

RAND CAPITAL CORP
Form 10-Q
May 13, 2008

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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 March 31, 2008

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: 001-08205

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 No. 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. (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
As of May 5, 2008 there were 5,718,934 shares of the registrant's common stock outstanding.

RAND CAPITAL CORPORATION
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PART I.
FINANCIAL INFORMATION

Item 1. Financial Statements and Supplementary Data

RAND CAPITAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of March 31, 2008 and December 31, 2007

	March 31, 2008 (Unaudited)	December 31, 2007
ASSETS		
Investments at fair value (identified cost: 3/31/08 \$13,367,135; 12/31/07 \$13,390,644)	\$ 26,375,281	\$ 26,528,490
Cash and cash equivalents	3,206,341	4,396,595
Interest receivable (net of allowance \$122,000)	858,550	647,001
Prepaid income taxes	43,157	
Other assets	1,280,749	1,150,065
Total assets	\$ 31,764,078	\$ 32,722,151
LIABILITIES AND STOCKHOLDERS EQUITY (NET ASSETS)		
Liabilities:		
Debentures guaranteed by the SBA	\$ 8,100,000	\$ 8,100,000
Deferred tax liability	3,756,000	3,955,000
Income taxes payable		474,465
Accounts payable and accrued expenses	152,348	321,210
Deferred revenue	29,723	53,653
Total liabilities	12,038,071	12,904,328
Stockholders equity (net assets):		
Common stock, \$.10 par; shares authorized 10,000,000; shares issued 5,763,034	576,304	576,304
Capital in excess of par value	6,973,454	6,973,454
Accumulated net investment (loss)	(3,887,900)	(3,940,409)
Undistributed net realized gain on investments	7,735,477	7,796,289
Net unrealized appreciation on investments	8,375,878	8,459,391
Treasury stock, at cost, 44,100 shares	(47,206)	(47,206)
Net assets (per share 3/31/08 \$3.45 , 12/31/07 \$3.47)	19,726,007	19,817,823
Total liabilities and stockholders equity (net assets)	\$ 31,764,078	\$ 32,722,151

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RAND CAPITAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three Months Ended March 31, 2008 and 2007
(Unaudited)

	Three months ended March 31, 2008	Three months ended March 31, 2007
Investment income:		
Interest from portfolio companies	\$ 251,764	\$ 199,717
Interest from other investments	34,584	46,047
Dividend and other investment income	84,934	229,420
Other income	7,083	5,228
	378,365	480,412
Operating expenses:		
Salaries	108,384	106,970
Employee benefits	43,630	42,313
Directors' fees	11,750	12,250
Professional fees	60,290	31,678
Stockholders and office operating	24,508	32,413
Insurance	10,500	10,920
Corporate development	16,562	14,790
Other operating	1,978	2,479
	277,602	253,813
Interest on SBA obligations	125,766	125,766
Total expenses	403,368	379,579
Investment (loss) gain before income taxes	(25,003)	100,833
Current income tax expense	136,113	98,297
Deferred income tax benefit	(152,813)	(98,668)
Net investment (loss) gain	(8,303)	101,204
Realized and unrealized gain (loss) on investments:		
Net loss on sales and dispositions		(39,236)
Unrealized appreciation on investments:		
Beginning of period	13,137,846	9,616,025
End of period	13,008,146	9,725,646
Change in unrealized appreciation before income taxes	(129,700)	109,621
Deferred income tax (benefit) expense	(46,187)	40,121

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Net (decrease) increase in unrealized appreciation	(83,513)	69,500
Net realized and unrealized (loss) gain on investments	(83,513)	30,264
Net (decrease) increase in net assets from operations	\$ (91,816)	\$ 131,468
Weighted average shares outstanding	5,718,934	5,718,934
Basic and diluted net (decrease) increase in net assets per share from operations	\$ (0.02)	\$ 0.02
	See accompanying notes	

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RAND CAPITAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31, 2008 and 2007
(Unaudited)

	March 31, 2008	March 31, 2007
Cash flows from operating activities:		
Net (decrease) increase in net assets from operations	\$ (91,816)	\$ 131,468
Adjustments to reconcile net (decrease) increase in net assets to net cash used in operating activities:		
Depreciation and amortization	8,195	8,496
Original issue discount accretion		(62,333)
Decrease (increase) in unrealized appreciation of investments	129,700	(109,621)
Deferred tax benefit	(199,000)	(58,547)
Net realized loss on portfolio investments		39,236
Non-cash conversion of debenture interest		(40,000)
Changes in operating assets and liabilities:		
(Increase) decrease in interest receivable	(211,549)	3,381
Increase in other assets	(137,689)	(314,910)
Increase in prepaid income taxes	(43,157)	
Decrease in income taxes payable	(474,465)	
(Decrease) in accounts payable and accrued expenses	(168,862)	(644,886)
Decrease in deferred revenue	(23,930)	(5,228)
Total adjustments	(1,120,757)	(1,184,412)
Net cash used in operating activities	(1,212,573)	(1,052,944)
Cash flows from investing activities:		
Investments originated	(524,990)	
Proceeds from loan repayments	548,499	970,015
Capital expenditures	(1,190)	(1,350)
Net cash provided by investing activities	22,319	968,665
Net decrease in cash and cash equivalents	(1,190,254)	(84,279)
Cash and cash equivalents:		
Beginning of period	4,396,595	4,299,852
End of period	\$ 3,206,341	\$ 4,215,573

See accompanying notes

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RAND CAPITAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
For the Three Months Ended March 31, 2008 and 2007
(Unaudited)

	Three months ended March 31, 2008	Three months ended March 31, 2007
Net assets at beginning of period	\$19,817,823	\$16,782,405
Cumulative effect adjustment for uncertain tax positions FIN 48		316,253
Net investment (loss) gain	(8,303)	101,204
Net realized loss on investments		(39,236)
Net change in unrealized appreciation of investments	(83,513)	69,500
Net (decrease) increase in net assets from operations	(91,816)	447,721
Net assets at end of period	\$19,726,007	\$17,230,126

See accompanying notes

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RAND CAPITAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS
March 31, 2008
(Unaudited)

Company and Business	Type of Investment	(b) Date Acquired	(c) Equity	Cost	(d) Value	Per Share of Rand
Adampluseve, Inc. (g) New York, NY. Luxury sports wear company for men and women. www.adampluseve.com	Warrants to purchase 1,715 Series A convertible preferred shares.	7/14/06	3%	\$ 68,000	\$ 133,341	.02
APF Group, Inc. (e)(g) Mount Vernon, NY. Manufacturer of museum quality picture frames and framed mirrors for museums, art galleries, retail frame shops, upscale designers and prominent collectors. www.apfgroup.com	\$566,504 consolidated senior subordinated note at 12.74% due December 30, 2010. Warrants to purchase 10.2941 shares of common stock.	7/8/04	6%	566,504	566,504	.10
Associates Interactive, LLC (e)(g) Buffalo, NY. Provider of training content and certifications used to train retail sales associates. www.associatesinteractive.com	\$247,812.50 promissory note at 8% due December 19, 2012. Investor units totaling 21.88% of company.	10/15/07	22%	250,000	250,000	.04
Carolina Skiff LLC (e)(g) Waycross, GA. Manufacturer of fresh water, ocean fishing and pleasure boats. www.carolinaskiff.com	\$985,000 Class A preferred membership interest at 7.5%. Redeemable January 31, 2010. 5% common membership interest.	1/30/04	5%	1,000,000	1,227,000	.22
Contract Staffing (e)(h) Buffalo, NY. PEO providing human resource administration for small businesses. www.contract-staffing.com	Preferred stock repurchase agreement through March 31, 2010 at 5%. 11 shares of common stock.	11/8/99	10%	117,815	117,815	.02

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EmergingMed.com, Inc. (g) New York, NY. Cancer clinical trial matching and referral service. www.emergingmed.com	\$500,000 senior subordinated note at 10% due December 19, 2010. Warrants for 5.5% of common stock.	12/19/05	5%	500,000	500,000	.09
Gemcor II, LLC (e)(g)(h) West Seneca, NY. Designs and sells automatic riveting machines used in the assembly of aircraft components. www.gemcor.com	\$250,000 subordinated note at 8% due June 28, 2010 with warrant to purchase 6.25 membership units. 25 membership units.	6/28/04	31%	650,350	4,150,350	.73
Golden Goal LLC (g) Fort Ann, NY. Youth soccer and lacrosse tournament park. www.goldengoalpark.com	191,811 Class C units at 4%.	12/10/07	6%	637,414	637,414	.11
G-TEC Natural Gas Systems Buffalo, NY. Manufactures and distributes systems that allow natural gas to be used as an alternative fuel to gases. www.gas-tec.com	28.925% Class A membership interest. 8% cumulative dividend.	8/31/99	29%	400,000	198,000	.03
Innov-X Systems, Inc. (g) Woburn, MA. Manufactures portable x-ray fluorescence (XRF) analyzers used in metals/alloy analysis. www.innovxsys.com	2,642 Series A convertible preferred stock. Warrants for 21,596 common shares. 8% cumulative dividend	9/27/04	9%	1,000,000	8,761,700	1.53
Kionix, Inc. Ithaca, NY. Develops innovative MEMS based technology applications. www.kionix.com	30,241 shares Series B preferred stock. 696,296 shares Series C preferred stock. (g) 2,862,091 shares Series A preferred stock. 714,285 shares Series B preferred stock.	5/17/02	2%	1,506,043	1,221,567	.21

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RAND CAPITAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS
March 31, 2008 (Continued)
(Unaudited)

Company and Business	Type of Investment	(b) Date Acquired	(c) Equity	Cost	(d) Value	Per Share of Rand
Mezmeriz, Inc. (g) Ithaca, NY. Developer of micro mirror technology that replaces silicon with carbon fibers in micro-electronic mechanical systems (MEMS), which enables a new generation of high definition displays. www.mezmeriz.com	\$100,000 convertible note at 9% due January 9, 2010.	1/9/08		100,000	100,000	.02
New Monarch Machine Tool, Inc. (e)(g)(h) Cortland, NY. Manufactures and services vertical/horizontal machining centers. www.monarchmt.com	22.84 shares of common stock.	9/24/03	15%	22,841	22,841	.00
Niagara Dispensing Technologies, Inc. (e) Amherst, NY. Beverage dispensing technology development and products manufacturer, specializing in rapid pour beer dispensing systems for high volume stadium and concession operations. www.exactpour.com	\$50,000 bridge note at 14% due March 7, 2009. (g) \$500,000 senior subordinated note at 9% due March 7, 2011. \$250,000 promissory note at 14% due July 10, 2008. \$75,000 bridge note at 14% due December 10, 2008. \$25,000 bridge note at 14% due January 9, 2009. \$45,000 bridge note at 14% due January 17, 2009. \$10,000 bridge note at 14% due	3/8/06	4%	1,090,000	979,000	.17

February 4, 2009.
 \$94,990 bridge note
 at 14% due
 February 14, 2009.
 200 shares common
 stock. Contingent
 warrants.

Photonic Products Group, Inc (OTC:PHPG.OB) (a)(i) Northvale, NJ. Develops and manufactures products for laser photonics industry. www.inrad.com	66,000 shares common stock.	10/31/00	<1%	165,000	272,000	.05
RAMSCO (e)(g) Albany, NY. Distributor of water, sanitary, storm sewer and specialty construction materials to the contractor, highway and municipal construction markets. www.ramsco.com	\$300,000 promissory notes at 8% due October 20, 2010. Warrants for 5.99% of common stock.	11/19/02	6%	300,000	300,000	.05
Rocket Broadband Networks, Inc. (g) Amherst, NY. Communications service provider of satellite TV, broadband internet and VoIP digital phone targeting multiple dwelling units. www.rocketbroadband.com	285,829 Series A preferred shares. 247,998 Series A-1 preferred shares. 996,441 Series B preferred shares	12/20/05	11%	680,000	680,000	.12
Somerset Gas Transmission Company, LLC (e) Columbus, OH. Natural gas transportation company. www.somersetgas.com	26.5337 units.	7/10/02	2%	719,097	786,748	.14
Synacor Inc. (g) Buffalo, NY. Develops provisioning platforms for aggregation and delivery of content for broadband access providers. www.synacor.com	78,186 Series A preferred shares. 200,000 shares of Series B preferred stock. 80,126 Series C preferred shares. 299,146 common shares.	11/18/02	4%	1,349,479	4,168,001	.73

<p>Ultra Scan Corporation Amherst, NY. Biometrics application developer of ultrasonic fingerprint technology. www.ultra-scan.com</p>	<p>536,596 common shares. 107,104 Series A-1 preferred shares. (g) 95,284 Series A-1 preferred shares.</p>	<p>12/11/92</p>	<p>4%</p>	<p>938,164</p>	<p>1,203,000</p>	<p>.21</p>
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RAND CAPITAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS
March 31, 2008 (Continued)
(Unaudited)

Company and Business	Type of Investment	(b) Date Acquired	(c) Equity	Cost	(d) Value	Per Share of Rand
WineIsIt.com, Corp. Williamsville, NY. Marketing company specializing in customer loyalty programs supporting the wine and spirit industry. www.wineisit.com	(g) \$500,000 senior subordinated note at 10% due December 17, 2009. \$250,000 note at 10% due April 16, 2005. Warrants to purchase 100,000 shares Class B common stock. (e) \$20,000 note at 18% due April 1, 2009.	12/18/02	2%	821,918	100,000	.02
Other Investments	Various			484,510	.00	.00
	Total portfolio investments			\$ 13,367,135	\$ 26,375,281	\$ 4.61

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**RAND CAPITAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS
March 31, 2008 (Continued)
(Unaudited)**

Notes to Consolidated Schedule of Portfolio Investments

(a) Unrestricted securities are freely marketable securities having readily available market quotations. All other securities are restricted securities, which are subject to one