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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-Q**

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

For the quarter ended September 30, 2010

**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: 814-00235

**Rand Capital Corporation**

*(Exact Name of Registrant as specified in its Charter)*

**New York**

(State or Other Jurisdiction of Incorporation or organization)

**16-0961359**

(IRS Employer Identification No.)

**2200 Rand Building, Buffalo, NY**  
(Address of Principal executive offices)

**14203**  
(Zip Code)

**(716) 853-0802**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

As of November 4, 2010 there were 6,818,934 shares of the registrant's common stock outstanding.

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**RAND CAPITAL CORPORATION**  
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**PART I.  
FINANCIAL INFORMATION**

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

**RAND CAPITAL CORPORATION AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
As of September 30, 2010 and December 31, 2009**

	<b>September 30, 2010 <u>(Unaudited)</u></b>	<b>December 31, 2009 <u>2009</u></b>
<b>ASSETS</b>		
Investments at fair value (identified cost: 9/30/10 — \$16,544,211; 12/31/09 — \$14,767,920)	\$ 21,079,929	\$ 24,296,145
Cash and cash equivalents	10,125,367	9,417,236
Interest receivable (net of allowance — \$209,089)	1,007,482	1,192,118
Other assets	<u>1,693,700</u>	<u>725,872</u>
 Total assets	 <u>\$ 33,906,478</u>	 <u>\$ 35,631,371</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (NET ASSETS)</b>		
<b>Liabilities:</b>		
Debentures guaranteed by the SBA	\$ 10,000,000	\$ 9,100,000
Income taxes payable	841,652	1,082,646
Deferred tax liability	376,846	1,809,000
Accounts payable and accrued expenses	520,473	431,233
Deferred revenue	<u>1,258</u>	<u>2,611</u>
Total liabilities	11,740,229	12,425,490
<b>Stockholders' equity (net assets):</b>		
Common stock, \$.10 par; shares authorized 10,000,000; shares issued 6,863,034	686,304	686,304
Capital in excess of par value	10,581,789	10,581,789
Accumulated net investment (loss)	(7,122,085)	(4,961,725)
Undistributed net realized gain on investments	15,208,889	10,897,390
Net unrealized appreciation on investments	2,858,558	6,049,329
Treasury stock, at cost, 44,100 shares	<u>(47,206)</u>	<u>(47,206)</u>
Net assets (per share 9/30/10 — \$3.25, 12/31/09 — \$3.40)	<u>22,166,249</u>	<u>23,205,881</u>
 Total liabilities and stockholders' equity (net assets)	 <u>\$ 33,906,478</u>	 <u>\$ 35,631,371</u>

See accompanying notes

**RAND CAPITAL CORPORATION AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
For the Three Months and Nine Months Ended September 30, 2010 and 2009  
(Unaudited)

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
<b>Investment income:</b>				
Interest from portfolio companies	\$ 189,915	\$ 123,912	\$ 523,921	\$ 411,435
Interest from other investments	6,770	2,633	15,959	14,927
Dividend and other investment income	26,220	166,820	62,511	551,091
Other income	4,525	5,250	11,853	20,416
	<u>227,430</u>	<u>298,615</u>	<u>614,244</u>	<u>997,869</u>
<b>Operating expenses:</b>				
Salaries	495,050	311,500	725,150	535,265
Employee benefits	26,802	29,408	110,939	95,503
Directors' fees	15,750	10,750	73,500	65,250
Professional fees	27,573	47,452	118,264	186,471
Stockholders and office operating	24,701	24,952	96,625	110,848
Insurance	9,656	14,491	29,476	39,919
Corporate development	15,584	13,270	39,351	37,645
Other operating	2,977	2,904	11,005	7,633
	<u>618,093</u>	<u>454,727</u>	<u>1,204,310</u>	<u>1,078,534</u>
Interest on SBA obligations	143,151	127,007	427,155	370,431
Bad debt expense (recovery)	—	50,844	(5,983)	39,867
Total expenses	<u>761,244</u>	<u>632,578</u>	<u>1,625,482</u>	<u>1,488,832</u>
<b>Investment (loss) before income taxes</b>	<u>(533,814)</u>	<u>(333,963)</u>	<u>(1,011,238)</u>	<u>(490,963)</u>
Current income tax (benefit)	(345,261)	(83,987)	(491,117)	52,075
Deferred income tax expense (benefit)	125,298	21,419	103,370	(170,615)
<b>Net investment (loss)</b>	<u>(313,851)</u>	<u>(271,395)</u>	<u>(623,491)</u>	<u>(372,423)</u>
<b>Realized and unrealized gain (loss) on investments:</b>				
Realized gain (loss) on sales and dispositions	4,311,499	(705,030)	4,311,499	(736,301)
Income tax expense (benefit)	1,536,869	(244,710)	1,536,869	(255,859)
Net realized gain (loss) on investments	2,774,630	(460,320)	2,774,630	(480,442)
Unrealized appreciation on investments:				
Beginning of period	8,785,064	12,859,507	9,528,226	13,739,831
End of period	4,535,718	14,051,907	4,535,718	14,051,907
Change in unrealized appreciation before income taxes	(4,249,346)	1,192,400	(4,992,508)	312,076
Deferred income tax (benefit) expense	(1,571,940)	427,291	(1,801,737)	104,474
<b>Net (decrease) increase in unrealized appreciation</b>	<u>(2,677,406)</u>	<u>765,109</u>	<u>(3,190,771)</u>	<u>207,602</u>
<b>Net realized and unrealized gain (loss) on investments</b>	<u>97,224</u>	<u>304,789</u>	<u>(416,141)</u>	<u>(272,840)</u>
<b>Net (decrease) increase in net assets from operations</b>	<u>\$ (216,627)</u>	<u>\$ 33,394</u>	<u>\$ (1,039,632)</u>	<u>\$ (645,263)</u>
<b>Weighted average shares outstanding</b>	6,818,934	6,018,406	6,818,934	6,026,555
<b>Basic and diluted net (decrease) increase in net assets from operations per share</b>	<u>\$ (0.03)</u>	<u>\$ 0.01</u>	<u>\$ (0.15)</u>	<u>\$ (0.11)</u>

See accompanying notes

**RAND CAPITAL CORPORATION AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Nine Months Ended September 30, 2010 and 2009**  
**(Unaudited)**

	<u>September 30,</u> <u>2010</u>	<u>September 30,</u> <u>2009</u>
<b>Cash flows from operating activities:</b>		
Net decrease in net assets from operations	\$ (1,039,632)	\$ (645,263)
Adjustments to reconcile net decrease in net assets to net cash used in operating activities:		
Depreciation and amortization	31,168	26,736
Change in interest receivable allowance	—	86,272
Decrease (increase) in unrealized appreciation of investments	4,992,508	(312,076)
Deferred tax benefit	(1,432,154)	(322,000)
Realized (gain) loss on portfolio investments	(4,311,499)	736,301
Payment in kind, interest accrued	—	(31,850)
Non-cash conversion of debenture interest	(342,897)	(25,657)
Changes in operating assets and liabilities:		
Decrease (increase) in interest receivable	184,636	(278,930)
(Increase) decrease in other assets	(14,206)	118,222
Increase in prepaid income taxes	—	(174,331)
Decrease in income taxes payable	(240,994)	(98,723)
Increase in accounts payable and accrued expenses	89,240	78,066
Decrease in deferred revenue	(1,353)	(16,432)
Total adjustments	<u>(1,045,551)</u>	<u>(214,402)</u>
<b>Net cash used in operating activities</b>	<b>(2,085,183)</b>	<b>(859,665)</b>
<b>Cash flows from investing activities:</b>		
Investments originated	(2,830,000)	(1,430,309)
Proceeds from sale of portfolio investments	4,655,379	67,448
Proceeds from loan repayments	90,606	50,057
Capital expenditures	(846)	—
<b>Net cash provided (used) by investing activities</b>	<b>1,915,139</b>	<b>(1,312,804)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from SBA debenture	900,000	—
Origination costs to SBA	(21,825)	—
Issuance of common stock	—	3,735,642
<b>Net cash provided by financing activities</b>	<b>878,175</b>	<b>3,735,642</b>
<b>Net increase in cash and cash equivalents</b>	<b>708,131</b>	<b>1,563,173</b>
<b>Cash and cash equivalents:</b>		
Beginning of period	9,417,236	2,757,653
End of period	<u>\$ 10,125,367</u>	<u>\$ 4,320,826</u>

See accompanying notes

**RAND CAPITAL CORPORATION AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**  
**For the Three Months and the Nine Months Ended September 30, 2010 and 2009**  
**(Unaudited)**

	<b>Three months ended September 30, 2010</b>	<b>Three months ended September 30, 2009</b>	<b>Nine months ended September 30, 2010</b>	<b>Nine months ended September 30, 2009</b>
<b>Net assets at beginning of period</b>	<b>\$ 22,382,876</b>	<b>\$ 19,548,309</b>	<b>\$ 23,205,881</b>	<b>\$ 20,226,966</b>
Net investment loss	(313,851)	(271,395)	(623,491)	(372,423)
Net realized gain (loss) on investments	2,774,630	(460,320)	2,774,630	(480,442)
Change in unrealized appreciation before income taxes	(4,249,346)	1,192,400	(4,992,508)	312,076
Deferred income tax (benefit) expense	(1,571,940)	427,291	(1,801,737)	104,474
(Decrease) increase in unrealized appreciation on investments (net of tax benefit)	(2,677,406)	765,109	(3,190,771)	207,602
Net (decrease) increase in net assets from operations	(216,627)	33,394	(1,039,632)	(645,263)
Issuance of common stock	—	3,735,642	—	3,735,642
<b>Net assets at end of period</b>	<b>\$ 22,166,249</b>	<b>\$ 23,317,345</b>	<b>\$ 22,166,249</b>	<b>\$ 23,317,345</b>

See accompanying notes

**RAND CAPITAL CORPORATION AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**  
**September 30, 2010**  
**(Unaudited)**

<b>Company, Geographic Location, Business Description, (Industry) and Website</b>	<b>Type of Investment</b>	<b>(b) Date Acquired</b>	<b>(c) Equity</b>	<b>Cost</b>	<b>(d)(f) Value</b>	<b>Per Share of Rand</b>
<b>Non-Control/Non-Affiliate Investments: (k)</b>						
<b>Mezmeriz, Inc. (g)</b> Ithaca, NY. Developer of micro mirror technology that replaces silicon with carbon fibers in micro-electronic mechanical systems (MEMS) enabling efficient, wide-angle, Pico projectors to be embedded in mobile devices. (Electronics Developer) www.mezmeriz.com	141,125 Series A preferred shares.	1/9/08	4%	\$ 121,509	\$ 121,509	\$ .02
<b>Rheonix, Inc.</b> Ithaca, NY. Developer of microfluidic testing devices including channels, pumps, reaction vessels, & diagnostic chambers, for testing of small volumes of chemicals and biological fluids. (Manufacturing) www.rheonix.com	9,676 common shares. (g) 694,015 Series A preferred shares. 50,593 common shares.	10/29/09	3%	753,000	889,000	.12
<b>Somerset Gas Transmission Company, LLC (e)</b> Columbus, OH. Natural gas transportation company. (Oil and Gas) www.somersetgas.com	26.5337 units.	7/10/02	2%	719,097	786,748	.12
<b>Synacor Inc. (g)</b> Buffalo, NY. Develops provisioning platforms for aggregation and delivery of content and services across multiple digital devices. (Software) www.synacor.com	234,558 Series A preferred shares. 600,000 Series B preferred shares. 240,378 Series C preferred shares. 897,438 common shares.	11/18/02	4%	1,349,479	4,168,001	.61
<b>Subtotal Non-Control/Non-Affiliate Investments</b>				<u>\$2,943,085</u>	<u>\$5,965,258</u>	<u>\$ .87</u>
<b>Affiliate Investments: (l)</b>						
<b>Carolina Skiff LLC (e)(g)</b> Waycross, GA. Manufacturer of fresh water, ocean fishing and pleasure boats. (Manufacturing) www.carolinaskiff.com	\$985,000 Class A preferred membership interest at 14%. Redeemable December 23, 2012. \$500,000 subordinated promissory note at 14% due December 31, 2016. 6.0825% Class A common membership interest. (j) Interest receivable \$934,744.	1/30/04	7%	\$ 1,500,000	\$ 1,500,000	\$ .22
<b>EmergingMed.com, Inc. (e)(g)</b> New York, NY. Cancer clinical trial matching and referral service. (Software) www.emergingmed.com	\$675,045 senior subordinated note at 8% due January 19, 2013. Warrants for 8% of common stock.	12/19/05	8%	675,045	675,045	.10
<b>GridApp Systems, Inc. (g)</b> New York, NY. Provider of database automation software that helps businesses gain control of their heterogeneous database applications through a centralized software console. (Software) www.gridapp.com	1,309,375 Series A-1 preferred shares. 8% liquidating dividend. 584,480 common shares	11/25/08	14%	1,577,708	1,577,708	.23

**RAND CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**  
**September 30, 2010 (Continued)**  
**(Unaudited)**

<b>Company, Geographic Location, Business Description, (Industry) and Website</b>	<b>(b) Date Acquired</b>	<b>(c) Equity</b>	<b>Cost</b>	<b>(d)(f) Value</b>	<b>Per Share of Rand</b>
<b>Microcision LLC (g)</b> Philadelphia, PA. Custom manufacturer of medical and dental implants. (Manufacturing). www.microcision.com	9/24/09	15%	1,558,896	1,558,896	.23
<b>Mid America Brick (g)</b> Mexico, MO. Manufacturer of face brick for residential and commercial construction. (Manufacturing). www.midamericabrick.com	6/1/10	19.5%	800,000	800,000	.12
<b>Niagara Dispensing Technologies, Inc.</b> Amherst, NY. Beverage dispensing technology development and products manufacturer, specializing in rapid pour beer dispensing systems for high volume stadium and concession operations. (Manufacturing) www.niagaradisensing.com	3/8/06	14%	1,829,113	1,000,000	.15
<b>SOMS Technologies, LLC (g)</b> Valhalla, NY. Produces and markets the microGreen Extended Performance Oil Filter. (Auto Parts Developer) www.microgreenfilter.com	12/2/08	11.7%	370,687	426,404	.06
<b>Ultra — Scan Corporation</b> Amherst, NY. Biometrics application developer of ultrasonic fingerprint technology. (Electronics Hardware/Software) www.ultra-scan.com	12/11/92	4%	938,164	1,203,000	.18
<b>Subtotal Affiliate Investments</b>			<u>\$ 9,249,613</u>	<u>\$ 8,741,053</u>	<u>\$ 1.29</u>
<b>Control Investments (m)</b> <b>Gemcor II, LLC (e)(g)(h)</b> West Seneca, NY. Designs and sells automatic riveting machines used in the assembly of aircraft components. (Manufacturing) www.gemcor.com	6/28/04	31%	\$ 933,277	\$ 6,133,277	\$ .90
<b>G-TEC Natural Gas Systems</b> Buffalo, NY. Manufactures and distributes systems that allow natural gas to be used as an alternative fuel to gases. (Manufacturing) www.gas-tec.com	8/31/99	21.6%	400,000	100,000	.01
<b>Subtotal Control Investments</b>			<u>\$ 1,333,277</u>	<u>\$ 6,233,277</u>	<u>\$ .91</u>
<b>Other Investments (a)(i)</b>	Various		<u>\$ 3,018,236</u>	<u>\$ 140,341</u>	<u>\$ .02</u>
<b>Total portfolio investments</b>			<u>\$16,544,211</u>	<u>\$21,079,929</u>	<u>\$ 3.09</u>



**RAND CAPITAL CORPORATION AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS**  
**September 30, 2010 (Continued)**  
**(Unaudited)**

**Notes to Consolidated Schedule of Portfolio Investments**

(a) Unrestricted securities are freely marketable securities having readily available market quotations. All other securities are restricted securities, which are subject to one or more restrictions on resale and are not freely marketable. At September 30, 2010 restricted securities represented 99% of the value of the investment portfolio. Freed Maxick & Battaglia, CPAs PC has not examined the business descriptions of the portfolio companies. Individual securities with values less than <\$100,000 are included in "Other Investments".

(b) The Date Acquired column indicates the year in which the Corporation acquired its first investment in the company or a predecessor company.

(c) The equity percentages estimate the Corporation's ownership interest in the portfolio investment. The estimated ownership is calculated based on the percent of outstanding voting securities held by the Corporation or the potential percentage of voting securities held by the Corporation upon exercise of warrants or conversion of debentures, or other available data. Freed Maxick & Battaglia, CPAs, PC has not audited the equity percentages of the portfolio companies. The symbol "<1%" indicates that the Corporation holds an equity interest of less than one percent.

(d) The Corporation primarily uses 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, are subject to restrictions on resale, and are valued at fair value as determined by the management of the Corporation and submitted to the Board of Directors for approval. Fair value is considered to be the amount which the Corporation may reasonably expect to receive for portfolio securities when sold on the valuation date. Valuations as of any particular date, however, are not necessarily indicative of amounts which may ultimately be realized as a result of future sales or other dispositions of securities and these favorable or unfavorable differences could be material. Among the factors considered in determining the fair value of restricted securities are the financial condition and operating results, projected operations, and other analytical data relating to the investment. Also considered are the market prices for unrestricted securities of the same class (if applicable) and other matters which may have an impact on the value of the portfolio company. On a consolidated basis the Corporation uses Accounting Standards Codification (ASC) 820 which defines fair value and establishes guidelines for measuring fair value. ASC 820 designates the Corporation's investments primarily as "Level 3" assets due to their privately held restricted nature.

(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, 2010, the total cost of investment securities approximated \$16.5 million. Net unrealized appreciation was approximately \$4.5 million, which was comprised of \$8.5 million of unrealized appreciation of investment securities and \$4.0 million related to unrealized depreciation of investment securities.

(g) Rand Capital SBIC, Inc. investment.

(h) Reduction in cost and value from previously reported balances reflects current principal repayment.

(i) Included in "Other Investments" is 30,500 shares OTC: PHPG.OB, a publicly owned company.

(j) Represents interest due (amounts over \$50,000 net of reserves) from investment included as interest receivable on the Corporation's Balance Sheet.

(k) Non-Control/Non-Affiliate investments are investments that are neither Control Investments or Affiliated Investments.

(l) Affiliate investments are defined by the Investment Company Act of 1940, as amended ("1940 Act"), as those Non-Control investments in companies in which between 5% and 25% of the voting securities are owned or Rand holds a Board seat.

(m) Control investments are defined by the 1940 Act as investments in companies in which more than 25% of the voting securities are owned or where greater than 50% of the board representation is maintained.

**Rand Capital Corporation and Subsidiary**  
**Notes to the Consolidated Financial Statements**  
**For the Nine Months Ended September 30, 2010 and 2009**  
**(Unaudited)**

**Note 1. ORGANIZATION**

Rand Capital Corporation (“Rand”) was incorporated under the laws of New York on February 24, 1969. Beginning in 1971, Rand operated as a publicly traded, closed-end, diversified management company that was registered under Section 8 of the Investment Company Act of 1940 (the “1940 Act”). On August 16, 2001, Rand elected to be treated as a business development company (“BDC”) under the 1940 Act. In 2002, Rand formed a wholly-owned subsidiary for the purpose of operating it as a small business investment company (“SBIC”) licensed by the U.S. Small Business Administration (“SBA”). The subsidiary received an SBA license to operate as an SBIC in August 2002. The subsidiary, which had been organized as a Delaware limited partnership, was converted into a New York corporation on December 31, 2008, at which time its operations as a licensed small business investment company was continued by the newly formed corporation under the name of Rand Capital SBIC, Inc. (“Rand SBIC”). The following discussion will describe the operations of Rand and its wholly-owned subsidiary Rand SBIC (collectively, the “Corporation”).

The Corporation is listed on the NASDAQ Capital Market under the symbol “Rand”.

**SBIC Subsidiary**

Since 2002, Rand has operated a wholly-owned SBIC subsidiary in order to have access to the various forms of leverage provided by the SBA to SBICs. Rand operates Rand SBIC, and Rand formerly operated the limited partnership SBIC predecessor of Rand SBIC, for the same investment purposes and with investments in the same kinds of securities as Rand. The operations of the SBIC predecessor were, and the operations of Rand SBIC are, consolidated with those of Rand for both financial reporting and tax purposes.

On May 28, 2002, Rand and the predecessor SBIC subsidiary filed an initial Exemption Application with the SEC seeking an order for a number of operating exemptions that the SEC has commonly granted from certain restrictions under the 1940 Act that would otherwise limit the operations of the wholly-owned subsidiary. After the filing of the Exemption Application, the Corporation had extended discussions with the staff of the Division of Investment Management of the SEC concerning the application. The principal substantive issue in these discussions was the structure of the predecessor of Rand SBIC as a limited partnership.

Rand formed the predecessor SBIC in 2002 as a limited partnership because that was the organizational form that the SBA strongly encouraged for all new entities seeking licenses as SBICs. Rand organized the SBIC subsidiary in a manner that was consistent with the SBA’s model limited partnership forms for licensed SBICs. In that structure, the general partner of Rand SBIC was a limited liability company whose managers were the principal executive officers of Rand.

Under the rules and interpretations of the SEC applicable to BDCs (which the subsidiary SBIC intended to become), if a BDC is structured in limited partnership form, then it must have general partners who serve as a board of directors, or a general partner with very limited authority and a separate board of directors, all of the persons who serve on the board of directors must be natural persons, and a majority of the directors must not be “interested persons” of the BDC. Since the managers of the limited liability company general partner of the SBIC subsidiary were the principal executive officers of Rand, and since both the limited liability company general partner and the subsidiary SBIC were wholly-owned by Rand, Rand believed that the board of directors of Rand was the functional equivalent of a board of directors for both the general partner limited liability company and for the SBIC limited partnership. Nevertheless, the staff of the Division of Investment Management of the SEC maintained the view that if the limited partnership subsidiary was to be operated as a limited partnership BDC in compliance with the 1940 Act, then the organizational documents of the limited partnership would have to specifically provide that it would have a board of directors consisting of natural persons, a majority of whom would not be “interested persons.”

With the approval of the SBA, effective December 31, 2008 Rand merged the Rand SBIC limited partnership into a corporation whose board of directors is the same as that of Rand. The SBA formally approved the re-licensing of the new corporation as an SBIC in February 2009. As a result of the merger, Rand SBIC is a wholly-owned corporate subsidiary of Rand, and its board of directors is comprised of the directors of Rand, a majority of whom are not “interested persons” of Rand or Rand SBIC.

Following this merger, on February 26, 2009, the Corporation filed a new Exemption Application with the 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 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 for Rand SBIC under Section 13(a) of the Exchange Act. In general, the Corporation’s application seeks exemptions that would permit:

- Rand and Rand SBIC to engage in certain related party 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 Exchange Act reports.

The SEC has recently granted exemptions in response to other companies’ applications that reflected similar issues and factual circumstances, and Rand believes that it will receive the exemptions it has requested for the operation of Rand SBIC as a BDC subsidiary of Rand.

Although Rand SBIC is operated as if it were a BDC, it is currently registered as an investment company under the 1940 Act. If the Corporation receives the exemptions described above, Rand SBIC intends to promptly file an election to be regulated as a BDC under the 1940 Act.

## **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 United States generally accepted accounting principles (“GAAP”), 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, 2010 are not necessarily indicative of the results for the full year.

These statements should be read in conjunction with the consolidated financial statements and the notes included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2009. Information contained in this filing should also be reviewed in conjunction with the Corporation's related filings with the SEC prior to the date of this report. Those filings include, but are not limited to, the following:

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, 2009
Form 10-Q	Quarterly Report on Form 10-Q for the quarters ended June 30, 2010, March 31, 2010 and September 30, 2009
Form N-23C-1	Reports by closed-end investment companies of purchases of their own securities

The Corporation's website is [www.randcapital.com](http://www.randcapital.com). The Corporation's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, charters for the Corporation's committees and other reports filed with the Securities and Exchange Commission ("SEC") are available through the Corporation's website.

**Principles of Consolidation** — The consolidated financial statements include the accounts of Rand and its wholly-owned subsidiary Rand SBIC (collectively, the "Corporation"). All intercompany accounts and transactions have been eliminated in consolidation.

**Reclassification** — Certain prior year amounts have been reclassified to conform to the current year presentation.

**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 also regulated by the SBA's "Accounting Standards and Financial Reporting Requirements for Small Business Investment 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, are amortized ratably over the terms of the SBA debentures. Amortization expense was \$25,867 for the nine months ended September 30, 2010, compared to \$20,987 for the nine months ended September 30, 2009.

**SBA Leverage** — During the nine months ended September 30, 2010 the Corporation drew down the remaining \$900,000 in SBA leverage and has a total of \$10,000,000 in outstanding SBA leverage at September 30, 2010.

**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.

**Supplemental Cash Flow Information** — Income taxes paid, net of refunds received, during the nine months ended September 30, 2010 and 2009 amounted to \$1,020,533 and \$325,129, respectively. Interest paid during the nine months ended September 30, 2010 and 2009 amounted to \$513,953 and \$472,281, respectively. The Corporation converted \$342,897 and \$25,657 of interest receivable into investments during the nine months ended September 30, 2010 and 2009, respectively. During the nine months ended September 30, 2010 the Corporation recorded an escrow receivable of \$962,120 in connection with the recognized gain on the sale of an investment and it is recorded in the other asset line on the consolidated financial statements.

**Accounting Estimates** — The preparation of financial statements in conformity with United States GAAP 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, 2010 and December 31, 2009, there were 500,000 shares of \$10.00 par value preferred stock authorized and unissued.

The Board of Directors has authorized the repurchase of up to 340,946 shares of the Corporation's outstanding stock on the open market at prices that are no greater than current net asset value through October 21, 2011. During 2003 and 2002 the Corporation purchased 44,100 shares of its stock for \$47,206. No additional shares have been repurchased since 2003.

**Profit Sharing and Stock Option Plan** — In July 2001, the stockholders of the Corporation authorized the establishment of an Employee Stock Option Plan (the "Plan"). The Plan provides for the 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, 2010, no stock options had been awarded under the Plan. Because Section 57(n) of the Investment Company Act of 1940 (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.

In 2002, the Corporation established a Profit Sharing Plan for its executive officers in accordance with Section 57(n) of the 1940 Act. Under the Profit Sharing Plan, the Corporation accrues a profit sharing amount equal to 12% of the net realized capital gains of its SBIC subsidiary, net of all realized capital losses and unrealized depreciation of the subsidiary, for the fiscal year, computed in accordance with the Plan and the Corporation's interpretation of such policies. Any profit sharing paid cannot exceed 20% of the Corporation's net income, as defined. The profit sharing payments will be split equally between Rand's two executive officers, who are fully vested in the Plan. The Corporation has accrued \$380,000 for estimated contributions to, or payments made under the Plan, during the nine months ended September 30, 2010. There were no payments under, or contributions to the Plan, for the nine months ended September 30, 2009. During the year ended December 31, 2009, the Corporation approved and accrued \$133,013 under the profit sharing plan which was paid during the first quarter of 2010.

**Income Taxes** — The Corporation follows ASC 740 when accounting for uncertainty in Income Taxes. ASC 740 clarifies the accounting and disclosure for uncertain tax positions by requiring that a tax position meet a "more likely than not threshold" for the benefit of the tax position to be recognized in the financial statements. A tax position that fails to meet the more likely than not recognition threshold will result in either a reduction of a current or deferred tax asset or receivable, or the recording of a current or deferred tax liability. ASC 740 also provides guidance on measurement, recognition of tax benefits, classification, interim period accounting disclosure, and transition requirements in accounting for uncertain tax positions.

There was an adjustment to the liability recorded for uncertain tax positions in the nine months ended September 30, 2010. The New York State Department of Revenue completed an audit of the Corporation's New York corporate income tax returns in the second quarter of 2010 for the years ended December 31, 2005 through 2007. There was a liability of \$23,000 previously recorded to cover potential taxes and penalties and interest from uncertain tax positions on these New York returns. The audit was settled and the additional liability was \$13,190. The liability recorded for uncertain tax positions was reduced accordingly. The Corporation does not expect that the amounts of uncertain tax positions will change significantly within the next 12 months.

It is the Corporation's policy to include interest and penalties related to income tax liabilities in income tax expense. There were no amounts recognized for interest or penalties related to unrecognized tax expense for the nine months ended September 30, 2010 and 2009.

The Corporation is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ending December 31, 2006 through 2009. In general, the Corporation's state income tax returns are open to audit under the statute of limitations for the years ended December 31, 2005 through 2009.

**Concentration of Credit Risk** — At September 30, 2010 Gemcor II, LLC (Gemcor), Synacor Inc. (Synacor) and GridApp Systems, Inc (GridApp) represent 37%, 25% and 10%, respectively, of the fair value of the Corporation's investment portfolio.

### **Note 3. INVESTMENTS**

Investments are valued in accordance with the Corporation's established valuation policy and are stated at fair value as determined in good faith by the management of the Corporation and submitted to the Board of Directors for approval. There is no single standard for determining fair value in good faith. As a result, determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment while employing a consistently applied valuation process for investments. The Corporation analyzes and values each investment on a quarterly basis, and records unrealized depreciation for an investment that it believes has become impaired, including where collection of a loan or realization of the recorded value of an equity security is doubtful. Conversely, the Corporation will record unrealized appreciation if it believes that the underlying portfolio company has appreciated in value and, therefore, its equity security has also appreciated in value. These estimated fair values may differ from the values that would have been used had a ready market for the investments existed and these differences could be material if our assumptions and judgments differ from results of actual liquidation events.

In September 2006, the Financial Accounting Standards Board ("FASB") issued guidance on Fair Value Measurements. This statement defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. This statement was effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those years. On January 1, 2008, the Corporation adopted Accounting Standards Codification (ASC) 820.

The Corporation uses several approaches to determine the fair value of an investment. The main approaches are as follows:

- Market approach — The market approach uses observable prices and other relevant information generated by similar market transactions. It may include the use of market multiples derived from a set of comparables to assist in pricing the investment. The Corporation adjusts valuations if a subsequent significant equity financing has occurred that includes a meaningful portion of the financing by a sophisticated, unrelated new investor.
- Income approach — The income approach employs a cash flow and discounting methodology to value an investment.

ASC 820 classifies the inputs used to measure these fair values into the following hierarchy:

Level 1: Quoted prices in active markets for identical assets or liabilities, used in the Corporation's valuation at the measurement date.

Level 2: Quoted prices for similar assets or liabilities in active markets, or quoted prices for identical or similar assets or liabilities in markets that are not active, or other observable inputs other than quoted prices.

Level 3: Unobservable and significant inputs to determining the fair value

Substantially all of the Corporation's investments are classified in Level 3 due to their privately held restricted nature.

#### Assets Measured at Fair Value on a Recurring Basis

<u>Description</u>	<u>September 30, 2010</u>	<u>Fair Value Measurements at Reported Date Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Observable Inputs (Level 2)</u>	<u>Other Significant Unobservable Inputs (Level 3)</u>
Loan investments	\$ 433,277			\$ 433,277
Debt investments	3,300,269			3,300,269
Equity investments	<u>17,346,383</u>	<u>\$ 30,500</u>		<u>17,315,883</u>
Total Venture Capital Investments	<u>\$ 21,079,929</u>	<u>\$ 30,500</u>	<u>\$ 0</u>	<u>\$ 21,049,429</u>
<u>Description</u>	<u>December 31, 2009</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Observable Inputs (Level 2)</u>	<u>Other Significant Unobservable Inputs (Level 3)</u>
Venture Capital Investments	<u>\$ 24,296,145</u>	<u>\$ 30,498</u>	<u>\$ 0</u>	<u>\$ 24,265,647</u>

Assets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)

Description	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Venture Capital Investments			
	Loan	Debt	Equity	Total
	Investments	Investments	Investments	
<b>Beginning Balance, December 31, 2009, of Level 3 Assets</b>	\$ 488,104	\$ 3,487,120	\$ 20,290,423	\$ 24,265,647
<b>Realized Gains or Losses included in net change in net assets from operations</b>				
Bioworks Inc. (Bioworks)			(49,830)	(49,830)
Innov-X Systems Inc (Innovex)			4,361,329	4,361,329
<b>Unrealized gains or losses included in net change in net assets from operations</b>				
Bioworks			56,000	56,000
GridApp Systems Inc. (GridApp)			295,935	295,935
Innovex			(5,050,000)	(5,050,000)
Niagara Dispensing Technologies, Inc. (Niagara Dispensing)			(350,162)	(350,162)
SOMS Technologies, LLC (SOMS)			55,717	55,717
<b>Purchases of Securities</b>				
EmergingMed.com, Inc. (Emerging Med)		216,712		216,712
GridApp			481,774	481,774
Mezmeriz, Inc. (Mezmeriz)			21,509	21,509
Microcision LLC (Microcision)		900,087		900,087
Mid America Brick (Mid America)			800,000	800,000
Niagara Dispensing		236,919		236,919
Rheonix, Inc. (Rheonix)			500,000	500,000
SOMS		15,897		15,897
<b>Repayments of Securities</b>				
Bioworks			(6,170)	(6,170)
Gemcor II, LLC (Gemcor)	(54,827)	(35,779)		(90,606)
Innovex		(250,000)	(5,361,329)	(5,611,329)
<b>Transfers within Level 3</b>		(1,270,687)	1,270,687	—
<b>Transfers in or out of Level 3</b>	—	—	—	—
<b>Ending Balance, September 30, 2010, of Level 3 Assets</b>	<u>\$ 433,277</u>	<u>\$ 3,300,269</u>	<u>\$ 17,315,883</u>	<u>\$ 21,049,429</u>
The amount of total gains or losses for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets still held at the reporting date.				\$ (4,992,508)
Gains and losses (realized and unrealized) included in net decrease in net assets from operations for the period above are reported as follows:				
Net Gain (Loss) on sales and dispositions				<u>4,311,499</u>
Change in unrealized gains or losses relating to assets still held at reporting date				<u>\$ (681,009)</u>



**Assets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)**

	<b>Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Venture Capital Investments</b>	
<b>Beginning Balance, December 31, 2008, of Level 3 Assets</b>	<b>\$</b>	<b>28,014,282</b>
Realized Gains or Losses included in net change in net assets from operations		
Rocket Broadband	\$	(705,030)
Unrealized gains or losses included in net change in net assets from operations		—
Associates Interactive, LLC (Associates)	(293,518)	
APF Group, Inc. (APF)	(324,213)	
Adampluseve, Inc. (Adampluseve)	(65,341)	
Golden Goal LLC (Golden Goal)	(400,000)	
G-TEC Natural Gas Systems (G-Tec)	(98,000)	
Innov-X Systems, Inc. (Innovex)	(2,711,700)	
Kionix, Inc. (Kionix)	3,637,000	
Niagara Dispensing Technologies, Inc. (Niagara Dispensing)	(168,702)	
Rocket Broadband realized loss	<u>715,000</u>	\$ 290,526
Purchases of Securities		
Associates	43,518	
APF	24,212	
Golden Goal	38,238	
GridApp Systems Inc. (GridApp)	331,850	
Innovex	250,000	
Microcision LLC (Microcision)	500,000	
Niagara Dispensing	300,000	\$ 1,487,818
Repayments of Securities		
Gemcor II, LLC (Gemcor)	(50,058)	
Rocket Broadband	(9,970)	\$ (60,028)
Transfers in or out of Level 3		—
<b>Ending Balance, September 30, 2009, of Level 3 Assets</b>	<b>\$</b>	<b><u>29,027,568</u></b>
The amount of total gains or losses for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held at the reporting date.	\$	290,526
Gains and losses (realized and unrealized) included in Net decrease in net assets from operations for the period above are reported as follows:		
Net Gain (Loss) on Sales and Dispositions	\$	(705,030)
Change in unrealized gains or losses relating to assets still held at reporting date	\$	<u>(414,504)</u>

**Note 4. FINANCIAL HIGHLIGHTS**

The following schedule provides the financial highlights, calculated based on weighted average shares outstanding, for the nine months ended September 30, 2010 and the year ended December 31, 2009:

	<b>Nine months ended September 30, 2010 (Unaudited)</b>	<b>Year ended December 31, 2009</b>
<b>Income from investment operations (1):</b>		
Investment income	\$ 0.09	\$ 0.28
Expenses	0.24	0.30
Investment (loss) before income taxes	(0.15)	(0.02)
Income tax (benefit)	(0.06)	(0.01)
Net investment (loss)	(0.09)	(0.01)
Issuance of common stock	—	0.61
Net realized and unrealized (loss) on investments	(0.06)	(0.11)
(Decrease) increase in net asset value	(0.15)	0.49
Net asset value, beginning of period, based on weighted average shares	3.40	3.54
Net asset value, end of period, based on weighted average shares	\$ 3.25	\$ 4.03
Per share market price, end of period	\$ 3.38	\$ 3.98
Total return based on market value	(15.08)%	13.71%
Total return based on net asset value	(4.48)%	(3.74)%
<b>Supplemental data:</b>		
Ratio of expenses before income taxes to average net assets	7.17%	8.52%
Ratio of expenses including taxes to average net assets	5.46%	8.35%
Ratio of net investment loss to average net assets	(2.75)%	(0.29)%
Portfolio turnover	12.5%	11.3%
Net assets, end of period	\$ 22,166,249	\$ 23,205,881
Weighted average shares outstanding, end of period	6,818,934	6,115,081

(1) *Per share data are based on weighted average shares outstanding and the results are rounded*

The Corporation's interim period results could fluctuate as a result of a number of factors; therefore results for any one interim period should not be relied upon as being indicative of performance in future periods.

## 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 consolidated 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 companies 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 in Part II, Item 1A of this report, the text of which is incorporated herein by reference.*

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

### Overview

The following discussion will describe the financial position and operations of Rand Capital Corporation (Rand) and its wholly-owned subsidiary Rand SBIC, Inc. (Rand SBIC) (collectively, the “Corporation”).

Rand is incorporated in New York and has elected to operate as a business development company (“BDC”) under the 1940 Act. Its wholly-owned subsidiary, Rand SBIC, operates as a small business investment company (“SBIC”) 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.

## **Business Developments**

During 2008 and the first half of 2009, a weak global economic environment caused higher than normal volatility in the capital and financial markets. During the second half of 2009, the economy started to show signs of improvement and this trend has continued through the first nine months of 2010. To the extent the financial market conditions continue to improve, the Corporation believes its financial condition and the financial condition of the portfolio companies should improve as well. It remains difficult to forecast when future exits will happen, or if the portfolio companies will have sufficient capital to remain viable while their respective markets improve.

## **Critical Accounting Policies**

The Corporation prepares its consolidated financial statements in accordance with U.S. generally accepted accounting principles (GAAP), which require the use of estimates and assumptions that affect the reported amounts of assets and liabilities. A summary of our critical accounting policies can be found in the Corporation's December 31, 2009 Form 10-K under Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations".

## Financial Condition

Overview:

	<u>9/30/10</u>	<u>12/31/09</u>	<u>Decrease</u>	<u>% Decrease</u>
Total assets	\$ 33,906,478	\$ 35,631,371	\$ (1,724,893)	(4.8%)
Total liabilities	11,740,229	12,425,490	(685,261)	(5.5%)
Net assets	<u>\$ 22,166,249</u>	<u>\$ 23,205,881</u>	<u>\$ (1,039,632)</u>	<u>(4.5%)</u>

The Corporation's financial condition is dependent on the success of its portfolio holdings. The following summarizes the Corporation's investment portfolio at the period-ends indicated.

	<u>9/30/10</u>	<u>12/31/09</u>	<u>Increase (Decrease)</u>	<u>% Increase (Decrease)</u>
Investments, at cost	\$ 16,544,211	\$ 14,767,920	\$ 1,776,291	12.0%
Unrealized appreciation, net	4,535,718	9,528,225	(4,992,507)	(52.4%)
Investments at fair value	<u>\$ 21,079,929</u>	<u>\$ 24,296,145</u>	<u>\$ (3,216,216)</u>	<u>(13.2%)</u>

The change in investments, at cost, is comprised of the following:

<b>Investments:</b>	<b>Amount</b>
Microcision LLC (Microcision)	\$ 850,000
Mid America Brick (Mid America)	800,000
Rheonix, Inc. (Rheonix)	500,000
GridApp Systems, Inc. (GridApp)	480,000
Niagara Dispensing Technologies, Inc. (Niagara Dispensing)	200,000
<b>Total of investments made during the nine months ended September 30, 2010</b>	<b>\$ 2,830,000</b>
<b>Changes to Investments:</b>	
EmergingMed.com, Inc (Emerging Med) interest conversion	\$ 216,712
Microcision interest conversion	50,087
Niagara Dispensing interest conversion	36,918
Mezmeriz, Inc (Mezmeriz) interest conversion	21,509
SOMS Technologies, LLC (SOMS) interest conversion	15,897
GridApp interest conversion	1,774
<b>Total of changes to investments made during the nine months ended September 30, 2010</b>	<b>\$ 342,897</b>
<b>Investment Repayments:</b>	
Innov-X Systems Inc (Innovex)	\$ (1,250,000)
Gemcor II, LLC (Gemcor)	(90,606)
Bioworks, Inc.	(56,000)
<b>Total of investment repayments during the nine months ended September 30, 2010</b>	<b>\$ (1,396,606)</b>
<b>Total change in investments, at cost, during the nine months ended September 30, 2010</b>	<b>\$ 1,776,291</b>

Net asset value (NAV) per share was \$3.25/share at September 30, 2010 versus \$3.40/share at December 31, 2009.

The Corporation's total investments at fair value, as estimated by management and approved by the Board of Directors, approximated 95% and 105% of net assets at September 30, 2010 and December 31, 2009, respectively.

Cash and cash equivalents approximated 46% of net assets at September 30, 2010 compared to 41% at December 31, 2009.

## Results of Operations

### Investment Income

The Corporation's investment objective is to achieve long-term capital appreciation on its equity investments while maintaining a current cash flow from its debenture and pass through equity instruments. Therefore, the Corporation invests in a mixture of debenture and equity instruments, which will provide a current return on a portion of the investment portfolio. The equity features contained in the Corporation's investment portfolio are structured to realize capital appreciation over the long-term and may not 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 held at high grade financial institutions.

#### Comparison of the nine months ended September 30, 2010 to the nine months ended September 30, 2009

	September 30, 2010	September 30, 2009	Increase (Decrease)	% Increase (Decrease)
Interest from portfolio companies	\$ 523,921	\$ 411,435	\$ 112,486	27.3%
Interest from other investments	15,959	14,927	1,032	6.9%
Dividend and other investment income	62,511	551,091	(488,580)	(88.7%)
Other income	11,853	20,416	(8,563)	(41.9%)
<b>Total investment income</b>	<b>\$ 614,244</b>	<b>\$ 997,869</b>	<b>\$ (383,625)</b>	<b>(38.4%)</b>

Interest from portfolio companies — The portfolio interest income increase is due to the origination of new debenture instruments from Carolina Skiff, Gemcor and Niagara Dispensing in late 2009.

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

<u>Company</u>	<u>Interest Rate</u>	<u>Investment Cost</u>	<u>Year that Interest Accrual Ceased</u>
APF Group, Inc. (APF)	8%	\$ 631,547	2009
Associates Interactive LLC (Associates)	8%	293,518	2009
Golden Goal LLC (Golden Goal)	13%	675,652	2009
G-Tec Natural Gas Systems (G-Tec)	8%	400,000	2004
WineIsIt.com (Wineisit)	10%	801,918	2005

Interest from other investments — The increase in interest from other investments is primarily due to higher cash balances in the current year. The cash balance at September 30, 2010 and 2009 was \$10,125,367 and \$4,320,826, respectively.

Dividend and other investment income — Dividend income is comprised of distributions from Limited Liability Companies (LLCs) in which the Corporation has invested. The Corporation's investment agreements with certain LLCs 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, 2010 consisted of a distribution from Somerset Gas Transmission Company (Somerset) for \$32,191 and Gemcor II, LLC (Gemcor) for \$30,320. Dividend income for the nine months ended September 30, 2009 consisted of distributions from Gemcor for \$526,526 and from Somerset for \$24,565.

**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 financings. 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 companies’ board meetings.

The income associated with the amortization of financing fees was \$1,853 and \$5,417 for the nine months ended September 30, 2010 and 2009, respectively. The annualized financing fee income based on the existing portfolio will be approximately \$525 for the remainder of 2010 and \$700 in 2011.

The income associated with board attendance fees was \$10,000 and \$15,000 for the nine months ended September 30, 2010 and 2009, respectively.

## Operating Expenses

### *Comparison of the nine months ended September 30, 2010 to the nine months ended September 30, 2009*

	<u>September 30, 2010</u>	<u>September 30, 2009</u>	<u>Increase</u>	<u>% Increase</u>
Total Expenses	\$ 1,625,482	\$ 1,488,832	\$ 136,650	9.2%

Operating expenses predominately consist of interest expense on SBA obligations, employee compensation and benefits, directors’ fees, shareholder related costs, office expenses, professional fees, and expenses related to identifying and reviewing investment opportunities.

The increase in operating expenses during the nine months ended September 30, 2010 is comprised primarily of a 35% or \$189,885 increase in salary expense and the 15% or \$56,724 increase in SBA interest expense. Salary expense increased due to the accrual of \$380,000 in profit sharing obligations for the nine months ended September 30, 2010 versus a \$200,000 profit sharing accrual for the same period in 2009. SBA interest expense increased due to the additional \$1,900,000 in debenture instruments originated in December 2009 and January 2010. These expense increases are offset by the 37% or \$68,207 decrease in professional fees and the 115% or \$45,850 decrease in bad debt expense. Professional fees were higher in the prior year because the Corporation incurred more expense related to compliance with SEC rules regarding the Corporation’s operating structure.

## Net Realized Gains and Losses on Investments

The Corporation sold its investment in Innov-X Systems, Inc. to Olympus NDT Corporation on July 1, 2010 and received approximately \$5.6 million in net proceeds from its debt and equity repayment. The Corporation recognized a realized gain from the sale of its equity securities of \$4,361,329 million of which \$962,120 was not received in cash and held in escrow. This escrow holdback is recorded in “Other Assets” on the Balance Sheet and expected to be received in January 2012. In addition, the Corporation sold its investment in Bioworks, Inc. and recognized a \$49,830 realized loss.

During the nine months ended September 30, 2009, the Corporation recognized a net realized loss of (\$736,301) comprised of a realized loss of (\$705,030) on Rocket Broadband Networks Inc. (Rocket Broadband) and a loss of (\$31,271) on the sale of 35,500 shares of Photonic Products Group, Inc (Photonic) stock. Photonic is a publicly traded stock (NASDAQ symbol: PHPG.OB). The average sales price of Photonic was \$1.66/share and the cost basis of the stock was \$2.50/share.

#### Net Change in Unrealized Appreciation of Investments

The Corporation recorded a net decrease in unrealized appreciation on investments of (\$4,992,508) during the nine months ended September 30, 2010 and an increase of \$312,076 during the nine months ended September 30, 2009.

The decrease in unrealized appreciation of (\$4,992,508) for the nine months ended September 30, 2010 was comprised of the following items:

	<b>September 30, 2010</b>
GridApp Systems, Inc.	\$ 295,935
Bioworks, Inc.	56,000
SOMS	55,717
Photonics Products Group, Inc (Photonics)	2
Niagara Dispensing	(350,162)
Innov-X Systems, Inc. (Innovex)	(5,050,000)
<b>Total change in net unrealized appreciation during the nine months ended September 30, 2010</b>	<b>\$ (4,992,508)</b>

The Corporation's removed the unrealized depreciation on the GridApp investment and the security is now valued at cost. This increase in value is based on a review of GridApp's financial and sales performance, its net distribution model and the recent fundraising in 2010.

In accordance with its valuation policy, the Corporation increased the value of its holdings in SOMS based on a significant equity financing in June 2010 by a new, non-strategic outside investor.

Photonic is a publicly traded stock (NASDAQ symbol: PHPG.OB) and is marked to market at the end of each quarter.

The Corporation removed the unrealized appreciation on Innovex and its unrealized depreciation on Bioworks due to the sale of the securities.

The Niagara Dispensing investment was written down an additional \$350,162 during the nine months ended September 30, 2010 after a review by the Corporation's of Niagara Dispensing's financials and an analysis of the liquidation preferences of senior securities.

The net increase in unrealized appreciation on investments before income taxes of \$312,076 during the nine months ended September 30, 2009 was comprised of the following items:

	<b>September 30, 2009</b>
Kionix, Inc. (Kionix)	\$ 3,637,000
Reclass Rocket Broadband to a realized loss	715,000
Photonic Products Group, Inc (Photonic)	21,550
Innovex	(2,711,700)
Golden Goal	(400,000)
APF Group, Inc. (APF)	(324,213)
Associates Interactive	(293,518)
Niagara Dispensing	(168,702)
G-TEC Natural Gas Systems (G-Tec)	(98,000)
Adampluseve, Inc. (Adampluseve)	(65,341)
<b>Total change in net unrealized appreciation during the nine months ended September 30, 2009</b>	<b>\$ 312,076</b>



The Corporation revalued its shares in Kionix during the third quarter as the portfolio company announced that a definitive letter of agreement has been executed for the sale of the company to Japanese chipmaker Rohm Co Ltd. The company was sold November 2009.

During the third quarter of 2009, the Corporation reduced the valuation of its common equity holdings in Innovex by (\$2,711,700) due to changes in the mergers and acquisition market for similar companies. Innovex successfully completed a \$4.5 million subordinated debt financing with warrants led by a Massachusetts based institutional mezzanine investor during the second quarter 2009, and the Corporation participated in the financing round with a \$250,000 investment.

The Corporation sold 35,500 shares of Photonic stock during the nine months ended September 30, 2009.

The Golden Goal investment was written down to zero due to the weakening financial condition of the company and the Corporation's management belief that the long term sustainability of the business is questionable.

The Associates Interactive investment was written down to zero based on the deteriorating financial condition of the business caused by the overall downturn in the consumer electronics industry and retailers' hesitancy to invest in this market segment.

The Adampluseve, APF and G-Tec investments were revalued during the nine months ended September 30, 2009 after the Corporation's management determined that the business of each of these portfolio companies had deteriorated since the time of the original funding.

The Corporation's investment in Niagara Dispensing was written down by \$168,702 during the nine months ending September 30, 2009 based on a financial analysis of the most recent investment offering closed in the third quarter of 2009.

All of these value adjustments are determined by management and approved by the Board of Directors using the guidance set forth by ASC 820 and the Corporation's established valuation policy.

#### **Net Decrease in Net Assets from Operations**

The Corporation accounts for its operations under GAAP for investment companies. The principal measure of its financial performance is "net (decrease) increase in net assets from operations" on its consolidated statements of operations. For the nine months ended September 30, 2010, the net decrease in net assets from operations was (\$1,039,632) as compared to a net decrease in net assets from operations of (\$645,263) for the same nine month period in 2009. The decrease for the nine months ending September 30, 2010 is a result of a (\$623,491) net investment loss and a net realized and unrealized appreciation decrease, net of tax, of (\$416,141). The decrease for the nine months ended September 30, 2009 can be attributed to the net investment loss of (\$372,423), the net realized and unrealized loss, net of tax, of (\$272,840).

## **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 portfolio investments may be structured to provide little or no current yield in the form of dividends or interest payments.

As of September 30, 2010 the Corporation's total liquidity, consisting of cash and cash equivalents, was \$10,125,367.

Management expects that the cash and cash equivalents at September 30, 2010, coupled with the scheduled interest and dividend payments on its portfolio investments, will be sufficient to meet the Corporation's cash needs throughout the next twelve months. The Corporation is also evaluating potential exits from portfolio companies to increase the amount of funds available for new investments and operating activities.

### **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 management of the Corporation and submitted to the Board of Directors for approval. This is in accordance with the Corporation's investment valuation policy. (The discussion of valuation policy contained in Item 1 "Financial Statements and Supplementary Data" in the "Notes to Consolidated Schedule of Portfolio Investments" 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 statements of operations as "Net unrealized appreciation 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 September 30, 2010 the Corporation did not have any off-balance sheet investments or hedging investments.

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

#### *Management report on Internal Control Over Financial Reporting*

The management of the Corporation is responsible for establishing and maintaining adequate internal control over financial reporting. The Corporation's internal control system is a process designed to provide reasonable assurance to the Corporation's management and board of directors regarding the preparation and fair presentation of published financial statements.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Corporation; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Corporation's assets that could have a material effect on our consolidated financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Corporation's internal control over financial reporting as of September 30, 2010. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework. Based on its assessment management believes that, as of September 30, 2010, the Corporation's internal control over financial reporting is effective based on those criteria.

*Changes in Internal Control over Financial Reporting.*

During the quarter ended September 30, 2010, no significant changes occurred in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II.**  
**OTHER INFORMATION**

**Item 1. Legal Proceedings**

None

**Item 1A. Risk Factors**

See Part I, Item 1A, "Risk Factors," of the 2009 Annual Report on Form 10-K for the year ended December 31, 2009. The Risk Factors from our 2009 report on Form 10-K remains applicable with the exception of the following additions:

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

None

**Item 3. Defaults upon Senior Securities**

None

**Item 4. Removed and Reserved**

**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 Formation 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)  | Certificate of Incorporation of Rand Merger Corporation as filed by the NY Department of State on 12/18/08 — incorporated by reference to Exhibit 1(a) to Registration Statement No. 811-22276 on Form N-5 of Rand Capital SBIC, Inc. filed with the SEC on 2/6/09.   |
| (10.8)  | By-laws of Rand Capital SBIC, Inc. — incorporated by reference to Exhibit 2 to Registration Statement No. 811-22276 on Form N-5 of Rand Capital SBIC, Inc. filed with the SEC on 2/6/09.  |
| (10.9)  | Certificate of Merger of Rand Capital SBIC, L.P. and Rand Capital Management, LLC into Rand Merger Corporation, as filed by the NY Department of State on 12/18/08 — incorporated by reference to Exhibit 1(b) to Registration Statement No. 811-22276 on Form N-5 of Rand Capital SBIC, Inc. filed with the SEC on 2/6/09. |
| (10.10) | Rand Capital Corporation Amended and Restated Profit Sharing Plan applicable to Rand Capital SBIC, Inc. — incorporated by reference to Exhibit 7 to Registration Statement No. 811-22276 on Form N-5 of Rand Capital SBIC, Inc. filed with the SEC on 2/6/09.*  |
| (10.11) | Form of Subscription Agreement used by Rand Capital Corporation in connection with a private offering of 1,100,000 shares of common stock that was completed on September 4, 2009 — incorporated by reference to Exhibit 99.1 to the Corporation’s Form 8-K report filed on August 13, 2009.                                |
| (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 — furnished herewith   |
| (32.2)  | Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 — Rand Capital SBIC, Inc. — furnished herewith  |

\* Management contract or compensatory plan.

**Signatures**

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

Dated: November 4, 2010

RAND CAPITAL CORPORATION

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

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

RAND CAPITAL SBIC, INC.

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 and subsidiaries:
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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) 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
  - d) 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, 2010

/s/ Allen F. Grum

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

**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 and subsidiaries:
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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) 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
  - d) 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, 2010

/s/ Daniel P. Penberthy

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



**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, 2010 (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: November 4, 2010

/s/ Allen F. Grum

Allen F. Grum, President  
(Chief Executive Officer)

Dated: November 4, 2010

/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, Inc. (the "Company"), does hereby certify, to such officer's knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 (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: November 4, 2010

/s/ Allen F. Grum

Allen F. Grum, President of Rand Capital SBIC, Inc.  
Chief Executive Officer of Rand Capital SBIC, Inc.

Dated: November 4, 2010

/s/ Daniel P. Penberthy

Daniel P. Penberthy, Treasurer of Rand Capital SBIC, Inc.  
Chief Financial Officer of Rand Capital SBIC, Inc.