsidiary, net of all realized capital losses and unrealized depreciation of the SBIC subsidiary, for the fiscal year, computed in accordance with the Plan and the Corporation's interpretation of the Plan. Any profit sharing paid or accrued cannot exceed 20% of the Corporation's net income, as defined in the Plan.

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For purposes of the 20% profit sharing test, the Corporation interprets net income to be the total of the Corporation's net investment gain (loss) and its net realized gain (loss) on investments, prior to inclusion of the estimated profit sharing obligation. The profit sharing payments are split equally between the Corporation's two executive officers, each of whom is fully vested in the Plan.

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

Income Taxes - The Corporation reviews the tax positions it has taken to determine if they meet a more likely than not threshold for the benefit of the tax position to be recognized in the consolidated financial statements. A tax position that fails to meet the more likely than not recognition threshold will result in either a reduction of a current or deferred tax asset or receivable, or the recording of a current or deferred tax liability. There were no uncertain tax provisions at March 31, 2016 and December 31, 2015.

It is the Corporation's policy to include interest and penalties related to income tax liabilities in income tax expense. There were no amounts recognized for interest or penalties related to tax expense for the three months ended March 31, 2016 or 2015.

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

At March 31, 2016, Rheonix, Inc. (Rheonix), Outmatch (Chequed Holdings, LLC) (Outmatch), Social Flow, Inc. (Social Flow), Genicon, Inc. (Genicon) and Microcision LLC (Microcision) represented 11%, 8%, 8%, 8% and 7%, respectively, of the fair value of the Corporation's investment portfolio.

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

Note 3. INVESTMENTS

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

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

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 given the rate and related inherent portfolio risk of the investment.

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

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

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

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

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

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

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

Any changes in estimated fair value are recorded in the statement of operations as Net 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. There were no such Level 1 investments as of March 31, 2016.

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

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

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

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

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

Pending debt or capital restructuring of the portfolio company;

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

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

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

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

Qualitative assessment of key management;

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

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

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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. Significant changes in any of these unobservable inputs may result in a significantly higher or lower fair value estimate.

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

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

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

Loan and Debt Securities

The significant unobservable inputs used in the fair value measurement of the Corporation's loan and debt securities are the financial and operational performance of the portfolio company, similar debt with similar terms with other portfolio companies, as well as the market acceptance for the portfolio company's products or services. These inputs will likely provide an indicator as to the probability of principal recovery of the investment. The Corporation's loan and debt investments are often junior secured or unsecured debt securities. Fair value may also be determined based on other criteria where appropriate. Significant changes to the unobservable inputs may result in a change in fair value. For recent investments, the Corporation generally relies on the cost basis, which is deemed to represent the fair value, unless other fair market value inputs are identified causing the Corporation to depart from this basis.

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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 March 31, 2016:

Investment Type	Market Approach EBITDA Multiple	Market Approach Liquidation Seniority	Market Approach Revenue Multiple	Market Approach Transaction Pricing	Asset Approach Liquidation Method	Totals
Non-Control/Non-Affiliate Equity	\$ 1,083,193	\$	\$	\$ 5,064,041	\$ 500,000	\$ 6,647,234
Non-Control/Non-Affiliate Debt					1,911,496	1,911,496
Total Non-Control/Non-Affiliate	\$ 1,083,193	\$	\$	\$ 5,064,041	\$ 2,411,496	\$ 8,558,730
Affiliate Equity	\$ 1,128,348	\$ 22,841	\$ 600,001	\$ 10,301,265	\$	\$ 12,052,455
Affiliate Debt				300,000	3,236,964	3,536,964
Total Affiliate	\$ 1,128,348	\$ 22,841	\$ 600,001	\$ 10,601,265	\$ 3,236,964	\$ 15,589,419
Control Equity	\$	\$	\$ 99,500	\$	\$ 1,412,500	\$ 1,512,000
Control Debt						
Total Control	\$	\$	\$ 99,500	\$	\$ 1,412,500	\$ 1,512,000
Total Level 3 Investments	\$ 2,211,541	\$ 22,841	\$ 699,501	\$ 15,665,306	\$ 7,060,960	\$ 25,660,149
Range	3.6X-7.5X	1X	0.75X-2.5X	0.0X 1.0X	Not Applicable	
Unobservable Input	EBITDA Multiple	Asset Value	Revenue Multiple	Discount	Asset Value	
Weighted Average	5.74X	1X	2X	0.94X	Not Applicable	

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

Description	Fair Value Measurements at Reported Date Using Quoted Prices in Active Markets for Identical Assets				Other Significant Unobservable Inputs (Level 3)
	March 31, 2016	(Level 1)	Significant Observable Inputs (Level 2)		
Loan investments	\$ 1,000,000	\$	\$	\$	\$ 1,000,000

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Debt investments	5,531,653			5,531,653
Equity investments	19,128,496			19,128,496
Total	\$ 25,660,149	\$	\$	\$ 25,660,149

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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 December 31, 2015:

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

The following table provides a summary of changes in Assets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3) for the three months ended March 31, 2016:

Description	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Venture Capital Investments			
	Loan Investments	Debt Investments	Equity Investments	Total
Ending Balance, December 31, 2015, of Level 3 Assets	\$ 416,972	\$ 5,076,632	\$ 31,338,796	\$ 36,832,400
<u>Realized Gains included in net change in net assets from operations:</u>				
Gemcor II, LLC (Gemcor)			13,176,313	13,176,313
Total Realized Gains			13,176,313	13,176,313
<u>Unrealized Losses included in net change in net assets from operations</u>				
Gemcor II, LLC (Gemcor)			(11,362,500)	(11,362,500)
Knoa Software, Inc. (Knoa)			(422,800)	(422,800)
Total Unrealized Losses			(11,785,300)	(11,785,300)
<u>Purchases of Securities/Changes to Securities/Non-cash conversions:</u>				
ClearView Social, Inc. (Clearview Social)			200,000	200,000
Empire Genomics, LLC (Empire Genomics)		300,000		300,000

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Genicon, Inc. (Genicon)	1,000,000			1,000,000
GoNoodle, Inc. (GoNoodle)		2,522		2,522
Mercantile Adjustment Bureau, LLC (Mercantile)		2,499		2,499
OnCore Golf Technology, Inc. (Oncore Golf)		150,000		150,000
<i>Total Purchases of Securities/Changes to Securities/Non-cash conversions</i>				
	1,000,000	455,021	200,000	1,655,021
<u>Repayments of Securities</u>				
Gemcor	(416,972)		(13,801,313)	(14,218,285)
<i>Total Repayments of Securities</i>				
	(416,972)		(13,801,313)	(14,218,285)
Ending Balance, March 31, 2016, of Level 3 Assets				
	\$ 1,000,000	\$ 5,531,653	\$ 19,128,496	\$ 25,660,149
Change in unrealized appreciation on investments for the period included in changes in net assets				
				(\$ 11,785,300)
Net realized gain on investments for the period included in changes in net assets				
				\$ 13,176,313

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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 three months ended March 31, 2015:

Description	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Venture Capital Investments			Total
	Loan Investments	Debt Investments	Equity Investments	
Ending Balance, December 31, 2014, of Level 3 Assets	\$ 622,801	\$ 5,384,339	\$ 23,692,236	\$ 29,699,376
<u>Purchases of Securities/Changes to Securities/Non-cash conversions:</u>				
First Wave Products Group, LLC (First Wave)		25,385		25,385
GiveGab, Inc. (Give Gab)			212,833	212,833
HealthTeacher, Inc. (Health Teacher)		1,001,444	25	1,001,469
KnowledgeVision Systems, Inc. (Knowledge Vision)			200,001	200,001
Mercantile Adjustment Bureau, LLC (Mercantile)		2,499		2,499
OnCore Golf Technology, Inc. (Oncore Golf)			150,000	150,000
Rheonix, Inc. (Rheonix)		300,000		300,000
SciAps, Inc. (Sciaps)		200,000		200,000
Tilson Technology Management, Inc. (Tilson)			600,000	600,000
Total Purchases of Securities/Changes to Securities/Non-cash conversions		1,529,328	1,162,859	2,692,187
<u>Repayments of Securities</u>				
Gemcor II, LLC (Gemcor)	(48,617)			(48,617)
Total Repayments of Securities	(48,617)			(48,617)
Transfers within Level 3				
Ending Balance, March 31, 2015, of Level 3 Assets	\$ 574,184	\$ 6,913,667	\$ 24,855,095	\$ 32,342,946
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				\$

NOTE 4. - OTHER ASSETS

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

	March 31, 2016	December 31, 2015
Escrow receivable from BinOptics Corporation	\$ 1,504,854	\$ 1,504,854
Prepaid expenses	78,889	
Dividend receivable	34,101	86,724
Equipment (net)	10,176	11,676
Operating receivables	859	1,159
 Total other assets	 \$ 1,628,879	 \$ 1,604,413

During 2014, the Corporation sold its investment in BinOptics Corporation and a portion of the proceeds are held in escrow and scheduled to be released during 2016.

Note 5. COMMITMENTS AND CONTINGENCIES

The Corporation did not have any commitments to fund any investments as of March 31, 2016.

Table of Contents**Note 6. SBA DEBENTURES**

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

	March 31, 2016	December 31, 2015
Debentures guaranteed by the SBA	\$ 8,000,000	\$ 8,000,000
Less unamortized issue costs	(192,777)	(199,627)
Debentures guaranteed by the SBA, net	\$ 7,807,223	\$ 7,800,373

Note 7. FINANCIAL HIGHLIGHTS

The following schedule provides the financial highlights, calculated based on weighted average shares outstanding, for the three months ended March 31, 2016 and the year ended December 31, 2015:

	Three months ended March 31, 2016 (Unaudited)	Year ended December 31, 2015
Income from investment operations (1):		
Investment income	\$ 0.03	\$ 0.45
Operating expenses	0.31	0.29
Investment (loss) income before income taxes	(0.28)	0.16
Income tax (benefit) expense	(0.10)	0.02
Net investment (loss) income	(0.18)	0.14
Net realized and unrealized gain on investments	0.14	0.10
(Decrease) increase in net asset value	(0.04)	0.24
Net asset value, beginning of period	5.35	5.11
Net asset value, end of period	\$ 5.31	\$ 5.35
Per share market price, end of period	\$ 4.54	\$ 3.77
Total return based on market value	20.42%	(7.82%)
Total return based on net asset value	(0.64%)	4.64%
Supplemental data:		
Ratio of operating expenses before income taxes to average net assets	5.75%	5.49%

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Ratio of operating expenses including income taxes to average net assets	5.34%	7.89%
Ratio of net investment (loss) income to average net assets	(3.21%)	2.55%
Portfolio turnover	5.3%	21.4%
Net assets, end of period	\$ 33,636,140	\$ 33,853,660
Weighted shares outstanding, end of period	6,328,538	6,328,538

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

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

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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, 2015.

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

Overview

We are an internally managed investment company that 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 first quarter of 2016, we had approximately \$17.9 million in cash on hand available which is available for future investment and operating needs (an estimated \$5.6 million net of income tax payable, profit sharing and outstanding SBA debenture obligations).

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

We have sufficient cash on hand to invest in new opportunities and to repurchase shares. At quarter end, we had authorization, from our Board of Directors, to repurchase an additional 465,504 shares of our Common Stock under the current program.

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

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

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

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

Critical Accounting Policies

We prepare our consolidated financial statements in accordance with United States generally accepted accounting principles (GAAP), which require the use of estimates and assumptions that affect the reported amounts of assets and liabilities. A summary of our critical accounting policies can be found in our Annual Report on Form 10-K for the year ended December 31, 2015 under Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations.

Table of Contents**Financial Condition**

Overview:	3/31/16	12/31/15	Increase (Decrease)	% Increase (Decrease)
Total assets	\$ 45,971,058	\$ 44,562,060	\$ 1,408,998	3.2%
Total liabilities	12,334,918	10,708,400	1,626,518	15.2%
Net assets	\$ 33,636,140	\$ 33,853,660	(\$ 217,520)	(0.6%)

Net asset value per share (NAV) was \$5.31 at March 31, 2016 and \$5.35 at December 31, 2015.

Our outstanding SBA debentures at March 31, 2016 were \$8,000,000 and will mature from 2022 through 2025. Cash approximated 53% of net assets at March 31, 2016 as compared to 17% at December 31, 2015. The change is primarily due to the proceeds from the asset sale of one of our investments, Gemcor II, LLC in March 2016.

Composition of Our Investment Portfolio

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

	3/31/16	12/31/15	Increase (Decrease)	% Increase (Decrease)
Investments, at cost	\$ 28,023,791	\$ 27,410,742	\$ 613,049	2.2%
Unrealized (depreciation) appreciation, net	(2,363,642)	9,421,658	(11,785,300)	(125.1%)
Investments at fair value	\$ 25,660,149	\$ 36,832,400	(\$ 11,172,251)	(30.3%)

Our total investments at fair value, as estimated by management and approved by our Board of Directors, approximated 76% of net assets at March 31, 2016 versus 109% of net assets at December 31, 2015 with the change primarily due to the asset sale of one of our investments, Gemcor II, LLC.

The change in investments during the three months ended March 31, 2016, at cost, is comprised of the following:

	Cost Increase (Decrease)
New investments:	
Genicon, Inc. (Genicon)	\$ 1,000,000
Empire Genomics, LLC (Empire Genomics)	300,000
ClearView Social, Inc. (Clearview Social)	200,000
OnCore Golf Technology, Inc. (Oncore Golf)	150,000

Total of new investments	1,650,000
Other changes to investments:	
GoNoodle, Inc. (GoNoodle) interest conversion	2,522
Mercantile Adjustment Bureau, LLC (Mercantile) OID amortization	2,499
Total of other changes to investments	5,021
Investments repaid, sold or liquidated	
Gemcor II, LLC (Gemcor) repayment	(1,041,972)
Total investments repaid, sold or liquidated	(1,041,972)
Net change in investments, at cost	\$ 613,049

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 loan, debenture and equity instruments, which may provide a current return on a portion of the investment portfolio. The equity investments contained in our investment portfolio are structured to realize capital appreciation over the long-term.

Comparison of the three months ended March 31, 2016 to the three months ended March 31, 2015

	March 31, 2016	March 31, 2015	(Decrease)	% (Decrease)
Interest from portfolio companies	\$ 137,894	\$ 186,074	(\$ 48,180)	(25.9%)
Interest from other investments	3,061	6,821	(3,760)	(55.1%)
Dividend and other investment income	47,565	441,519	(393,954)	(89.2%)
Fee income	5,611	7,333	(1,722)	(23.5%)
Total investment income	\$ 194,131	\$ 641,747	(\$ 447,616)	(69.7%)

Interest from portfolio companies Interest income from portfolio companies decreased during the three months ended March 31, 2016 versus the three months ended March 31, 2015 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 their performance and the circumstances surrounding our investments, we ceased accruing interest income on First Wave Products Group, LLC (First Wave), Intrinsic Materials, Inc. (Intrinsic), and a portion of the Mercantile Adjustment Bureau, LLC (Mercantile) outstanding loan balance during 2015.

Interest from other investments - The decrease in interest from other investments is primarily due to lower average cash balances during the three months ended March 31, 2016 versus the same period in 2015.

Dividend and other investment income - Dividend income is comprised of distributions from limited liability companies (LLCs) and corporations in which we have invested. Our investment agreements with certain LLCs require those LLCs to distribute funds to us for payment of income taxes on our allocable share of the LLC's profits. These portfolio companies may also elect to make additional discretionary distributions. Dividend income will fluctuate based upon the profitability of these LLCs and corporations and the timing of the distributions or the impact of new investments or divestitures. Dividend and other investment income will likely decrease in 2016 due to the asset sale of Gemcor II, LLC during March 2016. The dividend distributions for the respective periods were:

	March 31, 2016	March 31, 2015
Carolina Skiff LLC (Carolina Skiff)	\$ 34,101	\$ 26,201
SOMS Technologies, LLC (SOMS)	13,464	
Tilson Technology Management, Inc. (Tilson)		3,167

Gemcor, II, LLC (Gemcor)		412,151
Total dividend and other investment income	\$ 47,565	\$ 441,519

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

The income associated with the amortization of financing fees was \$3,611 and \$4,333 for the three months ended March 31, 2016 and 2015, respectively. The income from board fees was \$2,000 and \$3,000 for the three months ended March 31, 2016 and 2015, respectively.

Operating Expenses***Comparison of the three months ended March 31, 2016 to the three months ended March 31, 2015***

	March 31, 2016	March 31, 2015	Increase	% Increase
Total operating expenses	\$ 1,939,136	\$ 440,385	\$ 1,498,751	340.3%

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 approximately \$1,499,000 increase in total operating expenses for the three months ended March 31, 2016 as compared to the same three month period in 2015 is due to an increase in bonus and profit sharing expense. Our largest portfolio company, in terms of fair value, Gemcor II, LLC (Gemcor) sold its assets during March 2016 and based on our ownership percentage, we received gross cash proceeds of approximately \$13.8 million, excluding escrow, and recognized a realized gain, before income taxes, of approximately \$13.2 million from the sale. Related to this asset sale, we accrued \$1,411,659 under our Profit Sharing Plan for the three months ended March 31, 2016, that is payable to our executive officers. There were no amounts earned pursuant to the Profit Sharing Plan for the three months ended March 31, 2015. Estimated payroll taxes and benefits on the profit sharing amounts under our Profit Sharing Plan, in the amount of \$36,000, have been accrued during the three months ended March 31, 2016.

Realized Gains and Losses on Investments***Comparison of the three months ended March 31, 2016 to the three months ended March 31, 2015***

	March 31, 2016	March 31, 2015	Increase
Realized gain on investments before income taxes	\$ 13,176,313	\$ 131,744	\$ 13,044,569

During the three months ended March 31, 2016, our portfolio company Gemcor II, LLC sold its assets and accordingly, we received gross cash proceeds of \$13,801,313, excluding escrow, and recognized a realized gain, before income taxes, of \$13,176,313.

During the three months ended March 31, 2015, we recognized a net realized gain of \$131,744 on the sale of 153,000 shares of Synacor, Inc. (Synacor). As of March 31, 2015, we owned 148,582 shares of Synacor, all of which have subsequently been sold.

Change in Unrealized Appreciation of Investments

Comparison of the three months ended March 31, 2016 to the three months ended March 31, 2015

	March 31, 2016	March 31, 2015	Decrease
Change in unrealized appreciation before income taxes	(\$ 11,785,300)	(\$ 54,509)	(\$ 11,730,791)

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The decrease in unrealized appreciation before income taxes for the three months ended March 31, 2016 was comprised of the following:

	March 31, 2016
Reclassify Gemcor II, LLC (Gemcor) to a realized gain	(\$ 11,362,500)
Knoa Software, Inc. (Knoa)	(422,800)
Total change in net unrealized appreciation of investments before income taxes during the three months ended March 31, 2016	(\$ 11,785,300)

During March of 2016, our portfolio company, Gemcor II, LLC sold its assets and accordingly, we received gross cash proceeds of approximately \$13.8 million and recognized a realized gain, before income taxes, of approximately \$13.2 million. As of March 31, 2016, we continue to own 31% of Gemcor II, LLC, which is the entity that sold substantially all of its assets. After the asset sale, a contingent escrow remains on the books of Gemcor which we valued at \$1,412,500. Once a plan of liquidation of Gemcor II, LLC is agreed to by all members of the limited liability company, this escrow will be released and a gain will be realized.

The valuation of our investment in Knoa was decreased during the three months ended March 31, 2016 to value our equity holdings at a value consistent with the anticipated pricing for Knoa's future equity financing.

The decrease in unrealized appreciation before income taxes for the three months ended March 31, 2015 was comprised of the following:

	March 31, 2015
Synacor, Inc. (Synacor)	(\$ 54,509)
Total change in net unrealized appreciation of investments before income taxes during the three months ended March 31, 2015	(\$ 54,509)

Synacor, as a publicly traded stock, was marked to market at the end of the first quarter of 2015. We valued our 148,582 shares of Synacor at a three day average bid price of \$2.34 at March 31, 2015.

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 (Decrease) Increase in Net Assets from Operations

We account for our operations under GAAP for investment companies. The principal measure of our financial performance is net (decrease) increase in net assets from operations on our consolidated statements of operations. For the three months ended March 31, 2016 and 2015, the net (decrease) increase in net assets from operations was

(\$217,520) and \$179,548, 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 March 31, 2016, our total liquidity was approximately \$17.9 million in cash.

Management expects that the cash on hand at March 31, 2016, coupled with the scheduled interest payments from our portfolio investments, will be sufficient to meet our liquidity needs through the next twelve months. As a result of the reduction of investment income related to the Gemcor asset sale, we look to continue to add new investments to provide interest and dividends for cash flow to cover operating costs. Future exits from portfolio companies may increase the amount of liquidity available for new investments, operating activities and future SBA debenture obligations.

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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 (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 March 31, 2016, we did not have any off-balance sheet arrangements or hedging or similar derivative financial instrument investments.

Item 4. Controls and Procedures

Disclosure Controls and Procedures. The Corporation maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that this information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Chief Executive Officer and the Chief Financial Officer carried out an evaluation of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures as of March 31, 2016. Based on the evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that the Corporation's controls and procedures were effective as of March 31, 2016.

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

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, 2015.

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

Period	Total number of shares purchased (1)	Average price paid per share (2)	Total number of shares purchased as part of publicly announced plan (3)	Maximum number of shares that may yet be purchased under the share repurchase program
1/1/2016 - 1/31/2016				465,504
2/1/2016 - 2/29/2016				465,504
3/1/2016 - 3/31/2016				465,504

- (1) There were no shares repurchased during the first quarter of 2016.
(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: May 4, 2016

RAND CAPITAL CORPORATION

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

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