

RAND CAPITAL CORP  
Form 10-K  
March 18, 2010

**Table of Contents**

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

**FORM 10-K**

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

**For the fiscal year ended December 31, 2009**

**o 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)*

**16-0961359**

*(IRS Employer Identification No.)*

**2200 Rand Building, Buffalo, NY**

*(Address of Principal executive offices)*

**14203**

*(Zip Code)*

**(Registrant's telephone number, including area code): (716) 853-0802**

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of Each Class</b>	<b>Name of Exchange on Which Registered</b>
<b>Common Stock, \$0.10 par value</b>	<b>The NASDAQ Stock Market LLC</b>

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 under the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Edgar Filing: RAND CAPITAL CORP - Form 10-K

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a 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

The aggregate market value of the registrant's outstanding common stock held by non-affiliates of the registrant as of June 30, 2009 was approximately \$14,554,892 based upon the last sale price as quoted by NASDAQ Capital Market on such date.

As of March 8, 2010 there were 6,818,934 shares of the registrant's common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Corporation's definitive proxy statement for the Annual Meeting of Stockholders to be held on May 4, 2010 are incorporated by reference into certain sections of Part III herein.

---

**RAND CAPITAL CORPORATION  
TABLE OF CONTENTS FOR FORM 10-K**

**PART I**

<u>Item 1.</u>	<u>Business</u>	1
<u>Item 1A.</u>	<u>Risk Factors</u>	4
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u>	6
<u>Item 2.</u>	<u>Properties</u>	6
<u>Item 3.</u>	<u>Legal Proceedings</u>	6
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>	6

**PART II**

<u>Item 5.</u>	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	7
<u>Item 6.</u>	<u>Selected Financial Data</u>	9
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	10
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	24
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	26
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	48
<u>Item 9A(T).</u>	<u>Controls and Procedures</u>	48
<u>Item 9B.</u>	<u>Other Information</u>	48

**PART III**

<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	48
<u>Item 11.</u>	<u>Executive Compensation</u>	49
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	49
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	49
<u>Item 14.</u>	<u>Principal Accountant Fees and Services</u>	49

**PART IV**

<u>Item 15.</u>	<u>Exhibits and Financial Statement Schedules</u>	49
<u>EX-31.1</u>		
<u>EX-31.2</u>		
<u>EX-32.1</u>		
<u>EX-32.2</u>		

---

**Table of Contents**

**PART I**

**Item 1. *Business***

**Corporation Formation**

Rand Capital Corporation ( Rand ) was incorporated under the laws of New York on February 24, 1969. Beginning in 1971, Rand operated as a publicly traded, closed-end, diversified management company that was registered under Section 8 of the Investment Company Act of 1940 (the 1940 Act ). On August 16, 2001, Rand elected to be treated as a business development company ( BDC ) under the 1940 Act. In 2002, Rand formed a wholly-owned subsidiary for the purpose of operating it as a small business investment company ( SBIC ) licensed by the U.S. Small Business Investment Administration ( SBA ). The subsidiary received an SBA license to operate as an SBIC in August 2002. The subsidiary, which had been organized as a Delaware limited partnership, was converted into a New York corporation on December 31, 2008, at which time its operations as a licensed small business investment company was continued by a newly formed corporation under the name of Rand Capital SBIC, Inc. ( Rand SBIC ). The following discussion will describe the operations of Rand, its wholly-owned subsidiary Rand SBIC, and the predecessor wholly-owned limited partnership (collectively, the Corporation ).

Throughout the Corporation s history, its principal business has been to make venture capital investments in small to medium sized companies that are engaged in the exploitation of new or unique products or services with a sustainable competitive advantage, typically in New York and its surrounding states. The Corporation s principal investment objective is to achieve long-term capital appreciation while maintaining a current cash flow from its debenture instruments. The Corporation invests in a mixture of debenture and equity instruments. The debt securities most often have an equity piece attached to the debenture in the form of stock, warrants or options to acquire stock or the right to convert the debt securities into stock. Rand SBIC was the primary investment vehicle in 2007, 2008 and 2009 and it is anticipated that will continue to be the case in 2010. Consistent with its status as a BDC and the purposes of the regulatory framework for BDC s under the 1940 Act, the Corporation provides managerial assistance, often in the form of a board of director s seat, to the portfolio companies in which it invests.

The Corporation operates as an internally managed investment company whereby its officers and employees conduct its operations under the general supervision of its Board of Directors. It has not elected to qualify to be taxed as a regulated investment company as defined under Subchapter M of the Internal Revenue Code.

The Corporation s common stock is listed on the NASDAQ Capital Market under the symbol Rand .

The Corporation s website is [www.randcapital.com](http://www.randcapital.com). The Corporation s annual report on Form 10-K and its Proxy Statement are available at the following web address: <http://materials.proxyvote.com/752185>. In addition, the annual report on Form 10-K, the quarterly reports on Form 10-Q, current reports on Form 8-K, charters for the Corporation s committees and other reports filed with the Securities and Exchange Commission ( SEC ) are available through the Corporation s website.

**Regulation as a Business Development Company**

Although the 1940 Act exempts a BDC from registration under that Act, it contains significant limitations on the operations of BDCs. Among other things, the 1940 Act contains prohibitions and restrictions relating to transactions between a BDC and its affiliates, principal underwriters and affiliates of its affiliates or underwriters, and it requires that a majority of the BDC s directors be persons other than interested persons, as defined under the 1940 Act. The

1940 Act also prohibits a BDC from changing the nature of its business so as to cease to be, or to withdraw its election as, a BDC unless so authorized by a vote of the holders of a majority of its outstanding voting securities. BDC s are not required to maintain fundamental investment policies relating to diversification and concentration of investments within a single industry. More specifically, in order to qualify as a BDC, a company must:

(1) be a domestic company;

(2) have registered a class of its equity securities or have filed a registration statement with the SEC pursuant to Section 12 of the Securities Exchange Act of 1934;

## **Table of Contents**

(3) operate for the purpose of investing in the securities of certain types of portfolio companies, namely immature or emerging companies and businesses suffering or just recovering from financial distress;

(4) extend significant managerial assistance to such portfolio companies; and

(5) have a majority of disinterested directors (as defined in the 1940 Act). Generally, a BDC must be primarily engaged in the business of furnishing capital and providing managerial expertise to companies that do not have ready access to capital through conventional financial channels. Such portfolio companies are termed eligible portfolio companies.

An eligible portfolio company is, generally, a private domestic operating company, or a public domestic operating company whose securities are not listed on a national securities exchange. In addition, any small business investment company that is licensed by the SBA and is a wholly owned subsidiary of a BDC is an eligible portfolio company.

The 1940 Act prohibits or restricts companies subject to the 1940 Act from investing in certain types of companies, such as brokerage firms, insurance companies, investment banking firms and investment companies. Moreover, the 1940 Act limits the type of assets that BDCs may acquire to qualifying assets and certain assets necessary for its operations (such as office furniture, equipment and facilities) if, at the time of acquisition, less than 70% of the value of the BDC's assets consist of qualifying assets. Qualifying assets include: (1) securities of companies that were eligible portfolio companies at the time the BDC acquired their securities; (2) securities of bankrupt or insolvent companies that were eligible at the time of the BDC's initial acquisition of their securities but are no longer eligible, provided that the BDC has maintained a substantial portion of its initial investment in those companies; (3) securities received in exchange for or distributed in or with respect to any of the foregoing; and (4) cash items, government securities and high-quality short-term debt. The 1940 Act also places restrictions on the nature of the transactions in which, and the persons from whom, securities can be purchased in order for the securities to be considered qualifying assets. These restrictions include limiting purchases to transactions not involving a public offering and not acquiring securities from the portfolio company or its officers, directors, or affiliates.

A BDC is permitted to invest in the securities of public companies and other investments that are not qualifying assets, but those kinds of investments may not exceed 30% of the BDC's total asset value at the time of the investment. At December 31, 2009 the Corporation was in compliance with this rule.

A BDC must make significant managerial assistance available to the issuers of eligible portfolio securities in which it invests. Making available significant managerial assistance means, among other things, any arrangement whereby the BDC, through its directors, officers or employees, offers to provide, and, if accepted does provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company.

## **SBIC Subsidiary**

Since 2002, Rand has operated a wholly-owned SBIC subsidiary in order to have access to the various forms of leverage provided by the SBA to SBICs. Rand operates Rand SBIC, and Rand formerly operated the limited partnership SBIC predecessor of Rand SBIC, for the same investment purposes and with investments in the same kinds of securities as Rand. The operations of the SBIC predecessor were, and the operations of Rand SBIC are, consolidated with those of Rand for both financial reporting and tax purposes.

On May 28, 2002, Rand and the predecessor SBIC subsidiary filed an initial Exemption Application with the SEC seeking an order for a number of operating exemptions that the SEC has commonly granted from certain restrictions under the 1940 Act that would otherwise limit the operations of the wholly-owned subsidiary. After the filing of the

Edgar Filing: RAND CAPITAL CORP - Form 10-K

Exemption Application, the Corporation had extended discussions with the staff of the Division of Investment Management of the SEC concerning the application. The principal substantive issue in these discussions was the structure of the predecessor of Rand SBIC as a limited partnership.

Rand formed the predecessor SBIC in 2002 as a limited partnership because that was the organizational form that the SBA strongly encouraged for all new entities seeking licenses as SBICs. Rand organized the SBIC



## **Table of Contents**

subsidiary in a manner that was consistent with the SBA's model limited partnership forms for licensed SBICs. In that structure, the general partner of Rand SBIC was a limited liability company whose managers were the principal executive officers of Rand.

Under the rules and interpretations of the SEC applicable to BDCs (which the subsidiary SBIC intended to become), if a BDC is structured in limited partnership form, then it must have general partners who serve as a board of directors, or a general partner with very limited authority and a separate board of directors, all of the persons who serve on the board of directors must be natural persons, and a majority of the directors must not be interested persons of the BDC. Since the managers of the limited liability company general partner of the SBIC subsidiary were the principal executive officers of Rand, and since both the limited liability company general partner and the subsidiary SBIC were wholly-owned by Rand, Rand believed that the board of directors of Rand was the functional equivalent of a board of directors for both the general partner limited liability company and for the SBIC limited partnership. Nevertheless, the staff of the Division of Investment Management of the SEC maintained the view that if the limited partnership subsidiary was to be operated as a limited partnership BDC in compliance with the 1940 Act, then the organizational documents of the limited partnership would have to specifically provide that it would have a board of directors consisting of natural persons, a majority of whom would not be interested persons.

With the approval of the SBA, effective December 31, 2008 Rand merged the Rand SBIC limited partnership into a corporation whose board of directors is the same as that of Rand. The SBA formally approved the re-licensing of the new corporation as an SBIC in February 2009. As a result of the merger, Rand SBIC is a wholly-owned corporate subsidiary of Rand, and its board of directors is comprised of the directors of Rand, a majority of whom are not interested persons of Rand or Rand SBIC.

Following this merger, on February 26, 2009, the Corporation filed a new Exemption Application with the SEC seeking an order under Sections 6(c), 12(d)(1)(J), 57(c), and 57(i) of, and Rule 17d-1 under, the 1940 Act for exemptions from the application of Sections 12(d)(1), 18(a), 21(b), 57(a)(1), (2), (3), and (4), and 61(a) of the 1940 Act to certain aspects of its operations. The application also seeks an order under Section 12(h) of the Securities Exchange Act of 1934 Act (the Exchange Act) for an exemption from separate reporting requirements for Rand SBIC under Section 13(a) of the Exchange Act. In general, the Corporation's application seeks exemptions that would permit:

Rand and Rand SBIC to engage in certain related party transactions that the Corporation would otherwise be permitted to engage in as a BDC if its component parts were organized as a single corporation;

Rand, as a BDC, and Rand SBIC, as its BDC/SBIC subsidiary, to meet asset coverage requirements for senior securities on a consolidated basis; and

Rand SBIC, as a BDC/SBIC subsidiary of Rand as a BDC, to file Exchange Act reports on a consolidated basis as part of Rand's Exchange Act reports.

The SEC has recently granted exemptions in response to other companies' applications that reflected similar issues and factual circumstances, and Rand believes that it will receive the exemptions it has requested for the operation of Rand SBIC as a BDC subsidiary of Rand.

## **Regulation of the SBIC Subsidiary**

### ***SBA Lending Restrictions***

The SBA licenses SBICs as part of a program designed to stimulate the flow of private debt and/or equity capital to small businesses. SBICs use funds borrowed from the SBA, together with their own capital, to provide loans to, and make equity investments in, concerns that (a) have a tangible net worth not in excess of \$18 million and average net income after U.S. federal income taxes for the preceding two completed fiscal years not in excess of \$6 million, or (b) meet size standards set by the SBA that are measured by either annual receipts or number of employees, depending on the industry in which the concerns are primarily engaged. The types and dollar amounts of the loans and other investments an SBIC that is a BDC may make are limited by the 1940 Act, the SBA Act and SBA regulations. The SBA is authorized to examine the operations of SBICs, and an SBIC's ability to obtain funds from the SBA is also governed by SBA regulations.

## **Table of Contents**

In addition, at the end of each fiscal year, an SBIC must have at least 20% (in total dollars) invested in Smaller Enterprises. The SBA defines Smaller Enterprises as concerns that (a) do not have a net worth in excess of \$6 million and have average net income after U.S. federal income taxes for the preceding two years no greater than \$2 million, or (b) meet size standards set by the SBA that are measured by either annual receipts or number of employees, depending on the industry in which the concerns are primarily engaged. The Corporation has maintained compliance with this requirement since inception of the SBIC subsidiary.

SBICs may invest directly in the equity of portfolio companies, but they may not become a general partner of a non-incorporated entity or otherwise become jointly or severally liable for the general obligations of a non-incorporated entity. An SBIC may acquire options or warrants in portfolio companies, and the options or warrants may have redemption provisions, subject to certain restrictions.

### ***SBA Leverage***

The SBA raises capital to enable it to provide funds to SBICs by guaranteeing certificates or bonds that are pooled and sold to purchasers of the government guaranteed securities. The amount of funds that the SBA may lend to SBICs is determined by annual Congressional appropriations.

The Corporation paid \$100,000 to the SBA to reserve \$10,000,000 of approved debenture leverage as a partial prepayment of the SBA's nonrefundable 3% leverage fee. As of December 31, 2008, Rand SBIC had drawn \$8,100,000 in leverage from the SBA. On September 30, 2008, the remaining leverage commitment and \$1,900,000 of approved leverage expired when the commitment was not used by the Corporation. The remaining unamortized prepaid leverage fee of \$19,000 was expensed in 2008. The Corporation re-applied to the SBA for the remaining \$1,900,000 in leverage in the second quarter of 2009 and received approval of its application on October 26, 2009. In the fourth quarter of 2009, the Corporation paid the SBA a commitment fee of \$19,000 to reserve the \$1,900,000 in debenture leverage, drew down \$1,000,000 in leverage and paid the related leverage fees of \$24,250. The total leverage was \$9,100,000 at December 31, 2009. The remaining \$900,000 in approved leverage was drawn down in January 2010.

SBA debentures are issued with 10-year maturities. Interest only is payable semi-annually until maturity. Ten-year SBA debentures may be prepaid with a penalty during the first 5 years, and then are pre-payable without penalty. SBA debentures originated in 2009 and thereafter may be prepaid in without penalty. Rand initially capitalized Rand SBIC with \$5 million in Regulatory Capital. The Corporation expects to use Rand SBIC as its primary investment vehicle.

### **Employees**

As of December 31, 2009, the Corporation had four employees.

### **Item 1A. Risk Factors**

#### ***The Corporation is Subject to Risks Created by the Valuation of its Portfolio Investments***

There is typically no public market for equity securities of the small privately held companies in which the Corporation invests. Investments are valued in accordance with the Corporation's established valuation policy and are stated at fair value as determined in good faith by the management of the Corporation and submitted to the Board of Directors for approval. In the absence of a readily ascertainable market value, the estimated value of the Corporation's portfolio of securities may differ significantly, favorably or unfavorably, from the values that would be placed on the portfolio if a ready market for the equity securities existed. Any changes in estimated value are recorded in the statement of operations as Net increase (decrease) in unrealized appreciation.

***The Corporation's Portfolio Investments are Illiquid***

Most of the investments of the Corporation are or will be either equity securities or subordinated debt securities acquired directly from small companies. The Corporation's portfolio of equity and debt securities is, and will usually be, subject to restrictions on resale or otherwise has no established trading market. The illiquidity of most of

## **Table of Contents**

the Corporation's portfolio may adversely affect the ability of the Corporation to dispose of the securities at times when it may be advantageous for the Corporation to liquidate investments.

### ***Investing in Private Companies involves a High Degree of Risk***

The Corporation typically invests a substantial portion of its assets in small and medium sized private companies. These private businesses may be thinly capitalized, unproven companies with risky technologies, may lack management depth, and may not have attained profitability. Because of the speculative nature and the lack of a public market for these investments, there is significantly greater risk of loss than is the case with traditional investment securities. The Corporation expects that some of its venture capital investments will be a complete loss or will be unprofitable and that some will appear to be likely to become successful but never realize their potential. The Corporation has been risk seeking rather than risk averse in its approach to venture capital and other investments.

Even if the Corporation's portfolio companies are able to develop commercially viable products, the market for new products and services is highly competitive and rapidly changing. Commercial success is difficult to predict and the marketing efforts of the portfolio companies may not be successful.

### ***Investing in the Corporation's Shares May be Inappropriate for the Investor's Risk Tolerance***

The Corporation's investments, in accordance with its investment objective and principal strategies, result in a greater than average amount of risk and volatility and may well result in loss of principal. Its investments in portfolio companies are highly speculative and aggressive and, therefore, an investment in its shares may not be suitable for investors for whom such risk is inappropriate. Neither the Corporation's investments nor an investment in the Corporation is intended to constitute a balanced investment program.

### ***The Corporation is Subject to Risks Created by its Regulated Environment***

The Corporation is regulated by the SBA and the SEC. Changes in the laws or regulations that govern SBICs and BDCs could significantly affect the Corporation's business. Regulations and laws may be changed periodically, and the interpretations of the relevant regulations and laws are also subject to change. Any change in the regulations and laws governing the Corporation's business could have a material impact on its financial condition or its results of operations. Moreover, the laws and regulations that govern BDCs and SBICs may place conflicting demands on the manner in which the Corporation operates, and the resolution of those conflicts may restrict or otherwise adversely affect the operations of the Corporation.

### ***The Corporation is Subject to Risks Created by Borrowing Funds from the SBA***

The Corporation's Leverageable Capital may include large amounts of debt securities issued through the SBA, and all of the debentures will have fixed interest rates. Until and unless the Corporation is able to invest substantially all of the proceeds from debentures at annualized interest or other rates of return that substantially exceed annualized interest rates that Rand SBIC must pay the SBA, the Corporation's operating results may be adversely affected which may, in turn, depress the market price of the Corporation's common stock.

### ***The Corporation is Dependent Upon Key Management Personnel for Future Success***

The Corporation is dependent on the diligence and skill of its two senior officers, Allen F. Grum and Daniel P. Penberthy, for the selection, structuring, closing and monitoring and valuation of its investments. The future success of the Corporation depends to a significant extent on the continued service and coordination of its senior management team. The departure of either of its executive officers could materially adversely affect its ability to implement its

business strategy. The Corporation does not maintain key man life insurance on any of its officers or employees.

**Table of Contents**

***The Corporation Operates in a Competitive Market for Investment Opportunities***

The Corporation faces competition in its investing activities from many entities including other SBICs, private venture capital funds, investment affiliates of large companies, wealthy individuals and other domestic or foreign investors. The competition is not limited to entities that operate in the same geographical area as the Corporation. As a regulated BDC, the Corporation is required to disclose quarterly and annually the name and business description of portfolio companies and the value of its portfolio securities. Most of its competitors are not subject to this disclosure requirement. The Corporation's obligation to disclose this information could hinder its ability to invest in certain portfolio companies. Additionally, other regulations, current and future, may make the Corporation less attractive as a potential investor to a given portfolio company than a private venture capital fund.

***The Corporation May be Negatively Affected by Adverse Changes in the General Economic Conditions of the Domestic and Global Markets***

The continued economic crisis and related turmoil in the global financial markets has had and may continue to have an impact on the Corporation's portfolio companies and the overall financial condition of the Corporation. If the current market conditions continue to deteriorate, the Corporation may suffer further losses on its investment portfolio, which could have a material adverse effect on Net Asset Value.

***Fluctuations of Quarterly Results***

The Corporation's quarterly operating results could fluctuate significantly as a result of a number of factors. These factors include, among others, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which portfolio companies encounter competition in their markets, and general economic conditions. As a result of these factors, results for any quarter should not be relied upon as being indicative of performance in future quarters.

**Item 1B. *Unresolved Staff Comments***

Not applicable

**Item 2. *Properties***

The Corporation maintains its offices at 2200 Rand Building, Buffalo, New York 14203, where it leases approximately 1,300 square feet of office space pursuant to a lease agreement that expires December 31, 2010. The Corporation believes that its leased facilities are adequate to support its current staff and expected future needs.

**Item 3. *Legal Proceedings***

None

**Item 4. *Submission of Matters to a Vote of Security Holders***

None

**Table of Contents****Part II****Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

The Corporation's common stock, par value \$0.10 per share ( Common Stock ), is traded on the NASDAQ Capital Market ( NASDAQ ) under the symbol RAND. The following table sets forth, for the periods indicated, the range of high and low closing sales prices per share as reported by NASDAQ:

<b>2009 Quarter ending:</b>	<b>High</b>	<b>Low</b>
March 31st	\$ 4.00	\$ 3.19
June 30th	\$ 4.15	\$ 2.97
September 30th	\$ 3.95	\$ 3.15
December 31st	\$ 4.05	\$ 3.54
<b>2008 Quarter ending:</b>	<b>High</b>	<b>Low</b>
March 31st	\$ 4.78	\$ 3.55
June 30th	\$ 4.29	\$ 3.25
September 30th	\$ 4.00	\$ 3.25
December 31st	\$ 4.00	\$ 3.11

Except as reported in the Corporation's Form 8-K Report dated September 1, 2009, the Corporation did not sell any securities during the period covered by this report that were not registered under the Securities Act. The Corporation has not paid any cash dividends in its most recent two fiscal years, and it has no intention of paying cash dividends in the coming fiscal year.

**Profit Sharing and Stock Option Plans**

In July 2001, the stockholders of the Corporation authorized the establishment of an Employee Stock Option Plan (the Plan ). The Plan provides for the award of options to purchase up to 200,000 common shares to eligible employees. In 2002, the Corporation placed the Plan on inactive status as it developed a new profit sharing plan for the Corporation's employees in connection with the establishment of its SBIC subsidiary. As of December 31, 2009 no stock options had been awarded under the 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 options will be granted under the Plan while any profit sharing plan is in effect with respect to the Corporation.

In 2002, the Corporation established a non-equity incentive Profit Sharing Plan for its executive officers in accordance with Section 57(n) of the Investment Company Act of 1940 (the 1940 Act ). Under the Profit Sharing Plan, Rand 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 subsidiary, for the fiscal year, computed in accordance with the Plan and the Corporation's interpretation of such policies. Any profit sharing paid cannot exceed 20% of the Corporation's net income, as defined. The profit sharing payments will be split equally between



Rand's two executive officers, who are fully vested in the Plan. The Corporation has accrued \$133,013 for estimated contributions to, or payments made under the Plan, during the year ended December 31, 2009. There were no contributions to, or payments made under the Plan, for the year ended December 31, 2008.

**Shareholders of Record**

On March 8, 2010 the Corporation had a total of 824 shareholders, which included 129 record holders of its common stock, and an estimated 695 shareholders with shares beneficially owned in nominee name or under clearinghouse positions of brokerage firms or banks.

**Stock Repurchase Plan**

The Board of Directors has authorized the repurchase of up to 340,946 shares of the Corporation's outstanding Common Stock on the open market at prices that are no greater than current net asset value through October 22, 2010. During 2003 and 2002 the Corporation purchased 44,100 shares of its Common Stock for a total cost of \$47,206. No additional shares have been repurchased since 2003.

**Table of Contents****Company Performance Graph**

The following graph shows a five-year comparison of cumulative total shareholder returns for the Company's Common Stock, the NASDAQ Market Index, and a New Peer Group and the Old Peer Group, assuming a base index of \$100 at the end of 2003. The cumulative total return for each annual period within the five years presented is measured by dividing (1) the sum of (A) the cumulative amount of dividends for the measurement period, assuming dividend investment, and (B) the difference between share prices at the end and at the beginning of the measurement period by (2) the share price at the beginning of the measurement period.

**COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN  
AMONG RAND CAPITAL CORP.,  
NASDAQ MARKET INDEX AND PEER GROUP INDEXES**

ASSUMES \$100 INVESTED ON DECEMBER 31, 2004  
ASSUMES DIVIDEND REINVESTED  
FISCAL YEAR ENDING DECEMBER 31, 2009

**COMPARISON OF CUMULATIVE TOTAL RETURN OF ONE OR MORE  
COMPANIES, PEER GROUPS, INDUSTRY INDEXES AND/OR BROAD MARKETS**

**FISCAL YEAR ENDING**

<b>COMPANY/INDEX/MARKET</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Rand Capital Corporation	\$ 100.00	\$ 85.90	\$ 224.36	\$ 230.64	\$ 224.36	\$ 255.13
NASDAQ Market Index	\$ 100.00	\$ 102.20	\$ 112.68	\$ 124.57	\$ 74.71	\$ 108.56
Old Peer Group Index	\$ 100.00	\$ 93.84	\$ 128.44	\$ 90.43	\$ 33.49	\$ 54.17
New Peer Group Index	\$ 100.00	\$ 90.92	\$ 120.24	\$ 86.33	\$ 34.72	\$ 61.71

The Old Peer Group was made up of the following securities:

Ameritrans Capital Corp (NasdaqCM:AMTC)

Equus Total Return Inc (NYSE:EQS)

Gladstone Investment CP (NasdaqGS:GAIN)

**Table of Contents**

Harris & Harris Group (NasdaqGM:TINY)  
Hercules Tech Growth Cap (NasdaqGS: HTGC)  
Main Street Capital Corp (NasdaqGS: MAIN)  
MCG Capital Corporation (NasdaqGS:MCGC)  
Patriot Capital Funding (NasdaqGS: PCAP)  
Triangle Capital Corp (NasdaqGM: TCAP)

The New Peer Group is made up of the following securities:

Ameritrans Capital Corp (NasdaqCM:AMTC)  
Gladstone Investment CP (NasdaqGS:GAIN)  
Harris & Harris Group (NasdaqGM:TINY)  
Hercules Tech Growth Cap (NasdaqGS: HTGC)  
Main Street Capital Corp (NasdaqGS: MAIN)  
MCG Capital Corporation (NasdaqGS:MCGC)  
Triangle Capital Corp (NasdaqGM: TCAP)

The New Peer Group was selected in good faith by the Corporation and contains seven business development companies or other funds believed by the Corporation to be of similar size and have similar investment objectives to those of the Corporation.

The performance graph information provided above will not be deemed to be soliciting material or filed with the SEC or subject to Regulations 14A or 14C, or to the liabilities of section 18 of the Securities Exchange Act, unless in the future the Corporation specifically requests that the information be treated as soliciting material or specifically incorporates it by reference into any filing under the Securities Act or the Securities Exchange Act.

**Item 6. Selected Financial Data**

The following table provides selected consolidated financial data of the Corporation for the periods indicated. You should read the selected financial data set forth below in conjunction with Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and with our consolidated financial statements and related notes appearing elsewhere in this report.

**Balance Sheet Data as of December 31:**

	2009	2008	2007	2006	2005
Total assets	\$ 35,631,371	\$ 32,228,797	\$ 32,722,151	\$ 29,463,944	\$ 16,063,605
Total liabilities	\$ 12,425,490	\$ 12,001,831	\$ 12,904,328	\$ 12,681,539	\$ 7,447,671
Net assets	\$ 23,205,881	\$ 20,226,966	\$ 19,817,823	\$ 16,782,405	\$ 8,615,934
Net asset value per outstanding share	\$ 3.40	\$ 3.54	\$ 3.47	\$	