

2010

March 31, 2010

First Quarter Report



RAND CAPITAL
CORPORATION

2200 Rand Building
Buffalo, New York 14203



May 4, 2010

Dear Shareholders:

We ended the quarter with our Net Asset Value at \$3.30.

We had an active investing quarter, providing \$1,055,000 in growth capital to four of our existing companies:

- \$250,000 in **Rheonix, Inc.**
- \$125,000 in **Microcision LLC.**
- \$200,000 in **Niagara Dispensing Technologies, Inc.**
- \$480,000 in **GridApp Systems, Inc.**

At the Annual Meeting, Rand's Directors and Officers were re-elected to another term.

Merger and acquisition activity has increased with several of our companies evaluating potential liquidity events. We are also evaluating several new investments and look forward to sharing these with you in the future.

As always we appreciate your support and look forward to a prosperous year.

Allen F. Myer

President's
Letter

Rand Capital Corporation and Subsidiaries Condensed Consolidated Schedule of Portfolio Investments / March 31, 2010 (Unaudited)

Company, Geographic Location, Business Description, (Industry) & Website	(b) Date Acquired	(c) Equity	Cost	March 31, 2010		December 31, 2009		
				(d) Value	Per Share of Rand	(d) Value	Per Share of Rand	
Non-Control/Non-Affiliate Investments: (k)								
Mezmeriz (g) Ithaca, NY. Developer of micro mirror technology that replaces silicon with carbon fibers in micro-electronic mechanical systems (MEMS) enabling efficient, wide-angle, Pico projectors to be embedded in mobile devices. (Electronics Developer) www.mezmeriz.com	141,334 Series A preferred shares.	1/9/08	4%	\$ 121,509	\$ 121,509	\$.02	\$ 100,000	\$.01
Rheonix, Inc. Ithaca, NY. Developer of microfluidic testing devices including channels, pumps, reaction vessels, & diagnostic chambers, for testing of small volumes of chemicals and biological fluids. (Manufacturing) www.rheonix.com	9,676 common shares. (g) 481,430 Series A preferred shares. 50,593 common shares.	10/29/09	3%	503,000	639,000	.09	389,000	.06
Somerset Gas Transmission Company, LLC (e) Columbus, OH. Natural gas transportation company. (Oil and Gas) www.somersetgas.com	26,5337 units.	7/10/02	2%	719,097	786,748	.12	786,748	.12
Synacor, Inc. (g) Buffalo, NY. Develops provisioning platforms for aggregation and delivery of content and services across multiple digital devices. (Software) www.synacor.com	234,558 Series A preferred shares. 600,000 Series B preferred shares. 240,378 Series C preferred shares. 897,438 common shares.	11/18/02	4%	1,349,479	4,168,001	.61	4,168,001	.61
Subtotal Non-Control/Non-Affiliate Investments				\$ 2,693,085	\$ 5,715,258	\$ 0.84	\$ 5,443,749	\$ 0.80
Affiliate Investments: (l)								
Carolina Skiff LLC (e)(g) Waycross, GA. Manufacturer of fresh water, ocean fishing and pleasure boats. (Manufacturing) www.carolinaskiff.com	\$985,000 Class A preferred membership interest at 14%. Redeemable January 31, 2010. \$500,000 subordinated promissory note at 14% due December 31, 2016. 6.0825% Class A common membership interest. (j) Interest receivable \$773,856.	1/30/04	6%	\$ 1,500,000	\$ 1,500,000	\$.22	\$ 1,500,000	\$.22
EmergingMed.com, Inc. (g)(h) New York, NY. Cancer clinical trial matching and referral service. (Software) www.emergingmed.com	\$500,000 senior subordinated note at 10% due December 19, 2010. Warrants for 7.0% of common stock. (j) Interest receivable \$213,125.	12/19/05	7%	458,333	458,333	.07	458,333	.07
GridApp Systems, Inc. (g) New York, NY. Provider of database automation software that helps businesses gain control of their heterogeneous database applications through a centralized software console. (Software) www.gridapp.com	1,309,375 Series A-1 preferred shares. 584,480 common shares. 8% cumulative dividend.	11/25/08	14%	1,577,708	1,281,773	.19	800,000	.12
Innov-X Systems, Inc. (g) Woburn, MA. Manufactures portable x-ray fluorescence (XRF) analyzers used in metals/alloy analysis. (Manufacturing) www.innovsys.com	(e)\$250,000 note at 11% due March 31, 2017. 2,642 Series A preferred stock. 8% cumulative dividend. Warrants for 21,924 common shares. (j) Interest receivable \$262,411.	9/27/04	9%	1,250,000	5,500,000	.81	6,300,000	.92
Microcision LLC (g) Philadelphia, PA. Custom manufacturer of medical and dental implants. (Manufacturing) www.microcision.com	\$775,000 subordinated promissory note at 5%, 6% deferred interest (PIK) due December 31, 2013. 7.5% class A common membership interest.	9/24/09	7.5%	783,808	783,808	.11	658,808	.10
Niagara Dispensing Technologies, Inc. Amherst, NY. Beverage dispensing technology development and products manufacturer, specializing in rapid pour beer dispensing systems for high volume stadium and concession operations. (Manufacturing) www.niagaradisensing.com	202,081 Series B preferred stock. (g) 463,691 Series A preferred stock. 518,752 Series B preferred stock. (e) \$300,000 promissory note at 6%, 8% deferred interest (PIK) due July 30, 2011. \$200,000 secured convertible note at 14% due February 19, 2012. Warrants for 190,561 class A common stock.	3/8/06	14%	1,798,443	1,319,492	.19	1,113,242	.17
SOMS Technologies, LLC (g) Valhalla, NY. Produces and markets the microGreen Extended Performance Oil Filter. (Auto Parts Developer) www.microgreenfilter.com	\$250,000 secured convertible note at 10% due December 2, 2010. \$75,000 secured convertible note at 10% due October 29, 2011.	12/2/08	-	363,661	363,661	.05	354,791	.05
Ultra - Scan Corporation Amherst, NY. Biometrics application developer of ultrasonic fingerprint technology. (Electronics Hardware/Software) 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	.18	1,203,000	.18
Subtotal Affiliate Investments				\$ 8,670,117	\$ 12,410,067	\$ 1.82	\$ 12,388,174	\$ 1.83
Control Investments (m)								
Gemcor II, LLC (e)(g)(h) West Seneca, NY. Designs and sells automatic riveting machines used in the assembly of aircraft components. (Manufacturing) www.gemcor.com	\$250,000 subordinated note at 8% due June 28, 2010 with warrant to purchase 6.25 membership units. \$500,000 subordinated promissory note at 15% due December 1, 2014. 25 membership units.	6/28/04	31%	\$ 988,573	\$ 6,188,573	\$.91	\$ 6,223,883	\$.91
G-TEC Natural Gas Systems Buffalo, NY. Manufactures and distributes systems that allow natural gas to be used as an alternative fuel to gases. (Manufacturing) www.gas-tec.com	28.925% Class A membership interest. 8% cumulative dividend.	8/31/99	29%	400,000	100,000	.01	100,000	.01
Subtotal Control Investments				\$ 1,388,573	\$ 6,288,573	\$ 0.92	\$ 6,323,883	\$ 0.92
Other Investments (a) (i)								
Various				3,074,236	140,339	.02	140,339	.01
Total portfolio investments				\$ 15,826,011	\$ 24,554,237	3.60	\$ 24,296,145	3.56
Cash and Money Market Investments				7,560,176	1.11	9,417,236	1.38	
SBA Debenture Liability				(10,000,000)	(1.47)	(9,100,000)	(1.33)	
Portfolio Interest Receivable (net of Reserve)				1,287,563	0.19	1,192,118	0.17	
Net Receivables (payables)				662,089	0.10	292,028	0.04	
Net assets pre-tax				\$ 24,064,065	\$ 3.53	\$ 26,097,527	\$ 3.83	
Tax Provisions (benefit)				1,537,449	0.23	2,891,646	0.42	
Net Assets				\$ 22,526,616	\$ 3.30	\$ 23,205,881	\$ 3.40	

Notes to Consolidated Schedule of Portfolio Investments

Note: This report includes the consolidated holdings of Rand Capital Corporation and Rand Capital SBIC, Inc. Additional investor information can be obtained at www.sec.gov. Net asset value calculated based on 6,818,934 shares outstanding at March 31, 2010 and 6,818,934 at December 31, 2009.

- (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, 2010 restricted securities represented 99% of the value of the investment portfolio. Freed Maxick & Battaglia, CPAs, PC has not examined the business descriptions of the portfolio companies. Securities with individual value <\$100,000 are included in "Other Investments".
- (b) The Date Acquired column indicates the year in which the Corporation acquired its first investment in the company or a predecessor company.
- (c) The equity percentages estimate the Corporation's ownership interest in the portfolio investment. The estimated ownership is calculated based on the percent of outstanding voting securities held by the Corporation or the potential percentage of voting securities held by the Corporation upon exercise of warrants or conversion of debentures, or other available data. Freed Maxick & Battaglia, CPAs, PC has not audited the equity percentages of the portfolio companies. The symbol "<1%" indicates that the Corporation holds an equity interest of less than one percent.
- (d) The Corporation primarily uses the SBA's valuation guidelines for SBIC's which describes the policies and procedures used in valuing investments. Under the valuation policy of the Corporation, unrestricted securities are valued at the closing price for publicly held securities for the last three days of the month. Restricted securities, including securities of publicly-held companies, are subject to restrictions on resale, and are valued at fair value as determined by the management of the Corporation and submitted to the Board of Directors for approval. Fair value is considered to be the amount which the Corporation may reasonably expect to receive for portfolio securities when sold on the valuation date. Valuations as of any particular date, however, are not necessarily indicative of amounts which may ultimately be realized as a result of future sales or other dispositions of securities and these favorable or unfavorable differences could be material. Among the factors considered in determining the fair value of restricted securities are the financial condition and operating results, projected operations, and other analytical data relating to the investment. Also considered are the market prices for unrestricted securities of the same class (if applicable) and other matters which may have an impact on the value

- of the portfolio company. On a consolidated basis the Corporation uses Accounting Standards Codification (ASC) 820 (formerly FAS No. 157) "Fair Value Measurements" which defines fair value and establishes guidelines for measuring fair value. ASC 820 designates the Corporation's investments primarily as "Level 3" assets due to their privately held restricted nature.
- (e) These investments are income producing. All other investments are non-income producing. Income producing investments have generated cash payments of interest or dividends within the last twelve months.
- (f) Income Tax Information - As of March 31, 2010, the total cost of investment securities approximated \$15.8 million. Net unrealized appreciation was approximately \$8.7 million, which was comprised of \$12.7 million of unrealized appreciation of investment securities and \$4.0 million related to unrealized depreciation of investment securities
- (g) Rand Capital SBIC, Inc. investment.
- (h) Reduction in cost and value from previously reported balances reflects current principal repayment.
- (i) Included in "Other Investments" is 30,500 shares OTC: PHPG.OB, a publicly owned company.
- (j) Represents interest due (amounts over \$50,000 net of reserves) from investment included as interest receivable on the Corporation's Balance Sheet.
- (k) Non-Control/Non-Affiliate investments are investments that are neither Control Investments or Affiliated Investments.
- (l) Affiliate investments are defined by the Investment Company Act of 1940, as amended ("1940 Act"), as those Non-Control investments in companies in which between 5% and 25% of the voting securities are owned or Rand holds a Board seat.
- (m) Control investments are defined by the 1940 Act as investments in companies in which more than 25% of the voting securities are owned or where greater than 50% of the board representation is maintained.

Rand Capital Corporation

Board of Directors

	Reginald B. Newman II	Chairman of the Board
	Allen F. Grum	
a, g	Erland E. Kailbourne	
a, g	Ross B. Kenzie	
c	Willis S. McLeese	
c, g	Jayne K. Rand	
a, c	Robert M. Zak	
	a - Member of audit committee c - Member of compensation committee	
	g - Member of governance committee	

Officers	Title	Email
Allen F. Grum	President/CEO	pgrum@randcapital.com
Daniel P. Penberthy	Executive Vice President CFO	dpenberthy@randcapital.com

Corporate Data

Stock ListingNASDAQ Capital Market-symbol RAND
Transfer Agent and RegistrarContinental Stock Transfer & Trust Company
www.continentalstock.com
General CounselHodgson, Russ LLP
Independent Accountants.....Freed Maxick & Battaglia, PC
Number of Shareholders824 (as of March 8, 2010)

Rand is actively seeking business opportunities for investment consideration. If you are aware of those businesses that may need Rand's support and assistance, please feel free to contact us.

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