

RAND CAPITAL CORP
Form 10-Q
November 07, 2011

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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 quarter ended September 30, 2011

**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)

(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 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 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

As of November 4, 2011 there were 6,818,934 shares of the registrant's common stock outstanding.



**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
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of September 30, 2011 and December 31, 2010

	September 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Investments at fair value (identified cost: 9/30/11 - \$12,208,977; 12/31/10 - \$13,573,041)	\$ 21,696,992	\$ 19,364,625
Cash and cash equivalents	4,504,418	11,698,653
Interest receivable (net of allowance: 9/30/11 - \$122,000; 12/31/10 - \$158,245)	1,319,424	1,051,848
Prepaid income taxes	637,290	414,745
Other assets	2,048,144	2,561,389
Total assets	\$ 30,206,268	\$ 35,091,260
LIABILITIES AND STOCKHOLDERS EQUITY (NET ASSETS)		
Liabilities:		
Debentures guaranteed by the SBA	\$ 4,000,000	\$ 10,000,000
Deferred tax liability	2,146,611	1,044,315
Accounts payable and accrued expenses	224,910	990,477
Deferred revenue		5,650
Total liabilities	6,371,521	12,040,442
Stockholders equity (net assets):		
Common stock, \$.10 par; shares authorized 10,000,000; shares issued 6,863,034	686,304	686,304
Capital in excess of par value	10,581,789	10,581,789
Accumulated net investment loss	(1,913,879)	(1,648,118)
Undistributed net realized gain on investments	8,510,719	9,833,282
Net unrealized appreciation on investments	6,017,020	3,644,767
Treasury stock, at cost, 44,100 shares	(47,206)	(47,206)
Net assets (per share 9/30/11 - \$3.50 , 12/31/10 - \$3.38)	23,834,747	23,050,818
Total liabilities and stockholders equity (net assets)	\$ 30,206,268	\$ 35,091,260

See accompanying notes

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three Months and Nine Months Ended September 30, 2011 and 2010
(Unaudited)

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Investment income:				
Interest from portfolio companies	\$ 170,209	\$ 189,915	\$ 549,845	\$ 523,921
Interest from other investments	8,828	6,770	26,909	15,959
Dividend and other investment income	254,300	26,220	324,856	62,511
Other income	7,100	4,525	14,680	11,853
	440,437	227,430	916,290	614,244
Operating expenses:				
Salaries	118,750	495,050	356,250	725,150
Employee benefits	22,700	26,802	88,384	110,939
Directors fees	12,750	15,750	65,250	73,500
Professional fees	45,519	27,573	122,323	118,264
Stockholders and office operating	27,104	24,701	101,703	96,625
Insurance	7,800	9,656	27,646	29,476
Corporate development	15,773	15,584	48,510	39,351
Other operating	2,070	2,977	12,264	11,005
	252,466	618,093	822,330	1,204,310
Interest on SBA obligations	184,080	143,151	479,199	427,155
Bad debt recovery				(5,983)
Total expenses	436,546	761,244	1,301,529	1,625,482
Investment gain (loss) before income taxes				
	3,891	(533,814)	(385,239)	(1,011,238)
Income tax expense (benefit)	18,809	(219,963)	(119,478)	(387,747)
Net investment loss	(14,918)	(313,851)	(265,761)	(623,491)
Realized and unrealized gain (loss) on investments:				
Realized gain (loss) on sales and dispositions	(1)	4,311,499	(2,074,131)	4,311,499
Income tax expense (benefit)		1,536,869	(751,568)	1,536,869
Net realized gain (loss) on investments	(1)	2,774,630	(1,322,563)	2,774,630

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Unrealized appreciation on investments:				
Beginning of period	7,956,016	8,785,064	5,791,584	9,528,226
End of period	9,488,015	4,535,718	9,488,015	4,535,718
Change in unrealized appreciation before				
income taxes	1,531,999	(4,249,346)	3,696,431	(4,992,508)
Deferred income tax expense (benefit)	544,840	(1,571,940)	1,324,178	(1,801,737)
Net increase (decrease) in unrealized				
appreciation	987,159	(2,677,406)	2,372,253	(3,190,771)
Net realized and unrealized gain				
(loss) on investments	987,158	97,224	1,049,690	(416,141)
Net increase (decrease) in net assets				
from operations	\$ 972,240	(\$216,627)	\$ 783,929	(\$1,039,632)
Weighted average shares outstanding				
Basic and diluted net increase	6,818,934	6,818,934	6,818,934	6,818,934
(decrease) in net assets from operations				
per share	\$ 0.14	(\$0.03)	\$ 0.11	(\$0.15)
	See accompanying notes			

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2011 and 2010
(Unaudited)

	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Cash flows from operating activities:		
Net increase (decrease) in net assets from operations	\$ 783,929	\$ (1,039,632)
Adjustments to reconcile net increase (decrease) in net assets to net cash used in operating activities:		
Depreciation and amortization	94,744	31,168
Original issue discount accretion	(37,000)	
Change in interest receivable allowance	(36,245)	
(Increase) decrease in unrealized appreciation of investments	(3,696,431)	4,992,508
Deferred tax expense (benefit)	1,102,296	(1,432,154)
Net realized loss (gain) on portfolio investments	2,074,131	(4,311,499)
Non-cash conversion of debenture interest	(72,285)	(342,897)
Changes in operating assets and liabilities:		
(Increase) decrease in interest receivable	(231,331)	184,636
Decrease (increase) in other assets	418,500	(14,206)
Increase in prepaid income taxes	(222,545)	
Decrease in income taxes payable		(240,994)
(Decrease) increase in accounts payable and accrued expenses	(765,567)	89,240
Decrease in deferred revenue	(5,650)	(1,353)
Total adjustments	(1,377,383)	(1,045,551)
Net cash used in operating activities	(593,454)	(2,085,183)
Cash flows from investing activities:		
Investments originated	(1,171,944)	(2,830,000)
Proceeds from sale of portfolio investments		4,655,379
Proceeds from loan repayments	571,163	90,606
Capital expenditures		(846)
Net cash (used) provided by investing activities	(600,781)	1,915,139
Cash flows from financing activities:		
Repayment of SBA debentures	(6,000,000)	
Proceeds from SBA debentures		900,000
Origination costs to SBA		(21,825)
Net cash (used) provided by financing activities	(6,000,000)	878,175
Net (decrease) increase in cash and cash equivalents	(7,194,235)	708,131

Cash and cash equivalents:

Beginning of period	11,698,653	9,417,236
End of period	\$ 4,504,418	\$ 10,125,367

See accompanying notes

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
For the Three Months and the Nine Months Ended September 30, 2011 and 2010
(Unaudited)

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Net assets at beginning of period	\$ 22,862,507	\$ 22,382,876	\$ 23,050,818	\$ 23,205,881
Net investment loss	(14,918)	(313,851)	(265,761)	(623,491)
Net realized (loss) gain on dispositions of investments	(1)	2,774,630	(1,322,563)	2,774,630
Net increase(decrease) in unrealized appreciation	987,159	(2,677,406)	2,372,253	(3,190,771)
Net increase (decrease) in net assets from operations	972,240	(216,627)	783,929	(1,039,632)
Net assets at end of period	\$ 23,834,747	\$ 22,166,249	\$ 23,834,747	\$ 22,166,249

See accompanying notes

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RAND CAPITAL CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS
September 30, 2011
(Unaudited)

(a) Company, Geographic Location, Business		(b) Date	(c)		(d)(f)	Per Share of Rand
Description, (Industry) and Website	Type of Investment	Acquire	Equity	Cost	Value	
Non-Control/Non-Affiliate Investments:						
(j)						
Chequed.com, Inc. (g) Saratoga Springs, NY. Predictive employee selection and development software. (Software) www.chequed.com	\$500,000 convertible promissory notes at 8% due December 31, 2012.	11/18/10	0%	\$ 500,000	\$ 500,000	\$.07
Liazon Corporation (e)(g) Buffalo, NY. Employee benefits solution company. (Health Benefits Provider) www.liazon.com	120,000 Series C-1 preferred shares. 546,667 Series C-2 preferred shares.	11/9/10	4%	858,199	1,000,000	.15
Mezmeriz, Inc. (g) Ithaca, NY. Developer of micro mirror technology that replaces silicon with carbon fibers in micro-electronic mechanical systems (MEMS) enabling efficient, wide-angle, Pico projectors to be embedded in mobile devices. (Electronics Developer) www.mezmeriz.com	141,125 Series A preferred shares.	1/9/08	4%	121,509	121,509	.02
Rheonix, Inc. Ithaca, NY. Developer of microfluidic testing devices including channels, pumps, reaction vessels, & diagnostic chambers, for testing of small volumes of chemicals and biological fluids. (Manufacturing) www.rheonix.com	9,676 common shares. (g) 694,015 Series A preferred shares. 50,593 common shares.	10/29/09	4%	753,000	889,000	.12
Somerset Gas Transmission Company, LLC (e) Columbus, OH. Natural gas transportation company. (Oil and Gas) www.somersetgas.com	26.5337 units.	7/10/02	3%	719,097	786,748	.12
Synacor Inc. (g) Buffalo, NY. Develops provisioning	234,558 Series A preferred shares.	11/18/02	4%	1,349,479	5,700,000	.84

platforms for aggregation and delivery of content and services across multiple digital devices. (Software) www.synacor.com	600,000 Series B preferred shares. 240,378 Series C preferred shares. 897,438 common shares.
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Subtotal Non-Control/Non-Affiliate Investments

\$ 4,301,284 \$ 8,997,257 \$ 1.32

Affiliate Investments: (k)

Carolina Skiff LLC (e)(g) Waycross, GA. Manufacturer of fresh water, ocean fishing and pleasure boats. (Manufacturing) www.carolinaskiff.com	\$985,000 Class A preferred membership interest at 14%. Redeemable December 23, 2012. \$500,000 subordinated promissory note at 14% due December 31, 2016. 6.0825% class A common membership interest. (i) Interest receivable \$1,263,369	1/30/04	7%	\$ 1,500,000	\$ 1,500,000	\$.22
EmergingMed.com, Inc. (e)(g) New York, NY. Cancer clinical trial matching and referral service. (Software) www.emergingmed.com	\$675,045 senior subordinated note at 8% due January 19, 2013. Warrants for 8% of common stock.	12/19/05	8%	675,046	675,046	.10

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RAND CAPITAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS
September 30, 2011 (Continued)
(Unaudited)

(a) Company, Geographic Location, Business		(b) Date	(c)		(d)(f)	Per Share of Rand
Description, (Industry) and Website	Type of Investment	Acquired	Equity	Cost	Value	
Microcision LLC (e)(g) Philadelphia, PA. Custom manufacturer of medical and dental implants. (Manufacturing). www.microcision.com	\$1,500,000 subordinated promissory note at 5%, 6% deferred interest due December 31, 2013. 15% class A common membership interest.	9/24/09	15%	1,654,565	1,654,565	.24
Mid America Brick & Structural Clay Products, LLC(g) Mexico, MO. Manufacturer of face brick for residential and commercial construction. (Manufacturing). www.midamericabrick.com	19.524 membership units.	6/1/10	19%	800,000	800,000	.12
SOMS Technologies, LLC (g) Valhalla, NY. Produces and markets the microGreen Extended Performance Oil Filter. (Auto Parts Developer) www.microgreenfilter.com	5,959,490 Series B membership units.	12/2/08	10%	472,632	528,348	.08
Ultra Scan Corporation Amherst, NY. Biometrics application developer of ultrasonic fingerprint technology. (Electronics Hardware/Software) www.ultra-scan.com	536,596 common shares. 107,104 Series A-1 preferred shares. (g) 95,284 Series A-1 preferred shares.	12/11/92	2%	938,164	1,203,000	.18
Subtotal Affiliate Investments				\$ 6,040,407	\$ 6,360,959	\$.94
Control Investments (l)						
Advantage 24/7 LLC (g) Williamsville, NY. Marketing program for wine and spirits dealers. (Marketing Company)	50% Membership interest.	12/30/10	50%	\$ 100,000	\$ 100,000	\$.02

Gemcor II, LLC (e)(g)(h) West Seneca, NY. Designs and sells automatic riveting machines used in the assembly of aircraft components. (Manufacturing) www.gemcor.com	\$500,000 subordinated promissory note at 15% due December 1, 2014. 25 membership units. Warrant to purchase 6.25 membership units.	6/28/04	31%	842,435	6,042,435	.89
G-TEC Natural Gas Systems Buffalo, NY. Manufactures and distributes systems that allow natural gas to be used as an alternative fuel to gases. (Manufacturing) www.gas-tec.com	21.6% Class A membership interest. 8% cumulative dividend.	8/31/99	22%	400,000	100,000	.01
Subtotal Control Investments				\$ 1,342,435	\$ 6,242,435	\$.92
Other Investments	Various			\$ 524,851	\$ 96,341	\$ 0
	Total portfolio investments			\$ 12,208,977	\$ 21,696,992	\$ 3.18

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**RAND CAPITAL CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS
September 30, 2011 (Continued)
(Unaudited)**

Notes to Consolidated Schedule of Portfolio Investments

- (a) At September 30, 2011 restricted securities represented 100% of the value of the investment portfolio. Restricted securities are subject to one or more restrictions on resale and are not freely marketable. Freed Maxick & Battaglia, CPAs PC has not examined the business descriptions of the portfolio companies. Individual securities with values less than \$100,000 are included in Other Investments.
- (b) The Date Acquired column indicates the year in which the Corporation acquired its first investment in the company or a predecessor company. Freed Maxick & Battaglia, CPAs, PC has not audited the date acquired of the portfolio companies.
- (c) The equity percentages estimate the Corporation's ownership interest in the portfolio investment. The estimated ownership is calculated based on the percent of outstanding voting securities held by the Corporation or the potential percentage of voting securities held by the Corporation upon exercise of warrants or conversion of debentures, or other available data. Freed Maxick & Battaglia, CPAs, PC has not audited the equity percentages of the portfolio companies. The symbol <1% indicates that the Corporation holds an equity interest of less than one percent.
- (d) The Corporation uses Accounting Standards Codification (ASC) 820 Fair Value Measurements which defines fair value and establishes guidelines for measuring fair value. At September 30, 2011, ASC 820 designates all of the Corporation's investments as Level 3 assets due to their privately held restricted nature. Under the valuation policy of the Corporation, unrestricted securities are valued at the closing price for publicly held securities for the last three days of the month. Restricted securities are subject to restrictions on resale, and are valued at fair value as determined by the management of the Corporation and submitted to the Board of Directors for approval. Fair value is considered to be the amount which the Corporation may reasonably expect to receive for portfolio securities when sold on the valuation date. Valuations as of any particular date, however, are not necessarily indicative of amounts which may ultimately be realized as a result of future sales or other dispositions of securities and these favorable or unfavorable differences could be material. Among the factors considered in determining the fair value of restricted securities are the financial condition and operating results, projected operations, and other analytical data relating to the investment. Also considered are the market prices for unrestricted securities of the same class (if applicable) and other matters which may have an impact on the value of the portfolio company.
- (e) These investments are income producing. All other investments are non-income producing. Income producing investments have generated cash payments of interest or dividends within the last twelve months.
- (f) As of September 30, 2011, the total cost of investment securities approximated \$12.2 million. Net unrealized appreciation was approximately \$9.5 million, which was comprised of \$10.2 million of unrealized appreciation of investment securities and \$0.7 million related to unrealized depreciation of investment securities.
- (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 Balance Sheet.
- (j) Non-Control/Non-Affiliate investments are investments that are neither Control Investments nor Affiliated 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 or Rand holds a Board seat.
- (l) Control investments are defined by the 1940 Act as investments in companies in which more than 25% of the voting securities are owned or where greater than 50% of the board representation is maintained.

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**Rand Capital Corporation and Subsidiary
Notes to the Consolidated Financial Statements
For the Nine Months Ended September 30, 2011 and 2010
(Unaudited)**

Note 1. ORGANIZATION

Rand Capital Corporation (Rand) was incorporated under the laws of New York in 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). In 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 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 were continued by the newly formed corporation under the name of Rand Capital SBIC, Inc. (Rand SBIC). The following discussion describes the operations of Rand and its wholly-owned subsidiary Rand SBIC (collectively, the Corporation).

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

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.

In 2002 Rand and the predecessor SBIC subsidiary filed an initial Exemption Application with the Security and Exchange Commission (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 Exemption Application, the Corporation had extensive 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 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.

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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, in February 2009 the Corporation filed a new Exemption Application with the SEC, which was amended in August 2009 and again in September 2011, in response to comments from the Staff of the SEC. As amended, the Exemption Application seeks an order under Sections 6(c), 12(d)(1)(J) and 57(c) of the 1940 Act for exemptions from the application of Sections 12(d)(1)(A) and (C), 18(a), 21(b), 57(a)(1) through (3), and 61(a) of the 1940 Act, and under Section 57(i) of the 1940 Act and Rule 17d-1 under the 1940 Act to permit certain transactions that would otherwise be prohibited, but which would not be prohibited if Rand and Rand SBIC were a single entity. 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.

Although Rand SBIC is operated as if it were a BDC, it is currently registered as an investment company under the 1940 Act. If the Corporation receives the exemptions described above, Rand SBIC intends to promptly file an election to be regulated as a BDC under the 1940 Act.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation In Management's opinion, the accompanying consolidated financial statements include all adjustments necessary for a fair presentation of the consolidated financial position, results of operations, and cash flows for the interim periods presented. Certain information and note disclosures normally included in audited annual financial statements prepared in accordance with United States generally accepted accounting principles (GAAP) have been omitted; however, the Corporation believes that the disclosures made are adequate to make the information presented not misleading. The interim results for the three and nine months ending September 30, 2011 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 the Corporation's Annual Report on Form 10-K for the year ended December 31, 2010. Information contained in this filing should also be reviewed in conjunction with the Corporation's 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	Definitive Proxy Statement submitted to shareholders
Form 10-K	Annual Report on Form 10-K for the year ended December 31, 2010
Form 10-Q	Quarterly Report on Form 10-Q for the quarters ended June 30, 2011, March 31, 2011, and September 30, 2010

Form N-23C-1 Reports by closed-end investment companies of purchases of their own securities
The Corporation's website is www.randcapital.com. The Corporation's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, charters for the Corporation's Board committees and other reports filed with the Securities and Exchange Commission (SEC) are available through the Corporation's website.

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

Reclassification Certain prior year amounts in the stockholders' equity section of the Statement of Financial Position have been reclassified to reflect the income tax effect which is consistent with the presentation on the Statement of Operations.

Cash and Cash Equivalents Temporary cash investments having a maturity of three months or less when purchased are considered to be cash equivalents.

Revenue Recognition Interest Income Interest income generally 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.

The Rand SBIC interest accrual is also regulated by the SBA's Accounting Standards and Financial Reporting Requirements for Small Business Investment Companies. Under these rules interest income cannot be recognized if collection is doubtful, and a 100% reserve must be established. The collection of interest is presumed to be in doubt when there is substantial doubt about a portfolio company's ability to continue as a going concern or the loan is in default 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.

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

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 \$37,000 in OID income for the nine months ended September 30, 2011. The Corporation recorded no OID income for the nine months ended September 30, 2010.

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Deferred Debenture Costs SBA debenture origination and commitment costs, which are included in other assets, are amortized ratably over the terms of the SBA debentures and are expensed when the debt is repaid. Amortization expense for the nine months ended September 30, 2011 and 2010 was \$91,135 and \$25,867, respectively.

SBA Leverage The Corporation has \$4,000,000 in outstanding SBA leverage at September 30, 2011 and \$10,000,000 at December 31, 2010 with maturities commencing in 2015.

Net Assets per Share Net assets per share are based on the number of shares of common stock outstanding. There are no common stock equivalents.

Supplemental Cash Flow Information Income taxes (refunded) paid, during the nine months ended September 30, 2011 and 2010 amounted to (\$426,619) and \$1,020,533, respectively. Interest paid during the nine months ended September 30, 2011 and 2010 amounted to \$555,748 and \$513,953 respectively. The Corporation converted \$72,285 and \$342,897 of interest receivable into investments during the nine months ended September 30, 2011 and 2010, respectively.

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

Stockholders Equity (Net Assets) At September 30, 2011 and December 31, 2010, there were 500,000 shares of \$10.00 par value preferred stock authorized and unissued.

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 through October 28, 2012 at prices that are no greater than current net asset value. During 2003 and 2002 the Corporation purchased 44,100 shares of its stock for \$47,206. No additional shares have been repurchased since 2003.

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). The Option Plan provides for the award of options to purchase up to 200,000 common shares to eligible employees. In 2002 the Corporation placed the Option Plan on inactive status as it developed a new profit sharing plan for the Corporation's employees in connection with the formation of its SBIC subsidiary. As of September 30, 2011, 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 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. The profit sharing payments will be split equally between the Corporation's two executive officers, who are fully vested in the Plan. There were no contributions to the Plan for the nine months ended September 30, 2011. The Corporation accrued \$380,000 for estimated contributions to, or payments made under the Plan for the nine months ended September 30, 2010. During the year ended December 31, 2010 the Corporation approved and accrued \$584,634 under the profit sharing plan, of which \$568,694 was paid during the nine months ended September 30, 2011. The remaining \$15,940 is related to an escrow receivable and will be paid when the escrow is collected. During the year ended December 31, 2009, the Corporation approved and accrued \$133,013 under the Plan, which was paid during the nine months ended September 30, 2010. The amounts approved do not exceed the defined limits.

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

There have been no changes in liabilities recorded for uncertain tax positions in the first nine months of 2011 and the Corporation does not expect that the amounts of uncertain tax positions will change significantly within the next 12 months.

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 unrecognized tax expense for the nine months ended September 30, 2011 and 2010.

The Corporation is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ending December 31, 2008 through 2010. In general, the Corporation's state income tax returns are open to audit under the statute of limitations for the years ended December 31, 2007 through 2010.

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 the banks.

At September 30, 2011 Gemcor II, LLC (Gemcor), Synacor Inc. (Synacor), Microcision, LLC (Microcision) and Carolina Skiff LLC (Carolina Skiff) represent 28%, 26%, 8% and 7%, respectively, of the fair value of the Corporation's investment portfolio.

At September 30, 2011 the Carolina Skiff interest receivable balance represents 88% of the Corporation's gross interest receivable balance.

Recent Accounting Pronouncements In May, 2011 the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRSs). This update results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and IFRS. ASU 2011-04 is required to be applied prospectively in interim and annual periods beginning after December 15, 2011. Early application is not permitted. Management is currently evaluating the impact that the adoption of ASU 2011-04 will have and does not believe the adoption will have a material impact on the consolidated financial statements.

Subsequent Events Subsequent to September 30, 2011 the Corporation contributed \$1,000,000 of regulatory capital to the Rand SBIC subsidiary and Rand SBIC received approval from the SBA for \$8,000,000 in new leverage. Additionally, the Corporation made one investment totaling \$700,000.

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Investments are valued at fair value as determined in good faith by the management of the Corporation and submitted to the Board of Directors for approval. 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 for each investment. The Corporation analyzes and values each investment quarterly, and records unrealized depreciation for an investment that it believes has become impaired, including where collection of a loan or realization of the recorded value of an equity security is doubtful. Conversely, the Corporation will record unrealized appreciation if it believes that an underlying portfolio company has appreciated in value and, therefore, its equity security has 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 our assumptions and judgments differ from results of actual liquidation events.

On January 1, 2008 the Corporation adopted 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.

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

Loan and debt securities are generally valued at the price the security would command in order to provide a yield to maturity equivalent to the current yield of similar debt securities. A loan or debt instrument may be reduced in value if it is judged to be of poor quality and collection is in doubt. A loan or debt security may also be valued based on the estimated proceeds from the sale of a portfolio company at its estimated fair value.

Equity securities may be valued using the market approach or income approach. The market approach uses observable prices and other relevant information generated by similar market transactions. It may include the use of market multiples derived from a set of comparables to assist in pricing the investment. Additionally, the Corporation adjusts valuations if a subsequent significant equity financing has occurred that includes a meaningful portion of the financing by a sophisticated, unrelated new investor. The income approach employs a cash flow and discounting methodology to value an investment.

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 and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement, which is not necessarily an indication of risks associated with the investment.

Any changes in estimated fair value are recorded in our statement of operations as Net increase (decrease) in unrealized appreciation.

In the valuation process, the Corporation uses financial information from its portfolio companies, which includes both audited and unaudited financial statements, annual projections and budgets prepared by the portfolio company and other financial and non-financial business information supplied by the portfolio companies' management. This information is used to determine financial condition, performance, and valuation of the portfolio companies. The valuation may be reduced if a company's performance and potential have deteriorated significantly. If the factors which led to the reduction in valuation are overcome, the valuation may be restored.

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Another key factor used in valuing equity investments is recent arms-length equity transactions with unrelated new investors entered into by the portfolio company. Many times 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 discrepancy in transaction terms on the market value of the portfolio company may be difficult or impossible to quantify.

At September 30, 2011 all of the Corporation's investments are classified in Level 3 due to their privately held restricted nature.

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.

Assets Measured at Fair Value on a Recurring Basis

Description	September 30, 2011	Fair Value Measurements at Reported Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Significant Unobservable Inputs (Level 3)
Loan investments	\$ 342,435			\$ 342,435
Debt investments	3,403,111			3,403,111
Equity investments	17,951,446			17,951,446
Total Venture Capital Investments	\$ 21,696,992	\$ 0	\$ 0	\$ 21,696,992

Description	December 31, 2010	Fair Value Measurements at Reported Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Loan investments	\$ 413,597			\$ 413,597
Debt investments	3,595,326			3,595,326
Equity investments	15,355,702			15,355,702

Total Venture Capital Investments	\$ 19,364,625	\$ 0	\$ 0	\$ 19,364,625
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Description	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Venture Capital Investments			Total
	Loan Investments	Debt Investments	Equity Investments	
Beginning Balance, December 31, 2010, of Level 3 Assets	\$ 413,597	\$ 3,595,326	\$ 15,355,702	\$ 19,364,625
Realized Gains or Losses included in net change in net assets from operations				
Associates Interactive (Associates)			(293,518)	(293,518)
Niagara Dispensing Technologies, Inc. (Niagara Dispensing)		(498,828)	(1,281,785)	(1,780,613)
Total Realized Losses		(498,828)	(1,575,303)	(2,074,131)
Unrealized gains or losses included in net change in net assets from operations				
Associates			293,518	293,518
Liazon Corporation (Liazon)			141,801	141,801
Niagara Dispensing		447,328	1,281,785	1,729,113
Synacor, Inc. (Synacor)			1,531,999	1,531,999
Total Unrealized Gains and Losses		447,328	3,249,103	3,696,431
Purchases of Securities/Changes to Securities/Non-cash conversions				
Chequed.com, Inc. (Chequed)		250,000		250,000
Microcision LLC (Microcision)		72,285		72,285
Liazon		37,000	819,999	856,999
SOMS Technologies, LLC			101,945	101,945
Total Purchases/Changes to Securities and Non- Cash conversions		359,285	921,944	1,281,229
Repayments of Securities				
Gemcor II, LLC (Gemcor)	(71,162)			(71,162)
Liazon		(500,000)		(500,000)
Total Repayments of Securities	(71,162)	(500,000)		(571,162)
Transfers within Level 3				
Transfers in or out of Level 3				
Ending Balance, September 30, 2011, of Level 3 Assets	\$ 342,435	\$ 3,403,111	\$ 17,951,446	\$ 21,696,992

Amount of total gains or losses for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held at the reporting date and reported within the net realized and unrealized gains or losses on investments in the Condensed Consolidated Statement of Operations	\$ 3,696,431
Amount of realized losses included in changes in net assets from operations for the period reported above within the net realized and unrealized gains or losses on investments in the Condensed Consolidated Statement of Operations	(2,074,131)
Change in unrealized gains or losses relating to assets still held at reporting date	\$ 1,622,300

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Description	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			Total
	Loan Investments	Debt Investments	Equity Investments	
Beginning Balance, December 31, 2009, of Level 3 Assets	\$ 488,104	\$ 3,487,120	\$ 20,290,423	\$ 24,265,647
Realized Gains or Losses included in net change in net assets from operations				
Bioworks Inc. (Bioworks)			(49,830)	(49,830)
Innov-X Systems Inc (Innovex)			4,361,329	4,361,329
Total Realized Gains			4,311,499	4,311,499
Unrealized gains or losses included in net change in net assets from operations				
Bioworks			56,000	56,000
GridApp Systems Inc. (GridApp)			295,935	295,935
Innovex			(5,050,000)	(5,050,000)
Niagara Dispensing Technologies, Inc. (Niagara Dispensing)			(350,162)	(350,162)
Photonics Products Group, Inc. (Photonics)			2	2
SOMS Technologies, LLC (SOMS)			55,717	55,717
Total Unrealized Gains and Losses			(4,992,508)	(4,992,508)
Purchases of Securities/Changes to Securities/Non-cash conversions				
EmergingMed.com, Inc. (Emerging Med)		216,712		216,712
GridApp			481,772	481,772
Mezmeriz, Inc. (Mezmeriz)			21,509	21,509
Microcision LLC (Microcision)		900,087		900,087
Mid America Brick (Mid America)			800,000	800,000
Niagara Dispensing		236,919		236,919
Rheonix, Inc. (Rheonix)			500,000	500,000
SOMS		15,897		15,897
Total Purchases/Changes to Securities and Non- Cash conversions		1,369,615	1,803,281	3,172,896
Repayments of Securities				
Bioworks			(6,170)	(6,170)
Gemcor II, LLC (Gemcor)	(54,827)	(35,779)		(90,606)
Innovex		(250,000)	(5,361,329)	(5,611,329)
Total Repayments of Securities	(54,827)	(285,779)	(5,367,499)	(5,708,105)

Transfers within Level 3		(1,270,687)	1,270,687
Transfers in or out of Level 3			

Ending Balance, September 30, 2010, of Level

3 Assets	\$ 433,277	\$ 3,300,269	\$ 17,315,883	\$ 21,049,429
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The amount of total gains or losses for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets still held at the reporting date.

\$ (4,992,508)

Gains and losses (realized and unrealized) included in net decrease in net assets from operations for the period above are reported as follows:

Net Gain (Loss) on sales and dispositions	4,311,499
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Change in unrealized gains or losses relating to assets still held at reporting date	\$ (681,009)
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Note 4. FINANCIAL HIGHLIGHTS

The following schedule provides the financial highlights, calculated based on weighted average shares outstanding, for the nine months ended September 30, 2011 and the year ended December 31, 2010:

	Nine months ended September 30, 2011 (Unaudited)	Year ended December 31, 2010
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