

RAND CAPITAL CORP  
Form 10-Q  
November 12, 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 September 30, 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: 811-01825**

**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 November 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 September 30, 2008 and December 31, 2007**

	<b>September 30, 2008 (Unaudited)</b>	<b>December 31, 2007</b>
<b>ASSETS</b>		
Investments at fair value (identified cost: 9/30/08 \$13,453,917; 12/31/07 \$13,390,644)	\$ 25,599,063	\$ 26,528,490
Cash and cash equivalents	3,585,620	4,396,595
Interest receivable (net of allowance \$122,000)	924,392	647,001
Other assets	425,316	1,150,065
Total assets	<b>\$ 30,534,391</b>	<b>\$ 32,722,151</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY (NET ASSETS)</b>		
<b>Liabilities:</b>		
Debentures guaranteed by the SBA	\$ 8,100,000	\$ 8,100,000
Deferred tax liability	2,892,000	3,955,000
Income taxes payable	9,479	474,465
Accounts payable and accrued expenses	132,822	321,210
Deferred revenue	28,697	53,653
Total liabilities	<b>11,162,998</b>	<b>12,904,328</b>
<b>Stockholders equity (net assets):</b>		
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)	(3,778,951)	(3,940,409)
Undistributed net realized gain on investments	7,735,477	7,796,289
Net unrealized appreciation on investments	7,912,315	8,459,391
Treasury stock, at cost, 44,100 shares	(47,206)	(47,206)
Net assets (per share 9/30/08 \$3.39 , 12/31/07 \$3.47)	<b>19,371,393</b>	<b>19,817,823</b>
Total liabilities and stockholders equity (net assets)	<b>\$ 30,534,391</b>	<b>\$ 32,722,151</b>

See accompanying notes



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**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**For the Three Months and Nine Months Ended September 30, 2008 and 2007**  
**(Unaudited)**

	<b>Three months ended September 30, 2008</b>	<b>Three months ended September 30, 2007</b>	<b>Nine months ended September 30, 2008</b>	<b>Nine months ended September 30, 2007</b>
<b>Investment income:</b>				
Interest from portfolio companies	\$ 128,182	\$ 140,766	\$ 489,963	\$ 474,962
Interest from other investments	19,900	41,563	73,004	133,853
Dividend and other investment income	272,877	177,281	707,458	586,291
Other income	3,084	5,993	14,251	26,637
	424,043	365,603	1,284,676	1,221,743
<b>Operating expenses:</b>				
Salaries	106,312	100,465	321,378	308,022
Employee benefits	23,221	21,338	93,932	86,727
Directors' fees	9,750	10,750	65,750	67,250
Professional fees	19,080	52,383	138,717	149,645
Stockholders and office operating	29,340	23,902	91,048	98,056
Insurance	12,400	10,920	31,500	32,760
Corporate development	12,548	17,886	47,713	50,351
Other operating	1,826	2,343	6,264	7,884
	214,477	239,987	796,302	800,695
Interest on SBA obligations	144,766	125,766	396,297	377,297
Total expenses	359,243	365,753	1,192,599	1,177,992
<b>Investment gain (loss) before income taxes</b>	64,800	(150)	92,077	43,751
Current income tax expense	(87,183)	(36,082)	(608,807)	(217,447)
Deferred income tax benefit (expense)	106,710	(377,982)	617,376	12,151
<b>Net investment gain (loss)</b>	84,327	(414,214)	100,646	(161,545)
<b>Realized and unrealized (loss) gain on investments:</b>				
Net gain on sales and dispositions		555,000		516,204
Unrealized appreciation on investments:				

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Beginning of period	12,943,146	9,735,146	13,137,846	9,616,025
End of period	12,145,146	8,822,146	12,145,146	8,822,146
Change in unrealized appreciation before income taxes	(798,000)	(913,000)	(992,700)	(793,879)
Deferred income tax (benefit)	(376,290)	(421,115)	(445,624)	(377,529)
<b>Net decrease in unrealized appreciation</b>	(421,710)	(491,885)	(547,076)	(416,350)
<b>Net realized and unrealized (loss) gain on investments</b>	(421,710)	63,115	(547,076)	99,854
<b>Net decrease in net assets from operations</b>	\$ (337,383)	\$ (351,099)	\$ (446,430)	\$ (61,691)
<b>Weighted average shares outstanding</b>	5,718,934	5,718,934	5,718,934	5,718,934
<b>Basic and diluted net decrease in net assets from operations per share</b>	\$ (0.06)	\$ (0.06)	\$ (0.08)	\$ (0.01)
	See accompanying notes			



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**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Nine Months Ended September 30, 2008 and 2007**  
**(Unaudited)**

	September 30, 2008	September 30, 2007
<b>Cash flows from operating activities:</b>		
Net decrease in net assets from operations	\$ (446,430)	\$ (61,691)
Adjustments to reconcile net decrease in net assets to net cash used in operating activities:		
Depreciation and amortization	43,587	25,487
Original issue discount accretion		(62,333)
Decrease in unrealized appreciation of investments	992,700	793,879
Deferred tax benefit	(1,063,000)	(389,547)
Net realized loss on portfolio investments		(516,204)
Non-cash conversion of debenture interest	(70,717)	(50,000)
Changes in operating assets and liabilities:		
Increase in interest receivable	(277,391)	(85,013)
Increase in prepaid income taxes		(207,130)
Decrease (increase) in other assets	683,029	(59,244)
Decrease in income taxes payable	(464,986)	(410,575)
Decrease in accounts payable and accrued expenses	(188,387)	(230,833)
Decrease in deferred revenue	(24,956)	(24,635)
Total adjustments	(370,123)	(1,216,148)
<b>Net cash used in operating activities</b>	<b>(816,552)</b>	<b>(1,277,839)</b>
<b>Cash flows from investing activities:</b>		
Investments originated	(689,990)	(1,030,010)
Proceeds from sale of portfolio investments		255,440
Proceeds from loan repayments	697,433	1,885,414
Capital expenditures	(1,866)	(1,350)
<b>Net cash provided by investing activities</b>	<b>5,577</b>	<b>1,109,494</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(810,975)</b>	<b>(168,345)</b>
<b>Cash and cash equivalents:</b>		
Beginning of period	4,396,595	4,299,852
End of period	\$ 3,585,620	\$ 4,131,507

See accompanying notes



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**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**  
**For the Three and Nine Months Ended September 30, 2008 and 2007**  
**(Unaudited)**

	<b>Three months ended September 30, 2008</b>	<b>Three months ended September 30, 2007</b>	<b>Nine months ended September 30, 2008</b>	<b>Nine months ended September 30, 2007</b>
<b>Net assets at beginning of period</b>	\$ 19,708,776	\$ 17,388,066	\$ 19,817,823	\$ 16,782,405
Cumulative effect adjustment for uncertain tax positions FIN 48				316,253
Net investment gain (loss)	84,327	(414,214)	100,646	(161,545)
Net realized gain on investments		555,000		516,204
Net change in unrealized appreciation On investments	(421,710)	(491,885)	(547,076)	(416,350)
Net decrease in net assets from operations	(337,383)	(351,099)	(446,430)	(61,691)
<b>Net assets at end of period</b>	<b>\$ 19,371,393</b>	<b>\$ 17,036,967</b>	<b>\$ 19,371,393</b>	<b>\$ 17,036,967</b>

See accompanying notes

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**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**  
**September 30, 2008**  
**(Unaudited)**

Company and Business	Type of Investment	(b) Date	(c) Equity	Cost	(d) Value	Per Share of Rand
<b>Adampluseve, Inc. (dba Adam) (g)</b> New York, NY. Luxury sports wear company for men and women. www.shopadam.com	Warrants to purchase 1,715 Series A convertible preferred shares.	7/14/06	2%	\$ 68,000	\$ 133,341	.02
<b>APF Group, Inc. (e)(g)</b> Yonkers, 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 8% due June 30, 2011. Warrants to purchase 10.2941 shares of common stock.	7/8/04	6%	595,436	595,436	.10
<b>Associates Interactive, LLC (e)(g)</b> Buffalo, NY. Provider of training content and certifications used to train retail sales associates. www.associatesinteractive.com	\$247,813 promissory note at 8% due December 19, 2012. Investor units totaling 21.88% of company.	10/15/07	22%	250,000	250,000	.04
<b>Carolina Skiff LLC (e)(g)</b> 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	.21
<b>EmergingMed.com, Inc. (g)</b> 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
		6/28/04	31%	619,232	4,119,232	.72

<b>Gemcor II, LLC (e)(g)(h)</b> 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.						
<b>Golden Goal LLC (g)</b> 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	
<b>G-TEC Natural Gas Systems</b> 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	.04	
<b>Innov-X Systems, Inc. (g)</b> 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	
<b>Kionix, Inc.</b> 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. <b>(g)</b> 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**  
**September 30, 2008 (Continued)**  
**(Unaudited)**

<b>Company and Business</b>	<b>Type of Investment</b>	<b>(b) Date</b>	<b>(c) Equity</b>	<b>Cost</b>	<b>(d) Value</b>	<b>Per Share of Rand</b>
<b>Mezmeriz, Inc. (g)</b> 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
<b>Niagara Dispensing Technologies, Inc. (e)</b> 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	202,081 Series B preferred stock. (g) 463,691 Series A preferred stock. 518,752 Series B preferred stock.	3/8/06	14%	1,281,783	1,170,783	.20