

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 June 30, 2004

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934 For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

COMMISSION FILE NUMBER: 811-01825

RAND CAPITAL CORPORATION  
(Exact Name of Registrant as specified in its Charter)

NEW YORK 16-0961359  
(State or Other Jurisdiction of Incorporation (IRS Employer  
or organization) Identification No.)

2200 RAND BUILDING, BUFFALO, NY 14203  
(Address of Principal executive offices) (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: None  
Securities registered pursuant to Section 12(g) of the Act: Common Stock, \$.10  
par value

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 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 an accelerated filer (as  
defined in Rule 12B-2 of the Exchange Act) Yes:  No

Number of shares outstanding of each of the issuer's classes of common stock, as  
of the latest practicable date (August 6, 2004): 5,718,934

RAND CAPITAL CORPORATION  
TABLE OF CONTENTS FOR FORM 10-Q

<TABLE>

<S>

<C>

PART I. - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (Unaudited)

Consolidated Statements of Financial Position as of June 30, 2004  
and December 31, 2003

Consolidated Statements of Operations for the Three Months and  
Six Months Ended June 30, 2004 and 2003

Consolidated Statements of Cash Flows for Three Months and Six  
Months Ended June 30, 2004 and 2003

Consolidated Statements of Changes in Net Assets for the Three  
Months and Six Months Ended June 30, 2004 and 2003

Consolidated Schedule of Portfolio Investments as of June 30, 2004

Notes to 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 2. Changes in 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 and Reports on Form 8-K

</TABLE>

PART I.  
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

RAND CAPITAL CORPORATION  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
AS OF JUNE 30, 2004 AND DECEMBER 31, 2003  
(UNAUDITED)

<TABLE>  
<CAPTION>

	JUNE 30, 2004	DECEMBER 31, 2003	
	-----	-----	
	<C>	<C>	
<b>ASSETS</b>			
Investments at fair value (identified cost: at 6/30/2004 - \$10,222,417, at 12/31/2003 - \$7,616,309)		\$ 10,156,592	\$ 7,236,999
Cash and cash equivalents	1,101,176	1,251,546	
Interest receivable (net of allowance of \$0 at 6/30/04,\$122,914 at 12/31/2003)	381,637	334,734	
Deferred tax asset	282,000	430,000	
Income tax receivable	10,751	-	
Promissory notes receivable	56,190	72,330	
Other assets	148,296	59,528	
	-----	-----	
<b>TOTAL ASSETS</b>	<b>\$ 12,136,642</b>	<b>\$ 9,385,137</b>	
	=====	=====	

LIABILITIES AND STOCKHOLDERS' EQUITY (NET ASSETS)

LIABILITIES:

Accounts payable and accrued expenses	\$ 93,282	\$ 93,522
Income taxes payable	-	6,374
Deferred revenue	88,601	46,753
Debentures guaranteed by the SBA	2,500,000	-
	-----	-----
Total liabilities	2,681,883	146,649
	-----	-----

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)	(4,705,932)	(4,700,763)
Undistributed net realized gain on investments	6,695,506	6,662,551
Net unrealized (depreciation) on investments	(37,367)	(225,852)
Treasury stock at cost, 44,100 shares at 6/30/2004 and 12/31/2003	(47,206)	(47,206)
	-----	-----
Net assets (per share 6/30/2004-\$1.65, 12/31/2003-\$1.62)	9,454,759	9,238,488
	-----	-----
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 12,136,642</b>	<b>\$ 9,385,137</b>
	=====	=====

</TABLE>

See accompanying notes.

RAND CAPITAL CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2004 AND JUNE 30, 2003  
(UNAUDITED)

<TABLE>  
<CAPTION>

	THREE MONTHS ENDED JUNE 30, 2004	THREE MONTHS ENDED JUNE 30, 2003	THREE MONTHS ENDED JUNE 30, 2004	THREE MONTHS ENDED JUNE 30, 2003		
<S>	<C>	<C>	<C>	<C>		
INVESTMENT INCOME:						
Interest from portfolio companies	\$ 149,725	\$ 101,054	\$ 322,522	\$ 202,963		
Interest from other investments	229	6,329	1,634	14,174		
Dividend Income	25,920	-	32,507	-		
Other income	12,747	2,357	18,152	4,616		
	188,621	109,740	374,815	221,753		
EXPENSES:						
Salaries	82,060	71,969	215,715	188,384		
Employee benefits	19,774	15,821	50,581	41,170		
Directors' fees	14,000	15,000	26,100	20,500		
Professional fees	24,664	42,316	38,095	63,102		
Shareholders and office	39,194	28,603	66,735	54,082		
Insurance	11,550	10,800	23,100	21,600		
Corporate development	10,575	8,855	19,082	18,162		
Other operating expenses	4,457	2,275	8,238	6,562		
	206,274	195,639	447,646	413,562		
Interest Expense	20,983	-	24,007	-		
Bad Debt Recovery	-		(122,914)			
Total expenses	227,257	195,639	348,739	413,562		
INVESTMENT (LOSS) INCOME BEFORE INCOME TAXES			(38,636)	(85,899)	26,076	(191,809)
Income tax expense (benefit)	5,490	4,301	8,246	8,295		
Deferred income tax (benefit) expense	(6,000)	(28,799)	23,000	(67,133)		
NET INVESTMENT (LOSS)		(38,126)	(61,401)	(5,170)	(132,971)	
REALIZED AND UNREALIZED GAIN ON INVESTMENTS:						
Net gain on sales and dispositions		-	8,565	32,956	8,565	
Unrealized appreciation (depreciation) on investments:						
Beginning of period	(390,346)	(177,376)	(379,311)	(149,266)		
End of period	(65,826)	(151,355)	(65,826)	(151,355)		
Change in unrealized appreciation (depreciation) before income taxes		324,520	26,021	313,485	(2,089)	
Deferred income tax expense (benefit)		129,000	10,799	125,000	(867)	
NET INCREASE (DECREASE) IN UNREALIZED APPRECIATION			195,520	15,222	188,485	(1,222)
NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS			195,520	23,787	221,441	7,343
NET INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS			\$ 157,394	\$ (37,614)	\$ 216,271	\$ (125,628)
WEIGHTED AVERAGE SHARES OUTSTANDING			5,718,934	5,722,737	5,718,934	5,726,284
BASIC AND DILUTED NET (DECREASE) IN NET ASSETS FROM OPERATIONS			\$ 0.03	\$ (0.01)	\$ 0.04	\$ (0.02)

PER SHARE  
</TABLE>

See accompanying notes.

RAND CAPITAL CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003  
(UNAUDITED)

<TABLE>  
<CAPTION>

	SIX MONTHS ENDED JUNE 30, 2004	SIX MONTHS ENDED JUNE 30, 2003	
	-----	-----	
	<C>	<C>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net increase (decrease) in net assets from operations		\$ 216,271	\$ (125,628)
	-----	-----	
Adjustments to reconcile net increase (decrease) in net assets to net cash used in operating activities:			
Depreciation and amortization	5,769	3,000	
Bad debt recovery	(122,914)	-	
Change in unrealized depreciation of investments	(313,485)	2,089	
Deferred tax expense(benefit)	148,000	(68,000)	
Net realized gain on portfolio investments	(32,956)	(8,565)	
Non-cash conversion of debentures	(61,919)	(24,811)	
Changes in operating assets and liabilities:			
Decrease (increase) in interest receivable	76,011	(127,214)	
(Increase) in other assets	(36,892)	(36,698)	
Increase in deferred revenue	41,848	5,054	
(Decrease) increase in accounts payable and other accrued liabilities	(6,614)	20,528	
	-----	-----	
Total adjustments	(303,152)	(234,617)	
	-----	-----	
Net cash used in operating activities	(86,881)	(360,245)	
	-----	-----	
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Investments originated	(3,010,000)	(609,000)	
Proceeds from sale of portfolio investments	37,503	10,844	
Proceeds from loan repayments	477,405		
	19,530		
Capital expenditures	(5,897)	-	
	-----	-----	
NET CASH USED IN INVESTING ACTIVITIES		(2,500,989)	(578,626)
	-----	-----	
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from SBA debentures	2,500,000	-	
Origination costs for SBA debenture loans	(62,500)	-	
Purchase of treasury shares	-	(19,763)	
	-----	-----	
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES		2,437,500	(19,763)
	-----	-----	
Net decrease in cash and cash equivalents	(150,370)	(958,634)	
Cash and cash equivalents:			
Beginning of period	1,251,546	3,092,189	
	-----	-----	
End of period	\$ 1,101,176	\$ 2,133,555	
	=====	=====	

</TABLE>

See accompanying notes.

RAND CAPITAL CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS  
FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2004 AND 2003  
(UNAUDITED)

<TABLE>

<CAPTION>

	THREE MONTHS ENDED JUNE 30, 2004	THREE MONTHS ENDED JUNE 30, 2003	SIX MONTHS ENDED JUNE 30, 2004	SIX MONTHS ENDED JUNE 30, 2003	
<S>	<C>	<C>	<C>	<C>	
NET ASSETS AT BEGINNING OF PERIOD		\$ 9,297,365	\$ 9,502,974	\$ 9,238,488	\$ 9,604,634
Operations:					
Net investment loss	(38,126)	(61,401)	(5,170)	(132,971)	
Net realized gain on investments	-	8,565	32,956	8,565	
Net increase (decrease) in unrealized appreciation of investments	195,520	15,222	188,485	(1,222)	
Net increase (decrease) in net assets from operations	157,394	(37,614)	216,271	(125,628)	
Purchase of treasury shares	-	(6,117)	-	(19,763)	
NET ASSETS AT END OF PERIOD	\$ 9,454,759	\$ 9,459,243	\$ 9,454,759	\$ 9,459,243	

</TABLE>

See accompanying notes.

RAND CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS  
JUNE 30, 2004  
(UNAUDITED)

<TABLE>

<CAPTION>

COMPANY AND BUSINESS	(b) DATE	(c) TYPE OF INVESTMENT	(d) ACQUIRED EQUITY	COST	VALUE
<S>	<C>	<C>	<C>	<C>	<C>
CAROLINA SKIFF, LLC (g) Waycross, GA. Manufacturer of fresh water and ocean fishing and pleasure boats. www.carolinaskiff.com	1/30/04	\$985,000 Class A preferred membership interest at 10%. 5% common membership interest.	5%	\$1,000,000	\$1,000,000
CONTRACT STAFFING Buffalo, NY. PEO providing human resource administration for small businesses. www.contract-staffing.com	11/8/99	10,000 shares Series A 8% cumulative preferred stock.	10%	100,000	100,000
D'LISI FOOD SYSTEMS, INC. (g) Rochester, NY. Produces private label and branded frozen pizzas for distribution to convenience stores, supermarkets, large club stores and food service distributors. www.dlisi.com	1/7/04	\$400,000 note at 10% due December 31, 2008. Warrant for up to 5% of common stock.	5%	400,000	400,000
GEMCOR II, LLC(g) West Seneca, NY. Designs and sells automatic riveting machines used in the assembly of aircraft components. www.gemcor.com	6/28/04	\$250,000 note at 8% due June 28, 2009 with warrant to purchase 6.25 membership units. 25 common membership units.	31%	750,000	750,000

G-TEC NATURAL GAS SYSTEMS (e) 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	42%	300,000	300,000
KIONIX, INC.(g) Ithaca, NY. Develops innovative MEMS based technology applications. www.kionix.com	2,862,091 shares Series A preferred stock.	5/17/02	2%	1,000,000	1,000,000
MINRAD, INC. Buffalo, NY. Developer of acute care devices and anesthetics. www.minrad.com	677,980 common shares.	8/4/97	3%	919,422	847,000
NEW MONARCH MACHINE TOOL, INC.(E)(G)** Cortland, NY. Manufactures and services vertical/horizontal machining centers. www.monarchmt.com	\$500,000 note at 12% due September 24, 2006. Warrant for 11.59 shares of common stock. \$250,000 note at 14% due March 2, 2005.	9/24/03	12%	688,636	688,636
PHOTONIC PRODUCTS GROUP, INC (OTC: PHPG.OB)* (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. 14,000 shares common stock.	10/31/00	<1%	135,000	120,300
RAMSCO(e)(g)** Albany, NY. Distributor of water, sanitary, storm sewer and specialty construction materials to the contractor, highway and municipal markets. www.ramsco.com	\$750,000 note at 13% due November 18, 2007. Warrants to purchase 12.5 % of common shares. \$210,000 note at 13% due February 17, 2005.	11/19/02	7%	942,143	942,143
SOMERSET GAS TRANSMISSION COMPANY, LLC Buffalo, NY. Natural gas transportation company.	\$500,000 convertible note at 10% due on demand after July 30, 2004. 0.88 membership units.	7/10/02	<1%	500,000	618,000
SYNACOR, INC.(g) 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. 14,957 Series A preferred shares. Warrants for 149,573 common shares.	11/18/02	4%	385,000	389,337
TOPPS MEAT COMPANY, LLC(e)(g) Elizabeth, NJ - Producer and supplier of premium branded frozen hamburgers and other portion controlled meat products.	Preferred A and Class A common membership interest.	4/3/03	3%	259,000	259,000

RAND CAPITAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS  
JUNE 30, 2004  
(UNAUDITED)

<TABLE>  
<CAPTION>

COMPANY AND BUSINESS	TYPE OF INVESTMENT	DATE			ACQUIRED EQUITY	COST	VALUE
		(b)	(c)	(d)			
ULTRA - SCAN CORPORATION Amherst, NY. Biometrics application developer of ultrasonic fingerprint technology. www.ultra-scan.com	504,596 common shares, 107,104 Series A-1 preferred shares. Warrants for 32,000 common shares.	12/11/92	3%	734,164	1,072,174		
USTEC, INC. (e) Victor, NY. Markets digital wiring systems for new home construction. www.ustecnet.com	\$100,000 note at 5% due February 2006. 50,000 common shares. Warrants for 139,395 common shares. (g) \$350,000 Senior	6/26/98	<1%	450,500	475,000		

Subordinated Convertible  
 Debenture at 6% due  
 February 2, 2008.

VANGUARD MODULAR BUILDING SYSTEMS (e) Philadelphia, PA. Leases and sells high-end modular space solutions. www.vanguardmodular.com	Preferred Units - 2,673 units with warrants, 14% accrued distribution rate.	12/16/99 <1%	270,000	270,000
WINEISIT.COM, CORP.(g) Amherst, NY. Marketing company specializing in customer loyalty programs supporting the wine and spirit industry. www.wineisit.com	\$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 Class B common stock.	12/18/02 2%	801,918	801,918
Other Investments	Other	Various -	586,634	123,084
Total portfolio investments			<u>\$10,222,417</u>	<u>\$10,156,592</u>

</TABLE>

See accompanying notes.

RAND CAPITAL CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS  
 JUNE 30, 2004 (CONTINUED)

NOTES TO CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

- (a) Unrestricted securities (indicated by \* ) 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 June 30, 2004 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 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 might reasonably expect to receive if the portfolio 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 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 June 30, 2004, the aggregate cost of investment securities approximated \$10.2 million. Net unrealized depreciation aggregated approximately \$66,000 of which \$485,000 related to appreciated investment securities and \$551,000 related to depreciated investment securities.

(g) Rand Capital SBIC, L.P. investment

\* Publicly owned company

\*\* Reduction in cost and value reflects current principal repayment.

See accompanying notes.

RAND CAPITAL CORPORATION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003  
(UNAUDITED)

NOTE 1. ORGANIZATION

Rand Capital Corporation ("Rand") was incorporated under the laws of the state of New York on February 24, 1969. From 1971 to August 16, 2001, 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 had been approved and licensed 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 the Rand, Rand SBIC and Rand Management (collectively, the "Corporation").

In July of 2003, the Corporation paid \$50,000 to the SBA to reserve \$5,000,000 of its approved debenture leverage. This fee was 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 June 30, 2004, Rand Capital SBIC, L.P. had drawn \$2,500,000 in leverage from the SBA. Subsequent to the quarter end of June 30, 2004 the Corporation drew down an additional \$1,000,000 bringing the total outstanding SBA leverage to \$3,500,000 through August 6, 2004.

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. 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 accounting principles generally accepted 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 period ending June 30, 2004 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, 2003. 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, 2003
- Form 10-Q Quarterly Report on Form 10-Q for the quarters ended March 31, 2004, September 30, 2003 and June 30, 2003

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

Our website is [www.randcapital.com](http://www.randcapital.com). We make available through our website: our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and any 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. For fiscal 2001, prior to the formation of Rand SBIC and Rand Management, Rand Capital Corporation was a stand-alone entity.

**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 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.

During the six month period ending June 30, 2004 the Corporation reversed its reserve of \$122,914 relating to interest receivable that was paid in April of 2004. This reversal is reflected as a bad debt recovery in the accompanying statement of operations.

**DEFERRED DEBENTURE COSTS** - SBA debenture costs, which are included in other assets, will be amortized ratably over the terms of the SBA debentures. The Corporation incurred an additional \$62,500 of SBA debenture costs during the six month period ended June 30, 2004 attributed to its draw down on the SBA commitment.

**SBA DEBENTURES** - During the six month period ended June 30, 2004, the Corporation drew down \$2,500,000 on its available SBA leverage which it used to fund certain investments. The debentures are due in 10 years and provide for semi-annual interest only payments. The current interest rate is approximately 5%.

**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.

**STATEMENT OF CASH FLOWS** - During the six month ended June 30, 2004, the Corporation converted accrued interest of \$51,919 to a debenture instrument and \$10,000 to an equity instrument.

**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 June 30, 2004 and December 31, 2003, there were 500,000 shares of \$10.00 par value preferred stock authorized and unissued.

On October 18, 2001 the Board of Directors authorized the repurchase of up to 5% of the Corporation's outstanding stock through purchases on the open market, which was extended through October 16, 2004. During the year ended December 31, 2003 the Corporation purchased 19,700 shares for the treasury at a cost of \$21,502. During the period July 15, 2002 through December 31, 2002 the Corporation purchased 24,400 shares for the treasury at a cost of \$25,704. No treasury shares were purchased in the six months ended June 30, 2004.

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 the Corporation's employees in connection with the establishment of its SBIC subsidiary. As of June 30, 2004, 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.

## 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.

### OVERVIEW

The following discussion will include Rand Capital Corporation ("Rand"), Rand Capital SBIC, L.P., (Rand SBIC), and Rand Capital Management, LLC ("Rand Management"), (collectively, the "Corporation") financial position and results of operations.

Rand is incorporated under the law of New York and is regulated under the 1940 Act as a business development company ("BDC"). In addition, a wholly-owned subsidiary, Rand Capital SBIC, L.P. is operated as a small business investment

company (SBIC) that is regulated 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

We prepare our financial statements in accordance with accounting principles generally accepted in the United States of America (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, 2003 Form 10-K in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations".

#### FINANCIAL CONDITION

The Corporation's total assets increased by \$2,751,505 or 29.3% to \$12,136,642 and its net assets increased by \$216,271 or 2.3% to \$9,454,759 at June 30, 2004, versus \$9,385,137 and \$9,238,488 at December 31, 2003, respectively.

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 private companies. The following summarizes the Corporation's investment portfolio at the period-ends indicated.

<TABLE>  
<CAPTION>

	JUNE 30, 2004	DECEMBER 31, 2003
	-----	-----
<S>	<C>	<C>
Investments at cost	\$ 10,222,417	\$ 7,616,309
Unrealized (depreciation), net	(65,825)	(379,310)
	-----	-----
Investments at fair value	<u>\$ 10,156,592</u>	<u>\$ 7,236,999</u>

</TABLE>

The increase in investments is due to the effect of Rand SBIC's new investments during the six months ended June 30, 2004 in the following portfolio companies:

<TABLE>  
<CAPTION>

NEW INVESTMENTS	AMOUNT
-----	-----
<S>	<C>
Carolina Skiff, LLC (Carolina Skiff)	\$1,000,000
D'Lisi Food Systems, Inc (D'Lisi)	\$ 400,000
Gemcor II, LLC	\$ 750,000
New Monarch Machine Tool, Inc (Monarch)	\$ 250,000
Rexford Albany Municipal Supply Company (RAMSCO)	\$ 210,000
USTec	\$ 150,000
Wineisit.com	\$ 250,000
	-----
Total of investment made during 2004	\$3,010,000
Interest Conversions:	
WineIsIt.com, Corp. (WineIsIt)	\$ 51,918
Photonics Product Group (Photonics)	\$ 10,000
Total of new and additions to previous Investments during the six months ended June 30, 2004:	<u>\$3,071,918</u>

</TABLE>

The increase in investments at cost is due to the \$3,010,000 of new investments made during the first half of 2004 by the Corporation. In addition, the Corporation converted the accrued interest of WineIsIt of \$51,918 to the debenture instrument and \$10,000 of accrued interest in Photonics into an equity

instrument.

A significant development in the six months ended June 30, 2004 was the increase in the SBA Debenture Loan Payable amount by \$2,500,000. The Corporation began drawing leverage from the SBA during the six months ended June 30, 2004. These debentures are due in 10 years and provide for semi-annual interest only payments which are currently at approximately 5%.

Net asset value per share (NAV) was \$1.65/share at June 30, 2004 versus \$1.62/share at December 31, 2003.

The Corporation's total investments at fair value, whose fair value have been estimated by the Board of Directors, approximated 107% of net assets at June 30, 2004 and 78% of net assets at December 31, 2003. This increase in this percentage during the six months period ended June 30, 2004 is due to the increase in new investments which were partially funded by the \$2,500,000 draw down on the Corporation's SBA leverage and a reduction of unrealized depreciation on investments of approximately \$313,000.

## RESULTS OF OPERATIONS

Comparison of the six months ended June 30, 2004 to the six months ended June 30, 2003

### 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 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 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.

Total investment income was \$374,815 and \$221,753 for the period ended June 30, 2004 and 2003, an increase of \$153,062 or 69%. This income is comprised mainly of interest and dividend income from portfolio companies as well as interest income on idle cash.

Portfolio interest income was \$322,522 and \$202,963 for the six months ended June 30, 2004 and 2003, an increase of 59%. This increase is attributable to the fact that the 63% or \$850,000 of the total of new 2003 investments originated out of Rand SBIC are in debenture instruments that earn interest income at a blended interest rate of approximately 10%. In addition approximately 51% or \$1,561,918 of the new investments originated in the six month period ended June 30, 2004 were debentures and earned a blended rate of 10%.

The portfolio interest income for the six months ended June 30, 2004 includes \$62,705 of interest income on a \$900,000 convertible note from Somerset. The Somerset note matured on January 15, 2003, and accrued interest at a 14% rate subsequent to that date. In September 2003 the Corporation had stopped accruing interest on the Somerset note, had issued a demand letter to Somerset regarding its repayment, and had established a 100% reserve for the accrued interest of \$122,914. In April 2004 Somerset paid \$400,000 in principal on the \$900,000 note and \$190,449 in accrued interest. The remaining \$500,000 balance of the note was converted to a new debenture instrument earning interest at 10%.

The other interest income from idle cash was \$1,634 for the six months ended June 30, 2004 and \$14,174 for the six months ended June 30, 2003, a decrease of \$12,540 or 88%. The reduction is primarily due to the redeployment of cash from idle cash money market accounts into investment instruments. This, coupled with lower short term interest rates, accounted for the decrease in the interest income from idle cash balances category.

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. Dividend income was \$32,507 for the six months ended June 30, 2004 and \$0 for the same period in 2003. This income increased due to the fact that the Corporation invested in portfolio companies during 2003 and 2004 that were LLC's that had taxable income. The LLC investment income for the six months ended June 30, 2004 consisted of LLC distributions from Topps Meat Company, LLC (Topps) for \$18,575, Carolina Skiff, LLC for \$12,688 and Vanguard Modular Building Systems (Vanguard) for \$1,244.

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 limit the amount of fees that can be charged to a portfolio company and the

Corporation typically charges 1-3% 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. These fees were \$18,152 for the six month period ended June 30, 2004 and \$4,616 for the same period in 2003. The increase can be attributable to the fact that the Corporation is generating more investments through Rand SBIC in 2004 and therefore more closing fees are being charged.

#### OPERATING EXPENSES

Total operating expenses for the six month periods ended June 30, 2004 and 2003 were \$348,739 and \$413,562, respectively. The change represents a 16% decrease or \$64,823. This decrease can be attributed to the bad debt recovery of \$122,914. The total expenses excluding the bad debt recovery were \$471,653 for the six months ended June 30, 2004 which represents an increase of \$58,091 or 14% over prior year amounts. The increase in the operating expenses is primarily attributed to employee salary and director fee increases and an increase in shareholder and office expenses related to the cost of operating as a public company.

The Corporation has commenced accruing SBA interest expense in the six month period ended June 30, 2004 due to the fact that Corporation began to draw down leverage from the SBA in 2004. This interest is paid on a semi-annual basis to the SBA.

The operating expenses predominately consist of employee compensation and benefits, director fees, shareholder related costs, office expenses, professional fees, expenses related to identifying and reviewing investment opportunities and bad debt expense. The operating expenses for the six month period ending June 30, 2004 were reduced by \$122,914 in bad debt recovery related to the full recovery of the accrued interest related to the Somerset investment. The reserve was initially established in September 2003 due to the fact that the underlying note was in technical default. This reserve was reversed and all accrued interest through April 14, 2004 was paid in full on April 15, 2004.

#### NET REALIZED GAINS AND LOSSES ON INVESTMENTS

During the six months ended June 30, 2004 the Corporation realized a \$32,956 gain on the sale of the remaining Advanced Digital Information Corporation (ADIC) stock. During the same six month period ended in 2003 the Corporation realized an \$8,565 gain on the sale of the ADIC stock.

#### NET CHANGE IN UNREALIZED APPRECIATION/DEPRECIATION OF INVESTMENTS

The increase in unrealized appreciation of the investments is primarily attributable to the second quarter valuation of Minrad, Inc. (Minrad). The Corporation recognized appreciation of \$338,500 on its investment in Minrad following its recent equity financing at a price greater than the fair value previously recorded by the Corporation. Minrad's plans following the financing is to merge into a publicly traded shell company, Technology Acquisition Corporation (TAC) which is traded under the symbol TAQC.OB. The Corporation currently holds 677,980 shares of Minrad which will be converted into publicly traded shares of TAC. The Corporation may be restricted in its ability to immediately trade its shares in TAC. In addition the Corporation increased its valuation of its 0.88 membership interest in Somerset Gas Transmission Company, LLC (Somerset) by \$118,000. The Somerset membership units were previously written down in September 2003 to zero. These increases were partially offset by

the unrealized depreciation of the Corporation's investment in Dataview, LLC (Dataview) of (\$105,179) and SmartPill Diagnostics, Inc. (SmartPill) of (\$19,680). These adjustments were done in accordance with the Corporation's established valuation policies.

#### NET INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS

The Corporation accounts for its operations under accounting principles generally accepted in the United States of America for investment companies. The principal measure of its financial performance is "net increase (decrease) in net assets from operations" on its consolidated statements of operations. For the six month period ended June 30, 2004, the net increase in net assets from operations was \$216,271 as compared to a net (decrease) in net assets from operations of (\$125,628) for the same period in 2003.

The net increase in net assets from operations for the six month period ended June 30, 2004 can be attributed to: increased portfolio income, realized gain from the sale of ADIC stock and the bad debt recovery and the equity revaluation attributed to the Corporation's Somerset and Minrad investments.

#### LIQUIDITY AND CAPITAL RESOURCES

The Corporation's principal objective is to achieve long-term capital appreciation while maintaining a current cash flow from its debenture instruments. The Corporation invests in a mixture of debenture and equity instruments. The debt securities most often have an equity piece attached to the debenture in the form of stock, warrants or options to acquire stock or the right to convert the debt securities into stock. Rand SBIC was the primary investment vehicle in 2003 and through the six months ended June 30, 2004 and it is anticipated that will continue in the future.

As of June 30, 2004 and 2003, the Corporation's total liquidity, consisting of cash and cash equivalents, was \$1,101,176 and \$2,133,555 respectively.

In July of 2003, the Corporation paid \$50,000 to the SBA to reserve \$5,000,000 of its approved debenture leverage. This fee was 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 June 30, 2004, Rand Capital SBIC, L.P. had drawn \$2,500,000 in leverage from the SBA. Subsequent to quarter end the Corporation drew down an additional \$1,000,000 in August 2004 and the total outstanding SBA leverage was \$3,500,000. 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.

Management expects that it will be necessary to draw down leverage in the next fiscal year from the SBIC in order to fund operations and new investments. Net cash used in operating activities has averaged \$675,000 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 potential new regulatory rules. Management believes that the cash and cash equivalents at June 30, 2004 coupled with the anticipated SBIC leverage draw-downs and interest and dividend payments on its portfolio investments will provide the Corporation with the liquidity necessary to fund operations over the next twelve months.

#### RISK FACTORS AND OTHER CONSIDERATIONS

##### INVESTING IN THE CORPORATION'S STOCK IS HIGHLY SPECULATIVE AND AN INVESTOR COULD LOSE SOME OR ALL OF THE AMOUNT INVESTED

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 the Corporation'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 Corporation's stock price.

#### 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.

#### COMPETITION

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.

#### THE CORPORATION IS SUBJECT TO RISKS CREATED BY ITS REGULATED ENVIRONMENT

Rand and Rand SBIC are subject to regulation as BDC's, and Rand SBIC is also subject to regulation as an SBIC. The loans and other investments that the Corporation makes, or is expected to make, in small business concerns are extremely speculative. Substantially all of these concerns are and will be privately held. Even if a public market for their securities later develops, the debt obligations and other securities purchased by the Corporation are likely to be restricted from sale or other transfer for significant periods of time. These securities will be very illiquid.

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 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 the Corporation's ability to implement its business strategy. The Corporation 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 the venture capital business. The Corporation typically invests in private companies. These private businesses tend to be thinly capitalized, small companies that may have higher risk attributes including risky technologies; lack of management depth; lack of profitability; or short history of operations. Because of the speculative nature and the lack of a public market for these investments, there is a significantly greater risk of loss than is the case with traditional investment securities. The Corporation expects that some of its venture capital investments may be a complete loss, or unprofitable, and that some which appear to be likely to



become successful may never realize their potential due to numerous operational and external market factors. In addition, the accrued interest (if any) associated with the Corporation's portfolio investments may also become uncollectible, due to both gradual shifts and sometimes sudden changes in the marketplace, affecting the portfolio companies' ability to execute on its business plan. 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.

#### ILLIQUIDITY OF PORTFOLIO INVESTMENTS

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 has 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 to liquidate such investments.

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.

#### VALUATION OF 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 valuation of the equity securities in the portfolio are stated at fair value as determined by the good faith estimate of the Board of Directors in accordance with the Corporation's established valuation policies. In the absence of a readily ascertainable market value, the estimated value of the 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 valuation are recorded in the Corporation's statement of operations as "Net increase(decrease) in unrealized appreciation."

#### 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 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" in the "Notes to 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 unrealized appreciation (depreciation) on investments."

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 June 30, 2004 the Corporation did not have any off-balance sheet investments or hedging investments.

#### ITEM 4. EVALUATION OF DISCLOSURE 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 or in other factors that could significantly affect those controls subsequent to our evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses

## PART II. OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

None

#### ITEM 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUERS PURCHASES OF EQUITY SECURITIES

None

#### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the Annual Meeting of Shareholders of Rand Capital Corporation, Buffalo, New York, on the 29th day of April, 2004, the following represents the results of balloting:

ELECTION OF DIRECTORS: The following nominees received the number of votes set opposite their respective names:

<TABLE>  
<CAPTION>

	VOTES FOR	VOTES WITHHELD
<S>	<C>	<C>
Allen F. Grum	5,207,683	60,550
Luiz F. Kahl	5,207,683	60,550
Erland E. Kailbourne	5,204,483	63,750
Ross B. Kenzie	5,202,043	66,190
Willis S. McLeese	5,198,805	69,428
Reginald B. Newman II	5,207,083	61,150
Jayne K. Rand	5,207,583	60,650

</TABLE>

#### ITEM 5. OTHER INFORMATION

None

## ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

### (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 of Chief Executive Officer Pursuant to Rules 13a-14(a)/15d- year ended December 31, 2001.
- (31.1) Certification 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

\*Management contract or compensatory plan.

(b) REPORTS ON FORM 8-K

No current reports were filed during the period

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: August 11, 2004

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: August 11, 2004

/s/ Allen F. Grum

-----  
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: August 11, 2004

/s/ Daniel P. Penberthy

-----  
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 June 30, 2004 (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: August 11, 2004

/s/ Allen F. Grum

-----

Allen F. Grum, President  
(Chief Executive Officer)

Dated: August 11, 2004

/s/ Daniel P. Penberthy

-----

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 June 30, 2004 (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: August 11, 2004

/s/ Allen F. Grum

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

Dated: August 13, 2004

/s/ Daniel P. Penberthy

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