

# 2011

March 31, 2011

First Quarter Report



**RAND CAPITAL**  
CORPORATION

2200 Rand Building  
Buffalo, New York 14203



April 29, 2011

Dear Shareholders:

We ended the quarter with our Net Asset Value at \$3.35 as compared to \$3.38 where we ended the last quarter.

Rand ended the year with \$11.7 million in cash which is a historically high position for us. We are also finishing our ninth year as a Small Business Investment Company. Achieving these two events has led us to explore strategic alternatives with the Small Business Administration regarding the wind down of our current fund and the possibility of creating another Small Business Investment Company. While this initiative is ongoing, we continue to see improving operating metrics across many of our portfolio companies, and believe that this will lead to long term strengthening and value of the fund's portfolio investments. We would also expect exits from our existing portfolio in the future.

Following the end of the quarter, Rand's portfolio company **Liazon Corporation**, [www.liazon.com](http://www.liazon.com), announced that it

had completed a \$12.6 million financing led by **Bain Capital Ventures**, [www.baincapitalventures.com](http://www.baincapitalventures.com). Rand participated with an \$820,000 investment into the round which will be included in Rand's second quarter portfolio results. Though we have only been invested in the business a short time, we have already seen market validation and implementation of the **Liazon's Bright Choices®** insurance platform in Rand's portfolio companies. We are excited about Liazon's future.

At the Annual Meeting, Rand's Directors and Officers were re-elected to another term.

We appreciate your continued interest and support of Rand Capital and look forward to a prosperous year.

*Allen F. M.*

President's  
Letter

**Rand Capital Corporation and Subsidiaries Condensed Consolidated Schedule of Portfolio Investments / March 31, 2011 (Unaudited)**

(a) Company, Geographic Location, Business Description, (Industry) & Website	(b) Date Acquired	(c) Equity	Cost	March 31, 2011		December 31, 2010		
				(d)(f) Value	Per Share of Rand	(d)(f) Value	Per Share of Rand	
<b>Non-Control/Non-Affiliate Investments: (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	\$ 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	501,200	.07
<b>Mezmeriz (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	121,509	.02
<b>Rheonix, Inc. (g)</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	889,000	.12
<b>Somerser Gas Transmission Company, LLC (e)</b> Columbus, OH. Natural gas transportation company. (Oil and Gas) www.somersergas.com	26,5337 units.	7/10/02	3%	719,097	786,748	.12	786,748	.12
<b>Synacor, Inc. (g)</b> Buffalo, NY. Develops provisioning platforms for aggregation and delivery of content and services across multiple digital devices. (Software) www.synacor.com	234,558 Series A preferred shares. 600,000 Series B preferred shares. 240,378 Series C preferred shares. 897,438 common shares.	11/18/02	4%	1,349,479	4,168,001	.61	4,168,001	.61
<b>Subtotal Non-Control/Non-Affiliate Investments</b>				\$ 3,696,752	\$ 6,718,925	\$ 0.98	\$ 6,716,458	\$ 0.98
<b>Affiliate Investments: (k)</b>								
<b>Carolina Skiff LLC (e)(g)</b> 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 \$1,107,082.	1/30/04	7%	\$ 1,500,000	\$ 1,500,000	\$ .22	\$ 1,500,000	\$ .22
<b>EmergingMed.com, Inc. (e)(g)</b> 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. Warrant for 8% of common stock.	12/19/05	8%	675,045	675,045	.10	675,045	.10
<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	1,582,282	.23
<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 common membership units.	6/1/10	19%	800,000	800,000	.12	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	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	1,203,000	.18
<b>Subtotal Affiliate Investments</b>				\$ 5,889,913	\$ 6,210,465	\$ .92	\$ 6,311,730	\$ .93
<b>Control Investments (l)</b>								
<b>Advantage 24/7 LLC (g)</b> Williamsville, NY. Marketing program for wine and spirits dealers. (Marketing Company)	50% Membership interest.	12/30/10	50%	\$ 100,000	\$ 100,000	\$ .02	\$ 100,000	\$ .02
<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	6,113,596	.90
<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	100,000	.01
<b>Subtotal Control Investments</b>				\$ 1,393,168	\$ 6,293,168	\$ 0.92	\$ 6,313,596	\$ 0.93
<b>Other Investments</b>				2,305,464	22,841	0.0	22,841	0.0
Total portfolio investments				\$ 13,285,297	\$ 19,245,399	2.82	\$ 19,364,625	2.84
Cash and Money Market Investments					11,069,896	1.62	11,698,653	1.72
SBA Debenture Liability					(10,000,000)	(1.47)	(10,000,000)	(1.47)
Portfolio Interest Receivable (net of Reserve)					1,154,332	0.17	1,051,848	0.15
Net Receivables (payables)					2,317,973	0.34	1,565,262	0.23
Net assets pre-tax					\$ 23,787,600	\$ 3.49	\$ 23,680,388	\$ 3.47
Tax Provisions (benefit)					958,442	0.14	629,570	0.09
Net Assets					\$ 22,829,158	\$ 3.35	\$ 23,050,818	\$ 3.38

**Notes to Consolidated Schedule of Portfolio Investments**

Note: This report includes the consolidated holdings of Rand Capital Corporation and Rand Capital SBIC, Inc. Additional investor information can be obtained at www.sec.gov. Net asset value calculated based on 6,818,934 shares outstanding at March 31, 2011 and 6,818,934 at December 31, 2010.

- (a) At March 31, 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 March 31, 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 March 31, 2011, the total cost of investment securities approximated \$13.3 million. Net unrealized appreciation was approximately \$5.9 million, which was comprised of \$8.5 million of unrealized appreciation of investment securities and \$2.6 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.

**Rand Capital Corporation**

Board of Directors		
	Reginald B. Newman II	Chairman of the Board
	Allen F. Grum	
a, g	Erland E. Kailbourne	
a, g	Ross B. Kenzie	
c, g	Jayne K. Rand	
a, c	Robert M. Zak	
	g - Member of audit committee c - Member of compensation committee	
	a - Member of governance committee	
Officers		
	Title	Email
	Allen F. Grum	pgrum@randcapital.com
	Daniel P. Penberthy	dpenberthy@randcapital.com

**Corporate Data**

Stock Listing .....	NASDAQ Capital Market-symbol RAND
Transfer Agent and Registrar .....	Continental Stock Transfer & Trust Company
	www.continentalstock.com
General Counsel .....	Hodgson, Russ LLP
Independent Accountants .....	Freed Maxick & Battaglia, PC
Number of Shareholders .....	816 (as of March 7, 2011)
Rand is actively seeking business opportunities for investment consideration. If you are aware of those businesses that may need Rand's support and assistance, please feel free to contact us.	
Rand Capital Corporation 2200 Rand Building Buffalo, NY 14203 Tel: 716-853-0802 Fax: 716-854-8480 www.randcapital.com	