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, 2008

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

For the Transition Period from __________ to __________

Commission File Number: 811-01825

Rand Capital Corporation
(Exact Name of Registrant as specified in its Charter)

New York (State or Other Jurisdiction of Incorporation or organization)	**16-0961359** (IRS Employer Identification No.)
2200 Rand Building, Buffalo, NY (Address of Principal executive offices)	**14203** (Zip Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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. (Check one):

Large accelerated filer ☐	Accelerated filer ☐	Non-accelerated filer ☑ (Do not check if a smaller reporting company)	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 5, 2008 there were 5,718,934 shares of the registrant's common stock outstanding.

RAND CAPITAL CORPORATION
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PART I.
FINANCIAL INFORMATION

Item 1. Financial Statements and Supplementary Data

RAND CAPITAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of September 30, 2008 and December 31, 2007

	September 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
Investments at fair value (identified cost: 9/30/08 — $13,453,917; 12/31/07 — $13,390,644)	**$ 25,599,063**	$ 26,528,490
Cash and cash equivalents	**3,585,620**	4,396,595
Interest receivable (net of allowance $122,000)	**924,392**	647,001
Other assets	**425,316**	1,150,065
Total assets	**$ 30,534,391**	$ 32,722,151
LIABILITIES AND STOCKHOLDERS' EQUITY (NET ASSETS)		
Liabilities:		
Debentures guaranteed by the SBA	**$ 8,100,000**	$ 8,100,000
Deferred tax liability	**2,892,000**	3,955,000
Income taxes payable	**9,479**	474,465
Accounts payable and accrued expenses	**132,822**	321,210
Deferred revenue	**28,697**	53,653
Total liabilities	**11,162,998**	12,904,328
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)	**(3,778,951)**	(3,940,409)
Undistributed net realized gain on investments	**7,735,477**	7,796,289
Net unrealized appreciation on investments	**7,912,315**	8,459,391
Treasury stock, at cost, 44,100 shares	**(47,206)**	(47,206)
Net assets (per share 9/30/08 — $3.39 , 12/31/07 — $3.47)	**19,371,393**	19,817,823
Total liabilities and stockholders' equity (net assets)	**$ 30,534,391**	$ 32,722,151

See accompanying notes

RAND CAPITAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three Months and Nine Months Ended September 30, 2008 and 2007
(Unaudited)

	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Investment income:				
Interest from portfolio companies	$ 128,182	$ 140,766	$ 489,963	$ 474,962
Interest from other investments	19,900	41,563	73,004	133,853
Dividend and other investment income	272,877	177,281	707,458	586,291
Other income	3,084	5,993	14,251	26,637
	424,043	365,603	1,284,676	1,221,743
Operating expenses:				
Salaries	106,312	100,465	321,378	308,022
Employee benefits	23,221	21,338	93,932	86,727
Directors' fees	9,750	10,750	65,750	67,250
Professional fees	19,080	52,383	138,717	149,645
Stockholders and office operating	29,340	23,902	91,048	98,056
Insurance	12,400	10,920	31,500	32,760
Corporate development	12,548	17,886	47,713	50,351
Other operating	1,826	2,343	6,264	7,884
	214,477	239,987	796,302	800,695
Interest on SBA obligations	144,766	125,766	396,297	377,297
Total expenses	359,243	365,753	1,192,599	1,177,992
Investment gain (loss) before income taxes	64,800	(150)	92,077	43,751
Current income tax expense	(87,183)	(36,082)	(608,807)	(217,447)
Deferred income tax benefit (expense)	106,710	(377,982)	617,376	12,151
Net investment gain (loss)	84,327	(414,214)	100,646	(161,545)
Realized and unrealized (loss) gain on investments:				
Net gain on sales and dispositions	—	555,000	—	516,204
Unrealized appreciation on investments:				
Beginning of period	12,943,146	9,735,146	13,137,846	9,616,025
End of period	12,145,146	8,822,146	12,145,146	8,822,146
Change in unrealized appreciation before income taxes	(798,000)	(913,000)	(992,700)	(793,879)
Deferred income tax (benefit)	(376,290)	(421,115)	(445,624)	(377,529)
Net decrease in unrealized appreciation	(421,710)	(491,885)	(547,076)	(416,350)
Net realized and unrealized (loss) gain on investments	(421,710)	63,115	(547,076)	99,854
Net decrease in net assets from operations	$ (337,383)	$ (351,099)	$ (446,430)	$ (61,691)
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	$ (0.06)	$ (0.06)	$ (0.08)	$ (0.01)

See accompanying notes

RAND CAPITAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2008 and 2007
(Unaudited)

	September 30, 2008	September 30, 2007
Cash flows from operating activities:		
Net decrease in net assets from operations	$ (446,430)	$ (61,691)
Adjustments to reconcile net decrease in net assets to net cash used in operating activities:		
Depreciation and amortization	43,587	25,487
Original issue discount accretion	—	(62,333)
Decrease in unrealized appreciation of investments	992,700	793,879
Deferred tax benefit	(1,063,000)	(389,547)
Net realized loss on portfolio investments	—	(516,204)
Non-cash conversion of debenture interest	(70,717)	(50,000)
Changes in operating assets and liabilities:		
Increase in interest receivable	(277,391)	(85,013)
Increase in prepaid income taxes	—	(207,130)
Decrease (increase) in other assets	683,029	(59,244)
Decrease in income taxes payable	(464,986)	(410,575)
Decrease in accounts payable and accrued expenses	(188,387)	(230,833)
Decrease in deferred revenue	(24,956)	(24,635)
Total adjustments	(370,123)	(1,216,148)
Net cash used in operating activities	(816,552)	(1,277,839)
Cash flows from investing activities:		
Investments originated	(689,990)	(1,030,010)
Proceeds from sale of portfolio investments	—	255,440
Proceeds from loan repayments	697,433	1,885,414
Capital expenditures	(1,866)	(1,350)
Net cash provided by investing activities	5,577	1,109,494
Net decrease in cash and cash equivalents	(810,975)	(168,345)
Cash and cash equivalents:		
Beginning of period	4,396,595	4,299,852
End of period	$ 3,585,620	$ 4,131,507

See accompanying notes

RAND CAPITAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
For the Three and Nine Months Ended September 30, 2008 and 2007
(Unaudited)

	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Net assets at beginning of period	$ 19,708,776	$ 17,388,066	$ 19,817,823	$ 16,782,405
Cumulative effect adjustment for uncertain tax positions – FIN 48	—	—	—	316,253
Net investment gain (loss)	84,327	(414,214)	100,646	(161,545)
Net realized gain on investments	—	555,000	—	516,204
Net change in unrealized appreciation On investments	(421,710)	(491,885)	(547,076)	(416,350)
Net decrease in net assets from operations	(337,383)	(351,099)	(446,430)	(61,691)
Net assets at end of period	**$ 19,371,393**	**$ 17,036,967**	**$ 19,371,393**	**$ 17,036,967**

See accompanying notes

RAND CAPITAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS
September 30, 2008
(Unaudited)

Company and Business	Type of Investment	(b) Date Acquired	(c) Equity	Cost	(d) Value	Per Share of Rand
Adampluseve, Inc. (dba Adam) (g) New York, NY. Luxury sports wear company for men and women. www.shopadam.com	Warrants to purchase 1,715 Series A convertible preferred shares.	7/14/06	2%	$ 68,000	$ 133,341	.02
APF Group, Inc. (e)(g) Yonkers, 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	$566,504 consolidated senior subordinated note at 8% due June 30, 2011. Warrants to purchase 10.2941 shares of common stock.	7/8/04	6%	595,436	595,436	.10
Associates Interactive, LLC (e)(g) Buffalo, NY. Provider of training content and certifications used to train retail sales associates. www.associatesinteractive.com	$247,813 promissory note at 8% due December 19, 2012. Investor units totaling 21.88% of company.	10/15/07	22%	250,000	250,000	.04
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 7.5%. Redeemable January 31, 2010. 5% common membership interest.	1/30/04	5%	1,000,000	1,227,000	.21
EmergingMed.com, Inc. (g) New York, NY. Cancer clinical trial matching and referral service. www.emergingmed.com	$500,000 senior subordinated note at 10% due December 19, 2010. Warrants for 5.5% of common stock.	12/19/05	5%	500,000	500,000	.09
Gemcor II, LLC (e)(g)(h) West Seneca, NY. Designs and sells automatic riveting machines used in the assembly of aircraft components. www.gemcor.com	$250,000 subordinated note at 8% due June 28, 2010 with warrant to purchase 6.25 membership units. 25 membership units.	6/28/04	31%	619,232	4,119,232	.72
Golden Goal LLC (g) Fort Ann, NY. Youth soccer and lacrosse tournament park. www.goldengoalpark.com	191,811 Class C units at 4%.	12/10/07	6%	637,414	637,414	.11
G-TEC Natural Gas Systems Buffalo, NY. Manufactures and distributes systems that allow natural gas to be used as an alternative fuel to gases. www.gas-tec.com	28.925% Class A membership interest. 8% cumulative dividend.	8/31/99	29%	400,000	198,000	.04
Innov-X Systems, Inc. (g) Woburn, MA. Manufactures portable x-ray fluorescence (XRF) analyzers used in metals/alloy analysis. www.innovxsys.com	2,642 Series A convertible preferred stock. Warrants for 21,596 common shares. 8% cumulative dividend.	9/27/04	9%	1,000,000	8,761,700	1.53
Kionix, Inc. Ithaca, NY. Develops innovative MEMS based technology applications. www.kionix.com	30,241 shares Series B preferred stock. 696,296 shares Series C preferred stock. **(g)** 2,862,091 shares Series A preferred stock. 714,285 shares Series B preferred stock.	5/17/02	2%	1,506,043	1,221,567	.21

RAND CAPITAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS
September 30, 2008 (Continued)
(Unaudited)

Company and Business	Type of Investment	(b) Date Acquired	(c) Equity	Cost	(d) Value	Per Share of Rand
Mezmeriz, Inc. (g) Ithaca, NY. Developer of micro mirror technology that replaces silicon with carbon fibers in micro-electronic mechanical systems (MEMS), which enables a new generation of high definition displays. www.mezmeriz.com	$100,000 convertible note at 9% due January 9, 2010.	1/9/08	—	$ 100,000	$ 100,000	.02
Niagara Dispensing Technologies, Inc. (e) Amherst, NY. Beverage dispensing technology development and products manufacturer, specializing in rapid pour beer dispensing systems for high volume stadium and concession operations. www.exactpour.com	202,081 Series B preferred stock. **(g)** 463,691 Series A preferred stock. 518,752 Series B preferred stock.	3/8/06	14%	1,281,783	1,170,783	.20
Photonic Products Group, Inc (OTC:PHPG.OB) (a)(i) Northvale, NJ. Develops and manufactures products for laser photonics industry. www.inrad.com	66,000 shares common stock.	10/31/00	<1%	165,000	104,000	.02
RAMSCO (e)(g) Albany, NY. Distributor of water, sanitary, storm sewer and specialty construction materials to the contractor, highway and municipal construction markets. www.ramsco.com	$300,000 promissory notes at 9% due October 20, 2010. Warrants for 5.99% of common stock.	11/19/02	6%	300,000	300,000	.05
Rocket Broadband Networks, Inc. (g) Amherst, NY. Communications service provider of satellite TV, broadband internet and VoIP digital phone targeting multiple dwelling units. www.rocketbroadband.com	285,829 Series A preferred shares. 247,998 Series A-1 preferred shares. 996,441 Series B preferred shares $15,000 Bridge Note at 11.25% due March 10, 2009.	12/20/05	11%	695,000	0	.00
Somerset Gas Transmission Company, LLC (e) Columbus, OH. Natural gas transportation company. www.somersetgas.com	26.5337 units.	7/10/02	2%	719,097	786,748	.14
Synacor Inc. (g) Buffalo, NY. Develops provisioning platforms for aggregation and delivery of content for broadband access providers. www.synacor.com	78,186 Series A preferred shares. 200,000 shares of Series B preferred stock. 80,126 Series C preferred shares. 299,146 common shares.	11/18/02	4%	1,349,479	4,168,001	.73
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-1 preferred shares.	12/11/92	4%	938,164	1,203,000	.21
WineIsIt.com, Corp. Williamsville, NY. Marketing company specializing in customer loyalty programs supporting the wine and spirit industry. www.wineisit.com	**(g)** $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. **(e)** $20,000 note at 18% due April 1, 2009.	12/18/02	2%	821,918	100,000	.02
Other Investments	Various			507,351	22,841	.00
	Total portfolio					

investments	$13,453,917	$23,599,063	$ 4.48

RAND CAPITAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS
September 30, 2008 (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, 2008 restricted securities represented 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 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 Corporation holds an equity interest of less than one percent.

(d) The Corporation has adopted the SBA's valuation guidelines for SBIC's which describes the policies and procedures used in valuing investments. Under the valuation policy of the Corporation, unrestricted securities are valued at the closing price for publicly held securities for the last three days of the month. Securities, including securities of publicly-held companies, which are subject to restrictions on resale, are valued at fair value as determined by the Board of Directors. Fair value is considered to be the amount which the Corporation may reasonably expect to receive for portfolio securities when sold on the valuation date. Valuations as of any particular date, however, are not necessarily indicative of amounts which may ultimately be realized as a result of future sales or other dispositions of securities and these favorable or unfavorable differences could be material. Among the factors considered by the Board of Directors in determining the fair value of restricted securities are the financial condition and operating results, projected operations, and other analytical data relating to the investment. Also considered are the market prices for unrestricted securities of the same class (if applicable) and other matters which may have an impact on the value of the portfolio company.

(e) These investments are income producing. All other investments are non-income producing. Income producing investments have generated cash payments of interest or dividends within the last twelve months.

(f) Income Tax Information — As of September 30, 2008, the aggregate cost of investment securities approximated $13.5 million. Net unrealized appreciation aggregated approximately $12.1 million, of which $14.7 million related to appreciated investment securities and $2.6 million related to depreciated investment securities.

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

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

(i) Publicly owned company.

Rand Capital Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
For the Nine Months Ended September 30, 2008 and 2007
(Unaudited)

Note 1. ORGANIZATION

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

The Corporation is listed on the NASDAQ Small Cap Market under the symbol "Rand".

Formation of SBIC Subsidiary

In January 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 under the Small Business Investment Act of 1958 (the "SBA Act"). 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 in August 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 includes 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. This fee represented 1% of the face amount of the leverage reserved under the commitment and was a partial prepayment of the SBA's nonrefundable 3% leverage fee. As of September 30, 2008, Rand SBIC had drawn $8,100,000 in leverage from the SBA. This leverage commitment expired on September 30, 2008 and $1,900,000 of the remaining approved leverage expired. The unamortized prepaid leverage fee of $19,000 was expensed at September 30, 2008. The Corporation may reapply to the SBA for the remaining $1,900,000 in leverage at a future date.

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. The Corporation expects to use Rand SBIC as its primary investment vehicle.

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.

On May 28, 2002, the Corporation filed an 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 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 for Rand SBIC under Section 13(a) of the Exchange Act. In general, the Corporation's applications sought 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;

- 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.

Since the filing of its original Application for Exemption, Rand has maintained discussions with the staff of the Division of Investment Management of the SEC concerning Rand's application. The principal substantive issue in these discussions has been the structure of Rand SBIC as a limited partnership. Rand SBIC must meet the requirements of the SBA for licensed SBIC's, and at the same time Rand SBIC must meet the requirements of the SEC that apply to BDCs.

Rand formed Rand 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, and Rand formed Rand SBIC 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 is Rand Management, a limited liability company whose managers are the principal executive officers of Rand.

Under the rules and interpretations of the SEC applicable to BDCs, 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, and all of the persons who serve on the board of directors must be natural persons and a majority of them must not be "interested persons" of the BDC. Since the managers of Rand Management are the principal executive officers of Rand, and since both Rand Management and Rand SBIC are wholly owned by Rand, Rand believes that the Board of Directors of Rand is the functional equivalent of a board of directors for both Rand Management and Rand SBIC. Nevertheless, the staff of the Division of Investment Management of the SEC has expressed the view that if Rand SBIC is to be operated as a limited partnership BDC in compliance with the 1940 Act, then the organizational documents of Rand SBIC must specifically provide that it will have a board of directors consisting of natural persons, a majority of whom are not "interested persons."

In more recent discussions between Rand and the SBA, the SBA indicated that if Rand SBIC is reorganized as a corporation whose directors are directors of Rand, it will continue to permit Rand SBIC to be licensed as an SBIC. Accordingly, Rand intends to reorganize Rand SBIC as a wholly owned corporate subsidiary of Rand whose board of directors will be comprised of directors of Rand, a majority of whom will not be "interested persons" of Rand or Rand SBIC.

In July 2008 Rand was notified by the SBA that it has reviewed, commented and provided preliminary approval of the form, structure and material terms of the proposed merger agreements and organizational documents for the restructuring, and has now requested Rand to submit the final form of such documents to SBA, along with certain additional forms and background exhibits that are typically filed by other new SBIC license applicants.

The SBA has also informed Rand that following the SBA's satisfactory receipt of such documentation, the SBA is expected to provide conditional approval of Rand's reorganization. Following this conditional approval, Rand will provide the corporate approvals for the reorganization and file documentation for completion of the merger which, by its terms, will be become effective at the close of business on December 31, 2008 if the SBA has licensed the new corporate SBIC subsidiary effective as of that date. The executed documents effective as of December 31, 2008 will then be submitted to SBA who will review them and issue final approval.

Promptly after receipt of the SBA's conditional approval, Rand intends to submit draft exemption application documents to the SEC related to the necessary exemptions under the Investment Company Act on behalf of itself and the new corporate SBIC subsidiary, which it will file in final form immediately after December 31, 2008, and which it will hope to have approved by the SEC as soon as possible thereafter.

Rand does not expect that either the reorganization process or the subsequent operations of Rand SBIC as a corporation will result in any material change in the operations of Rand or Rand SBIC.

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 results for the interim period ending September 30, 2008 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, 2007. 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-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, 2007
Form 10-Q	Quarterly Report on Form 10-Q for the quarters ended June 30, 2008, March 31, 2008 and September 30, 2007
Form N-23C-1	Reports by closed-end investment companies of purchases of their own securities

The Corporation's website is 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 SEC are available through the Corporation's website.

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.

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 and Dividend 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. Dividend income is recognized on the accrual basis.

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.

Other Assets — Other assets include escrows receivable, deferred financing costs, property and equipment (net of accumulated depreciation) and prepaid expenses. Other assets amounted to $425,316 and $1,150,065 at September 30, 2008 and December 31, 2007, respectively. During the nine months ended September 30, 2008, the Corporation received cash of $711,249 on an escrow receivable.

Original Issue Discount — Investments may create original issue discount or OID income. This situation arises when the Corporation purchases a warrant and a note from a portfolio company simultaneously. The transaction requires an allocation of a portion of the purchase price to the warrant and reduces the note or debt instrument by an equal amount in the form of a note discount or OID. The note is then reported net of the OID, which is accreted into interest income over the life of the loan. The Corporation had no OID for the nine months ending September 30, 2008 and $62,333 in OID income for the nine months ending September 30, 2007.

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 $39,987 and $20,987 for the nine months ended September 30, 2008 and 2007.

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, 2008 and 2007 amounted to $1,073,793 and $842,960, respectively. Interest paid during the nine months ended September 30, 2008 and 2007 amounted to $473,575 and $468,184, respectively. During the nine months ended September 30, 2008 and 2007, the Corporation converted $70,717 and $50,000 of interest receivable into equity investments.

Accounting Estimates — The preparation of financial statements in conformity with 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, 2008 and December 31, 2007, 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 285,947 of the Corporation's outstanding stock on the open market at prices that are no greater than current net asset value through October 23, 2009. During 2003 and 2002 the Corporation purchased 44,100 shares of its stock for a total cost of $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, 2008 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.

In 2002, the Corporation established a non-equity incentive Profit Sharing Plan for its executive officers in accordance with Section 57(n) of the Investment Company Act of 1940 (the "1940 Act"). The profit sharing plan provides for incentive compensation to the named executive officers based on a stated percentage of net realized capital gains and after reduction for realized and unrealized losses on the Rand SBIC investment portfolio. Any profit sharing paid can not exceed 20% of the Corporation's net income, as defined. There have been no accruals for, or contributions to, the Profit Sharing Plan since its inception in 2002.

***Income Taxes* —** Effective January 1, 2007, the Corporation adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109" ("FIN 48"). FIN 48 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. FIN 48 also provides guidance on measurement, recognition of tax benefits, classification, interim period accounting disclosure, and transition requirements in accounting for uncertain tax positions.

The cumulative effect of adopting FIN 48 for the quarter ended June 30, 2007 was to increase current taxes payable by $21,200 and reduce deferred tax liabilities by $316,253. As of January 1, 2007 the balance of accumulated net investment loss was decreased by $11,016, and the balance in net unrealized appreciation on investments was increased by $327,269. Upon adoption, the liability for income taxes associated with uncertain tax positions at January 1, 2007 was $21,200 which, if recognized, would have affected the Corporation's effective tax rate. The Corporation does not expect that the amounts of unrecognized tax positions will change significantly within the next 12 months. There were no material changes in liabilities for uncertain tax positions recorded in the first nine months of 2008.

It is the Corporation's policy to include interest and penalties related to income tax liabilities in income tax expense on the Statement of Operations. There was no accrued interest or penalties recorded in the Consolidated Statements of Financial Position at December 31, 2007 and September 30, 2008.

The Corporation is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ending December 31, 2005 through 2007. The Corporation's state income tax returns are open to audit under the statute of limitations for the years ended December 31, 2005 through 2007.

***Concentration of Credit Risk* —** At September 30, 2008 Innov-X Systems, Inc., Synacor Inc. and Gemcor II, LLC represent 34%,16% and 16%, respectively, of the fair value of the Corporation's investment portfolio.

Note 3. INVESTMENTS

Investments are stated at fair value as determined in good faith by the Board of Directors, as described in the Notes to Consolidated Schedule of Portfolio Investments. Certain investment valuations have been determined by the Board of Directors in the absence of readily ascertainable fair values. The estimated valuations are not necessarily indicative of amounts which may ultimately be realized as a result of future sales or other dispositions of securities, and these favorable or unfavorable differences could be material.

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

In 2006, the FASB issued SFAS No. 157 ("SFAS 157"), "Fair Value Measurements," which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. However, on December 14, 2007, the FASB issued proposed FASB Staff Position (FSP) FAS 157-b which would delay the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). This proposed FSP partially defers the effective date of Statement 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. The Corporation had adopted the enhanced disclosure provisions of SFAS 157 in the first quarter of 2008 since its investments are recognized at fair value in its financial statements. The following is a summary of the Corporation's SFAS No. 157 findings.

Assets Measured at Fair Value on a Recurring Basis

		Fair Value Measurements at Reported Date Using		
Description	**September 30, 2008**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Other Significant Unobservable Inputs (Level 3)**
Venture Capital Investments	$ 25,599,063	$ 104,000	$ 0	$ 25,495,063

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

		Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Venture Capital Investments
Beginning Balance, December 31, 2007, of Level 3 Assets		**$ 26,265,790**
Realized Gains or Losses included in net change in net assets from operations		—
Unrealized gains or losses included in net change in net assets from operations		
Rocket Broadband Networks, Inc.	$ (695,000)	
Niagara Dispensing Technologies, Inc.	$ (110,000)	
BioWorks	$ (28,000)	$ (834,000)
Purchases of Securities		
Mezmeriz, Inc.	$ 100,000	
Niagara Dispensing Technologies, Inc.	$ 374,990	
Associates Interactive, LLC	$ 200,000	
Niagara Dispensing Technologies, Inc interest conversion	$ 41,783	
APF Group, Inc.	$ 28,934	
Rocket Broadband Networks, Inc.	$ 15,000	$ 760,707
Repayments of Securities		
New Monarch Machine Tool, Inc.	$ (520,147)	
Contract Staffing	$ (131,065)	
Gemcor II, LLC	$ (46,222)	$ (697,434)
Transfers in or out of Level 3		—
Ending Balance, September 30, 2008, of Level 3 Assets		**$ 25,495,063**
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.		**$ (834,000)**
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		$ 0
Change in unrealized gains or losses relating to assets still held at reporting date		**$ (834,000)**

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.

Our Structure

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

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

Rand is restructuring Rand SBIC as a wholly-owned corporate subsidiary, a process that it expects to be completed by the close of business on December 31, 2008. See Note 1 to "Notes to Consolidated Financial Statements for the Nine Months Ended September 30, 2008 and 2007," which are incorporated herein by reference.

Business Developments

The financial markets have experienced extreme volatility since late 2007 due to uncertainty and disruption in large segments of the credit markets. During the third quarter of 2008, the financial markets deteriorated even further causing significant distress on the functioning of the markets and unprecedented strain on the availability of liquidity in the short-term debt market. This may continue to have far reaching negative consequences across many industries.

These and other economic factors may impact the operations and future financial performance of the Corporation in the following ways:

- The ability of the Corporation’s portfolio companies to obtain necessary credit financing for their operations may be impacted
- Increased difficulty for portfolio companies to obtain equity financing to continue to fund their operations
- The slow down in capital goods and industry spending may impact the goods and services that the portfolio companies sell
- The ability for the Corporation to exit its investments may become more difficult as access to public markets and the merger and acquisition industry become impaired
- The Corporation’s diversified portfolio of investments may experience unexpected growth despite these market uncertainties based on their own capitalization, industry niche, and current market acceptance for their products/services.
- The Corporation’s SBA leverage commitment expired September 30, 2008, and the SBA’s interest in renewing Rand’s $1.9 million in undrawn leverage may be adversely affected by the status of the financial markets

During the third quarter of 2008 the Corporation’s portfolio may have been affected by these financial market uncertainties as evidenced by Rocket Broadband seeking additional financing, the reduction in value of Photonic’s securities based on the closing stock prices, and the withdrawal of Synacor’s S-1 Initial Public Offering filing.

While the effect of these market uncertainties on the Corporation’s portfolio cannot be determined, many of the Corporation’s portfolio companies have begun to develop action plans necessary to help align their resources (staffing, operating expenses and remaining capital) with their business needs to create more competitive companies and increase their chances of future success.

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 December 31, 2007 Form 10-K in Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations”.

Overview and Financial Condition

	9/30/08	12/31/07	Decrease	% Decrease
Total assets	$30,534,391	$32,722,151	$ (2,187,760)	(6.7%)
Total liabilities	11,162,998	12,904,328	(1,741,330)	(13.5%)
Net assets	$19,371,393	$19,817,823	$ (446,430)	(2.3%)

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.

	9/30/08	12/31/07	Increase (Decrease)	% Increase (Decrease)
Investments, at cost	$13,453,917	$13,390,644	$ 63,273	.05%
Unrealized appreciation, net	12,145,146	13,137,846	(992,700)	(7.6%)
Investments at fair value	$25,599,063	$26,528,490	$ (929,427)	(3.5%)

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

	Amount
New Investments:	
Niagara Dispensing Technologies, Inc. (Niagara Dispensing)	$ 374,990
Associates Interactive	200,000
Mezmeriz, Inc.	100,000
Rocket Broadband Networks, Inc. (Rocket Broadband)	15,000
Total of investments made during the nine months ended September 30, 2008	$ 689,990
Changes to Investments:	
Niagara Dispensing interest conversion	$ 41,783
APF Group, Inc. payment in kind conversion	$ 28,934
Total of changes to investments made during the nine months ended September 30, 2008	$ 70,717
Investment Repayments:	
New Monarch Machine Tool, Inc. (Monarch)	$ (520,147)
Contract Staffing	(131,065)
Gemcor II, LLC (Gemcor)	(46,222)
Total changes to investments and investment repayments during the nine months ended September 30, 2008	$ (697,434)
Total change in investment balance, at cost, during the nine months ended September 30, 2008	$ 63,273

Net asset value (NAV) per share was $3.39/share at September 30, 2008 versus $3.47/share at December 31, 2007.

The Corporation's total investments, whose fair value have been estimated by the Board of Directors, approximated 132% and 134% of net assets at September 30, 2008 and December 31, 2007.

Cash and cash equivalents approximated 19% of net assets at September 30, 2008 compared to 22% at December 31, 2007.

Results of Operations

Investment Income

The Corporation's investment objective is to achieve long-term capital appreciation on its equity investments while maintaining 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. The sources and amounts of interest and dividend income will fluctuate from period to period based on, among other things, the Corporation's balances and composition in its portfolio investments versus its cash balances. The investment income is impacted by the Corporation's ability to fund investments that fit its strategic profile and the level of liquidity events within its investment portfolio which can not be predicted with any certainty.

Comparison of the nine months ended September 30, 2008 to the nine months ended September 30, 2007

	September 30, 2008	September 30, 2007	Increase (Decrease)	% Increase (Decrease)
Interest from portfolio companies	$ 489,963	$ 474,962	$ 15,001	3.2%
Interest from other investments	73,004	133,853	(60,849)	(45.5%)
Dividend and other investment income	707,458	586,291	121,167	20.7%
Other income	14,251	26,637	(12,386)	(46.5%)
Total investment income	$ 1,284,676	$ 1,221,743	$ 62,933	5.2%

Interest from portfolio companies — The portfolio interest income increase is due to a non recurring item in portfolio interest revenue for the nine months ended September 30, 2008. Interest of $43,067 was recognized on the escrow from Innov-X Systems, Inc. (Innov-X). The Innov-X escrow of $711,249 and the earned interest of $43,067 were received in the second quarter of 2008.

The Corporation began to recognize dividends on the Series A Convertible Preferred Stock of Innov-X during the nine months ended September 30, 2008. These dividends resulted from the re-negotiation of the preferred stock terms and provided for an 8% cumulative deferred return while the investment is outstanding. The amount recognized during the nine months ended September 30, 2008 was $142,411. This dividend is classified as portfolio interest income and this revenue classification is consistent with other interest bearing instruments in the portfolio.

Without the two aforementioned items interest from portfolio companies for the nine months ended September 30, 2008 would have decreased ($170,477) or (35.9%) from the nine months ended September 30, 2007. The decrease is a result of two portfolio companies (Monarch and RAMSCO) repaying their debt instruments during the last twelve months and one portfolio company (Niagara Dispensing) converting its debenture instrument into equity during 2008.

For the nine months ended September 30, 2007 the Corporation recognized Original Issue Discount (OID) income on its Adampluseve, Inc (Adampluseve) investment. Adampluseve paid off its debenture instrument early and therefore the remaining $62,333 in unamortized OID was accreted into income during the nine months ended September 30, 2007. OID is created when the Corporation invests in a debenture instrument that has a warrant attached to the instrument. This requires an allocation of a portion of the investment cost to the warrant and reduces the debt instrument by an equal amount in the form of a note discount or OID. The note is then reported net of the discount and the discount is accreted into income over the life of the debenture instrument.

Based on a review of the portfolio companies' performance and the circumstances surrounding the investments, the Corporation ceased accruing interest income on the following investment instruments:

Company	Interest Rate	Investment Cost	Year that Interest Accrual Ceased
G-Tec	8%	$ 400,000	2004
UStec	5%	100,000	2006
WineIsIt.com	10%	801,918	2005

Interest from other investments — The decrease in interest income is primarily due to lower cash balances, coupled with lower interest rates earned by the Corporation on its cash balances. The cash balance at September 30, 2008 and 2007 was $3,585,620 and $4,131,507, respectively.

Dividend and other investment income — Dividend income is comprised of distributions from Limited Liability Companies (LLC's) in which the Corporation has invested. The Corporation's investment agreements with certain LLC's 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, 2008 consisted of distributions from Gemcor for $687,620 and Carolina Skiff LLC (Carolina Skiff) for $19,838.

Dividend income for the nine months ended September 30, 2007 consisted of distributions from Gemcor for $494,807, Carolina Skiff for $39,069, Somerset Gas Transmission Company, LLC (Somerset) for $36,789, Topps Meat Company LLC (Topps) for $14,944 and Vanguard Modular Building Systems (Vanguard) for $682.

In the fourth quarter of 2007 Gemcor made a distribution in the amount of $877,600 due to a change in management estimates. This large fourth quarter 2007 distribution more than doubled the Dividend and Other investment income line item in the fourth quarter of 2007. The portfolio company does not expect any such unusual distributions in the current fiscal year.

Other income — Other income consists of the revenue associated with the amortization of financing fees charged to the portfolio companies upon successful closing of a 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 companies. These fees are amortized ratably over the life of the instrument associated with the fees. Upon the prepayment of a loan or debt security, any unamortized closing fees are recorded as income. 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 income associated with the amortization of financing fees was $6,250 and $24,636 for the nine months ended September 30, 2008 and 2007, respectively. The decrease is due to the fact that the Corporation has not charged any of its new portfolio companies financing fees in the last two years. The annualized financing fee income based on the existing portfolio will be approximately $8,300 in 2008.

The income associated with board attendance fees was $8,000 and $2,000 for the nine months ended September 30, 2008 and 2007, respectively.

Operating Expenses

Comparison of the nine months ended September 30, 2008 to the nine months ended September 30, 2007

	September 30, 2008	September 30, 2007	Increase	% Increase
Total Expenses	$ 1,192,599	$ 1,177,992	$ 14,607	1.2%

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, 2008 can be attributed to the 5%, or $19,000, increase in interest expense. This increase is due to the fact that the Corporation allowed the remaining SBA approved leverage commitment of $1,900,000 to expire on September 30, 2008. It had prepaid a 1% fee on this leverage, or $19,000, which was charged to interest expense in the third quarter of 2008 due to the expiration of the leverage commitment.

Net Realized Gains and Losses on Investments

There were no realized gains or losses during the nine months ended September 30, 2008.

During the nine months ended September 30, 2007, the Corporation recognized a net realized gain of $516,204, comprised of a gain on the sale of Ramsco warrants for $555,000, a loss on USTec of ($39,236) and a minor gain of $440 on a public security. USTec satisfied its $350,000 debenture instrument obligation by a payment in the amount of $310,764 which gave rise to the realized loss.

Net Change in Unrealized Appreciation of Investments

The Corporation recorded a net decrease in unrealized appreciation on investments before income taxes of ($992,700) during the nine months ended September 30, 2008, as compared to a decrease of ($793,879) for the nine months ended September 30, 2007. The decrease of ($992,700) in unrealized appreciation on investments is due to the following valuation changes made by the Corporation:

	September 30, 2008
Rocket Broadband	$ (695,000)
Photonic Products Group, Inc (Photonic)	(158,700)
Niagara Dispensing	(111,000)
Bioworks	(28,000)
Total change in net unrealized appreciation during the nine months ended September 30, 2008	$ (992,700)

Rocket Broadband is currently seeking additional financing to support and maintain its business operations as it continues efforts to execute its' original business plan. While Rocket Broadband has been able to maintain a strong base of customers, it is experiencing a shortage of cash due in part to a longer than expected sales cycle. This has resulted in a deterioration of Rocket Broadband's financial position. Based on a review of the financial restructuring necessary to maintain the portfolio company's operations, the Corporation has recognized unrealized depreciation on its investment in Rocket Broadband and valued its investment at zero. The Corporation's valuation, if any, may be adjusted as it obtains more information about the ultimate structure and amount of the financing that Rocket Broadband is able to secure.

The Corporation converted its debt instruments in Niagara Dispensing to equity during the second quarter of 2008. Therefore it revalued its investment in Niagara Dispensing based on the valuation of equity shares at conversion.

The Corporation's investment in Bioworks was valued at zero as of September 30, 2008 based on an analysis of the liquidation preferences of senior securities in the portfolio company.

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

Synacor Inc. filed an S-1 registration statement on August 2, 2007 with the SEC and also filed an amended S-1 in April 2008. An S-1 is a registration document that a company files with the SEC regarding the proposed sale of its securities to the public. In October 2008 Synacor withdrew its S-1 plans for a public offering in a notification filed with the SEC. No valuation change has occurred with respect to these Synacor filings.

The Corporation recorded a net decrease in unrealized appreciation on investments of $(793,879) during the nine months ended September 30, 2007. The decrease in unrealized appreciation on investments is due to the following valuation changes made by the Corporation:

	September 30, 2007
Topps Meat Company LLC (Topps) valuation change	$ (927,000)
Adampluseve warrants	65,341
Reclass USTec to realized loss	39,000
Photonic valuation to market	28,780
Total change in net unrealized appreciation during the nine months ended September 30, 2007	$ (793,879)

The Topps investment was revalued to zero during the third quarter of 2007 when the plant that produces its frozen meat products was forced to recall its frozen hamburger products. Topps announced on October 5, 2007 that because of the economic impact of the recall it would close its Elizabeth, NJ plant.

The Corporation recognized appreciation on its remaining equity investment in Adampluseve which participated in a round of financing in January 2007 that enabled it to pay off the Corporation's debenture instrument prior to the maturity date. The Corporation still holds warrants in Adampluseve, the value of which was adjusted based on the pricing of this round of financing.

All of these value adjustments are consistent with 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 in net assets from operations" on its consolidated statements of operations. For the nine months ended September 30, 2008, the net decrease in net assets from operations was ($446,430) as compared to a net decrease in net assets from operations of ($61,691) for the same period in 2007.

The decrease for the period ending September 30, 2008 can be attributed to the decrease in unrealized appreciation, net of tax, of ($547,076) in the current period.

Liquidity and Capital Resources

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. The equity features of 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.

As of September 30, 2008 the Corporation's total liquidity, consisting of cash and cash equivalents, totaled $3,585,620.

In 2003 the Corporation paid $100,000 to the SBA to reserve its approved $10,000,000 leverage. This leverage commitment expired on September 30, 2008 and the Corporation has drawn down $8,100,000 of this leverage as of September 30, 2008. These outstanding SBA borrowings have balloon maturities beginning in 2014.

Management believes that the cash and cash equivalents at September 30, 2008, coupled with the anticipated interest and dividend payments from its portfolio investments, will provide the Corporation with the liquidity necessary to fund operations and new investments over the next six to twelve months. The Corporation expects its cash flow related to investing activities will continue to fluctuate based on its success in originating investments and its ability to realize gains on liquidation of investments and, depending on investment activity, the Corporation may re-apply for the expired $1,900,000 of leverage in 2009 or beyond.

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 equity interests in the portfolio are 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 is 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 Statement of Operations as "Net change in unrealized appreciation."

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, 2008 the Corporation did not have any off-balance sheet investments or hedging investments.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. Management, including the participation of the Corporation's principal executive officer and principal financial officer, has evaluated the effectiveness of the Corporation's 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 period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, the principal executive officer and principal financial officer have concluded that as of that date, disclosure controls and procedures that were designed to ensure that information required to be disclosed in reports that the Corporation files or submits under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in applicable SEC rules and forms and were effective.

Changes in Internal Control Over Financial Reporting. There have been no significant changes in internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or 15d-15 that occurred during the last fiscal quarter that materially affected, or is reasonably likely to materially affect, 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 2007 Annual Report on Form 10-K for the year ended December 31, 2007. These Risk Factors remain applicable from our 2007 report on Form 10-K with the exception of the following additions:

The Corporation needs to obtain exemptive relief for the SEC from certain provisions of the Investment Company Act and the Securities Exchange Act, and our ability to obtain the necessary relief is limited by the Corporation’s need to comply with the requirements of the Small Business Administration.

The Investment Company Act prohibits certain related party transactions that might occur among Rand and its subsidiaries, Rand SBIC and Rand Management, and their affiliates, unless they have obtained an exemptive order from the SEC that would permit the transactions. Rand and its subsidiaries have filed an Exemption Application with the SEC that requested exemptions from various relevant provisions. The exemptions would allow Rand and these wholly-owned subsidiaries to operate as one company for purposes of certain related party restrictions under the Investment Company Act. Specifically, the application requests relief that would permit:

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

Since the time of the initial filing of the exemption application in 2002, Rand has had continuing discussions with the staff of the SEC regarding the nature of the exemptions required, and with the SBA regarding its approval of the restructuring Rand SBIC and Rand Management as a single corporate subsidiary of Rand, which would significantly ease the burdens of compliance with the SEC’s requirements. While the SBA has indicated informally that it will permit Rand to engage in the restructuring, the SBA has considered the matter over a very extended period of time, and no assurance can be given about whether or when the SBA will give formal approval. If an SBA approved restructuring can be made in a timely manner, Rand believes that the exemptive orders that it will require from the SEC are substantially similar to those that the SEC has granted recently in similar situations. Nevertheless, no assurance can be given that Rand and its subsidiaries will be able to obtain the necessary exemptive orders or that the SEC will not take action against them for operations they have engaged in or may engage in the future before appropriate exemptive orders are obtained.

The Corporation may be negatively affected by adverse changes in the general economic conditions of the domestic and global markets

The continued economic crisis and related turmoil in the global financial markets has had and may continue to have an impact on the Corporation's portfolio companies and the overall financial condition of the Corporation. If the current market conditions continue to deteriorate, the Corporation may suffer further losses on its investment portfolio, which could have a material adverse effect on Net Asset Value.

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 Formation of Rand Capital SBIC, L.P. — incorporated by reference to Exhibit 10.4 to the Corporation's Form10-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 — furnished herewith
(32.2)	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 — Rand Capital SBIC, L.P. — 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 10, 2008

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

Table of Contents

EXHIBIT INDEX

Exhibit Number	Description
(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
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(32.2)	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 — Rand Capital SBIC, L.P. — furnished herewith

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 10, 2008

/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 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 10, 2008

/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, 2008 (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 10, 2008

/s/ Allen F. Grum
Allen F. Grum, President
(Chief Executive Officer)

Dated: November 10, 2008

/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, 2008 (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 10, 2008

/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 10, 2008

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