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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, 2006

- 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 or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 under the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

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, 2006 there were 5,718,934 shares of the registrant's common stock outstanding.

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

**PART I – FINANCIAL INFORMATION**

**Item 1.**      FINANCIAL STATEMENTS (Unaudited)

Consolidated Statements of Financial Position as of March 31, 2006 and December 31, 2005

Consolidated Statements of Operations for the Three Months Ended March 31, 2006 and 2005

Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2006 and 2005

Consolidated Statements of Changes in Net Assets for the Three Months Ended March 31, 2006 and 2005

Consolidated Schedule of Portfolio Investments as of March 31, 2006

Notes to the Consolidated Financial Statements

**Item 2.**      Management’s Discussion and Analysis of Financial Condition and Results of Operations

**Item 3.**      Quantitative and Qualitative Disclosures about Market Risk

**Item 4.**      Controls and Procedures

**PART II – OTHER INFORMATION**

**Item 1.**      Legal Proceedings

**Item 1A.**     Risk Factors

**Item 2.**      Unregistered Sales of Equity Securities and Use of Proceeds

**Item 3.**      Defaults Upon Senior Securities

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

**Item 5.**      Other Information

**Item 6.**      Exhibits

EX-31.1 Certification

EX-31.2 Certification

EX-32.1 Certification

EX-32.2 Certification

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**PART I.  
FINANCIAL INFORMATION**

**Item 1. Financial Statements and Supplementary Data**

**Rand Capital Corporation and Subsidiaries  
Consolidated Statements of Financial Position  
As of March 31, 2006 and December 31, 2005  
(Unaudited)**

	<u>March 31, 2006</u>	<u>December 31, 2005</u>
<b>ASSETS</b>		
Investments at fair value (identified cost: 3/31/06 - \$14,095,781; 12/31/05 - \$13,712,890)	\$14,001,030	\$13,370,862
Cash and cash equivalents	790,782	1,209,839
Interest receivable (net of allowance: \$236,870 at 3/31/06 and 12/31/05)	328,963	297,619
Deferred tax asset	736,000	846,000
Income tax receivable	760	15,582
Other assets	<u>299,830</u>	<u>323,703</u>
Total assets	<u>\$16,157,365</u>	<u>\$16,063,605</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (NET ASSETS)</b>		
Liabilities:		
Debentures guaranteed by the SBA	\$ 7,200,000	\$ 7,200,000
Accounts payable and accrued expenses	71,866	167,788
Deferred revenue	<u>75,935</u>	<u>79,883</u>
Total liabilities	7,347,801	7,447,671
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)	(5,131,015)	(4,988,326)
Undistributed net realized gain on investments	6,494,878	6,306,925
Net unrealized (depreciation) on investments	(56,851)	(205,217)
Treasury stock, at cost, 44,100 shares	<u>(47,206)</u>	<u>(47,206)</u>
Net assets (per share 3/31/2006-\$1.54, 12/31/2005-\$1.51)	<u>8,809,564</u>	<u>8,615,934</u>
Total liabilities and stockholders' equity (net assets)	<u>\$16,157,365</u>	<u>\$16,063,605</u>

See accompanying notes

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[Table of Contents](#)

**Rand Capital Corporation and Subsidiaries**  
**Condensed Consolidated Statements of Operations**  
**For the Three Months Ended March 31, 2006 and 2005**  
**(Unaudited)**

	Three months ended March 31, 2006	Three months ended March 31, 2005
<b>Investment income:</b>		
Interest from portfolio companies	\$ 172,020	\$ 145,920
Interest from other investments	5,143	839
Dividend and other investment income	13,135	—
Other income	10,947	10,894
	<u>201,245</u>	<u>157,653</u>
<b>Operating expenses:</b>		
Salaries	96,284	134,672
Employee benefits	31,926	31,520
Directors' fees	13,500	8,200
Professional fees	26,536	15,063
Stockholders and office operating	26,228	24,393
Insurance	10,920	11,550
Corporate development	12,905	11,213
Other operating	2,622	2,175
	<u>220,921</u>	<u>238,786</u>
Interest on SBA obligations	106,924	50,973
Total expenses	<u>327,845</u>	<u>289,759</u>
<b>Investment loss before income taxes</b>	(126,600)	(132,106)
Current income tax expense (benefit)	5,000	(73)
Deferred income tax expense (benefit)	11,089	(36,000)
<b>Net investment loss</b>	<u>(142,689)</u>	<u>(96,033)</u>
<b>Realized and unrealized gain (loss) on investments:</b>		
Net gain on sales and dispositions	187,953	—
Unrealized (depreciation) on investments:		
Beginning of period	(342,028)	(586,047)
End of period	(94,751)	(248,867)
Change in unrealized appreciation (depreciation) before income taxes	247,277	337,180
Deferred income tax expense	(98,911)	(135,000)
<b>Net decrease in unrealized depreciation</b>	<u>148,366</u>	<u>202,180</u>
<b>Net realized and unrealized gain on investments</b>	<u>350,819</u>	<u>202,180</u>
<b>Net increase in net assets from operations</b>	<u>\$ 193,630</u>	<u>\$ 106,147</u>
<b>Weighted average shares outstanding</b>	5,718,934	5,718,934
<b>Basic and diluted net increase in net assets from operations per share</b>	<u>\$ 0.03</u>	<u>\$ 0.02</u>

See accompanying notes

[Table of Contents](#)

**Rand Capital Corporation and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows**  
**For the Three Months Ended March 31, 2006 and 2005**  
**(Unaudited)**

	March 31, 2006	March 31, 2005
<b>Cash flows from operating activities:</b>		
Net increase in net assets from operations	\$ 193,630	\$ 106,147
Adjustments to reconcile net increase in net assets to net cash used in operating activities:		
Depreciation and amortization	7,708	4,897
Decrease in unrealized depreciation of investments	(247,277)	(337,180)
Deferred tax expense	110,000	99,000
Net realized (gain) on portfolio investments	(187,953)	—
Non-cash conversion of debenture interest	(2,877)	—
Changes in operating assets and liabilities:		
(Increase) in interest receivable	(31,344)	(70,987)
Decrease (increase) in other assets	30,986	(42,218)
(Decrease) in accounts payable and accrued liabilities	(95,922)	(60,379)
(Decrease) in deferred revenue	(3,948)	(6,144)
Total adjustments	(420,627)	(413,011)
<b>Net cash used in operating activities</b>	<b>(226,997)</b>	<b>(306,864)</b>
<b>Cash flows from investing activities:</b>		
Investments originated	(800,000)	(485,000)
Proceeds from sale of portfolio investments	581,396	—
Proceeds from loan repayments	26,544	35,038
Capital expenditures	—	(1,560)
<b>Net cash used in investing activities</b>	<b>(192,060)</b>	<b>(451,522)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from SBA debenture	—	500,000
Origination costs to SBA	—	(12,500)
<b>Net cash provided by financing activities</b>	<b>—</b>	<b>487,500</b>
Net (decrease) in cash and cash equivalents	(419,057)	(270,886)
Cash and cash equivalents:		
Beginning of period	1,209,839	626,744
End of period	\$ 790,782	\$ 355,858

See accompanying notes

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[Table of Contents](#)

**Rand Capital Corporation and Subsidiaries**  
**Condensed Consolidated Statements of Changes in Net Assets**  
**For the Three Months Ended March 31, 2006 and 2005**  
**(Unaudited)**

	Three months ended March 31, 2006	Three months ended March 31, 2005
<b>Net assets at beginning of period</b>	<b>\$ 8,615,934</b>	<b>\$ 9,027,054</b>
Net investment (loss)	(142,689)	(96,033)
Net realized gain on investments	187,953	—
Net decrease in unrealized depreciation of investments	148,366	202,180
<b>Net increase in net assets from operations</b>	<b>193,630</b>	<b>106,147</b>
<b>Net assets at end of period</b>	<b>\$ 8,809,564</b>	<b>\$ 9,133,201</b>

See accompanying notes

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[Table of Contents](#)

**Rand Capital Corporation and Subsidiaries**  
**Consolidated Schedule of Portfolio Investments**  
**March 31, 2006**  
**(Unaudited)**

Company and Business	Type of Investment	(b) Date Acquired	(c) Equity	Cost	(d) Value	Per Share of Rand
<b>APF Group, Inc. (e)(g)</b> 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	\$500,000 Senior Subordinated note at 12.5% due July 1, 2009. \$94,594 Senior Subordinated note at 14% due July 31, 2007. Warrants to purchase 10.2941 shares of common stock.	7/8/04	6%	\$ 594,594	\$ 594,594	.10
<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 11%. Redeemable January 31, 2010. 5% common membership interest.	1/30/04	5%	1,000,000	1,038,000	.18
<b>Concentrix Corporation (e)(g)</b> Pittsford, NY. Marketing service company generating returns through multi-channel demand generation and renewal marketing services. www.concentrix.com	\$600,000 Senior Subordinated note at 14% due November 11, 2007.	6/1/05	0%	600,000	600,000	.10
<b>Contract Staffing</b> Buffalo, NY. PEO providing human resource administration for small businesses. www.contract-staffing.com	Preferred Stock Repurchase Agreement through March 31, 2010 at 5%.	11/8/99	10%	141,400	141,400	.02
<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.	12/19/05	5%	500,000	500,000	.09
<b>Gemcor II, LLC (e)(g)</b> West Seneca, NY. Designs and sells automatic riveting machines used in the assembly of aircraft components. www.gemcor.com	\$250,000 note at 8% due June 28, 2010 with warrant to purchase 6.25 membership units. 25 membership units.	6/28/04	33%	750,000	750,000	.13
<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	41.322% Class A membership interest. 8% cumulative dividend.	8/31/99	41%	400,000	300,000	.05
<b>Innov-X Systems, Inc. (e)(g)</b> Woburn, MA. Manufactures portable x-ray fluorescence (XRF) analyzers used in metals/alloy analysis. www.innovxsys.com	\$350,000 Subordinated Debenture at 8.5% due September 27, 2009. 12,344 warrants to purchase common shares. 3,500 Series A preferred stock. \$250,000 Series B Secured Subordinated term note at 8.5% due March 1, 2010. 12,345 warrants to purchase common shares.	9/27/04	10%	635,000	635,000	.11
<b>Kionix, Inc.</b> Ithaca, NY. Develops innovative MEMS based technology applications. www.kionix.com	30,241 shares Series B preferred stock. (g) 2,862,091 shares Series A preferred stock. 714,285 shares Series B preferred stock.	5/17/02	2%	1,262,340	977,863	.17

See accompanying notes





[Table of Contents](#)

**Rand Capital Corporation and Subsidiaries**  
**Consolidated Schedule of Portfolio Investments**  
**March 31, 2006 (Continued)**  
**(Unaudited)**

Company and Business	Type of Investment	(b) Date Acquired	(c) Equity	Cost	(d) Value	Per Share of Rand
<b>Minrad International, Inc.</b> (AMEX: BUF) (h) (j) Buffalo, NY. Developer of acute care devices and anesthetics. www.minrad.com	387,981 common shares.	8/4/97	1%	525,978	969,953	.17
<b>New Monarch Machine Tool, Inc. (e) (g)(i)</b> Cortland, NY. Manufactures and services vertical/horizontal machining centers. www.monarchmt.com	\$527,876.85 note at 12% due January 13, 2009. \$300,000 note at 12% due January 13, 2009. Warrants for 22.84 shares of common stock.	9/24/03	15%	803,001	803,001	.14
<b>Niagara Dispensing Technologies, Inc.</b> Tonawanda, NY. Beverage dispense technology development and products manufacturer, specializing in beer dispensing systems. www.exactpour.com	\$500,000 Senior Subordinated note at 8% due March 7, 2011. Adjustable warrant for 4% of common stock.	3/8/06	4%	500,000	500,000	.09
<b>Photonic Products Group, Inc (OTC:PHPG.OB) (a) (j)</b> (Formerly INRAD, Inc.) Northvale, NJ. Develops and manufactures products for laser photonics industry. www.inrad.com	100 shares convertible Series B preferred stock, 10% dividend. 18,000 shares common stock.	10/31/00	<1%	145,000	126,100	.02
<b>RAMSCO (e)(g)</b> Albany, NY. Distributor of water, sanitary, storm sewer and specialty construction materials to the contractor, highway and municipal markets. www.ramsco.com	\$916,947.23 notes at 13% due November 18, 2007. Warrants to purchase 12.5% of common shares.	11/19/02	13%	916,947	916,947	.16
<b>Rocket Broadband Networks, Inc. (g)</b> Rochester, NY. Communications service provider of satellite TV, broadband internet and VoIP digital phone targeting multiple dwelling units. www.rocketbroadband.com	285,829 Preferred shares.	12/20/05	6%	204,082	204,082	.04
<b>Somerset Gas Transmission Company, LLC</b> Buffalo, NY. Natural gas transportation company. www.somersetgas.com	26.5337 Units.	7/10/02	2%	719,097	786,748	.14
<b>Synacor, Inc. (e)(g)</b> Buffalo, NY. Develops provisioning platforms for aggregation and delivery of content for broadband access providers. www.synacor.com	\$350,000 convertible note at 10% due November 18, 2007. 200,000 shares of Series B preferred stock. 59,828 Series A preferred shares. Warrants for 299,146 common shares.	11/18/02	5%	820,000	828,674	.14
<b>Topps Meat Company LLC (e)(g)</b> Elizabeth, NJ. Producer and supplier of premium branded frozen hamburgers and portion controlled meat products. www.toppsmeat.com	Preferred A and Class A common membership interest.	4/3/03	3%	595,000	927,000	.16
<b>Ultra — Scan Corporation</b> Amherst, NY. Biometrics application developer of ultrasonic fingerprint	536,596 common shares, 107,104 Series A-1 preferred shares. (g) 95,284 Series A-1 preferred shares.	12/11/92	3%	938,164	1,203,000	.21

See accompanying notes

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[Table of Contents](#)

**Rand Capital Corporation and Subsidiaries**  
**Consolidated Schedule of Portfolio Investments**  
**March 31, 2006 (Continued)**  
**(Unaudited)**

Company and Business	Type of Investment	(b) Date Acquired	(c) Equity %	Cost	(d) Value	Per Share of Rand
<b>Vanguard Modular Building Systems</b> Philadelphia, PA. Leases and sells high-end modular space solutions. <a href="http://www.vanguardmodular.com">www.vanguardmodular.com</a>	2,673 preferred units with warrants, 14% accrued distribution rate.	12/16/99	<1 %	270,000	135,000	.02
<b>WineIsIt.com, Corp.(g)</b> Amherst, NY. Marketing company specializing in customer loyalty programs supporting the wine and spirit industry. <a href="http://www.wineisit.com">www.wineisit.com</a>	\$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 of Class B common stock.	12/18/02	2%	801,918	551,918	.10
Other Investments	Other	Various		\$ 522,760	\$ 36,750	.01
	Total portfolio investments			<u>\$14,095,781</u>	<u>\$14,001,030</u>	<u>\$2.43</u>

See accompanying notes

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**Rand Capital Corporation and Subsidiaries**  
**Consolidated Schedule of Portfolio Investments**  
**March 31, 2006 (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 or more restrictions on resale and are not freely marketable. At March 31, 2006 restricted securities represented approximately 99% of the value of the investment portfolio. Freed Maxick & Battaglia, CPA's, PC has not examined the business descriptions of the portfolio companies.
  - (b) The Date Acquired column indicates the year in which the Corporation acquired its first investment in the company or a predecessor company.
  - (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 or the potential percentage of voting securities held by the Corporation upon exercise of its warrants or conversion of debentures, or other available data. Freed Maxick & Battaglia, CPA's, PC has not audited the equity percentages of the portfolio companies. The symbol "<1%" indicates that the Company holds equity interest of less than one percent.
  - (d) The Corporation has adopted the SBA's valuation guidelines for SBIC's which describes the policies and procedures used in valuing investments. 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, including securities of publicly-held companies, which are subject to restrictions on resale, are valued at fair 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 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 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.
  - (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) Income Tax Information — As of March 31, 2006, the aggregate cost of investment securities approximated \$14.0 million. Net unrealized depreciation aggregated approximately \$95,000 of which \$1,179,000 related to appreciated investment securities and \$1,274,000 related to depreciated investment securities.
  - (g) Rand Capital SBIC, L.P. investment
  - (h) This is a publicly owned security. The Corporation's shares are restricted securities but may be sold in the open market under Rule 144.
  - (i) Reduction in cost and value reflects current principal repayment .
  - (j) Publicly owned company
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**Rand Capital Corporation**  
**Notes to the Consolidated Financial Statements**  
**For the Three Months Ended March 31, 2006 and 2005**  
**(Unaudited)**

**Note 1. ORGANIZATION**

Rand Capital Corporation (“Rand” or “Corporation”) was incorporated under the laws of the state of New York on February 24, 1969. Commencing in 1971, Rand operated as a publicly traded, closed-end, diversified management company that was registered under Section 8(b) of the Investment Company Act of 1940 (the “1940 Act”). On August 16, 2001, Rand filed an election to be treated as a business development company (“BDC”) under the 1940 Act, which became effective on the date of filing. A BDC is a specialized type of investment company that is primarily engaged in the business of furnishing capital and managerial expertise to companies that do not have ready access to capital through conventional finance channels. There was no impact on the corporate structure as a result of the change to a BDC. Rand continues to operate as a publicly held venture capital company, listed on the NASDAQ Small Cap Market under the symbol “RAND.”

**Formation of SBIC Subsidiary**

On January 16, 2002, Rand formed a wholly owned subsidiary, Rand Capital SBIC, L.P., (“Rand SBIC”) for the purpose of operating it as a small business investment company. At the same time, Rand organized another wholly owned subsidiary, Rand Capital Management, LLC (“Rand Management”), as a Delaware limited liability company, to act as the general partner of Rand SBIC. Rand transferred \$5 million in cash to Rand SBIC to serve as “regulatory capital” in January 2002 and on August 16, 2002, Rand received notification that its Small Business Investment Company (SBIC) application and license had been approved by the Small Business Administration (SBA). The approval allows Rand SBIC to obtain loans up to two times its initial \$5 million of “regulatory capital” from the SBA for purposes of making new investments in portfolio companies.

The following discussion will include Rand, Rand SBIC and Rand Management (collectively, the “Corporation”).

The Corporation paid \$100,000 to the SBA to reserve \$10,000,000 of its approved debenture leverage. The fees were paid in two installments of \$50,000 each in July 2003 and in August 2004. These fees were 1% of the face amount of the leverage reserved under the commitment. The fee represents a partial prepayment of the SBA’s nonrefundable 3% leverage fee. As of March 31, 2006, Rand SBIC had drawn \$7,200,000 in leverage from the SBA.

SBA debentures are issued with 10-year maturities. Interest only is payable semi-annually until maturity. Ten-year SBA debentures may be prepaid with a penalty during the first 5 years, and then are pre-payable without penalty. Rand initially capitalized Rand SBIC with \$5 million in Regulatory Capital. Rand SBIC was approved to obtain SBA leverage at a 2:1 matching ratio, resulting in a total capital pool eligible for investment of \$15 million. The Corporation expects to use Rand SBIC as its primary investment vehicle.

The Corporation formed Rand SBIC as a subsidiary for the purpose of causing it to be licensed as a SBIC under the Small Business Investment Act of 1958 (the “SBA Act”) by the SBA, in order to have access to various forms of leverage provided by the SBA to SBIC’s.

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## Table of Contents

On May 28, 2002, the Corporation filed an Exemption Application with the Securities and Exchange Commission (“SEC”) seeking an order under Sections 6(c), 12(d)(1)(J), 57(c), and 57(i) of, and Rule 17d-1 under, the 1940 Act for exemptions from the application of Sections 2(a)(3), 2(a)(19), 12(d)(1), 18(a), 21(b), 57(a)(1), (2), (3), and (4), and 61(a) of the 1940 Act to certain aspects of its operations. The application also seeks an order under Section 12(h) of the Securities Exchange Act of 1934 Act (the “Exchange Act”) for an exemption from separate reporting requirements under Section 13(a) of the Exchange Act. In general, the Corporation applications seek orders that would permit:

- A BDC (Rand) to operate a BDC/small business investment company (Rand SBIC) as its wholly owned subsidiary in limited partnership form;
- Rand, Rand Management and Rand SBIC to engage in certain transactions that the Corporation would otherwise be permitted to engage in as a BDC if its component parts were organized as a single corporation;
- Rand, as a BDC, and Rand SBIC, as its BDC/SBIC subsidiary, to meet asset coverage requirements for senior securities on a consolidated basis and;
- Rand SBIC, as a BDC/SBIC subsidiary of Rand, as a BDC, to file Exchange Act reports on a consolidated basis as part of Rand’s reports.

The Corporation has not identified from among the similar exemption applications on file with the SEC an example of a specific grouping of all of the exemptions requested by the Corporation in its application, but the SEC has commonly granted applications to other companies for orders applicable to each of the exemptions requested and for orders applicable to various combinations of those exemptions, and the Corporation’s applications do not appear to raise any specific policy issues that have not also been raised by applications for which exemptions have been granted.

Rand operates Rand SBIC through Rand Management for the same investment purposes, and with investments in similar kinds of securities, as Rand. Rand SBIC’s operations are consolidated with those of Rand for both financial reporting and tax purposes.

### **Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation** — In Management’s opinion, the accompanying consolidated financial statements include all adjustments necessary for a fair presentation of the consolidated 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 U.S. generally accepted accounting principles, 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 period ending March 31, 2006 are not necessarily indicative of the results for the full year.

These statements should be read in conjunction with the financial statements and the notes included in the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2005. Information contained in this filing should also be reviewed in conjunction with the Corporation’s related filings with the SEC during the period of time prior to the date of this report. Those filings include, but are not limited to the following:

N-30-B2/ARS	Quarterly & Annual Reports to Shareholders
N-54A	Election to Adopt Business Development Company status
DEF-14A	Definitive Proxy Statement submitted to shareholders
Form 10-K	Annual Report on Form 10-K for the year ended December 31, 2005
Form 10-Q	Quarterly Report on Form 10-Q for the quarters ended September 30, 2005, June 30, 2005 and March 31, 2005

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## [Table of Contents](#)

Form N-23C-1 Reports by closed-end investment companies of purchases of their own securities

Our Corporation's website is [www.randcapital.com](http://www.randcapital.com). Available through our website is the Corporation's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other reports filed with the SEC.

**Principles of Consolidation** - The consolidated financial statements include the accounts of Rand, Rand SBIC and Rand Management, collectively, the "Corporation". All intercompany accounts and transactions have been eliminated in consolidation.

**Investments** - Investments are stated at fair value as determined in good faith by the Board of Directors, as described in the Notes to Consolidated Schedule of Portfolio Investments. Certain investment valuations have been determined by the Board of Directors in the absence of readily ascertainable fair values. The estimated valuations 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.

Amounts reported as realized gains and losses are measured by the difference between the net proceeds of sale or exchange and the cost basis of the investment without regard to unrealized gains or losses reported in prior periods. The cost of securities that have, in the Board of Directors' judgment, become worthless, are written off and reported as realized losses.

**Cash and Cash Equivalents** - Temporary cash investments having a maturity of three months or less when purchased are considered to be cash equivalents.

**Revenue Recognition — Interest Income** - Interest income generally is recognized on the accrual basis except where the investment is in default or otherwise presumed to be in doubt. In such cases, interest is recognized at the time of receipt. A reserve for possible losses on interest receivable is maintained when appropriate.

The Rand SBIC interest accrual is regulated by the SBA's "Accounting Standards and Financial Reporting Requirements for Small Business Investments Companies". Under these rules interest income cannot be recognized if collection is doubtful, and a 100% reserve must be established. The collection of interest is presumed to be in doubt when there is substantial doubt about a portfolio company's ability to continue as a going concern or the loan is in default more than 120 days. Management also utilizes other qualitative and quantitative measures to determine the value of a portfolio investment and the collectability of any accrued interest.

**Deferred Debenture Costs** - SBA debenture origination and commitment costs, which are included in other assets, will be amortized ratably over the terms of the SBA debentures. Amortization expense was \$6,028 for the three months ended March 31, 2006, compared to \$3,095 for the three months ended March 31, 2005.

**Net Assets per Share** - Net assets per share are based on the number of shares of common stock outstanding. There are no common stock equivalents.

**Accounting 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 period. Actual results could differ from those estimates.

**Stockholders Equity (Net Assets)** — At March 31, 2006 and December 31, 2005, there were 500,000 shares of \$10.00 par value preferred stock authorized and unissued.

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## [Table of Contents](#)

The Board of Directors has authorized the repurchase of up to 5% of the Corporation's outstanding stock on the open market through October 27, 2006. During the three month period ended March 31, 2006 the Corporation did not purchase any shares for the treasury.

**Stock Option Plan** — In July 2001, the shareholders of the Corporation authorized the establishment of an Employee Stock Option Plan (the "Plan"). The Plan provides for an award of options to purchase up to 200,000 common shares to eligible employees. In 2002, the Corporation placed the Plan on inactive status as it developed a new profit sharing plan for two of the Corporation's employees in connection with the establishment of its SBIC subsidiary. The profit sharing plan provided for incentive compensation based on a stated percentage of realized gain, capital gains, net of realized capital losses and unrealized depreciation, and limited to a stated percentage of the Corporation's net income. As of March 31, 2006, no stock options had been awarded under the Plan. Because Section 57(n) of the 1940 Act prohibits maintenance of a profit sharing plan for the officers and employees of a BDC where any option, warrant or right is outstanding under an executive compensation plan, no options will be granted under the Plan while any profit sharing plan is in effect with respect to the Corporation.

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## [Table of Contents](#)

### **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our financial statements and related notes included elsewhere in this report.

#### **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 Corporation 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 Corporation’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 Corporation’s portfolio companies operate, the state of the securities markets in which the securities of the Corporation’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 “Risk Factors and Other Considerations”, below.*

*There may be other factors that we have not identified that affect the likelihood that the forward-looking statements may prove to be accurate. Further, any forward-looking statement speaks only as of the date it is made and, except as required by law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which it is made or to reflect the occurrence of anticipated or unanticipated events or circumstances. New factors emerge from time to time that may cause our business not to develop as we expect, and we cannot predict all of them.*

#### **Overview**

The following discussion includes Rand Capital Corporation (“Rand”), Rand Capital SBIC, L.P., (“Rand SBIC”), and Rand Capital Management, LLC (“Rand Management”), (collectively the “Corporation”), its financial position and results of operations.

Rand is incorporated under the laws of New York and is regulated under the 1940 Act as a business development company (“BDC”). In addition, a wholly-owned subsidiary, Rand SBIC is regulated as a Small Business Investment Company (“SBIC”) by the Small Business Administration (“SBA”). The Corporation anticipates that most, if not all, of its investments in the next year will be originated through the SBIC subsidiary.

#### **Critical Accounting Policies**

The Corporation prepares its financial statements in accordance with U.S. generally accepted accounting principles (GAAP) which requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities. For a summary of certain of our significant accounting policies see Note 2 of the consolidated financial statements. A summary of our critical accounting policies can be found in the December 31, 2005 Form 10-K in Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations”.

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## [Table of Contents](#)

### Financial Condition

Overview:

	<u>3/31/06</u>	<u>12/31/05</u>	<u>Increase (Decrease)</u>	<u>% Increase (Decrease)</u>
Total assets	\$16,157,365	\$16,063,605	\$ 93,760	0.60%
Total liabilities	7,347,801	7,447,671	(99,870)	(1.3%)
Net assets	<u>\$ 8,809,564</u>	<u>\$ 8,615,934</u>	<u>\$193,630</u>	<u>2.2%</u>

The Corporation's financial condition is dependent on the success of its portfolio holdings. It has invested a substantial portion of its assets in small to medium sized private companies. The following summarizes the Corporation's investment portfolio at the period-ends indicated.

	<u>3/31/06</u>	<u>12/31/05</u>	<u>Increase (Decrease)</u>	<u>% Increase (Decrease)</u>
Investments, at cost	\$14,095,781	\$13,712,890	\$ 382,891	2.8%
Unrealized depreciation, net	(94,751)	(342,028)	(247,277)	(72.3%)
Investments at fair value	<u>\$14,001,030</u>	<u>\$13,370,862</u>	<u>\$ 630,168</u>	<u>4.7%</u>

The increase in investments is due to the effect of Rand SBIC's new investments during the three months ended March 31, 2006 in the following portfolio companies:

<u>New Investments</u>	<u>Amount</u>
Niagara Dispensing Technologies, Inc. (Niagara Dispensing)	\$500,000
New Monarch Machine Tool, Inc. (Monarch)	<u>300,000</u>
<b>Total of investments made during the three months ended March 31, 2006</b>	<b><u>\$800,000</u></b>

Interest conversion:

Monarch	<u>2,887</u>
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**Total of new investments and interest conversions during the three months ended March 31, 2006** **\$802,887**

Net asset value per share (NAV) was \$1.54/share at March 31, 2006 versus \$1.51/share at December 31, 2005.

The Corporation's total investments at fair value, whose fair value have been estimated by the Board of Directors, approximated 159% of net assets at March 31, 2006 and 155% of net assets at December 31, 2005.

Cash and cash equivalents approximated 9% of net assets at March 31, 2006 compared to 14% at December 31, 2005.

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## [Table of Contents](#)

### Results of Operations

#### Investment Income

The Corporation's investment objective is to achieve long-term capital appreciation on its equity investments while maintaining a current cash flow from its debenture and pass through equity instruments. Therefore, the Corporation will invest in a mixture of debenture and equity instruments, which will provide a current return on a portion of the investment portfolio. The equity features contained in our investment portfolio are structured to realize capital appreciation over the long-term and may not necessarily generate current income in the form of dividends or interest. In addition, the Corporation earns interest income from investing its idle funds in money market instruments.

#### *Comparison of the three months ended March 31, 2006 to the three months ended March 31, 2005*

	March 31, 2006	March 31, 2005	Increase (Decrease)	%Increase (Decrease)
Interest from portfolio companies	\$172,020	\$145,920	\$26,100	17.9%
Interest from other investments	5,143	839	4,304	513%
Dividend and other investment income	13,135	—	13,135	—
Other income	10,947	10,894	53	.5%
<b>Total investment income</b>	<b>\$201,245</b>	<b>\$157,653</b>	<b>\$43,592</b>	<b>27.7%</b>

Interest from portfolio companies — Portfolio interest income increased \$26,100 or 17.9% during the three months ended March 31, 2006 as compared to the same period in the prior year. This increase is attributable to the fact that the 66% of the total of the new 2005 and first quarter 2006 investments originated out of Rand and Rand SBIC are debenture instruments that earn interest income at a blended interest rate of approximately 11%.

After reviewing the portfolio companies' performance and the circumstances surrounding the investments the Corporation has ceased accruing interest income on the following investment instruments:

Company	Interest Rate	Investment Cost	Year that Interest Accrual Ceased
G-Tec	8%	400,000	2004
Vanguard	14%	270,000	2003
WineIsIt.com	10%	801,918	2005

Interest from other investments — The increase in interest income is primarily due to higher yields on idle cash balances.

Dividend and other investment income — Dividend income is comprised of distributions from Limited Liability Companies (LLC's) that the Corporation has invested in. The Corporation's investment agreements with certain LLC companies require the entities to distribute funds to the Corporation for payment of income taxes on its allocable share of the entities' profits. These dividends will fluctuate based upon the profitability of the entities and the timing of the distributions. Dividend income for the three months ended March 31, 2006 consisted of distributions from Topps Meat Company LLC (Topps) for \$5,302 and Gemcor II, LLC (Gemcor) for \$7,833. There were no LLC distributions for the three months ended March 31, 2005.

Other income — Other income consists of the revenue associated with the amortization of financing fees charged to the portfolio companies upon successful closing of Rand SBIC financing. The SBA regulations

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## [Table of Contents](#)

limit the amount of fees that can be charged to a portfolio company and the Corporation typically charges 1% to 3% to the portfolio concerns. These fees are amortized ratably over the life of the instrument associated with the fees. The unamortized fees are carried on the balance sheet under Deferred Revenue. In addition, other income includes fees charged by the Corporation to its portfolio companies for attendance at the portfolio company board meetings.

The slight increase in other income for the three months ended March 31, 2006 can be attributed to the fact that the Corporation only charged closing fees on 3 of the 16 investments generated through Rand SBIC in 2005 and the first quarter of 2006. The annualized financing fee income based on the existing portfolio will be approximately \$29,000 annually in 2006 and 2007 and less than \$10,000 annually thereafter. In addition board attendance fees are included in this line item and amounted to \$2,000 for the three months ended March 31, 2006 and \$1,000 for same period ending March 31, 2005.

### **Operating Expenses**

	<u>March 31, 2006</u>	<u>March 31, 2005</u>	<u>Increase</u>	<u>% Increase</u>
Total Expenses	\$ 327,845	\$ 289,759	\$38,086	13%

Operating expenses predominately consist of interest expense on SBA obligations, employee compensation and benefits, directors' fees, shareholder related costs, office expenses, professional fees, expenses related to identifying and reviewing investment opportunities and bad debt expense (recovery). The increase in operating expenses during the three months ended March 31, 2006 can be primarily attributed to the 110% or \$55,951 increase in SBA interest expense. The SBA interest expense was \$106,924 for the three months ended March 31, 2006 and \$50,973 for the three months ended March 31, 2005. The Corporation has borrowed \$7,200,000 from the SBA as of March 31, 2006 at an average borrowing rate, including surcharges, of approximately 5.6%. Interest costs will continue to increase in 2006 and beyond as the Corporation continues to draw down SBA leverage up to the maximum approved leverage of \$10 million. This interest is paid on a semi-annual basis.

In addition, salaries decreased 29% or (\$38,388) from \$134,672 for the three months ended March 31, 2005 to \$96,284 for the three months ended March 31, 2006. This decrease is due to the fact that the executive officers were not paid bonuses during the first quarter of 2006 as they were during the three months ended March 31, 2005. Professional fees were \$26,536 for the three months ended March 31, 2006 and \$15,063 for the three months ended March 31, 2005. This represents an increase of 76% or \$11,473 and can be attributed to the increasing audit and tax costs due to the increasingly more complex regulatory environment in which the Corporation operates.

### **Net Realized Gains and Losses on Investments**

During the three months ended March 31, 2006, the Corporation recognized a net realized gain of \$187,953 on its sale of 290,000 shares of Minrad. The average sales price of Minrad was \$2.05/share and the basis of the stock was \$1.36/share. The Corporation incurred \$14,500 in broker transaction fees that were netted against the realized gain. There were no realized gains/losses for the three months ended March 31, 2005.

### **Net Change in Unrealized Appreciation (Depreciation) of Investments**

The Corporation recorded a net decrease in unrealized (depreciation) on investments of \$247,277 during the three months ended March 31, 2006, as compared to \$337,180 decrease during the three

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## Table of Contents

months ended March 31, 2005. The decrease in unrealized depreciation on investments of \$247,277 is due to the following valuation changes made by the Corporation:

Minrad valuation to market	\$329,453
Photonics valuation to market	2,880
Reclass Minrad unrealized gain to realized gain on shares sold	<u>(85,056)</u>
Total Change in Unrealized Depreciation	<u>\$247,277</u>

The Corporation recognized appreciation of \$329,453 on its 387,981 remaining shares of Minrad. Minrad is a public stock (Amex symbol: BUF). The stock is valued at the average closing price for the last three days of the period ended. The Corporation Minrad shares are restricted subject to Rule 144.

Photonics is a public stock (Nasdaq symbol: PHPG.OB) and is marked to market at the end of each quarter.

All of these value adjustments were done in accordance with the Corporation's established valuation policy.

### **Net Increase in Net Assets from Operations**

The Corporation accounts for its operations under U.S. generally accepted accounting principles for investment companies. The principal measure of its financial performance is "net increase in net assets from operations" on its consolidated statements of operations. For the three months ended March 31, 2006, the net increase in net assets from operations was \$193,630 as compared to a net increase in net assets from operations of \$106,147 for the same three month period in 2005.

### **Liquidity and Capital Resources**

The Corporation'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 of the Corporation's portfolio investments may be structured to provide little or no current yield in the form of dividends or interest payments.

As of March 31, 2006, the Corporation's total liquidity, consisting of cash and cash equivalents, was \$790,782.

As of March 31, 2006 the Corporation had paid \$100,000 to the SBA to reserve its approved \$10,000,000 leverage. It has drawn down \$7,200,000 of this leverage as of March 31, 2006. The remaining SBA leverage is guaranteed by the SBA to be available through September 30, 2008. These SBA borrowings will have a balloon maturity beginning in 2014.

Management expects that it will be necessary to continue to draw down SBA leverage in the current fiscal year in order to fund operations and new investments.

Net cash used in operating activities has averaged \$455,000 over the last three years and management anticipates this amount will continue at similar levels. The cash flow may fluctuate based on possible expenses associated with compliance with new regulations. Management believes that the cash and cash equivalents at March 31, 2006, coupled with the anticipated additional SBIC leverage draw downs and interest and dividend payments on its portfolio investments, will provide the Corporation with the liquidity necessary to fund operations and new investments over the next twelve months. The

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## [Table of Contents](#)

Corporation's cash flows related to its investing activities will continue to fluctuate based on its success in originating investments and its ability to realize gains on liquidation of investments.

### **Risk Factors and Other Considerations**

#### **The Corporation's Portfolio Investments are Illiquid**

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

#### **Investing in Private Companies involves a High Degree of Risk**

The Corporation typically invests a substantial portion of its assets in small and medium sized private companies. These private businesses may be thinly capitalized, unproven companies with risky technologies and may lack management depth and have not attained profitability. 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. The Corporation 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. The Corporation has been risk seeking rather than risk averse in its approach to venture capital and other investments. Neither the Corporation's investments nor an investment in the Corporation is intended to constitute a balanced investment program.

Even if the Corporation'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 the portfolio companies may not be successful.

#### **The Corporation is Subject to Risks Created by the Valuation of its Portfolio Investments**

There is typically no public market for equity securities of the small privately held companies in which the Corporation invests. As a result, the valuations of the equity securities in the Corporation's portfolio are stated at fair value as determined by the good faith estimate of the Corporation's Board of Directors in accordance with the established SBA valuation policy. In the absence of a readily ascertainable market value, the estimated value of the Corporation's portfolio of securities may differ significantly, favorably or unfavorably, 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 the statement of operations as "Net (increase) decrease in unrealized depreciation."

#### **Investing in The Corporation's Shares May be Inappropriate for the Investor's Risk Tolerance**

The Corporation'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. The Corporation'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.

#### **The Corporation is Subject to Risks Created by its Regulated Environment**

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## [Table of Contents](#)

The Corporation is regulated by the SBA and the SEC. Changes in the laws or regulations that govern SBICs and BDCs could significantly affect the Corporation's business. Regulations and laws may be changed periodically, and the interpretations of the relevant regulations and laws are also subject to change. Any change in the regulations and laws governing the Corporation's business could have a material impact on its financial condition or its results of operations.

### **The Corporation is Subject to Risks Created by Borrowing Funds from the SBA**

The Corporation's Leverageable Capital may include large amounts of debt securities issued through the SBA, and all of the debentures will have fixed interest rates. Until and unless the Corporation is able to invest substantially all of the proceeds from debentures at annualized interest or other rates of return that substantially exceed annualized interest rates that Rand SBIC must pay the SBA, the Corporation's operating results may be adversely affected which may, in turn, depress the market price of the Corporation's common stock.

### **The Economic Environment May Change**

The value of the Corporation's common stock may decline and may be affected by numerous market conditions, which could result in the loss of some or the entire amount invested in its 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 stock price.

### **The Corporation is Dependent Upon Key Management Personnel for Future Success**

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

### **The Corporation Operates in a Competitive Market for Investment Opportunities**

The Corporation faces competition in its investing activities from many entities including other SBIC's, private venture capital funds, investment affiliates of large companies, wealthy individuals and other domestic or foreign investors. The competition is not limited to entities that operate in the same geographical area as the Corporation. As a regulated BDC, the Corporation is required to disclose quarterly and annually the name and business description of portfolio companies and the value of its portfolio securities. Most of its competitors are not subject to this disclosure requirement. The Corporation's obligation to disclose this information could hinder its ability to invest in certain portfolio companies. Additionally, other regulations, current and future, may make the Corporation less attractive as a potential investor to a given portfolio company than a private venture capital fund.

### **Fluctuations of Quarterly Results**

The Corporation'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

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## [Table of Contents](#)

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.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

The Corporation's investment activities contain elements of risk. The portion of the Corporation's investment portfolio consisting of equity and equity-linked debt securities in private companies is subject to valuation risk. Because there is typically no public market for the equity and equity-linked debt securities in which it invests, the valuation of the equity interests in the portfolio is stated at "fair value" as determined in good faith by the Board of Directors in accordance with the Corporation's investment valuation policy. (The discussion of valuation policy contained in Item 1 "Financial Statements" and Supplementary Data in the "Notes to Consolidated Schedule of Portfolio Investments" and is hereby incorporated herein by reference.) In the absence of a readily ascertainable market value, the estimated value of the Corporation's portfolio may differ significantly from the values that would be placed on the portfolio if a ready market for the investments existed. Any changes in valuation are recorded in the Corporation's consolidated Statement of Operations as "Net decrease (increase) in unrealized depreciation."

At times, a portion of the Corporation's portfolio may include marketable securities traded in the over-the-counter market. In addition, there may be a portion of the Corporation'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 Corporation may not be able to realize the fair value of its marketable investments or other investments in a timely manner.

As of March 31, 2006 the Corporation did not have any off-balance sheet investments or hedging investments.

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## [Table of Contents](#)

### **Item 4. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures.* Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our principal executive officer and principal financial officer have concluded that as of such date, our disclosure controls and procedures were designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in applicable SEC rules and forms and were effective.

*Changes in Internal Control Over Financial Reporting.* There have been no significant changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**PART II.  
OTHER INFORMATION**

**Item 1. Legal Proceedings**

None

**Item 1A. Risk Factors**

We have had no material changes to risk factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2005.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None

**Item 3. Defaults upon Senior Securities**

None

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

None

**Item 5. Other Information**

None

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## Table of Contents

### **Item 6. Exhibits**

#### **(a) Exhibits**

The following exhibits are filed with this report or are incorporated herein by reference to a prior filing, in accordance with Rule 12b-32 under the Securities Exchange Act of 1934.

- (3)(i) Certificate of Incorporation of the Corporation, incorporated by reference to Exhibit (a)(1) of Form N-2 filed with the Securities Exchange Commission on April 22, 1997.
- (3)(ii) By-laws of the Corporation incorporated by reference to Exhibit (b) of Form N-2 filed with the Securities Exchange Commission on April 22, 1997.
- (4) Specimen certificate of common stock certificate, incorporated by reference to Exhibit (b) of Form N-2 filed with the Securities Exchange Commission on April 22, 1997.
- (10.1) Employee Stock Option Plan — incorporated by reference to Appendix B to the Corporation's definitive Proxy Statement filed on June 1, 2002.\*
- (10.3) Agreement of Limited Partnership for Rand Capital SBIC, L.P. – incorporated by reference to Exhibit 10.3 to the Corporation's Form 10-K filed for the year ended December 31, 2001.
- (10.4) Certificate of Limited Partnership of Rand Capital SBIC, L.P. – incorporated by reference to Exhibit 10.4 to the Corporation's Form 10-K filed for the year ended December 31, 2001.
- (10.5) Limited Liability Corporation Agreement of Rand Capital Management, LLC – incorporated by reference to Exhibit 10.5 to the Corporation's Form 10-K Report filed for the year ended December 31, 2001.
- (10.6) Certificate of Formation of Rand Capital Management, LLC– incorporated by reference to Exhibit 10.6 to the Corporation's Form 10-K Report filed for the year ended December 31, 2001.
- (10.7) N/A
- (10.8) Profit Sharing Plan – incorporated by reference to Exhibit 10.8 to the Corporation's Form 10-K Report filed for the year ended December 31, 2002.\*
- (21) Subsidiaries of the Corporation – incorporated by reference to Exhibit 21 to the Corporation's Form 10-K Report filed for the year ended December 31, 2001.
- (31.1) Certification of the Chief Executive Officer Pursuant to Rules 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as amended, filed herewith
- (31.2) Certification of Chief Financial Officer Pursuant to Rules 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as amended, filed herewith
- (32.1) Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – Rand Capital Corporation – filed herewith
- (32.2) Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – Rand Capital SBIC, L.P. – filed herewith

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\* Management contract or compensatory plan.

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**Signatures**

**Pursuant to the requirements of Section 13 or 15(d) of Securities Exchange Act of 1934, the registrant has duly caused this Report on Form 10-Q to be signed on its behalf by the undersigned thereunto duly authorized.**

Dated: May 10, 2006

RAND CAPITAL CORPORATION

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

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

RAND CAPITAL SBIC, L.P.

By: RAND CAPITAL MANAGEMENT LLC  
General Partner

By: RAND CAPITAL CORPORATION  
Member

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

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

**EXHIBIT 31.1**

**CERTIFICATION**

**Chief Executive Officer Pursuant to Rules 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as amended**

I, Allen F. Grum, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Rand Capital Corporation, Rand Capital SBIC, L.P. and Rand Capital Management, LLC:

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 10, 2006

/s/ Allen F. Grum

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Allen F. Grum, President  
(Chief Executive Officer of Rand Capital  
Corporation and equivalent of Chief Executive  
Officer of Rand Capital SBIC, L.P.)

**EXHIBIT 31.2**

**CERTIFICATION**

**Chief Financial Officer Pursuant to Rules 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as amended**

I, Daniel P. Penberthy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Rand Capital Corporation, Rand Capital SBIC, L.P. and Rand Capital Management, LLC:
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 10, 2006

*/s/ Daniel P. Penberthy*

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Daniel P. Penberthy, Treasurer  
(Chief Financial Officer of Rand Capital  
Corporation and equivalent of Chief Financial  
Officer of Rand Capital SBIC, L.P.)

**EXHIBIT 32.1**

**CERTIFICATION**

**Pursuant to 18 U.S.C Section 1350 as Adopted Pursuant to Section 906  
Of the Sarbanes-Oxley Act of 2002**

Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of Rand Capital Corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 (the Form 10-Q) of the Company fully complies with the requirement of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 10, 2006

/s/ Allen F. Grum

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Allen F. Grum, President  
(Chief Executive Officer)

Dated: May 10, 2006

/s/ Daniel P. Penberthy

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Daniel P. Penberthy, Treasurer  
(Chief Financial Officer)

**EXHIBIT 32.2**

**CERTIFICATION**

**Pursuant to 18 U.S.C Section 1350 as Adopted Pursuant to Section 906  
Of the Sarbanes-Oxley Act of 2002**

Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of Rand Capital SBIC, L.P. (the "Company"), does hereby certify, to such officer's knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 (the Form 10-Q) of the Company fully complies with the requirement of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 10, 2006

/s/ Allen F. Grum

Allen F. Grum, President of Rand Capital Corporation  
(equivalent of chief executive officer of Rand  
Capital SBIC, L.P.)

Dated: May 10, 2006

/s/ Daniel P. Penberthy

Daniel P. Penberthy, Treasurer of Rand Capital  
Corporation  
(equivalent of chief financial officer of Rand  
Capital SBIC, L.P.)