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

FORM 10-Q

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

For the quarter ended March 31, 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: 001-08205

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 May 5, 2008 there were 5,718,934 shares of the registrant's common stock outstanding.

RAND CAPITAL CORPORATION
TABLE OF CONTENTS FOR FORM 10-Q

PART I.
FINANCIAL INFORMATION

Item 1. Financial Statements and Supplementary Data

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

	March 31, 2008 (Unaudited)	December 31, 2007
ASSETS		
Investments at fair value (identified cost: 3/31/08 — $13,367,135; 12/31/07 — $13,390,644)	**$ 26,375,281**	$26,528,490
Cash and cash equivalents	**3,206,341**	4,396,595
Interest receivable (net of allowance $122,000)	**858,550**	647,001
Prepaid income taxes	**43,157**	—
Other assets	**1,280,749**	1,150,065
Total assets	**$ 31,764,078**	$32,722,151
LIABILITIES AND STOCKHOLDERS' EQUITY (NET ASSETS)		
Liabilities:		
Debentures guaranteed by the SBA	**$ 8,100,000**	$ 8,100,000
Deferred tax liability	**3,756,000**	3,955,000
Income taxes payable	**—**	474,465
Accounts payable and accrued expenses	**152,348**	321,210
Deferred revenue	**29,723**	53,653
Total liabilities	**12,038,071**	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)	**(3,887,900)**	(3,940,409)
Undistributed net realized gain on investments	**7,735,477**	7,796,289
Net unrealized appreciation on investments	**8,375,878**	8,459,391
Treasury stock, at cost, 44,100 shares	**(47,206)**	(47,206)
Net assets (per share 3/31/08 — $3.45 , 12/31/07 — $3.47)	**19,726,007**	19,817,823
Total liabilities and stockholders' equity (net assets)	**$ 31,764,078**	$32,722,151

RAND CAPITAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three Months Ended March 31, 2008 and 2007
(Unaudited)

	Three months ended March 31, 2008	Three months ended March 31, 2007
Investment income:		
Interest from portfolio companies	$ 251,764	$ 199,717
Interest from other investments	34,584	46,047
Dividend and other investment income	84,934	229,420
Other income	7,083	5,228
	378,365	480,412
Operating expenses:		
Salaries	108,384	106,970
Employee benefits	43,630	42,313
Directors' fees	11,750	12,250
Professional fees	60,290	31,678
Stockholders and office operating	24,508	32,413
Insurance	10,500	10,920
Corporate development	16,562	14,790
Other operating	1,978	2,479
	277,602	253,813
Interest on SBA obligations	125,766	125,766
Total expenses	403,368	379,579
Investment (loss) gain before income taxes	(25,003)	100,833
Current income tax expense	136,113	98,297
Deferred income tax benefit	(152,813)	(98,668)
Net investment (loss) gain	(8,303)	101,204
Realized and unrealized gain (loss) on investments:		
Net loss on sales and dispositions	—	(39,236)
Unrealized appreciation on investments:		
Beginning of period	13,137,846	9,616,025
End of period	13,008,146	9,725,646
Change in unrealized appreciation before income taxes	(129,700)	109,621
Deferred income tax (benefit) expense	(46,187)	40,121
Net (decrease) increase in unrealized appreciation	(83,513)	69,500
Net realized and unrealized (loss) gain on investments	(83,513)	30,264
Net (decrease) increase in net assets from operations	$ (91,816)	$ 131,468
Weighted average shares outstanding	5,718,934	5,718,934
Basic and diluted net (decrease) increase in net assets per share from operations	$ (0.02)	$ 0.02

See accompanying notes

RAND CAPITAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31, 2008 and 2007
(Unaudited)

	March 31, 2008	March 31, 2007
Cash flows from operating activities:		
Net (decrease) increase in net assets from operations	**$ (91,816)**	$ 131,468
Adjustments to reconcile net (decrease) increase in net assets to net cash used in operating activities:		
Depreciation and amortization	**8,195**	8,496
Original issue discount accretion	**—**	(62,333)
Decrease (increase) in unrealized appreciation of investments	**129,700**	(109,621)
Deferred tax benefit	**(199,000)**	(58,547)
Net realized loss on portfolio investments	**—**	39,236
Non-cash conversion of debenture interest	**—**	(40,000)
Changes in operating assets and liabilities:		
(Increase) decrease in interest receivable	**(211,549)**	3,381
Increase in other assets	**(137,689)**	(314,910)
Increase in prepaid income taxes	**(43,157)**	—
Decrease in income taxes payable	**(474,465)**	—
(Decrease) in accounts payable and accrued expenses	**(168,862)**	(644,886)
Decrease in deferred revenue	**(23,930)**	(5,228)
Total adjustments	**(1,120,757)**	(1,184,412)
Net cash used in operating activities	**(1,212,573)**	(1,052,944)
Cash flows from investing activities:		
Investments originated	**(524,990)**	—
Proceeds from loan repayments	**548,499**	970,015
Capital expenditures	**(1,190)**	(1,350)
Net cash provided by investing activities	**22,319**	968,665
Net decrease in cash and cash equivalents	**(1,190,254)**	(84,279)
Cash and cash equivalents:		
Beginning of period	**4,396,595**	4,299,852
End of period	**$ 3,206,341**	$ 4,215,573

See accompanying notes

Table of Contents

RAND CAPITAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
For the Three Months Ended March 31, 2008 and 2007
(Unaudited)

	Three months ended March 31, 2008	Three months ended March 31, 2007
Net assets at beginning of period	$ 19,817,823	$ 16,782,405
Cumulative effect adjustment for uncertain tax positions — FIN 48	—	316,253
Net investment (loss) gain	(8,303)	101,204
Net realized loss on investments	—	(39,236)
Net change in unrealized appreciation of investments	(83,513)	69,500
Net (decrease) increase in net assets from operations	(91,816)	447,721
Net assets at end of period	**$ 19,726,007**	**$ 17,230,126**

See accompanying notes

[Table of Contents](#)

RAND CAPITAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS
March 31, 2008
(Unaudited)

Company and Business	Type of Investment	(b) Date Acquired	(c) Equity	Cost	(d) Value	Per Share of Rand
Adampluseve, Inc. (g) New York, NY. Luxury sports wear company for men and women. www.adampluseve.com	Warrants to purchase 1,715 Series A convertible preferred shares.	7/14/06	3%	$ 68,000	$ 133,341	.02
APF Group, Inc. (e)(g) Mount Vernon, NY. Manufacturer of museum quality picture frames and framed mirrors for museums, art galleries, retail frame shops, upscale designers and prominent collectors. www.apfgroup.com	$566,504 consolidated senior subordinated note at 12.74% due December 30, 2010. Warrants to purchase 10.2941 shares of common stock.	7/8/04	6%	566,504	566,504	.10
Associates Interactive, LLC (e) (g) Buffalo, NY. Provider of training content and certifications used to train retail sales associates. www.associatesinteractive.com	$247,812.50 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	.22
Contract Staffing (e)(h) Buffalo, NY. PEO providing human resource administration for small businesses. www.contract-staffing.com	Preferred stock repurchase agreement through March 31, 2010 at 5%. 11 shares of common stock.	11/8/99	10%	117,815	117,815	.02
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%	650,350	4,150,350	.73
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	28.925% Class A membership interest. 8% cumulative	8/31/99	29%	400,000	198,000	.03

natural gas to be used as an alternative fuel to gases. www.gas-tec.com	dividend.					
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
March 31, 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
New Monarch Machine Tool, Inc. (e)(g)(h) Cortland, NY. Manufactures and services vertical/horizontal machining centers. www.monarchmt.com	22.84 shares of common stock.	9/24/03	15%	22,841	22,841	.00
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	$50,000 bridge note at 14% due March 7, 2009. **(g)** $500,000 senior subordinated note at 9% due March 7, 2011. $250,000 promissory note at 14% due July 10, 2008. $75,000 bridge note at 14% due December 10, 2008. $25,000 bridge note at 14% due January 9, 2009. $45,000 bridge note at 14% due January 17, 2009. $10,000 bridge note at 14% due February 4, 2009. $94,990 bridge note at 14% due February 14, 2009. 200 shares common stock. Contingent warrants.	3/8/06	4%	1,090,000	979,000	.17
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	272,000	.05
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 8% due October 20, 2010. Warrants for 5.99% of common stock.	11/19/02	6%	300,000	300,000	.05
Rocket Broadband Networks,	285,829 Series A	12/20/05	11%	680,000	680,000	.12

Inc. (g) Amherst, NY. Communications service provider of satellite TV, broadband internet and VoIP digital phone targeting multiple dwelling units. www.rocketbroadband.com	preferred shares. 247,998 Series A-1 preferred shares. 996,441 Series B preferred shares					
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

RAND CAPITAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS
March 31, 2008 (Continued)
(Unaudited)

Company and Business	Type of Investment	(b) Date Acquired	(c) Equity	Cost	(d) Value	Per Share of Rand
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			484,510	.00	.00
	Total portfolio investments			$13,367,135	$26,375,281	$ 4.61

RAND CAPITAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS
March 31, 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 March 31, 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. Restricted securities, including securities of publicly-held companies, which are subject to restrictions on resale, are valued at fair value as determined by the Board of Directors. Fair value is considered to be the amount which the Corporation may reasonably expect to receive for portfolio securities when sold on the valuation date. Valuations as of any particular date, however, are not necessarily indicative of amounts which may ultimately be realized as a result of future sales or other dispositions of securities and these favorable or unfavorable differences could be material. Among the factors considered by the Board of Directors in determining the fair value of restricted securities are the financial condition and operating results, projected operations, and other analytical data relating to the investment. Also considered are the market prices for unrestricted securities of the same class (if applicable) and other matters which may have an impact on the value of the portfolio company.

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

(f) Income Tax Information — As of March 31, 2008, the aggregate cost of investment securities approximated $13.4 million. Net unrealized appreciation aggregated approximately $13.0 million, of which $14.8 million related to appreciated investment securities and $1.8 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 Three Months Ended March 31, 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. 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. The leverage commitment expires on September 30, 2008. This fee was 1% of the face amount of the leverage reserved under the commitment and represents a partial prepayment of the SBA's nonrefundable 3% leverage fee. As of March 31, 2008, Rand SBIC had drawn $8,100,000 in leverage from the SBA.

SBA debentures are issued with 10-year maturities. Interest only is payable semi-annually until maturity. Ten-year SBA debentures may be prepaid with a penalty during the first 5 years, and then are pre-payable without penalty. Rand initially capitalized Rand SBIC with $5 million in regulatory capital. The Corporation expects to use Rand SBIC as its primary investment vehicle.

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

On May 28, 2002, the Corporation filed an Exemption Application with the 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 discussions between Rand and the SBA, the SBA has recently 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 is currently in negotiations with the SEC and the SBA concerning the reorganization of 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, and concerning the licensing of the new corporate subsidiary as an SBIC.

Rand currently expects that the appropriate approvals will be received from the SBA and that the reorganization will be completed in 2008. 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 SBIC. Once the reorganization is completed, Rand expects to make an appropriate amendment to its Exemption Application to the SEC, and it believes that it will receive exemptions necessary for its operation of Rand SBIC as a BDC.

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

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — In Management's opinion, the accompanying consolidated financial statements include all adjustments necessary for a fair presentation of the consolidated financial position, results of operations, and cash flows for the interim periods presented. Certain information and note disclosures normally included in audited annual financial statements prepared in accordance with 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 March 31, 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 September 30, 2007, June 30, 2007 and March 31, 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 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.

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 quarter ending March 31, 2008 and $62,333 in OID income for the quarter ending March 31, 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 $6,995 for the three months ended March 31, 2008, compared to $6,996 for the three months ended March 31, 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 three months ended March 31, 2008 and 2007 amounted to $653,735 and $508,222, respectively. Interest paid during the three months ended March 31, 2008 and 2007 amounted to $235,494 and $230,103, respectively. During the three months ended March 31, 2007, the Corporation converted $40,000 of interest receivable into equity investments. There were no equity conversions during the three months ended March 31, 2008.

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 March 31, 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 5% of the Corporation's outstanding stock on the open market through October 25, 2008. 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 March 31, 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 the Plan 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 March 31, 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 impact 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 has been no material changes in liabilities recorded for uncertain tax positions in the first quarter of 2008.

It is the Corporation's policy to include interest and penalties related to income tax liabilities in income tax expense. There was no accrued interest or penalties recorded in the Consolidated Balance Sheet at December 31, 2007 and March 31, 2008.

The Corporation is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ending December 31, 2004 through 2007. The Corporation's state income tax returns are open to audit under the statute of limitations for the years ended December 31, 2004 through 2007.

The prepaid income taxes balance at March 31, 2008 represents 2007 estimated tax payments that the Corporation estimates will be refundable when the final 2007 income taxes are filed.

Concentration of Credit Risk — At March 31, 2008 Innov-X Systems, Inc., Synacor Inc. and Gemcor II, LLC represent 33%,16% and 16%, respectively, of the fair value of the Corporation's investment portfolio.

Subsequent Events — Subsequent to the quarter end of March 31, 2007, the Corporation was repaid its escrow amount and accumulated interest by Innov-X Systems, Inc. in the amount of $754,318. In addition, the Corporation converted all of its debt instruments in Niagara Dispensing Technologies, Inc. into preferred equity securities.

Table of Contents

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 September 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 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	**March 31, 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	$ 26,375,281	$ 272,000	$ 0	$ 26,103,281

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		
BioWorks	($28,000)	
Niagara Dispensing Technologies, Inc.	($111,000)	($139,000)

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Venture Capital Investments			
Purchases of Securities				
Mezmeriz, Inc.	$	100,000		
Niagara Dispensing Technologies, Inc.	$	224,990		
Associates Interactive, LLC	$	200,000	$	524,990
Repayments of Securities				
New Monarch Machine Tool, Inc.		($520,147)		
Gemcor II, LLC		($15,102)		
Contract Staffing		($13,251)		($548,500)
Transfers in or out of Level 3				—
Other			$	1.00
Ending Balance, March 31, 2008, of Level 3 Assets			**$**	**26,103,281**
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.				**($139,000)**
Gains and losses (realized and unrealized) included in Net Increase (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				**($139,000)**

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.

Overview

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

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

Critical Accounting Policies

The Corporation prepares its 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".

Financial Condition

Overview:

	3/31/08	12/31/07	Decrease	% Decrease
Total assets	$31,764,078	$32,722,151	($958,073)	(2.9%)
Total liabilities	12,038,071	12,904,328	(866,257)	(6.7%)
Net assets	$19,726,007	$19,817,823	($91,816)	(0.5%)

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.

	3/31/08	12/31/07	Decrease	% Decrease
Investments, at cost	$13,367,135	$13,390,644	($23,509)	(0.2%)
Unrealized appreciation, net	13,008,146	13,137,846	(129,700)	(1.0%)
Investments at fair value	$26,375,281	$26,528,490	($153,209)	(0.6%)

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

	Amount
New Investments:	
Niagara Dispensing Technologies, Inc. (Niagara Dispensing)	$ 224,990
Associates Interactive	200,000
Mezmeriz, Inc.	100,000
Total of investments made during the three months ended March 31, 2008	$ 524,990
Investment Repayments:	
New Monarch Machine Tool, Inc. (Monarch)	$(520,147)
Gemcor II, LLC (Gemcor)	(15,102)
Contract Staffing	(13,250)
Total of sales and investment repayments during the three months ended March 31, 2008	(548,499)
Total change in investment balance, at cost, during the three months ended March 31, 2008	($23,509)

Net asset value (NAV) per share was $3.45/share at March 31, 2008 versus $3.47/share at December 31, 2007.

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

Cash and cash equivalents approximated 16% of net assets at March 31, 2008 compared to 22% at December 31, 2007.

Results of Operations

Investment Income

Table of Contents

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 our 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 three months ended March 31, 2008 to the three months ended March 31, 2007

	March 31, 2008	March 31, 2007	Increase (Decrease)	% Increase (Decrease)
Interest from portfolio companies	$ 251,764	$ 199,717	$ 52,047	26.1%
Interest from other investments	34,584	46,047	(11,463)	(24.9%)
Dividend and other investment income	84,934	229,420	(144,486)	(63.0%)
Other income	7,083	5,228	1,855	35.5%
Total investment income	$ 378,365	$ 480,412	($102,047)	(21.2%)

Interest from portfolio companies — The portfolio interest income increase is due to two non recurring items in portfolio interest revenue for the quarter ending March 31, 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 accrued interest were received subsequent to quarter end. In addition, the Corporation recognized $102,411 in cumulative dividends from Innov-X. These dividends resulted from the renegotiation of the preferred stock terms and provided for an 8% cumulative deferred return. This dividend will continue to accrue on prospectively and will be accrued monthly and recognized in portfolio interest income.

Without the two aforementioned non recurring portfolio interest items this line item would have decreased ($93,431) or (47%) from the prior year quarter ended March 31, 2007. The decrease is a result of two portfolio companies (RAMSCO and New Monarch Machine Tool Inc. (Monarch)) repaying their debt instruments during the last twelve months coupled with the fact that 60% of the new investments made by the Corporation have been equity instruments.

For the period ending March 31, 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 three months ended March 31, 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.

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

Company	Interest Rate	Investment Cost	Year that Interest Accrual Ceased
G-Tec	8%	400,000	2004
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. The cash balance at March 31, 2008 and 2007 was $3,206,341 and $4,215,573, 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 three months ended March 31, 2008 consisted of a distribution from Gemcor II, LLC (Gemcor) for $84,934. Dividend income for the three months ended March 31, 2007 consisted of distributions from Gemcor for $204,051, Topps Meat Company LLC (Topps) for $12,545 and Carolina Skiff LLC (Carolina Skiff) for $12,824.

Other income — Other income consists of the revenue associated with the amortization of financing fees charged to the portfolio companies upon successful closing of Rand SBIC financing. The SBA regulations limit the amount of fees that can be charged to a portfolio company and the Corporation typically charges 1% to 3% to the portfolio 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 $2,083 and $5,228 for the three months ended March 31, 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 eighteen months. 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 $5,000 and $0 for the three months ended March 31, 2008 and 2007, respectively.

Operating Expenses

Comparison of the three months ended March 31, 2008 to the three months ended March 31, 2007

	March 31, 2008	March 31, 2007	Increase	% Increase
Total Expenses	$ 403,368	$ 379,579	$23,789	6.3%

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 three months ended March 31, 2008 can be attributed to the 90% or $28,612 increase in professional fees. Professional fees consist of legal, accounting and tax expenses. The increase in legal fees can be attributed to the anticipated restructuring of the corporate structure to comply with certain SBA regulations that were discussed in Note 1 "Organization". The Corporation expects legal fees to continue to increase until the reorganization is finalized during 2008.

Net Realized Gains and Losses on Investments

There were no realized gains or losses during the three months ended March 31, 2008.

During the three months ended March 31, 2007, the Corporation recognized a net realized loss of ($39,236) as UStec satisfied its $350,000 debenture instrument obligation by a payment in the amount of $310,764.

Net Change in Unrealized Appreciation of Investments

The Corporation recorded a net decrease in unrealized appreciation on investments of ($129,700) during the three months ended March 31, 2008, as compared to an increase of $109,621 for the three months ended March 31, 2007. The decrease of ($129,700) in unrealized appreciation on investments is due to the following valuation changes made by the Corporation:

	March 31, 2008
Niagara Dispensing Technologies, Inc. (Niagara Dispensing)	($111,000)
Bioworks	(28,000)
Photonic Products Group, Inc (Photonic)	9,300
Total change in net unrealized appreciation during the three months ended March 31, 2008	($129,700)

The Corporation has, subsequent to quarter end, converted its debt instruments in Niagara Dispensing to equity. Therefore it has revalued its investment as of March 31, 2008 in Niagara Dispensing based on the valuation of equity shares at conversion.

The Corporation's investment in Bioworks was valued at zero for the three months ended March 31, 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. No valuation change has occurred with respect to the Synacor S-1 filings.

The increase in unrealized appreciation on investments of $109,621 for the three months ended March 31, 2007 is due to the following valuation changes made by the Corporation:

	March 31, 2007
Adampluseve warrants	$ 65,341
Reclass UStec to realized loss	39,000
Photonic	5,280
Total increase in net unrealized appreciation During the three months ended March 31, 2007	$ 109,621

The Corporation recognized appreciation on its remaining equity investment in Adampluseve. The portfolio company participated in a round of financing in January 2007 that caused them to pay off the Corporation's debenture instrument prior to the maturity date. The Corporation still holds warrants in Adampluseve and they were adjusted based on the pricing of this recent round of financing.

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

All of these value adjustments are consistent with the Corporation's established valuation policy.

Net (Decrease) Increase 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 three months ended March 31, 2008, the net decrease in net assets from operations was ($91,816) as compared to a net increase in net assets from operations of $131,468 for the same three month period in 2007. The decrease for the period ending March 31, 2008 can be attributed to the decrease of ($129,700) in unrealized appreciation in the current year and the net investment loss of ($8,303).

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 March 31, 2008 the Corporation's total liquidity, consisting of cash and cash equivalents, totaled $3,206,341.

As of March 31, 2008 the Corporation had paid $100,000 to the SBA to reserve its approved $10,000,000 leverage. This leverage commitment expires on September 30, 2008. The Corporation has drawn down $8,100,000 of this leverage as of March 31, 2008. These SBA borrowings will have balloon maturities beginning in 2014. Management expects that it will not be necessary to draw down the remaining $1,900,000 of approved SBA leverage before its expiration in September of 2008, and that the large cash balance will be adequate to fund new investments and operating activities.

Management believes that the cash and cash equivalents at March 31, 2008, coupled with the anticipated interest and dividend payments on its portfolio investments, will provide the Corporation with the liquidity necessary to fund operations and new investments over the next twelve months. The Corporation expects its cash flow related to its investing activities will continue to fluctuate based on its success in originating investments and its ability to realize gains on liquidation of investments.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Corporation's investment activities contain elements of risk. The portion of the Corporation's investment portfolio consisting of equity and equity-linked debt securities in private companies is subject to valuation risk. Because there is typically no public market for the equity and equity-linked debt securities in which it invests, the valuation of the equity interests in the portfolio is stated at "fair value" as determined in good faith by the Board of Directors in accordance with the Corporation's investment valuation policy. (The discussion of valuation policy 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 March 31, 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. Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our principal executive officer and principal financial officer have concluded that as of that date, our disclosure controls and procedures were designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in applicable SEC rules and forms and were effective.

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

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

There is typically no public market for securities of the small privately held companies in which the Corporation invests. As a result, the valuations of the equity securities in the Corporation's portfolio are stated at fair value as determined by the good faith estimate of the Corporation's Board of Directors in accordance with the established SBA valuation policy. In the absence of a readily ascertainable market value, the estimated value of the Corporation's portfolio of securities may differ significantly, favorably or unfavorably, from the values that would be placed on the portfolio if a ready market for the equity securities existed. Any changes in estimated net asset value are recorded in the statement of operations as "Net change in unrealized appreciation."

The Corporation's Portfolio Investments are Illiquid

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

Investing in Private Companies involves a High Degree of Risk

The Corporation typically invests a substantial portion of its assets in small and medium sized private companies. These private businesses may be thinly capitalized, unproven companies with risky technologies, may lack management depth, and may have not attained profitability. Because of the speculative nature and the lack of a public market for these investments, there is significantly greater risk of loss than is the case with traditional investment securities. The Corporation expects that some of its venture capital investments will be a complete loss or will be unprofitable and that some will appear to be likely to become successful but never realize their potential. The Corporation has been risk seeking rather than risk averse in its approach to venture capital and other investments. Neither the Corporation's investments nor an investment in the Corporation is intended to constitute a balanced investment program.

Even if the Corporation's portfolio companies are able to develop commercially viable products, the market for new products and services is highly competitive and rapidly changing. Commercial success is difficult to predict and the marketing efforts of the portfolio companies may not be successful.

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

The Corporation's investments, in accordance with its investment objective and principal strategies, result in a greater than average amount of risk and volatility and may well result in loss of principal. Its investments in portfolio companies are highly speculative and aggressive and, therefore, an investment in its shares may not be suitable for investors for whom such risk is inappropriate. Neither the Corporation's investments nor an investment in the Corporation is intended to constitute a balanced investment program.

The Corporation is Subject to Risks Created by its Regulated Environment

The Corporation is regulated by the SBA and the SEC. Changes in the laws or regulations that govern SBICs and BDCs could significantly affect the Corporation's business. Regulations and laws may be changed periodically, and the interpretations of the relevant regulations and laws are also subject to change. Any change in the regulations and laws governing the Corporation's business could have a material impact on its financial condition or its results of operations. Moreover, the laws and regulations that govern BDCs and SBICs may place conflicting demands on the manner in which the Corporation operates, and the resolution of those conflicts may restrict or otherwise adversely affect the operations of the Corporation.

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

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

The Corporation is Dependent Upon Key Management Personnel for Future Success

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

The Corporation Operates in a Competitive Market for Investment Opportunities

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

Fluctuations of Quarterly Results

The Corporation's quarterly operating results could fluctuate as a result of a number of factors. These factors include, among others, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which portfolio companies encounter competition in their 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. 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

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* Management contract or compensatory plan.

Table of Contents

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: May 12, 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

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: May 12, 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: May 12, 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 March 31, 2008 (the Form10-Q) of the Company fully complies with the requirement of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 12, 2008	/s/ Allen F. Grum Allen F. Grum, President (Chief Executive Officer)
Dated: May 12, 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 March 31, 2008 (the Form10-Q) of the Company fully complies with the requirement of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 12, 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: May 12, 2008	/s/ Daniel P. Penberthy Daniel P. Penberthy, Treasurer of Rand Capital Corporation (equivalent of chief financial officer of Rand Capital SBIC, L.P.)