

RAND CAPITAL CORP  
Form 10-Q  
May 09, 2011

**Table of Contents**

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



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

**PART I. FINANCIAL INFORMATION**

<u>Item 1. Financial Statements and Supplementary Data (Unaudited)</u>	3
<u>Condensed Consolidated Statements of Financial Position as of March 31, 2011 and December 31, 2010</u>	3
<u>Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2011 and 2010</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2011 and 2010</u>	5
<u>Condensed Consolidated Statements of Changes in Net Assets for the Three Months Ended March 31, 2011 and 2010</u>	6
<u>Condensed Consolidated Schedule of Portfolio Investments as of March 31, 2011</u>	7
<u>Notes to the Consolidated Financial Statements</u>	10
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	26
<u>Item 4. Controls and Procedures</u>	26

**PART II. OTHER INFORMATION**

<u>Item 1. Legal Proceedings</u>	28
<u>Item 1A. Risk Factors</u>	28
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	28
<u>Item 3. Defaults upon Senior Securities</u>	28
<u>Item 4. (Removed and Reserved)</u>	28
<u>Item 5. Other Information</u>	28
<u>Item 6. Exhibits</u>	29
<u>Exhibit 31.1</u>	
<u>Exhibit 31.2</u>	
<u>Exhibit 32.1</u>	
<u>Exhibit 32.2</u>	



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 March 31, 2011 and December 31, 2010**

	March 31, 2011 (Unaudited)	December 31, 2010
<b>ASSETS</b>		
Investments at fair value (identified cost: 3/31/11 \$13,285,297; 12/31/10 \$13,573,041)	\$ 19,245,399	\$ 19,364,625
Cash and cash equivalents	11,069,896	11,698,653
Interest receivable (net of allowance 3/31/11 \$122,000, 12/31/10 \$158,245)	1,154,332	1,051,848
Prepaid income taxes	144,854	414,745
Other assets	2,537,797	2,561,389
Total assets	<b>\$ 34,152,278</b>	<b>\$ 35,091,260</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY (NET ASSETS)</b>		
<b>Liabilities:</b>		
Debentures guaranteed by the SBA	\$ 10,000,000	\$ 10,000,000
Deferred tax liability	1,103,296	1,044,315
Accounts payable and accrued expenses	214,949	990,477
Deferred revenue	4,875	5,650
Total liabilities	<b>11,323,120</b>	<b>12,040,442</b>
<b>Stockholders equity (net assets):</b>		
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	(7,712,646)	(7,674,968)
Undistributed net realized gain on investments	15,566,613	15,860,132
Net unrealized appreciation on investments	3,754,304	3,644,767
Treasury stock, at cost, 44,100 shares	(47,206)	(47,206)
Net assets (per share 3/31/11 \$3.35, 12/31/10 \$3.38)	<b>22,829,158</b>	<b>23,050,818</b>
Total liabilities and stockholders equity (net assets)	<b>\$ 34,152,278</b>	<b>\$ 35,091,260</b>

See accompanying notes

Table of Contents

**RAND CAPITAL CORPORATION AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**For the Three Months Ended March 31, 2011 and 2010**  
**(Unaudited)**

	Three months ended March 31, 2011	Three months ended March 31, 2010
<b>Investment income:</b>		
Interest from portfolio companies	\$ 177,141	\$ 166,497
Interest from other investments	8,081	5,184
Dividend and other investment income	41,114	13,902
Other income	1,804	2,803
	<b>228,140</b>	<b>188,386</b>
<b>Operating expenses:</b>		
Salaries	118,750	115,050
Employee benefits	42,450	58,142
Directors' fees	15,000	10,955
Professional fees	50,917	58,423
Stockholders and office operating	34,110	26,023
Insurance	12,046	10,165
Corporate development	15,696	9,230
Other operating	7,626	2,796
	<b>296,595</b>	<b>290,784</b>
Interest on SBA obligations	147,559	136,444
Total expenses	<b>444,154</b>	<b>427,228</b>
<b>Investment loss before income taxes</b>	<b>(216,014)</b>	<b>(238,842)</b>
Current income tax benefit	(75,604)	(79,453)
<b>Net investment loss</b>	<b>(140,410)</b>	<b>(159,389)</b>
<b>Realized and unrealized loss on investments:</b>		
Realized loss on sales and dispositions, net	(293,519)	
Income tax benefit	(102,732)	
Net realized loss on investments	(190,787)	
Unrealized appreciation on investments:		
Beginning of period	5,791,584	9,528,226
End of period	5,960,102	8,728,226
Change in unrealized appreciation before income taxes	168,518	(800,000)

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Deferred income tax expense (benefit)	<b>58,981</b>	(280,124)
Net increase (decrease) in unrealized appreciation	<b>109,537</b>	(519,876)
<b>Net realized and unrealized loss on investments</b>	<b>(81,250)</b>	(519,876)
<b>Net decrease in net assets from operations</b>	<b>\$ (221,660)</b>	<b>\$ (679,265)</b>
<b>Weighted average shares outstanding</b>	<b>6,818,934</b>	6,818,934
<b>Basic and diluted net decrease in net assets per share from operations</b>	<b>\$ (0.03)</b>	<b>\$ (0.10)</b>
See accompanying notes		

**Table of Contents**

**RAND CAPITAL CORPORATION AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Three Months Ended March 31, 2011 and 2010**  
**(Unaudited)**

	<b>Three months ended March 31, 2011</b>	<b>Three months ended March 31, 2010</b>
<b>Cash flows from operating activities:</b>		
Net decrease in net assets from operations	\$ (221,660)	\$ (679,265)
Adjustments to reconcile net decrease in net assets to net cash used in operating activities:		
Depreciation and amortization	10,122	10,323
Original issue discount amortization	(2,467)	
Change in interest receivable allowance	(36,245)	
(Increase) decrease in unrealized appreciation of investments	(168,518)	800,000
Deferred tax expense (benefit)	58,981	(359,577)
Realized loss on portfolio investments, net	293,519	
Non-cash conversion of debenture interest	(23,736)	(38,402)
Changes in operating assets and liabilities:		
Increase in interest receivable	(66,239)	(95,445)
Decrease (increase) in other assets	13,469	(75,225)
Decrease in prepaid income taxes	269,891	
Decrease in income taxes payable		(994,620)
Decrease in accounts payable and accrued expenses	(775,528)	(282,185)
Decrease in deferred revenue	(774)	(303)
Total adjustments	(427,525)	(1,035,434)
<b>Net cash used in operating activities</b>	<b>(649,185)</b>	<b>(1,714,699)</b>
<b>Cash flows from investing activities:</b>		
Investments originated		(1,055,000)
Proceeds from loan repayments	20,428	35,310
Capital expenditures		(846)
<b>Net cash provided by (used in) investing activities</b>	<b>20,428</b>	<b>(1,020,536)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from SBA debenture		900,000
Origination costs to SBA		(21,825)
<b>Net cash provided by financing activities</b>		<b>878,175</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(628,757)</b>	<b>(1,857,060)</b>
<b>Cash and cash equivalents:</b>		
Beginning of period	11,698,653	9,417,236



End of period	\$	<b>11,069,896</b>	\$	7,560,176
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See accompanying notes

Table of Contents

**RAND CAPITAL CORPORATION AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**  
**For the Three Months Ended March 31, 2011 and 2010**  
**(Unaudited)**

	<b>Three months ended March 31, 2011</b>	<b>Three months ended March 31, 2010</b>
<b>Net assets at beginning of period</b>	<b>\$ 23,050,818</b>	<b>\$ 23,205,881</b>
Net investment loss	<b>(140,410)</b>	(159,389)
Net realized loss on sales and dispositions of investments	<b>(190,787)</b>	
Net increase (decrease) in unrealized appreciation	<b>109,537</b>	(519,876)
Net decrease in net assets from operations	<b>(221,660)</b>	(679,265)
<b>Net assets at end of period</b>	<b>\$ 22,829,158</b>	<b>\$ 22,526,616</b>

See accompanying notes

Table of Contents

**RAND CAPITAL CORPORATION AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**  
**March 31, 2011**  
**(Unaudited)**

(a) Company, Geographic Location, Business		(b) Date	(c)		(d)(f) Value	Per Share of Rand
Description, (Industry) and Website	Type of Investment	Acquire	Equity	Cost		
<b>Non-Control/Non-Affiliate Investments:</b>						
<b>(j)</b>						
<b>Chequed.com, Inc. (g)</b> Saratoga Springs, NY. Predictive employee selection and development software. (Software) www.chequed.com	\$250,000 convertible promissory note at 8% due December 31, 2012.	11/18/10	0%	\$ 250,000	\$ 250,000	\$.04
<b>Liazon Corporation (e)(g)</b> Buffalo, NY. Employee benefits solution company. (Health Benefits Provider) www.liazon.com	\$500,000 secured promissory note at 8% due November 9, 2015. 120,000 Series C-1 preferred stock.	11/9/10	1%	503,667	503,667	.07
<b>Mezmeriz, Inc. (g)</b> 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
<b>Rheonix, Inc.</b> 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
<b>Somerset Gas Transmission Company, LLC (e)</b> Columbus, OH. Natural gas transportation company. (Oil and Gas) www.somersetgas.com	26.5337 units.	7/10/02	3%	719,097	786,748	.12
<b>Synacor Inc. (g)</b> Buffalo, NY. Develops provisioning	234,558 Series A preferred shares. 600,000 Series B preferred shares.	11/18/02	4%	1,349,479	4,168,001	.61

platforms for aggregation and delivery of content and services across multiple digital devices. (Software)  
www.synacor.com

240,378 Series C preferred shares.  
897,438 common shares.

**Subtotal Non-Control/Non-Affiliate Investments** \$ 3,696,752 \$ 6,718,925 \$ .98

**Affiliate Investments: (k)**

**Carolina Skiff LLC (e)(g)** \$985,000 Class A preferred 1/30/04 7% \$ 1,500,000 \$ 1,500,000 \$ .22  
Waycross, GA. Manufacturer of fresh water, ocean fishing and pleasure boats. (Manufacturing)  
www.carolinaskiff.com

\$500,000 subordinated promissory note at 14% due December 31, 2016. 6.0825% class A common membership interest.  
(i) Interest receivable \$1,107,082

**EmergingMed.com, Inc. (e)(g)** \$675,045 senior subordinated note 12/19/05 8% 675,045 675,045 .10  
New York, NY. Cancer clinical trial matching and referral service. (Software)  
www.emergingmed.com

at 8% due January 19, 2013.  
Warrants for 8% of common stock.

**Table of Contents**

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**  
**March 31, 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	
<b>Microcision LLC (e)(g)</b> 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%	1,606,017	1,606,017	.24
<b>Mid America Brick &amp; Structural Clay Products, LLC(g)</b> 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
<b>SOMS Technologies, LLC (g)</b> Valhalla, NY. Produces and markets the microGreen Extended Performance Oil Filter. (Auto Parts Developer) www.microgreenfilter.com	4,808,224 Series B membership units.	12/2/08	12%	370,687	426,403	.06
<b>Ultra Scan Corporation</b> 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
<b>Subtotal Affiliate Investments</b>				\$ 5,889,913	\$ 6,210,465	\$ .92
<b>Control Investments: (l)</b>						
<b>Advantage 24/7 LLC (g)</b> Williamsville, NY. Marketing program for	50% Membership interest.	12/30/10	50%	\$ 100,000	\$ 100,000	\$ .02

wine and spirits dealers. (Marketing Company)

<b>Gemcor II, LLC (e)(g)(h)</b> 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%	893,168	6,093,168	.89
<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. (Manufacturing) www.gas-tec.com	21.6% Class A membership interest. 8% cumulative dividend.	8/31/99	22%	400,000	100,000	.01
<b>Subtotal Control Investments</b>				\$ 1,393,168	\$ 6,293,168	\$ .92
<b>Other Investments</b>	Various			\$ 2,305,464		