RAND CAPITAL CORP
Form 10-K
March 26, 2009

Table of Contents

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

FORM 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2008

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

Commission file number: 814-00235

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

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

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

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $.10 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 under the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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 þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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 o   Accelerated filer o   Non-accelerated filer þ (Do not check if a smaller reporting company)   Smaller reporting company o

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

The aggregate market value of the registrant s outstanding common stock held by non-affiliates of the registrant as of June 30, 2008 was approximately $13,325,039 based upon the last sale price as quoted by NASDAQ Capital Market on such date.

As of March 6, 2009 there were 5,718,934 shares of the registrant s common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Corporation s definitive proxy statement for the Annual Meeting of Stockholders to be held on April 30, 2009 are incorporated by reference into certain sections of Part III herein.

RAND CAPITAL CORPORATION
TABLE OF CONTENTS FOR FORM 10-K

Table of Contents

PART I

Item 1. *Business*

Corporation Formation

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

Throughout the Corporation s history, its principal business has been to make venture capital investments in small to medium sized companies that are engaged in the exploitation of new or unique products or services with a sustainable competitive advantage, typically in New York and its surrounding states. The Corporation s principal investment objective is to achieve long-term capital appreciation while maintaining a current cash flow from its debenture instruments. The Corporation invests in a mixture of debenture and equity instruments. The debt securities most often have an equity piece attached to the debenture in the form of stock, warrants or options to acquire stock or the right to convert the debt securities into stock. Rand SBIC was the primary investment vehicle in 2007 and 2008 and it is anticipated that will continue to be the case in 2009. Consistent with its status as a BDC and the purposes of the regulatory framework for BDC s under the 1940 Act, the Corporation provides managerial assistance, often in the form of a board of director s seat, to the portfolio companies in which it invests.

The Corporation operates as an internally managed investment company whereby its officers and employees conduct its operations under the general supervision of its Board of Directors. It has not elected to qualify to be taxed as a regulated investment company as defined under Subchapter M of the Internal Revenue Code.

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

The Corporation s website is www.randcapital.com. The Corporation s annual report on Form 10-K and its Proxy Statement are available at the following web address: http://materials.proxyvote.com/752185. In addition, the annual report on Form 10-K, the quarterly reports on Form 10-Q, current reports on Form 8-K, charters for the Corporation s committees and other reports filed with the Securities and Exchange Commission (SEC) are available through the Corporation s website.

Regulation as a Business Development Company

Although the 1940 Act exempts a BDC from registration under that Act, it contains significant limitations on the operations of BDCs. Among other things, the 1940 Act contains prohibitions and restrictions relating to transactions between a BDC and its affiliates, principal underwriters and affiliates of its affiliates or underwriters, and it requires that a majority of the BDC s directors be persons other than interested persons, as defined under the 1940 Act. The

1940 Act also prohibits a BDC from changing the nature of its business so as to cease to be, or to withdraw its election as, a BDC unless so authorized by a vote of the holders of a majority of its outstanding voting securities. BDC s are not required to maintain fundamental investment policies relating to diversification and concentration of investments within a single industry. More specifically, in order to qualify as a BDC, a company must:

(1) be a domestic company;

(2) have registered a class of its equity securities or have filed a registration statement with the SEC pursuant to Section 12 of the Securities Exchange Act of 1934;

(3) operate for the purpose of investing in the securities of certain types of portfolio companies, namely immature or emerging companies and businesses suffering or just recovering from financial distress;

(4) extend significant managerial assistance to such portfolio companies; and

(5) have a majority of disinterested directors (as defined in the 1940 Act). Generally, a BDC must be primarily engaged in the business of furnishing capital and providing managerial expertise to companies that do not have ready access to capital through conventional financial channels. Such portfolio companies are termed eligible portfolio companies.

An eligible portfolio company is, generally, a private domestic operating company, or a public domestic operating company whose securities are not listed on a national securities exchange. In addition, any small business investment company that is licensed by the SBA and that is a wholly owned subsidiary of a BDC is an eligible portfolio company.

The 1940 Act prohibits or restricts companies subject to the 1940 Act from investing in certain types of companies, such as brokerage firms, insurance companies, investment banking firms and investment companies. Moreover, the 1940 Act limits the type of assets that BDCs may acquire to qualifying assets and certain assets necessary for its operations (such as office furniture, equipment and facilities) if, at the time of acquisition, less than 70% of the value of the BDC s assets consist of qualifying assets. Qualifying assets include: (1) securities of companies that were eligible portfolio companies at the time the BDC acquired their securities; (2) securities of bankrupt or insolvent companies that were eligible at the time of the BDC s initial acquisition of their securities but are no longer eligible, provided that the BDC has maintained a substantial portion of its initial investment in those companies; (3) securities received in exchange for or distributed in or with respect to any of the foregoing; and (4) cash items, government securities and high-quality short-term debt. The 1940 Act also places restrictions on the nature of the transactions in which, and the persons from whom, securities can be purchased in order for the securities to be considered qualifying assets. These restrictions include limiting purchases to transactions not involving a public offering and acquiring securities from the portfolio company or its officers, directors, or affiliates.

A BDC is permitted to invest in the securities of public companies and other investments that are not qualifying assets, but those kinds of investments may not exceed 30% of the BDC s total asset value at the time of the investment.

A BDC must make significant managerial assistance available to the issuers of eligible portfolio securities in which it invests. Making available significant managerial assistance means, among other things, any arrangement whereby the BDC, through its directors, officers or employees, offers to provide, and, if accepted does provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company.

SBIC Subsidiary

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

On May 28, 2002, Rand and the predecessor SBIC subsidiary filed an Exemption Application with the SEC seeking an order for a number of operating exemptions that the SEC has commonly granted from certain restrictions under the 1940 Act that would otherwise limit the operations of the wholly-owned subsidiary. After the filing of the Exemption Application, the Corporation had extended discussions with the staff of the Division of Investment

Management of the SEC concerning the application. The principal substantive issue in these discussions was the structure of the predecessor of Rand SBIC as a limited partnership.

Rand formed the predecessor SBIC in 2002 as a limited partnership because that was the organizational form that the SBA strongly encouraged for all new entities seeking licenses as SBICs. Rand organized the SBIC

Table of Contents

subsidiary in a manner that was consistent with the SBA s model limited partnership forms for licensed SBICs. In that structure, the general partner of Rand SBIC was a limited liability company whose managers were the principal executive officers of Rand.

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

After lengthy discussions between Rand and the SBA, in December 2008 the SBA indicated that if Rand SBIC were reorganized as a corporation whose directors were the directors of Rand, it would license the corporation as an SBIC that would continue the operations of the limited partnership predecessor. Accordingly, Rand merged the limited partnership subsidiary and its limited liability company general partner into Rand SBIC, effective on December 31, 2008. As a result of the merger, Rand SBIC is a wholly-owned corporate subsidiary of Rand whose board of directors is comprised of directors of Rand, a majority of whom are not interested persons of Rand or Rand SBIC.

On February 26, 2009, 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 12(d)(1), 18(a), 21(b), 57(a)(1), (2), (3), and (4), and 61(a) of the 1940 Act to certain aspects of its operations. The application also seeks an order under Section 12(h) of the Securities Exchange Act of 1934 Act (the Exchange Act) for an exemption from separate reporting requirements for Rand SBIC under Section 13(a) of the Exchange Act. In general, the Corporation s application seeks exemptions that would permit:

Rand and Rand SBIC to engage in certain related party transactions that the Corporation would otherwise be permitted to engage in as a BDC if its component parts were organized as a single corporation;

Rand, as a BDC, and Rand SBIC, as its BDC/SBIC subsidiary, to meet asset coverage requirements for senior securities on a consolidated basis; and

Rand SBIC, as a BDC/SBIC subsidiary of Rand as a BDC, to file Exchange Act reports on a consolidated basis as part of Rand s Exchange Act reports.

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

Regulation of the SBIC Subsidiary

SBA Lending Restrictions

The SBA licenses SBICs as part of a program designed to stimulate the flow of private debt and/or equity capital to small businesses. SBICs use funds borrowed from the SBA, together with their own capital, to provide loans to, and make equity investments in, concerns that (a) do not have a net worth in excess of $18 million and do not have average net income after U.S. federal income taxes for the two years preceding any date of determination of more than $6 million, or (b) meet size standards set by the SBA that are measured by either annual receipts or number of employees, depending on the industry in which the concerns are primarily engaged. The types and dollar amounts of the loans and other investments an SBIC that is a BDC may make are limited by the 1940 Act, the SBA

Act and SBA regulations. The SBA is authorized to examine the operations of SBICs, and an SBIC s ability to obtain funds from the SBA is also governed by SBA regulations.

In addition, at the end of each fiscal year, an SBIC must have at least 20% (in total dollars) invested in Smaller Enterprises . The SBA defines Smaller Enterprises as concerns that (a) do not have a net worth in excess of $6 million and have average net income after U.S. federal income taxes for the preceding two years no greater than $2 million, or (b) meet size standards set by the SBA that are measured by either annual receipts or number of employees, depending on the industry in which the concerns are primarily engaged. The Corporation has maintained compliance with this requirement since inception of the SBIC subsidiary.

SBICs may invest directly in the equity of their portfolio companies, but they may not become a general partner of a non-incorporated entity or otherwise become jointly or severally liable for the general obligations of a non-incorporated entity. An SBIC may acquire options or warrants in its portfolio companies, and the options or warrants may have redemption provisions, subject to certain restrictions.

SBA Leverage

The SBA raises capital to enable it to provide funds to SBICs by guaranteeing certificates or bonds that are pooled and sold to purchasers of the government guaranteed securities. The amount of funds that the SBA may lend to SBICs is determined by annual Congressional appropriations.

In order to obtain SBA borrowings, also known as leverage, an SBIC must demonstrate its need to the SBA. To demonstrate need, an SBIC must invest 50% of its Leverageable Capital (defined as Regulatory Capital less unfunded commitments and federal funds) and any outstanding SBA leverage. Other requirements include compliance with SBA regulations, adequacy of capital, and meeting liquidity standards. An SBIC s license entitles an SBIC to apply for SBA leverage, but does not assure that it will be available, or if available, that it will be available at the level of the relevant matching ratio. Availability depends on the SBIC s continued regulatory compliance and sufficient SBA funds being available when the SBIC applies to draw down SBA leverage. Under the provisions of the SBIC regulations, the Corporation may apply for the SBA s conditional commitment to reserve a specific amount of leverage for future use. The Corporation may then apply to draw down leverage against the commitment. All SBICs must obtain a leverage commitment in order to draw leverage from the SBA. Commitments expire on September 30 of the fourth full fiscal year following issuance and require the payment of a fee equal to 1 percent of the total commitment at the time of issuance. An additional fee equal to 2 percent of the amount drawn is deducted at the time of each draw.

The Corporation paid $100,000 to the SBA to reserve $10,000,000 of its approved debenture leverage as a partial prepayment of the SBA s nonrefundable 3% leverage fee. As of December 31, 2008, Rand SBIC had drawn $8,100,000 in leverage from the SBA. The remaining leverage commitment expired on September 30, 2008 and $1,900,000 of approved leverage expired. The remaining unamortized prepaid leverage fee of $19,000 was expensed during 2008.

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.

Employees

As of December 31, 2008, the Corporation had four employees.

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 equity 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 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 value are recorded in the statement of operations as Net increase 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 subordinated debt securities. The Corporation s portfolio of equity and debt securities is, and will usually be, subject to restrictions on resale or otherwise has no established trading market. The illiquidity of most of the Corporation s portfolio may adversely affect the ability of the Corporation to dispose of the securities at times when it may be advantageous for the Corporation to liquidate 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 not have 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.

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.

Table of Contents

The Corporation is Dependent Upon Key Management Personnel for Future Success

The Corporation is dependent on the diligence and skill of its two senior officers, Allen F. Grum and Daniel P. Penberthy, for the selection, structuring, closing and monitoring of its investments. The future success of the Corporation depends to a significant extent on the continued service and coordination of its senior management team. The departure of either of its executive officers could materially adversely affect 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 SBICs, private venture capital funds, investment affiliates of large companies, wealthy individuals and other domestic or foreign investors. The competition is not limited to entities that operate in the same geographical area as the Corporation. As a regulated BDC, the Corporation is required to disclose quarterly and annually the name and business description of portfolio companies and the value of its portfolio securities. Most of its competitors are not subject to this disclosure requirement. The Corporation s obligation to disclose this information could hinder its ability to invest in certain portfolio companies. Additionally, other regulations, current and future, may make the Corporation less attractive as a potential investor to a given portfolio company than a private venture capital fund.

The Corporation 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.

Fluctuations of Quarterly Results

The Corporation s quarterly operating results could fluctuate significantly 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 1B. ***Unresolved Staff Comments***

Not Applicable

Item 2. ***Properties***

The Corporation maintains its offices at 2200 Rand Building, Buffalo, New York 14203, where it leases approximately 1,300 square feet of office space pursuant to a lease agreement that expires December 31, 2010. The Corporation believes that its leased facilities are adequate to support its current staff and expected future needs.

Item 3. ***Legal Proceedings***

None

Item 4. ***Submission of Matters to a Vote of Security Holders***

None

Table of Contents

Part II

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

The Corporation s common stock, par value $0.10 per share (Common Stock), is traded on the NASDAQ Small Cap Market (NASDAQ) under the symbol RAND. The following table sets forth, for the periods indicated, the range of high and low closing sales prices per share as reported by NASDAQ:

2008 Quarter ending:	**High**	**Low**
March 31st	$ 4.78	$ 3.55
June 30th	$ 4.29	$ 3.25
September 30th	$ 4.00	$ 3.25
December 31st	$ 4.00	$ 3.11

2007 Quarter ending:	**High**	**Low**
March 31st	$ 5.04	$ 3.26
June 30th	$ 3.94	$ 3.26
September 30th	$ 4.62	$ 3.35
December 31st	$ 4.72	$ 3.50

The Corporation did not sell any securities during the period covered by this report that were not registered under the Securities Act. The Corporation has not paid any cash dividends in its most recent two fiscal years, and it has no intention of paying cash dividends in the coming fiscal year.

Profit Sharing and Stock Option Plans

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 December 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 cannot 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.

Shareholders of Record

On March 6, 2009 the Corporation had a total of 820 shareholders, which included 97 record holders of its common stock, and an estimated 723 shareholders with shares beneficially owned in nominee name or under clearinghouse positions of brokerage firms or banks.

Stock Repurchase Plan

The Board of Directors has authorized the repurchase of up to 285,947 shares of the Corporation s outstanding Common 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 Common Stock for a total cost of $47,206. No additional shares have been repurchased since 2003.

Table of Contents

Company Performance Graph

The following graph shows a five-year comparison of cumulative total shareholder returns for the Company s Common Stock, the NASDAQ Market Index, and a New Peer Group and the Old Peer Group, assuming a base index of $100 at the end of 2003. The cumulative total return for each annual period within the five years presented is measured by dividing (1) the sum of (A) the cumulative amount of dividends for the measurement period, assuming dividend investment, and (B) the difference between share prices at the end and at the beginning of the measurement period by (2) the share price at the beginning of the measurement period.

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN
AMONG RAND CAPITAL CORP.,
NASDAQ MARKET INDEX AND PEER GROUP INDEX

ASSUMES $100 INVESTED ON DEC. 31, 2003
ASSUMES DIVIDEND REINVESTED
FISCAL YEAR ENDING DEC. 31, 2008

COMPARISON OF CUMULATIVE TOTAL RETURN OF ONE OR MORE COMPANIES, PEER GROUPS, INDUSTRY INDEXES AND/OR BROAD MARKETS

FISCAL YEAR ENDING

COMPANY/INDEX/MARKET	12/31/2003	12/31/2004	12/30/2005	12/29/2006	12/31/2007	12/31/2008
Rand Capital Corporation	100.00	107.59	92.41	241.38	248.14	241.38
Old Peer Group Index	100.00	101.62	95.36	132.43	87.47	18.67
New Peer Group Index	100.00	108.41	110.79	122.16	134.29	79.25
NASDAQ Market Index	100.00	101.62	95.36	130.52	91.89	34.03

The Old Peer Group was made up of the following securities:
Ameritrans Capital Corp (NasdaqCM:AMTC)
Brantley Capital Corp (OTC:BBDC.pk)
Capital Southwest Corp (NasdaqGM:CSWC)

Table of Contents

Equus Total Return Inc (NYSE:EQS)
Gladstone Investment CP (NasdaqGS:GAIN)
Harris & Harris Group (NasdaqGM:TINY)
Macc Private Equities Inc (NasdaqCM:MACC)
MCG Capital Corporation (NasdaqGS:MCGC)
MVC Capital Inc (NYSE:MVC)

The New Peer Group is made up of the following securities:
Ameritrans Capital Corp (NasdaqCM:AMTC)
Equus Total Return Inc (NYSE:EQS)
Gladstone Investment CP (NasdaqGS:GAIN)
Harris & Harris Group (NasdaqGM:TINY)
Hercules Tech Growth Cap (NasdaqGS: HTGC)
Main Street Capital Corp (NasdaqGS: MAIN)
MCG Capital Corporation (NasdaqGS:MCGC)
Patriot Capital Funding (NasdaqGS: PCAP)
Triangle Capital Corp (NasdaqGM: TCAP)

The New Peer Group was selected in good faith by the Corporation and contains nine business development companies or other funds believed by the Corporation to be of similar size and have similar investment objectives to those of the Corporation.

The performance graph information provided above will not be deemed to be soliciting material or filed with the SEC or subject to Regulations 14A or 14C, or to the liabilities of section 18 of the Securities Exchange Act, unless in the future the Corporation specifically requests that the information be treated as soliciting material or specifically incorporates it by reference into any filing under the Securities Act or the Securities Exchange Act.

Item 6. ***Selected Financial Data***

The following table provides selected consolidated financial data of the Corporation for the periods indicated. You should read the selected financial data set forth below in conjunction with Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, and with our consolidated financial statements and related notes appearing elsewhere in this report.

Balance Sheet Data as of December 31:

	2008	2007	2006	2005	2004
Total assets	$ 32,228,797	$ 32,722,151	$ 29,463,944	$ 16,063,605	$ 12,743,109
Total liabilities	$ 12,001,831	$ 12,904,328	$ 12,681,539	$ 7,447,671	$ 3,716,055
Net assets	$ 20,226,966	$ 19,817,823	$ 16,782,405	$ 8,615,934	$ 9,027,054
Net asset value per outstanding share	$ 3.54	$ 3.47	$ 2.93	$ 1.51	$ 1.58
Common stock shares outstanding	5,718,934	5,718,934	5,718,934	5,718,934	5,718,934

Table of Contents

Operating Data for the year ended December 31:

	2008	2007	2006	2005	2004
Investment income	$ 1,757,003	$ 2,302,870	$ 1,326,962	$ 736,573	$ 757,704
Total expenses	$ 1,721,555	$ 1,650,947	$ 1,519,184	$ 1,265,846	$ 900,812
Net investment gain (loss)	$ 135,689	$ 425,406	$ (1,264,802)	$ (175,179)	$ (112,384)
Net realized (loss) gain on sales and dispositions of investments		$ (68,748)	$ 3,456,441	$ (382,353)	$ 26,727
Net increase (decrease) in unrealized appreciation	$ 273,454	$ 2,362,507	$ 5,974,832	$ 146,412	$ (125,777)
Net increase (decrease) in net assets from operations	$ 409,143	$ 2,719,165	$ 8,166,471	$ (411,120)	$ (211,434)

Table of Contents

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our financial statements and related notes included elsewhere in this report.

Forward Looking Statements

Statements included in this Management s Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this document that do not relate to present or historical conditions are forward-looking statements within the meaning of that term in Section 27A of the Securities Act of 1933, and in Section 21F of the Securities Exchange Act of 1934. Additional oral or written forward-looking statements may be made by the Corporation from time to time, and those statements may be included in documents that are filed with the Securities and Exchange Commission. Such forward-looking statements involve risks and uncertainties that could cause results or outcomes to differ materially from those expressed in the forward-looking statements. Forward-looking statements may include, without limitation, statements relating to the Corporation s plans, strategies, objectives, expectations and intentions and are intended to be made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Words such as believes, forecasts, intends, possible, expects, estimates, anticipates, or plans and similar expressions are intended to identify forward-looking statements. Among the important factors on which such statements are based are assumptions concerning the state of the national economy and the local markets in which the Corporation s portfolio companies operate, the state of the securities markets in which the securities of the Corporation s portfolio company trade or could be traded, liquidity within the national financial markets, and inflation. Forward-looking statements are also subject to the risks and uncertainties described under the caption Risk Factors contained in Part I, Item 1A, 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.

Business Overview

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

The Corporation anticipates that most, if not all, of its investments in the next year will be originated through the SBIC subsidiary.

The Corporation s primary business is making investments in companies, usually in the form of subordinated debt, membership interests, or preferred and common stock. The investment focus is usually on small and medium-sized companies that meet certain criteria, including:

1) a qualified and experienced management team

2) a new or unique product or service with a sustainable competitive advantage

Table of Contents

3) a potential for growth in revenue and cash flow

4) a potential to realize appreciation in an equity position, if any.

The Corporation makes investments in portfolio companies that typically range from $500,000 to $1,000,000 and it invest either directly in the equity of a company through equity shares or in a debt instrument. The debt instruments generally have a maturity of not more than five years and usually have detachable equity warrants. Interest is either paid currently or deferred.

The Corporation s management team identifies investment opportunities. Throughout the Corporation s history it has established a large network of investment referral relationships. Investment proposals may, however, come to the Corporation from many other sources, and may include unsolicited proposals from the public and referrals from banks, lawyers, financial accountants and other members of the financial community. The Corporation believes that its reputation in the community and experience provide a competitive advantage in originating qualified new investments.

In a typical private financing, the management team of the Corporation will review, analyze, and confirm, through due diligence, the business plan and operations of the potential portfolio company. Additionally, the Corporation will become familiar with the portfolio company s industry and competitive landscape and may conduct additional reference checks with customers and suppliers of the portfolio company.

Following an initial investment in a portfolio company, the Corporation may be requested to make follow-on investments in the company. Follow-on investments may be made to take advantage of warrants or other preferential rights granted to the Corporation or otherwise to increase or maintain the Corporation s position in a promising portfolio company. The Corporation may also be called upon to provide an additional investment to a portfolio company in order for that company to fully implement its business plans, to develop a new line of business or to recover from unexpected business problems. Follow-on investments in a portfolio company are evaluated individually and may be subject to regulatory restrictions.

The Corporation will exit its investments generally through the maturation of the debt security or when a liquidity event takes place, such as the sale, recapitalization, or initial public offering of a portfolio company. The method and timing of the disposition of the Corporation s portfolio investments can be critical to the realization of maximum total return. The Corporation generally expects to dispose of its equity securities through the private sales of securities to other investors or through an outright sale of the company or a merger. The Corporation anticipates its debentures will be repaid with interest and hopes to realize further appreciation from the warrants or other equity type instruments it receives in connection with the origination of the debenture. The Corporation anticipates generating cash for new investments and operating expenses through SBA leverage draw downs, and interest and principal payments from its portfolio concerns.

2008 Highlights and Outlook

The Corporation s net asset value increased $0.07, or 2% during 2008, closing the year at $3.54 per share up from $3.47 at December 31, 2007. At December 31, 2008, the Corporation s total investment portfolio was valued at $28.1 million, which exceeds its cost basis of $14.4 million, reflecting $13.7 million in net unrealized appreciation.

Although the Corporation s stock traded at a premium to its net asset value during 2007, during 2008 its common stock traded in a range that was above and below the current net asset value per share. The year closed with the stock trading at $3.50 which represented a slight discount to the net asset value of $3.54.

During 2008 the Corporation recognized $1,757,003 in total investment income, a decrease of ($545,867) from $2,302,870 of investment income in 2007. The 23.7% decrease is attributable to the decrease in dividends and interest from portfolio companies. Dividends from portfolio companies that are limited liability companies can fluctuate based on the portfolio companies profitability and the timing of distributions. In addition, lower cash balances in the current year caused the interest income to decrease.

Also during 2008 certain portfolio companies repaid some or all of their outstanding debenture instruments, including: Contract Staffing, Gemcor and New Monarch Machine Tool, Inc. These repayments may impact future earnings by reducing interest income in 2009 and future periods.

Table of Contents

The cash balance at December 31, 2008 was $2.8 million which was approximately $1.6 million lower than at the end of 2007. The Corporation was unable to draw the remaining $1.9 million of outstanding leverage available from the Small Business Administration (SBA), due to Rand SBIC s excess cash position, and the leverage expired in September 2008. Given that the Corporation has used up much of its available SBA leverage, in order for the Corporation to raise substantial amounts of capital in the short term, it will need to rely on Rand s ability to sell additional shares of its common stock through public or private offerings. Although Rand currently has no specific plans concerning the timing or amount of any common stock offering it might make, it is considering the possibility of making an offering at some time in the next year in order to have more capital available with which to pursue favorable investment opportunities. See Liquidity and Capital Resources, below.

While the business of some of our portfolio companies is strengthening, in terms of employee growth, increase in revenue, and strengthening net income position, it remains difficult to forecast when future exits will happen, or if the portfolio companies will have sufficient capital to remain viable while their respective markets mature.

Critical Accounting Policies

The Corporation prepares its financial statements in accordance with United States generally accepted accounting principles (GAAP), which requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities. For a summary of all significant accounting policies, including critical accounting policies, see Note 1 to the consolidated financial statements in Item 8.

The increasing complexity of the business environment and applicable authoritative accounting guidance require the Corporation to closely monitor its accounting policies and procedures. The Corporation has identified two critical accounting policies that require significant judgment. The following summary of critical accounting policies is intended to enhance your ability to assess the Corporation s financial condition and results of operations and the potential volatility due to changes in estimates.

Valuation of Investments

The most important estimate inherent in the preparation of the Corporation s consolidated financial statements is the valuation of its investments and the resulting unrealized appreciation or depreciation.

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

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 157, Fair Value Measurements. This statement defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. This statement was effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those years. On January 1, 2008, the Corporation adopted SFAS 157.

SFAS No. 157 classifies the inputs used to measure fair value into the following hierarchy:

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

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

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

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

In the valuation process, the Corporation uses financial information received monthly, quarterly, and annually from its portfolio companies, which includes both audited and unaudited financial statements, annual projections and budgets prepared by the portfolio company and other financial and non-financial business information supplied by the portfolio companies management. This information is used to determine financial condition, performance, and valuation of the portfolio investments. The valuation may be reduced if a company s performance and potential have significantly deteriorated. If the factors which led to the reduction in valuation are overcome, the valuation may be restored.

Another key factor used in valuing equity investments is recent arms-length equity transactions with unrelated new investors entered into by the portfolio company that the Corporation utilizes to form a basis for its underlying value. Many times the terms of these equity transactions may not be identical to the equity transactions between the portfolio company and the Corporation, and the impact of the discrepancy in transaction terms on the market value of the portfolio company may be difficult or impossible to quantify.

Any changes in estimated fair value are recorded in our statement of operations as Net increase in unrealized appreciation.

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. Certain investments of the Corporation are structured to provide a deferred interest period when interest is not currently due.

Rand SBIC s 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.

Recent Accounting Pronouncements

In September 2006, the FASB issued Statement No. 157 (SFAS 157), Fair Value Measurements. This statement 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. The Corporation adopted the enhanced disclosure provisions of SFAS 157 during 2008.

Management does not believe that any other recently issued, but not yet effective, accounting standards, if currently adopted, would have a material effect on the accompanying consolidated financial statements.

Table of Contents

Financial Condition

Overview:

	12/31/08	12/31/07	(Decrease) Increase	% (Decrease) Increase
Total assets	$ 32,228,797	$ 32,722,151	$ (493,354)	(1.5)%
Total liabilities	12,001,831	12,904,328	(902,497)	(7.0)%
Net assets	$ 20,226,966	$ 19,817,823	$ 409,143	2.1%

Net asset value per share (NAV) was $3.54 per share at December 31, 2008 versus $3.47 per share at December 31, 2007.

The Corporation did not draw down on any of the SBA leverage during the year ended December 31, 2008 and the total owed to the SBA at December 31, 2008 was $8,100,000. These debentures bear a fixed interest rate and an annual fee, averaging 5.9%, payable semi-annually. The debenture principal is repayable in full 10 years from issuance beginning in 2014.

Cash and cash equivalents approximated 14% of net assets at December 31, 2008 compared to 22% at December 31, 2007.

The effect of investment income, realized losses and the change in unrealized appreciation on investments resulted in a net decrease in the net deferred tax liability from $3,955,000 at December 31, 2007 to $3,490,000 at December 31, 2008.

Composition of the Corporation s Portfolio

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 companies. The following summarizes the Corporation s investment portfolio at the year-ends indicated.

	12/31/08	12/31/07	Increase	% Increase
Investments, at cost	$ 14,386,451	$ 13,390,644	$ 995,807	7.4%
Unrealized appreciation, net	13,739,831	13,137,846	601,985	4.6%
Investments, at fair value	$ 28,126,282	$ 26,528,490	$ 1,597,792	6.0%

The Corporation s total investments at fair value, as estimated by the Board of Directors, approximated 139% of net assets at December 31, 2008 and 134% of net assets at December 31, 2007.

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

New Investments:	**Amount**
GridApp Systems, Inc. (GridApp)	$ 666,667
Niagara Dispensing Technologies, Inc. (Niagara Dispensing)	374,990
SOMS Technologies, LLC (SOMS)	250,000
Associates Interactive, LLC (Associates)	200,000
Mezmeriz, Inc. (Mezmeriz)	100,000
Rocket Broadband Networks, Inc. (Rocket Broadband)	35,000
Total of investments made during the year ended December 31, 2008	$ 1,626,657
Other Changes to investments:	
APF Group, Inc. (APF) interest conversion	40,832
Niagara Dispensing interest conversion	41,783
Total of new investments and changes to investments during the year ended December 31, 2008	$ 1,709,272

Table of Contents

Sales/Investment Repayments	Amount
New Monarch Machine Tool, Inc. (Monarch)	(520,147)
Contract Staffing	(131,066)
Gemcor II, LLC (Gemcor)	(62,252)
Total of sales and investment repayments during the year ended December 31, 2008	(713,465)
Total change in investment balance, at cost, during the year ended December 31, 2008	$ 995,807

The Corporation s top five portfolio companies represented 68% of total assets at December 31, 2008:

Company	Industry	Fair Value at December 31, 2008	% of Total Assets at December 31, 2008
Innov-X Systems, Inc. (Innov-X)	Manufacturing Metals Testing Equipment	$ 8,761,700	27%
Gemcor	Manufacturing Aerospace Machinery	$ 5,803,201	18%
Synacor Inc. (Synacor)	Software	$ 4,168,001	13%
Kionix, Inc . (Kionix)	Manufacturing Silicon Chips	$ 2,000,000	6%
Ultra-Scan Corporation (Ultra-Scan)	Electronics Hardware/Software	$ 1,203,000	4%

The Corporation s top five portfolio companies represented 61% of total assets at December 31, 2007:

Company	Industry	Fair Value at December 31, 2007	% of Total Assets at December 31, 2007
Innov-X	Manufacturing Metals Testing Equipment	$ 8,761,700	27%
Synacor	Software	$ 4,168,001	13%
Gemcor	Manufacturing Aerospace Machinery	$ 4,165,451	13%
Carolina Skiff LLC (Carolina Skiff)	Manufacturing Boating	$ 1,227,000	4%
Kionix	Manufacturing Silicon Chips	$ 1,221,568	4%

Below is the Geographic breakdown of the Corporation s investments, at fair value, to the net asset value as of December 31, 2008 and 2007:

Geographic Region	% of Net Asset Value at December 31, 2008	% of Net Asset Value at December 31, 2007
USA East	95%	94%
USA South	5%	6%
	100%	100%

16

Table of Contents

As of December 31, 2008 and 2007, the Corporation s investment portfolio consisted of the following investments:

	Cost	Percentage of Total Portfolio	Fair Value	Percentage of Total Portfolio
December 31, 2008:				
Subordinated Debt and Promissory Notes	$ 3,240,266	23%	$ 2,111,013	8%
Convertible Debt	356,667	2%	356,667	1%
Equity and Partnership Interests	10,721,519	75%	25,525,261	91%
Equity Warrants	68,000		133,341	
Total	$ 14,386,452	100%	$ 28,126,282	100%
December 31, 2007:				
Subordinated Debt and Promissory Notes	$ 3,992,927	30%	$ 3,071,009	11%
Convertible Debt	50,000		50,000	
Equity and Partnership Interests	9,279,717	69%	23,274,140	88%
Equity Warrants	68,000	1%	133,341	1%
Total	$ 13,390,644	100%	$ 26,528,490	100%

Results of Operations

Investment Income

The Corporation s investment objective is to achieve long-term capital appreciation on its equity investments while maintaining a current cash flow from its debenture and pass through equity instruments. Therefore, the Corporation invests in a mixture of debenture and equity instruments, which will provide a current return on a portion of the investment portfolio. The equity features contained in 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 held at high grade financial institutions.

Comparison of the years ended December 31, 2008 and 2007

	December 31, 2008	December 31, 2007	(Decrease)	% (Decrease)
Interest from portfolio companies	$ 608,180	$ 618,430	$ (10,250)	(1.7)%
Interest from other investments	90,660	173,664	(83,004)	(47.8)%
Dividend and other investment income	1,027,377	1,469,864	(442,487)	(30.1)%
Other income	30,786	40,912	(10,126)	(24.8)%

Total investment income	$ 1,757,003	$ 2,302,870	$ (545,867)	(23.7)%

Interest from portfolio companies The portfolio interest income decrease is a result of several factors. Two portfolio companies (Contract Staffing and Monarch) repaid their debt instruments during the last twelve months and one portfolio company (Niagara Dispensing) converted its debenture instrument into equity during 2008. During the year ended December 31, 2007 the Corporation recognized Original Issue Discount (OID) income on its Adampluseve, Inc (Adampluseve) investment in the amount of $62,333. Adampluseve paid off its debenture instrument early and therefore the remaining unamortized OID was accreted into income during 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

Table of Contents

These aforementioned decreases in the current year portfolio interest income are offset by several revenue items that increased portfolio income. The Corporation began to recognize dividends on the Series A Convertible Preferred Stock of Innov-X during the year ended December 31, 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 year ended December 31, 2008 was $162,413. This dividend is classified as portfolio interest income and this revenue classification is consistent with other interest bearing instruments in the portfolio. Interest of $43,067 was recognized on the escrow from Innov-X during 2008. The Innov-X escrow of $711,249 and the earned interest of $43,067 were received in the second quarter of 2008.

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
Rocket Broadband	11.25%	35,000	2008
UStec	5%	100,000	2006
WineIsIt.com (Wineisit)	10%	801,918	2005

Interest from other investments The decrease in interest income is due to lower cash balances coupled with lower yields on these cash balances.

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 companies require the entities to distribute funds to the Corporation for payment of income taxes on its allocable share of the entities profits. These dividends will fluctuate based upon the profitability of the entities and the timing of the distributions.

Dividend income for the year ended December 31, 2008 consisted of distributions from Gemcor for $974,287, Carolina Skiff for $19,838 and Somerset Gas Transmission Company (Somerset) for $33,252.

Dividend income for the year ended December 31, 2007 consisted of distributions from Gemcor for $1,372,407, Carolina Skiff for $40,464, Somerset for $36,788, Topps Meat Company LLC (Topps) for $19,524, and Vanguard Modular Building Systems (Vanguard) for $681.

Other income Other income consists of the revenue associated with the amortization of financing fees charged to the portfolio companies upon successful closing of Rand SBIC financing. The SBA regulations limit the amount of fees that can be charged to a portfolio company, and the Corporation typically charges 1% to 3% to the portfolio concerns. These fees are amortized ratably over the life of the instrument associated with the fees. The unamortized fees are carried on the balance sheet under Deferred revenue . In addition, other income includes fees charged by the Corporation to its portfolio companies for attendance at the portfolio companies board meetings.

Othe