

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2001

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: 811-1825

Rand Capital Corporation

(Exact Name of Registrant as specified in its Charter)

New York
(State of Jurisdiction of Incorporation
or organization)

16-0961359
(IRS Employer
Identification No.)

2200 Rand Building, Buffalo, NY 14203
(Address of Principal executive offices) (Zip Code)

(716) 853-0802
(Registrant's Telephone No. including Area Code)

Indicate by check mark whether the registrant has (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act 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

Number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date (September 28, 2001): **5,763,034**

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RAND CAPITAL CORPORATION
CONDENSED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2001 AND DECEMBER 31, 2000

ASSETS

June 30, 2001 December 31, 2000
(Unaudited)

Cash and cash equivalents	\$ 132,133	\$ 304,152
Investment portfolio at original cost basis	6,015,189	6,159,330
Adjustment for unrealized appreciation	2,065,764	974,597
	-----	-----
Investments at Directors' valuation	8,080,953	7,133,927
Interest receivable (net of allowance of \$58,101 at June 30, 2001 and \$21,729 at December 31, 2000)	128,115	136,780
Deferred tax asset	512,551	660,790
Other assets	208,935	206,235
	-----	-----
TOTAL ASSETS	\$ 9,062,687	\$ 8,441,884
	=====	=====

LIABILITIES AND STOCKHOLDERS EQUITY (NET ASSETS)

LIABILITIES:

Income taxes payable	\$ 11,530	\$ 1,530
Accounts payable and accrued expenses	91,587	54,657
	-----	-----
Total Liabilities	103,117	56,187
	-----	-----

STOCKHOLDERS' EQUITY (NET ASSETS)

Common stock, \$.10 par - shares authorized 10,000,000; issued and outstanding 5,763,034 at June 30, 2001 and 5,748,034 at December 31, 2000	576,304	574,804
Capital in excess of par value	6,973,454	6,943,079
Undistributed net investment (loss)	(2,467,295)	(2,065,672)
Undistributed net realized gain on investments	2,400,926	2,400,233
Net unrealized appreciation of investments	1,476,181	533,253
	-----	-----
Net assets	8,959,570	8,385,697
	-----	-----

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 9,062,687	\$ 8,441,884
	=====	=====

Shares outstanding	5,763,034	5,748,034
Net asset value per outstanding share	\$1.55	\$1.46

See notes to condensed financial statements

RAND CAPITAL CORPORATION
CONDENSED STATEMENTS OF OPERATIONS
FOR THE QUARTER AND SIX-MONTHS ENDED JUNE 30, 2001 AND JUNE 30, 2000
(UNAUDITED)

Three-months Three-months Six-months ended Six-months

	ended June 30, 2001	ended June 30, 2000	June 30, 2001	ended June 30, 2000	
Investment income:					
Interest from portfolio companies		\$ 29,493	\$ 36,365	\$ 62,529	\$ 44,063
Interest from other investments		1,709	19,609	5,722	79,707
Other income	10	-	8,098		
	31,212	55,974	76,349	123,770	
Expenses:					
Salaries	60,093	56,499	188,218	149,804	
Employee benefits	11,659	20,076	41,194	44,824	
Directors' fees	4,500	12,000	9,500	18,000	
Legal fees	10,989	9,164	18,981	14,380	
Professional fees	7,180	5,100	16,210	15,628	
Shareholders and office	24,669	19,655	37,084	31,777	
Insurance	6,750	7,310	13,500	14,510	
Corporate development	9,359		10,925	8,851	
	981				
Other operating expenses	66,660	25,246	128,953	44,448	
	201,859	156,031	464,565	342,222	
Investment (loss) before income taxes		(170,646)	(100,057)	(388,216)	(218,453)
Income tax provision	12,588	3,018	13,407	5,998	
Investment (loss) - net	(183,234)	(103,075)	(401,623)	(224,451)	
Realized and unrealized gain (loss) on investments:					
Net gain (loss) on sales and dispositions		-	(100,000)	693	(100,000)
Net realized gain (loss)		-	(100,000)	693	(100,000)
Unrealized appreciation on investments:					
Beginning of period	581,259	902,140	974,597	(863,197)	
End of period	2,065,764	1,077,262	2,065,764	1,077,262	
Increase (Decrease) in unrealized appreciation before income taxes	1,484,505	175,122	1,091,167	1,940,459	
Deferred income tax provision (benefit)	365,239	-	148,239	600,000	
Net increase (decrease) in unrealized appreciation	1,119,266	175,122	942,928	1,340,459	
Net realized and unrealized gain (loss) on investments	1,119,266	75,122	943,621	1,240,459	
Net increase (decrease) in net assets from operations	\$ 936,031	\$ (279,522)	\$ 541,998	\$ 1,016,008	
Weighted average shares outstanding	\$ 5,763,034	\$ 5,723,034	\$ 5,761,542	\$ 5,721,045	
Basic and diluted net increase (decrease) in net assets from operations per share	\$ 0.16	\$ (0.01)	\$ 0.09	\$ 0.18	

See notes to condensed financial statements

RAND CAPITAL CORPORATION
CONDENSED STATEMENTS OF CASH FLOWS
FOR THE SIX-MONTHS ENDED JUNE 30, 2001 AND JUNE 30, 2000
(UNAUDITED)

For the six-months
ended
June 30, 2001

For the six-months
ended
June 30, 2000

Cash Flows from Operating Activities:		
Net increase in net assets from operations	\$ 541,998	\$1,016,008
Adjustments to reconcile net increase in net assets to net cash used in operating activities:		
Depreciation and amortization	6,750	6,000
Interest receivable reserve	6,371	-
(Increase) in unrealized appreciation of investments, net of deferred income tax	(942,928)	(1,340,459)
Net realized (gain) loss on portfolio of investments	(693)	100,000
Changes in operating assets and liabilities:		
(Increase) in interest receivable	(28,117)	(16,505)
(Increase) in other assets	(9,042)	(24,457)
Increase (decrease) in accounts payable and other accrued liabilities	46,930	(6,153)
Total adjustments	(890,729)	(1,281,574)
Net cash used in operating activities	(348,731)	(265,566)
Cash Flows from Investing Activities:		
Proceeds from sale of portfolio investments	215,299	-
Proceeds from loan repayments	-	420,000
New portfolio investments	(70,465)	(1,262,938)
Net cash provided by (used in) investing activities	144,834	(842,938)
Cash Flows from financing Activities:		
Proceeds from issuance of stock	31,875	19,950
Net cash provided by financing activities	31,875	19,950
Net decrease in cash and cash equivalents	(172,022)	(1,088,554)
Cash and cash equivalents at beginning of period	304,152	1,139,708
Cash and cash equivalents at end of period	\$132,133	\$ 51,154

See notes to condensed financial statements

RAND CAPITAL CORPORATION
CONDENSED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE QUARTER AND SIX-MONTHS ENDED JUNE 30, 2001 AND JUNE 30, 2000
(UNAUDITED)

	Three-months ended June 30, 2001	Three-months ended June 30, 2000	Six-months ended June 30, 2001	Six-months ended June 30, 2000
Net assets at beginning of period	\$8,023,538	\$8,668,654	\$8,385,697	\$7,604,743
Operations:				
Net investment loss	(183,234)	(103,075)	(401,623)	(224,451)
Net realized gain (loss) on investments	-	(100,000)	693	(100,000)
Net increase (decrease) in unrealized appreciation of investments	1,119,266	175,122	942,928	1,340,459
Other	-	1	1	-
Net increase (decrease) in net assets from operations	936,032	(27,952)	541,998	1,016,009
Net proceeds of private offerings	-	-	31,875	19,950
Net assets at end of period	\$8,959,570	\$8,640,702	\$8,959,570	\$8,640,702

See notes to condensed financial statements

RAND CAPITAL CORPORATION
PORTFOLIO OF INVESTMENTS
AS OF JUNE 30, 2001
(UNAUDITED)

Company	Type of Investment Acquired	June 30, 2001		Valuation
		Date (\$)	Cost (\$)	
ADIC (NASDAQ:ADIC)* Redmond, WA. Manufactures data storage systems and specialized storage management software. Acquired Pathlight Technology 5/11/01. www.adic.com	434,848 shares Common Stock. Options to purchase 54,730 shares. Value Discounted to \$10/share as non-salable through August 20, 2001.	5/11/01	\$1,185,463	\$4,896,340
American Tactile, Corp. Medina, NY. Develops equipment and systems to produce signage. www.americantactile.com	Convertible Debentures at 8% due June 2000 and April 2001 with detachable warrants	6/23/95	150,000	25,000
ARIA Wireless Systems, Inc. (OTC:AWSI)* Buffalo, NY. Markets wireless radio transmission communication equipment. www.aria-glb.com	Common Stock - 488,000 shares. \$105,840 Demand Notes at 15%	5/23/97	543,840	14,640
BioWorks, Inc. Geneva, NY. Develops and manufactures biological alternatives to chemical pesticides. www.bioworksbiocontrol.com	Series A Convertible Preferred Stock - 32,000 shares.	11/6/95	56,000	28,000
Clearview Cable TV, Inc. Providence, NJ. Cable Television Operator.	New Common Stock - 400 shares.	2/23/96	55,541	28,000
Contract Staffing, Inc. Buffalo, NY. PEO providing human resource administration for small businesses. www.contract-staffing.com	Series A 8% Cumulative Preferred Stock -10,000 shares.	11/8/99	100,000	100,000
DataView, LLC. Mt. Kisco, NY. Designs, develops and markets browser based software for investment professionals. www.marketgauge.com	5.5% Membership Interest	10/1/98	310,357	343,357
Fertility Acoustics, Inc. Buffalo, NY. Developer of proprietary methods to diagnose onset of ovulation.	Common Stock - 848,736 shares	10/1/97	87,440	87,440
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	41.67% Class A Membership Interest. 8% Cumulative Dividend	8/31/99	300,000	300,000
HCI Systems. Kennebunk, ME. Facilities management software	Series B Preferred Stock - 67,000 shares. 5% Cumulative	12/15/99	100,500	100,500

solution.
www.hcisystems.com

Dividend

INRAD, Inc. OTC:INRD.OB)* Northvale, NJ. Develops and manufactures products for laser photonics industry. www.inrad.com	Convertible Series B Preferred Stock - 100 shares. 10% Dividend Common Stock - 2,000 shares	10/31/00	100,000	107,000
MemberWare Technologies, Inc. Pittsford, NY. Internet company engaged in web related consulting services. www.memberware.com	Promissory Note at Prime Rate + 4.5% due September 2004. Common Stock - 40,000 shares. 34,000 warrants for shares of stock	9/16/99	100,000	150,000
MINRAD, Inc. Buffalo, NY. Developer of laser guided surgical devices.	595,506 Common Shares 53,628 Preferred Shares	8/4/97	874,030	1,111,000
Platform Technology Holdings, LLC Charlottesville, VA. Provides sales support and management for unique medical businesses.	Four Units	9/24/97	63,045	-
Ultra-Scan Corporation Amherst, NY. Ultrasonic finger print technology. www.ultra-scan.com	Common Shares - 49,290	12/11/92	302,586	369,675
UStec, Inc. Victor, NY. Manufactures and markets digital wiring systems for residential new home construction. www.ustecnet.com	Promissory Note at 12% due January 2003. Common Stock - 50,000 shares. 2,500 warrants for common shares	12/17/98	100,500	150,000
Vanguard Modular Building Systems. Philadelphia, PA. Leases and sells high-end modular space solutions. www.vanguardmodular.com	Preferred Units - 2,673 Units with warrants. 14% Interest Rate	12/16/99	270,000	270,000
Other Investments			1,310,887	1
			-----	-----
Total Portfolio Investments			\$6,015,189	\$8,080,953
			=====	=====

*Publicly owned company.

Note: Restricted securities, including securities of publicly-owned companies which are subject to restrictions on resale, are valued at fair market value as determined by the Board of Directors. Fair value is considered to be the amount which the Corporation may reasonably expect to receive for portfolio securities if such securities were 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. Among the factors considered by the Board of Directors 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.

See notes to condensed financial statements

RAND CAPITAL CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS
FOR THE QUARTER AND SIX-MONTHS ENDED JUNE 30, 2001 AND 2000
(UNAUDITED)

1. **Basis of Presentation**

In Management's opinion, the accompanying condensed financial statements include all adjustments necessary for a fair presentation of 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 generally accepted accounting principles in the United States of America, 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 six-months ended June 30, 2001 are not necessarily indicative of the results for the full year.

It is suggested that these statements be read in conjunction with the financial statements and the notes included in the Corporation's Annual Report for the year ended December 31, 2000. Information contained in this filing should also be reviewed in conjunction with Rand Capital Corporation's related filings with the Securities & Exchange Commission ("SEC") during the period of time covered by this filing. These filings include, but are not limited to the following:

N-30-B2 Quarterly & Annual Reports to Shareholders
N-54A Election to Adopt Business Development Company status
NSAR-A Semi-Annual filing as closed end investment company
NSAR-B Semi-Annual filing as closed end investment company
DEF-14A Definitive Proxy Statement submitted to shareholders

2. **Summary of Significant Accounting Policies**

Nature of Business

Rand Capital Corporation ("Rand" or "Corporation") is a venture capital investment company operating as a business development company ("BDC") under the Investment Company Act of 1940 ("1940 Act"). A BDC is a specialized type of investment company under the 1940 Act. A BDC must be primarily engaged in the business of furnishing capital and managerial expertise to companies that do not have ready access to capital through conventional financial channels; such companies are termed "eligible portfolio companies". Rand, as a BDC, may invest in other securities, however such investments may not exceed 30% of Rand's total asset value at the time of such investment.

On July 20, 2001, Rand's shareholders approved the proposal to allow Rand to adopt BDC status. Following this authorization by the Shareholders, and approval by Rand's Board of Directors, Rand filed its BDC election with the SEC (Form N-54A) on August 16, 2001. Prior to Rand's election as a BDC, Rand operated as a closed-end, diversified, management company under the 1940 Act.

Rand was founded in 1969 and its stock has traded publicly since 1971. Rand's stock is currently listed on the NASDAQ Small Cap Market under the symbol "RAND". The company is headquartered in Buffalo, New York. Rand operates as an internally managed investment company whereby its officers and employees conduct its operations under the general supervision of its Board of Directors.

Net Asset Value

Rand accounts for its operations under accounting principles generally accepted in the United States of America for investment companies. On this basis, the principal measure of its financial performance is provided in its Condensed Statements of Operations under the caption "Net Increase (decrease) in net assets from operations" which is composed of the following:

"Investment loss - net" (from operations) which is the difference between the Corporation's income from interest, dividends and fees and its operating expenses and taxes.

"Net realized (loss) gain" which is the difference between the proceeds received from dispositions of portfolio securities and their stated cost.

"Net increase (decrease) in unrealized appreciation" which is the net change in the fair value of Rand's investment portfolio, net of any increase (decrease) in deferred income taxes that would become payable if the unrealized appreciation were realized through the sale or other disposition of the investment portfolio.

Rand's net assets are calculated based on the net assets at the end of the period, after the effect of the items included in the calculation of the net increase or decrease in net assets from operations. The net asset value per share is then determined based on the common shares outstanding. Rand has no preferred stock, or stock options outstanding that would be potential common shares, thus reported per share net asset value and diluted net asset value per share results would be the same.

Income Taxes

Rand has not elected pass-through tax treatment as a regulated investment company under Subchapter M of the Internal Revenue Code for Income tax purposes. Therefore, Rand is taxed as a corporation under regulation C.

The tax effect of the major temporary difference and carry-forwards that give rise to the Corporation's net deferred tax assets at June 30, 2001 and December 31, 2000 are as follows:

	<u>June 30, 2001</u>	<u>December 31, 2000</u>
Operations	\$ (37,329)	\$ (51,697)
Investments	(846,543)	(389,254)
Net operating loss carry-forwards	1,218,818	1,086,443
Capital loss carry-forward	177,605	183,948
Subtotal	\$ 512,551	\$ 829,440
Valuation allowance	(0)	(168,650)
Deferred tax assets, net	\$ 512,551	\$ 660,790

At June 30, 2001 and December 31, 2000, the Corporation had a federal and state net operating loss carry-forward of approximately \$3,102,000 and \$2,720,000, respectively, which expire commencing in 2007.

Rand has a net deferred tax asset at June 30, 2001 of \$512,551 and of \$660,790 (net of \$168,650 valuation allowance) at December 31, 2000.

Stockholder's Equity

On July 20, 2001 Rand's shareholders approved the proposal to establish the 2001 Stock Option Plans including the "Employee Plan" which provides for grant of stock options for up to an aggregate of 200,000 shares to the Corporation's key employees and officers; and the Non-Employee Director Stock Option Plan, or "Director Plan" which provides for up to an aggregate of 100,000 shares to Rand's outside directors. The Director Plan also will require an exemptive order by the SEC prior to any options being issued through the plan. Both Plans are fully described in the information presented under the caption "Proposal to Approve Stock Option Plans for the Corporation" in the Company's definitive Proxy Statement as filed with the SEC on June 8, 2001, which information is incorporated herein by reference.

No stock options have been granted under the Employee Plan or the Director Plan through September 28, 2001.

Rand sold shares of its common stock through a private stock offering with two officers of the Corporation for a total of 15,000 shares in January 2001 and 15,000 shares in January 2000; the shares were priced at \$2.12 and \$1.33 respectively; total proceeds to the Corporation were \$31,875 and \$19,950 respectively.

Use Of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United

States of America 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 periods. Actual results could differ from those estimates.

Significant Events

On May 11, 2001, one of Rand's privately held portfolio investments, Pathlight Technologies Inc. was acquired by Advanced Digital Information Corporation (NASDAQ:ADIC). In exchange for Rand's estimated 5% ownership of Pathlight (cost basis of approximately \$1.2 million), Rand received 434,848 shares of ADIC common stock and options to purchase 54,730 shares. The ADIC shares received by Rand are subject to sale under Rule 145 restrictions and have been valued by Rand, at \$4.9 million in its June 30, 2001 investment portfolio.

Item 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD LOOKING STATEMENTS

Statements included in this Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this document that do not relate to present or historical conditions are "forward-looking statements" within the meaning of that term in Section 27A of the Securities Act of 1933, and in Section 21F of the Securities Exchange Act of 1934. Additional oral or written forward-looking statements may be made by the Company from time to time, and those statements may be included in documents that are filed with the Securities and Exchange Commission. Such forward-looking statements involve risks and uncertainties that could cause results or outcomes to differ materially from those expressed in the forward-looking statements. Forward-looking statements may include, without limitation, statements relating to the Company's plans, strategies, objectives, expectations and intentions and are intended to be made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Words such as "believes," "forecasts," "intends," "possible," "expects," "estimates," "anticipates," or "plans" and similar expressions are intended to identify forward-looking statements. Among the important factors on which such statements are based are assumptions concerning the state of the national economy and the local markets in which the Company's portfolio companies operate, the state of the securities markets in which the securities of the Company's portfolio company trade or could be traded, liquidity within the national financial markets, and inflation. Forward-looking statements are also subject to the risks and uncertainties described under the caption "Certain Risk Factors" below.

Financial Condition

Rand's total assets and net assets at June 30, 2001 and December 31, 2000 were as follows:

	<u>June 30, 2001</u>	<u>December 31, 2000</u>
Total assets	\$9,062,687	\$8,441,884
Net assets	8,959,570	8,385,697
Net asset value per share	\$1.55	\$1.46

Primarily contributing to the \$621,000 increase in total assets and the \$574,000 increase in net assets was the net change in valuations of various portfolio companies and their related tax effects during the six-month period.

Rand's financial condition is dependent on the success of its investments. Rand has invested a substantial portion of its assets in early stage or start-up companies. These private businesses tend to be thinly capitalized, unproven, small companies that may lack management depth and history of operations. A summary of Rand's investment portfolio is as follows:

	<u>June 30, 2001</u>	<u>December 31, 2000</u>
Investments, at cost	\$6,015,189	\$6,159,330
Unrealized appreciation	2,065,764	974,597
Investments at fair value	<u>\$8,080,953</u>	<u>\$7,133,927</u>

The increase in the unrealized appreciation of the investments is primarily attributable to the net effect of portfolio

valuation adjustments to the following portfolio companies during the six-month period ended June 30, 2001: Pathlight Technology/Advanced Digital Information Corporation ("ADIC"), \$2.9 million; BNKR.com, (\$0.4 million); Fertility Acoustics, Inc., (\$1.9 million), Aria Wireless Systems, Inc., (\$0.1 million), and Platform Technology Holdings, LLC, (\$0.1 million).

Rand's total investments at fair value approximated 90% of net assets at June 30, 2001 and 85% of net assets at December 31, 2000. Of Rand's portfolio investments, one investment, Pathlight/ADIC, valued at \$4.9 million at June 30, 2001 and \$2.0 million at December 31, 2000, approximated 55% of net assets at June 30, 2001 and 24% of net assets at December 31, 2000.

Also during the six-month period ended June 30, 2000, Rand sold its investments in Motorola and Texaco preferred stocks, valued at \$0.2 million at December 31, 2000, and made a \$55,000 follow-on investment in Platform Technology Holdings.

The effect of the portfolio valuation changes resulted in a net change in the deferred tax asset from \$660,790 at December 31, 2000 to \$512,551 at June 30, 2001. In addition, Rand reversed the \$168,650 tax valuation allowance previously recorded, reflecting the increased likelihood of its utilization given the Pathlight/ADIC transaction.

Results of Operations

On May 11, 2001, one of Rand's privately held portfolio investments, Pathlight Technologies Inc. was acquired by Advanced Digital Information Corporation (NASDAQ:ADIC). In exchange for Rand's estimated 5% ownership of Pathlight (cost basis of approximately \$1.2 million), Rand received 434,848 shares of ADIC common stock and options to purchase 54,730 shares. The ADIC shares received by Rand are subject to sale under Rule 145 restrictions and have been valued by Rand, at \$4.9 million in its June 30, 2001 investment portfolio.

Investment Income and Expenses:

Total investment income for the three-months ended June 30, 2001 and 2000 was \$31,212 and \$55,974, respectively, of which \$29,493 (94%) and \$36,265 (65%) consisted of interest from portfolio companies during the period. The remaining income consisted of interest on other temporary short-term investments and cash balances. For the six-months ended June 30, 2001 and 2000, the total investment income was \$76,349 and \$123,770, respectively, of which \$62,529 (82%) and \$44,063 (36%) consisted of interest from portfolio companies during the period. The remaining income consisted of interest on short-term investments, cash balances, and other income. The total investment income for the three and six-months ended June 30, 2000 was higher mainly due to higher idle cash balances and its related interest income earnings.

Expenses for the three-months ended June 30, 2001 and 2000 were \$201,859 and \$156,031, respectively. Expenses for the six-month period ended June 30, 2001 and June 30, 2000 were \$464,565 and \$342,222 respectively. A majority of the Rand's expenses consist of employee compensation, shareholder and office expenses, expenses related to identifying and reviewing investment opportunities and professional fees. A major increase in expenses during the three-month and six-month periods in 2001 directly resulted from costs (consulting and advisory fees) incurred for restructuring the Corporation to a Business Development Company ("BDC") status, and research into stock option plans and other corporate matters. These costs have been included in other operating expenses and total \$46,627 for the six-months ended June 30, 2001. Also increasing expenses during 2001 were the establishment of allowances related to the write-off of certain portfolio related receivables totaling \$36,371 for the six-months ended June 30, 2001.

Net investment losses from operations were \$183,234 and \$103,075 for the three-months ended June 30, 2001 and 2000, respectively. For the six-months ended June 30, 2001 and 2000, net investment losses were \$401,623 and \$224,451. The combined effect of the writedown of several Rand investments, and the loss of their related dividend/interest payments and the increased costs related to Rand's proxy filings has resulted in increased operating losses in 2001 as compared to 2000.

Net Realized Gains and Losses on Portfolio of Investments:

During the three-months ended June 30, 2001, the corporation did not have any realized gains or losses on investments as compared to a realized loss of \$100,000 during the three-months ended June 30, 2000, from the disposition of its investment in Commercial Maintenance Organization.

Net Increase (decrease) in Net Assets from Operations:

The Corporation accounts for its operations under generally accepted accounting principles in the United States of

America for investment companies. On this basis, the principal measure of its financial performance is "net increase (decrease) in net assets from operations" on its condensed statements of operations. For the three-months ended June 30, 2001, the net increase in net assets from operations was \$936,031 as compared to a net decrease in net assets from operation of \$27,952 for the three-months ended June 30, 2000. The increase in appreciation of investments is primarily attributable to the net effect of portfolio valuation adjustments to the following portfolio companies during the six-month period ended June 30, 2001: Pathlight Technology, Inc./ADIC, (\$2.9 million); BNKR.com, (\$.4 million); Fertility Acoustics, Inc., (\$1.1 million); Aria Wireless Systems, Inc., (\$0.1 million); and Platform Technology Holdings, LLC (\$0.1 million).

For the six-months ended June 30, 2001 and 2000, the net increase in net assets from operations was \$541,998 and \$1,016,008, respectively.

Liquidity and Capital Resources

Rand's principal objective is to achieve capital appreciation. Therefore, a significant portion of the investment portfolio is structured to maximize the potential for capital appreciation and certain Rand portfolio investments may be structured to provide little or no current yield in the form of dividends or interest payments. Rand does earn interest income on idle cash balances. Rand has historically relied on and continues to rely to a large extent upon proceeds from sales of investments rather than investment income to defray a significant portion of its operating expenses. Because such sales cannot be predicted with certainty, Rand attempts to maintain adequate working capital necessary for short-term needs.

On June 30, 2001, Rand was holding approximately \$132,000 in cash compared to a total of approximately \$512,000 (\$304,000 cash and \$208,000 in marketable preferred equities) at December 31, 2000. The decrease in liquidity has resulted in decreased interest earnings on idle cash balances.

During the six-month period ended June 30, 2001 Rand sold its investments in Motorola and Texaco preferred stocks, valued at \$0.2 million at December 31, 2000, and made a \$55,000 follow-on investment in Platform Technology Holdings.

Rand also adjusted the valuations for several portfolio investments during the period to include; ARIA Wireless Systems, Inc., Pathlight Technology, Inc./ADIC, Fertility Acoustics, Inc., BNKR.com; however, these are non-cash adjustments.

During the six-month period ended June 30, 2000, Rand made new investments in BNKR.com, \$250,000; TSS-Transnet, \$250,000; and made a follow-on investment in Pathlight Technology, Inc., \$750,000. The InfoMiners.com bridge loan was also repaid, \$420,000. During this period, valuation changes were made to Fertility Acoustics, Inc. and Pathlight Technology, Inc. However, these are non-cash adjustments.

Certain Risk Factors

Investing in Rand's Stock is Highly Speculative and the Investor Could Lose Some or All of the Amount Invested

The value of Rand's common stock may decline and may be affected by numerous market conditions, which could result in the loss of some or all of the amount invested in Rand's shares. The securities markets frequently experience extreme price and volume fluctuations which affect market prices for securities of companies generally, and technology and very small capitalization companies in particular. General economic conditions, and general conditions in the Internet and information technology, life sciences, material sciences and other high technology industries, will also affect the Rand's stock price. The recent decimalization of the stock exchanges, particularly NASDAQ, is a new risk factor that may decrease liquidity of smaller capitalization issues such as the Company's own common stock and that of its publicly traded holdings.

Investing in Rand's Shares May be Inappropriate for the Investor's Risk Tolerance

Rand's investments, in accordance with its investment objective and principal strategies, result in a far above average amount of risk and volatility and may well result in loss of principal. Rand's investments in portfolio companies are highly speculative and aggressive and, therefore, an investment in its shares may not be suitable for investors for whom such risk is inappropriate.

Rand may face competition in its investing activities from private venture capital funds, investment affiliates of large industrial, technology, service and financial companies, small business investment companies, wealthy individuals and foreign investors. As a regulated Business Development Company ("BDC"), the Company is required to disclose

quarterly the name and business description of portfolio companies and value of any portfolio securities. Most of Rand's competitors are not subject to this disclosure requirement. Rand's obligation to disclose this information could hinder its ability to invest in certain portfolio companies. Additionally, other regulations, current and future, may make Rand less attractive as a potential investor to a given portfolio company than a private venture.

Rand Operates in a Regulated Environment

Rand is subject to substantive SEC regulations as a BDC. Securities and tax laws and regulations governing the Rand's activities may change in ways adverse to Rand's and its shareholders' interests, and interpretations of such laws and regulations may change with unpredictable consequences. Any change in the laws or regulations that govern Rand's business could have an adverse impact on Rand or its operations.

Rand is Dependent Upon Key Management Personnel for Future Success

Rand is dependent for the selection, structuring, closing and monitoring of its investments on the diligence and skill of its senior management. The future success of Rand depends to a significant extent on the continued service and coordination of its senior management team. The departure of any of the executive officers or key employees could materially adversely affect Rand's ability to implement its business strategy. Rand does not maintain key man life insurance on any of its officers or employees.

Investment in Small, Private Companies

There are significant risks inherent in Rand's venture capital business. Rand has invested a substantial portion of its assets in early stage or start-up companies. These private businesses tend to be thinly capitalized, unproven, small companies with risky technologies that lack management depth and have not attained profitability or have no history of operations. Because of the speculative nature and the lack of a public market for these investments, there is significantly greater risk of loss than is the case with traditional investment securities. Rand expects that some of its venture capital investments will be a complete loss or will be unprofitable and that some will appear to be likely to become successful but never realize their potential. Rand has been risk seeking rather than risk averse in its approach to venture capital and other investments. Neither Rand's investments nor an investment in Rand is intended to constitute a balanced investment program. Rand has in the past relied, and continues to rely to a large extent, upon proceeds from sales of investments rather than investment income to defray a significant portion of its operating expenses. Such sales are unpredictable and may not occur.

Illiquidity of Portfolio Investments

Most of the investments of Rand are or will be either equity securities acquired directly from small companies or below investment grade subordinated debt securities. The Company's portfolio of equity securities are and will usually be subject to restrictions on resale or otherwise have no established trading market. The illiquidity of most of the Company's portfolio may adversely affect the ability of the Company to dispose of such securities at times when it may be advantageous for the Company to liquidate such investments.

Even if the Rand's portfolio companies are able to develop commercially viable products, the market for new products and services is highly competitive and rapidly changing. Commercial success is difficult to predict and the marketing efforts of Rand's portfolio companies may not be successful.

Valuation of Portfolio Investments

There is typically no public market of equity securities of the small privately held companies in which Rand invests. As a result, the valuation of the equity securities in Rand's portfolio is subject to the good faith estimate of the Rand's Board of Directors. In the absence of a readily ascertainable market value, the estimated value of Rand's portfolio of securities may differ significantly from the values that would be placed on the portfolio if a ready market for the equity securities existed. Any changes in estimated net asset value are recorded in Rand's statement of operations as "Change in unrealized appreciation on investments".

Fluctuations of Quarterly Results

Rand's quarterly operating results could fluctuate as a result of a number of factors. These factors include, among others, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which portfolio companies encounter competition in their markets and general economic conditions. As a result of these factors, results for any one quarter should not be relied upon as being indicative of performance in future quarters.

Changes In Interest Rates

Rand has no borrowings; therefore, any change in interest rates will have no material impact on interest expense. A hypothetical 10% change in short-term interest rates on our income generated from cash and cash equivalent would not be material to the results of operations. Such discussion includes forward-looking statements of risks which involve certain assumptions as to market interest rates. Actual market conditions may differ materially from such assumptions.

Item 3. Quantitative and Qualitative Disclosures about Market Risks

A portion of the Company's portfolio is in marketable securities traded in the over-the-counter market, and there is a portion of the Company's portfolio for which no regular trading market exists. In order to realize the full value of a security, the market must trade in an orderly fashion or a willing purchaser must be available when a sale is to be made. Should an economic or other event occur that would not allow the markets to trade in an orderly fashion, the Company may not be able to realize the fair value of its marketable investments or other investments in a timely manner.

As of June 30, 2001, the Company did not have any off-balance sheet investments or hedging investments.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Changes in Securities and Use of Proceeds

Rand sold shares of its common stock through private stock offerings to the President and Treasurer of the Corporation for a total of 15,000 shares in January 2001 and 15,000 shares in January 2000. The shares were priced at \$2.12 and \$1.33 per share, and total proceeds to the Corporation were \$31,875 and \$19,950 respectively. The sales were exempt from Securities Act registration pursuant to the exemptions provided by Section 4(2) of the Securities Act and Rule 506 the SEC.

Item 3. Defaults upon Senior Securities Holders

None

Item 4. Submission of Matters to a Vote of Security Holders

Rand held its annual shareholder meeting on July 20, 2001. The following matters were submitted to a vote of shareholders: Election of Directors; Approval for BDC election; Approval of Stock Option Plans; and approval of independent auditors. Information concerning the results of these votes is presented in an attachment titled "Results of Balloting" to the Company's NSAR-A filed with the SEC on August 8, 2001, which information is incorporated herein by reference.

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

None

Signatures

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: September 28, 2001

RAND CAPITAL CORPORATION

By: /s/ Allen F. Grum
Allen F. Grum, President

By: /s/ Daniel P. Penberthy
Daniel P. Penberthy, Treasurer