

September 30, 2005

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. Evaluation of Disclosure - Controls and Procedures

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings

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

</TABLE>

PART I.
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

RAND CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2005 AND DECEMBER 31, 2004
(UNAUDITED)

<TABLE>
<CAPTION>

	SEPTEMBER 30, DECEMBER 31,	
	2005	2004
	-----	-----
<S>	<C>	<C>
ASSETS		
Investments at fair value (identified cost: at 9/30/05 - \$13,041,977, at 12/31/04- \$11,621,853)	\$13,019,544	\$11,035,806
Cash and cash equivalents	483,448	626,744
Interest receivable (net of allowance of \$122,000 at 9/30/05 and 12/31/04)	354,677	260,490
Deferred tax asset	637,000	566,000
Income tax receivable	15,162	11,579
Promissory notes receivable	14,810	36,195
Other assets	252,799	206,295
	-----	-----
TOTAL ASSETS	\$14,777,440	\$12,743,109
LIABILITIES AND STOCKHOLDERS' EQUITY (NET ASSETS)		
LIABILITIES:		
Debentures guaranteed by the SBA	\$ 5,700,000	\$ 3,500,000
Accounts payable and accrued expenses	70,894	132,897
Deferred revenue	88,663	83,158
	-----	-----
Total liabilities	5,859,557	3,716,055
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)	(4,878,133)	(4,813,146)
Undistributed net realized gain on investments	6,306,925	6,689,277
Net unrealized (depreciation) on investments	(13,461)	(351,629)

Treasury stock at cost, 44,100 shares at 9/30/05 and 12/31/04	(47,206)	(47,206)		
Net assets (per share 9/30/2005-\$1.56, 12/31/2004-\$1.58)			8,917,883	9,027,054

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (NET ASSETS)	\$14,777,440	\$12,743,109		
--	--------------	--------------	--	--

</TABLE>

See accompanying notes

RAND CAPITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004
(UNAUDITED)

<TABLE>
<CAPTION>

	THREE MONTHS ENDED SEPTEMBER 30, 2005	THREE MONTHS ENDED SEPTEMBER 30, 2004	THREE MONTHS ENDED SEPTEMBER 30, 2005	NINE MONTHS ENDED SEPTEMBER 30, 2004	NINE MONTHS ENDED SEPTEMBER 30, 2005	NINE MONTHS ENDED SEPTEMBER 30, 2004
<S>	<C>	<C>	<C>	<C>	<C>	<C>
INVESTMENT INCOME:						
Interest from portfolio companies		\$ 156,005	\$ 161,731	\$ 438,928	\$ 484,253	
Interest from other investments		803	318	2,287	1,952	
Dividend income		1,660	21,587	31,364	54,094	
Other income		12,535	14,048	34,136	32,200	
	171,003	197,684	506,715	572,499		
OPERATING EXPENSES:						
Salaries	88,618	82,814	311,722	298,529		
Employee benefits	18,578	15,895	73,307	66,476		
Directors' fees	9,750	8,050	46,200	34,150		
Professional fees	18,910	17,431	63,750	55,526		
Shareholders and office	28,121	30,106	86,494	96,841		
Insurance	11,550	11,550	34,650	34,650		
Corporate development	24,810	16,296	45,587	35,378		
Other operating expenses	2,876	3,778	8,088	12,016		
	203,213	185,920	669,798	633,566		
Interest expense	73,689	33,001	188,423	57,008		
Bad debt expense (recovery)	--	122,000	--	(914)		
Total expenses	276,902	340,921	858,221	689,660		
INVESTMENT (LOSS) INCOME BEFORE INCOME TAXES			(105,899)	(143,237)	(351,506)	(117,161)
Income tax (provision)	(5,000)	(4,000)	(9,927)	(12,246)		
Deferred income tax benefit	212,289	61,000	296,446	38,000		
NET INVESTMENT INCOME (LOSS)			101,390	(86,237)	(64,987)	(91,407)
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:						
Net (loss) gain on sales and dispositions		(382,353)	--	(382,353)	32,956	
Unrealized appreciation (depreciation) on investments:						
Beginning of period	(420,974)	(65,826)	(586,048)	(379,311)		
End of period	(22,433)	(602,214)	(22,433)	(602,214)		
Change in unrealized appreciation (depreciation) before income taxes	398,541	(536,388)	563,615	(222,903)		
Deferred income tax (benefit) provision	(159,289)	215,000	(225,446)	90,000		
NET DECREASE (INCREASE) IN UNREALIZED APPRECIATION			239,252	(321,388)	338,169	(132,903)
NET REALIZED AND UNREALIZED (LOSS) ON INVESTMENTS			(143,101)	(321,388)	(44,184)	(99,947)
NET (DECREASE) IN NET ASSETS FROM OPERATIONS			\$ (41,711)	\$ (407,625)	\$ (109,171)	\$ (191,354)

WEIGHTED AVERAGE SHARES OUTSTANDING	5,718,934	5,718,934	5,718,934	5,718,934
BASIC AND DILUTED NET (DECREASE) IN NET ASSETS FROM OPERATIONS PER SHARE	\$ (0.01)	\$ (0.07)	\$ (0.02)	\$ (0.03)

See accompanying notes

RAND CAPITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004
(UNAUDITED)

<TABLE>
<CAPTION>

	SEPTEMBER 30, 2005	SEPTEMBER 30, 2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net decrease in net assets from operations	\$ (109,171)	\$ (191,354)
Adjustments to reconcile net (decrease) in net assets to net cash used in operating activities:		
Depreciation and amortization	17,138	10,415
Bad debt recovery	--	(914)
Change in unrealized depreciation of investments	(563,615)	222,903
Deferred tax benefit	(71,000)	(128,000)
Net realized loss (gain) on portfolio investments	382,353	(32,956)
Non-cash conversion of debentures	(29,097)	(61,919)
Changes in operating assets and liabilities:		
(Increase) decrease in interest receivable	(94,187)	4,097
(Increase) in other assets	(9,110)	(40,707)
Increase in deferred revenue	5,505	46,300
(Decrease) in accounts payable and other accrued expenses	(62,002)	(12,892)
Total adjustments	(424,015)	6,327
NET CASH USED IN OPERATING ACTIVITIES	(533,186)	(185,027)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments originated	(1,901,178)	(3,864,000)
Proceeds from sale of portfolio investments	17,647	37,502
Proceeds from loan repayments	131,537	534,878
Capital expenditures	(3,116)	(5,897)
NET CASH USED IN INVESTING ACTIVITIES	(1,755,110)	(3,297,517)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from SBA debentures	2,200,000	3,500,000
Origination costs for SBA debenture loans	(55,000)	(87,500)
Origination costs for SBA debenture loans	--	(50,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES	2,145,000	3,362,500
Net decrease in cash and cash equivalents	(143,296)	(120,044)
Cash and cash equivalents:		
Beginning of period	626,744	1,251,546
End of period	\$ 483,448	\$ 1,131,502

</TABLE>

See accompanying notes.

RAND CAPITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004

(UNAUDITED)

<TABLE>
<CAPTION>

	THREE MONTHS ENDED SEPTEMBER 30, 2005	THREE MONTHS ENDED SEPTEMBER 30, 2004	NINE MONTHS ENDED SEPTEMBER 30, 2005	NINE MONTHS ENDED SEPTEMBER 30, 2004		
<S>	<C>	<C>	<C>	<C>		
NET ASSETS AT BEGINNING OF PERIOD			\$8,959,594	\$9,454,759	\$9,027,054	\$9,238,488
Operations:						
Net investment gain (loss)	101,390	(86,237)	(64,987)	(91,407)		
Net realized (loss) gain on investments	(382,353)	--	(382,353)	32,956		
Net increase (decrease) in unrealized depreciation of investments	239,252	(321,388)	338,169	(132,903)		
Net (decrease) in net assets from operations	(41,711)	(407,625)	(109,171)	(191,354)		
NET ASSETS AT END OF PERIOD		\$8,917,883	\$9,047,134	\$8,917,883	\$9,047,134	

</TABLE>

See accompanying notes

RAND CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS
SEPTEMBER 30, 2005
(UNAUDITED)

<TABLE>
<CAPTION>

COMPANY AND BUSINESS	(B) DATE	(C) TYPE OF INVESTMENT	(D) PER SHARE ACQUIRED	EQUITY	COST	VALUE	OF RAND
<S>	<C>	<C>	<C>	<C>	<C>	<C>	
APF GROUP, INC. (E)(G) 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 common stock.	7/8/04	6%	\$ 594,594	\$ 594,594	.10
CAROLINA SKIFF LLC (E)(G) 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	1,000,000	.18
CONCENTRIX CORPORATION (E)(G) 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	<1%	600,000	600,000	.11
CONTRACT STAFFING 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
GEMCOR II, LLC (E)(G) 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	31%	750,000	750,000	.13
G-TEC NATURAL GAS SYSTEMS	41.322%	Class A membership	8/31/99	41%	400,000	300,000	.05

Buffalo, NY. Manufactures and distributes systems that allow natural gas to be used as an alternative fuel to gases.
www.gas-tec.com

INNOV-X SYSTEMS, INC. (E)(G) \$350,000 Subordinated Debenture 9/27/04 10% 635,000 635,000 .11
Woburn, MA. Manufactures portable x-ray at 8.5% due September 27, 2009
fluorescence (XRF) analyzers used in with detachable warrants. 3,500
metals/alloy analysis. Series A preferred stock.
www.innovxsys.com \$250,000 Series B Secured
Subordinated term note at 8.5%
due March 1, 2010.

KIONIX, INC. 30,241 shares Series B preferred 5/17/02 2% 1,260,585 976,108 .17
Ithaca, NY. Develops innovative MEMS stock. (G) 2,862,091 shares
based technology applications. Series A preferred stock.
www.kionix.com 714,285 shares Series B
preferred stock.

MINRAD INTERNATIONAL, INC. 677,981 common shares. 8/4/97 3% 919,422 1,356,000 .24
(OTC: MNRD:OB) (H) (J)
Buffalo, NY. Developer of acute care
devices and anesthetics.
www.minrad.com

NEW MONARCH MACHINE TOOL, INC. \$500,000 note at 12% due 9/24/03 12% 559,091 559,091 .10
(E)(G)(I) ** September 24, 2006. Warrant for
Cortland, NY. Manufactures and services 11.59 shares of common stock.
vertical/horizontal machining centers. \$250,000 note at 14% due December
www.monarchmt.com 31, 2005.

RAND CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS
SEPTEMBER 30, 2005
(UNAUDITED)

<TABLE>
<CAPTION>

COMPANY AND BUSINESS	(B) DATE	(C) TYPE OF INVESTMENT	(D) PER SHARE ACQUIRED	EQUITY	COST	VALUE	OF RAND
PHOTONIC PRODUCTS GROUP, INC (A) (J) (OTC:PHPG.OB) (Formerly INRAD, Inc.) Northvale, NJ. Develops and manufactures products for laser photonics industry. www.inrad.com	10/31/00	100 shares convertible Series B preferred stock, 10% dividend. 18,000 shares common stock.	<1%>	145,000	117,640	.02	
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	11/19/02	\$916,947.23 notes at 13% due November 18, 2007. Warrants to purchase 12.5% of common shares.	13%	916,947	916,947	.16	
SOMERSET GAS TRANSMISSION COMPANY, LLC (E) Buffalo, NY. Natural gas transportation company. www.somersetgas.com	7/10/02	26.5337 Units.	3%	719,097	786,748	.14	
SYNACOR, INC. (E)(G) Buffalo, NY. Develops provisioning platforms for aggregation and delivery of content for broadband access providers. www.synacor.com	11/18/02	\$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.	5%	820,000	828,674	.15	

TOPPS MEAT COMPANY LLC (E)(G) Elizabeth, NJ - Producer and supplier of premium branded frozen hamburgers and portion controlled meat products. www.toppmeat.com	Preferred A and Class A common membership interest.	4/3/03	3%	595,000	595,000	.10
ULTRA - SCAN CORPORATION Amherst, NY. Biometrics application developer of ultrasonic fingerprint technology. www.ultra-scan.com	536,596 common shares, 107,104 Series A-1 preferred shares. (G) 95,284 Series A preferred shares.	12/11/92	3%	938,164	1,276,174	.22
USTEC, INC. Victor, NY. Markets digital wiring systems for new home construction. www.ustecnet.com	\$100,000 note at 5% due February 2006(e). 50,000 common shares. Warrants for 139,395 common shares. (G) \$350,000 Senior Subordinated Convertible Debenture at 6% due February 2, 2008.	6/26/98	<1%	450,500	475,000	.08
VANGUARD MODULAR BUILDING SYSTEMS Philadelphia, PA. Leases and sells high-end modular space solutions. www.vanguardmodular.com	2,673 preferred units with warrants, 14% accrued distribution rate.	12/16/99	<1%	270,000	270,000	.05
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	.14
Other Investments	Other	Various		\$ 525,260	\$ 39,250	.01
Total portfolio investments				\$13,041,978	\$13,019,544	\$2.28

</TABLE>

See accompanying notes

RAND CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS
SEPTEMBER 30, 2005 (CONTINUED)

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 September 30, 2005 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 describe 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 September 30, 2005, the aggregate cost of investment securities approximated \$13.0 million. Net unrealized depreciation aggregated approximately \$22,000 of which \$875,000 related to appreciated investment securities and \$897,000 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 until December 2005 at which time they become tradable in the open market under Rule 144.
 - (i) Reduction in cost and value reflects current principal repayment.
 - (j) 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 NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004
(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 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 of 2003 and in August of 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 September 30, 2005, Rand Capital SBIC, L.P. had drawn \$5,700,000 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.

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 September 30, 2005 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, 2004. 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, 2004
Form 10-Q Quarterly Report on Form 10-Q for the quarters ended
June 30, 2005, March 31, 2005, and September 30, 2004
Form N-23C-1 Reports by closed-end investment companies of purchases of
their own securities

Our website is 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 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 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 \$11,738 for the nine months ended September 30, 2005, compared to \$4,790 for the nine months ended September 30, 2004.

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 September 30, 2005 and December 31, 2004, 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 27, 2006. During the year ended December 31, 2004 and the nine month period ended September 30, 2005 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 the Corporation's employees in connection with the establishment of its SBIC subsidiary. As of September 30, 2005, 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, 2004 Form 10-K in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations".

FINANCIAL CONDITION

Overview:

<TABLE>
<CAPTION>

	9/30/05	12/31/04	INCREASE (DECREASE)	% INCREASE (DECREASE)
<S>	<C>	<C>	<C>	<C>
Total assets	\$14,777,440	\$12,743,109	\$2,034,331	16%
Total liabilities	5,859,557	3,716,055	2,143,502	58%
Net assets	8,917,883	9,027,054	(109,171)	(1%)

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.

<TABLE>
<CAPTION>

	SEPTEMBER 30, 2005	DECEMBER 31, 2004
<S>	<C>	<C>
Investments at cost	\$13,041,977	\$11,621,853
Unrealized (depreciation), net	(22,433)	(586,047)
Investments at fair value	\$13,019,544	\$11,035,806

</TABLE>

The increase in investments is due to the effect of Rand SBIC's new investments during the nine months ended September 30, 2005 in the following portfolio companies:

<TABLE>
<CAPTION>

NEW INVESTMENTS	AMOUNT
<S>	<C>
Concentrix Corporation (Concentrix)	\$ 600,000
Topps Meat Company LLC (Topps)	336,000
Innov-X Systems, Inc. (Innov-X)	285,000
Kionix, Inc. (Kionix)	260,584
Ultra-Scan Corporation (Ultra-Scan)	200,000
G-Tec Natural Gas Systems (G-Tec)	125,000
APF Group, Inc. (APF)	94,594
TOTAL OF INVESTMENT MADE DURING THE NINE MONTHS ENDED SEPTEMBER 30, 2005	\$1,901,178

Interest conversion:

Somerset Gas Transmission Company, LLC (Somerset) 19,097
 Photonics Products Group, Inc. 10,000

TOTAL OF NEW INVESTMENT AND INTEREST CONVERSIONS
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005 \$1,930,275

</TABLE>

Net asset value per share (NAV) was \$1.56/share at September 30, 2005 versus \$1.58/share at December 31, 2004.

The Corporation's total investments at fair value, whose fair value have been estimated by the Board of Directors, approximated 146% of net assets at September 30, 2005 and 122% of net assets at December 31, 2004.

RESULTS OF OPERATIONS

COMPARISON OF THE NINE MONTHS ENDED SEPTEMBER 30, 2005 TO THE NINE MONTHS ENDED SEPTEMBER 30, 2004

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.

<TABLE>
 <CAPTION>

	SEPTEMBER 30, 2005	SEPTEMBER 30, 2004	INCREASE (DECREASE)	%INCREASE (DECREASE)
Portfolio interest income	\$438,928	\$484,253	(\$45,325)	(9.4%)
Other interest income	2,287	1,952	335	17.2%
Dividend income	31,364	54,094	(22,730)	(42.0%)
Other income	34,136	32,200	1,936	6.0%
Total investment income	\$506,715	\$572,499	(\$65,784)	(11.5%)

</TABLE>

Portfolio Interest Income - Portfolio interest income decreased \$45,325 in the nine months ended September 30, 2005 as compared to the same period in the prior year. This is attributable to the fact that the Corporation ceased accruing interest on two WineIsIt.com (Wineisit) debt instruments in January of 2005 in anticipation of a restructuring of the portfolio company's balance sheet. These two notes are technically in default due to nonpayment of principal and interest. The restructuring will include a debt conversion for which the Corporation will convert its two outstanding debt instruments, and all interest that would have been recognized from January 1, 2005 through the closing date, to an equity instrument. The conversion is projected to occur in the fourth quarter of 2005.

The current period decrease in portfolio income can also be attributed to the fact that the portfolio income for the nine months ended September 30, 2004 included \$62,705 of income on a \$900,000 convertible note from Somerset. This note had stopped accruing interest in September 2003 because it was in default and the Corporation had established a 100% reserve for the total accrued interest of \$122,914. In April 2004 Somerset became current on the note and the Corporation, therefore, recognized all past due interest in the first quarter of 2004.

The annualized effect of the interest recognized during September of 2005 from the Corporation's current portfolio companies is approximately \$612,000. This amount is subject to change due to conversions, repayments and or other changes in the underlying instruments which may affect the actual interest accruals.

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

<TABLE>
<CAPTION>

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

Other Interest Income - The increase in interest income is primarily due to higher yields on idle cash balances.

Dividend 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 nine months ended September 30, 2005 consisted of distributions from Topps Meat Company LLC (Topps) for \$18,379, Carolina Skiff LLC (Carolina Skiff) for \$11,811 and Vanguard Modular Building Systems (Vanguard) for \$1,174.

Dividend income for the nine months ended September 30, 2004 was comprised of distributions from Topps for \$25,760, Carolina Skiff for \$27,090 and Vanguard \$1,244.

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 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 increase in other income for the nine months ended September 30, 2005 can be attributed to the fact that the Corporation generated more investments through Rand SBIC in 2005 than in 2004, and therefore more closing fees were collected. The annualized financing fee income based on the existing portfolio will be approximately \$42,000 annually. In addition the board attendance income amounted to \$5,000 for the nine months ended September 30, 2005 and zero for same period ending September 30, 2004.

OPERATING EXPENSES

<TABLE>
<CAPTION>

	SEPTEMBER 30, 2005	SEPTEMBER 30, 2004	INCREASE	% INCREASE
Total Expenses	\$858,221	\$689,660	\$169,561	24.4%

Operating expenses predominately consist of interest expense, 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 nine months ended September 30, 2005 can be primarily attributed to the increase in SBA interest expense. The SBA interest expense was \$188,423 for the nine months ended September 30, 2005 and \$57,008 for the nine months ended September 30, 2004. The Corporation has borrowed \$5,700,000 from the SBA as of September 30, 2005 at an average borrowing rate, including surcharges, of approximately 5.4%. This interest is paid on a

semi-annual basis to the SBA and will continue increasing as outstanding borrowings increase to fund future investments and operations.

The operating expenses for the nine month period ending September 30, 2004 were reduced by \$914 bad debt recovery. This is comprised of a bad debt reserve was established in the third quarter of 2004 for G-Tec for \$122,000 and a bad debt recovery of (\$122,914) for

Somerset. The G-Tec reserve was established by established in the third quarter of 2004 after a review by management. The reserve represents all of the interest that had been accrued on this investment. In addition, the operating expenses for the nine month period ending September 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 nine months ended September 30, 2005, the Corporation recognized a realized loss of (\$382,353) on its investment in D'Lisi Food Systems, Inc. (D'Lisi). The D'Lisi investment of \$400,000 was written down to zero in the third quarter of 2004 due to fact it filed for bankruptcy protection on August 13, 2004. The final bankruptcy proceeds were distributed in July of 2005 and resulted in a realized loss of (\$382,353). During the nine months ended September 30, 2004 the Corporation realized a \$32,956 gain on the sale of the remaining Advanced Digital Information Corporation (ADIC) stock.

NET CHANGE IN UNREALIZED APPRECIATION (DEPRECIATION) OF INVESTMENTS

The Corporation recorded a net increase in unrealized (depreciation) on investments of \$563,615 during the nine months ended September 30, 2005, as compared to (\$222,903) decrease during the prior year nine month period. The increase in unrealized depreciation on investments of \$563,615 is due to the following valuation changes made by the Corporation:

<TABLE>

<S>	<C>
Minrad International, Inc. (Minrad)	\$ 509,000
Reclass D'Lisi unrealized loss to realized loss	400,000
Kionix	(284,476)
Somerset	(50,349)
Photonics	(10,560)

Total Change in Unrealized Appreciation	\$ 563,615
	=====

</TABLE>

The Corporation recognized appreciation of \$509,000 on its 667,981 shares of Minrad to reflect a private offering of preferred stock that is convertible into common at \$2.00 per share. These preferred securities also provided warrants, valid of three years, exercisable at \$3.85, a 92% premium over the \$2 issuance price of the preferred, and in excess of the trading price of the securities on the market. This information was obtained from an 8-k filed by Minrad on June 14, 2005. Rand utilized the \$2 per share transaction as the underlying basis upon which its valuation was based.

Minrad is traded under the symbol MNRD.OB. During the quarter ended September 30, 2005, Minrad's securities traded between \$1.85(Low) and \$2.50 per share, with an average volume of 5,457 shares. Rand Management believes that the trading activity of Minrad has been light as a majority of the shares outstanding are restricted in nature.

The Corporation Minrad shares are also restricted in nature, and cannot be sold until December 2005, subject to Rule 144.

Kionix was revalued during the second quarter of 2005 due to the fact that the portfolio company failed to achieve certain performance milestones, therefore changing the liquidation preferences of the Series A and B securities. This caused the Corporation to reprice its shares in Kionix from \$0.35/share to \$0.25/share.

Somerset was revalued based on a recent round of financing that caused the price per membership unit to decrease.

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 (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 nine months ended September 30, 2005, the net decrease in net assets from operations was (\$109,171) as compared to a net decrease in net assets from operations of (\$191,354) for the same nine month period in 2004.

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. The Corporation does earn interest income on idle cash balances and has historically relied on, and continues to rely to a large extent upon, proceeds from sales of investments rather than investment income to defray a significant portion of its operating expenses. Because such sales cannot be predicted with certainty, the Corporation attempts to maintain adequate working capital necessary for short-term needs.

As of September 30, 2005 and 2004, the Corporation's total liquidity, consisting of cash and cash equivalents, was \$483,448 and \$1,131,502 respectively.

During 2003 and 2004 the Corporation paid an aggregate of \$100,000 to the SBA to reserve its approved \$10,000,000 leverage. It has drawn down \$5,700,000 of this leverage as of September 30, 2005. 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 \$479,000 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 September 30, 2005, 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.

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 consolidated Statement of Operations as "Net decrease (increase) in unrealized depreciation."

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 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 September 30, 2005 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 was no change in the Corporation's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or 15d-15 under the Securities Exchange Act of 1934 that occurred during the Corporation's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

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

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

* Management contract or compensatory plan.

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: November 4, 2005

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: November 4, 2005

/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: November 4, 2005

/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 September 30, 2005 (the Form10-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: November 4, 2005

/s/ Allen F. Grum

Allen F. Grum, President
(Chief Executive Officer)

Dated: November 4, 2005

/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 September 30, 2005 (the Form10-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: November 4, 2005

/s/ Allen F. Grum

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

Dated: November 4, 2005

/s/ Daniel P. Penberthy

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