

GREIF INC
Form 8-K
September 04, 2018

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
Date of Report (Date of earliest event reported): September 4, 2018 (August 30, 2018)

GREIF, INC.
(Exact name of registrant as specified in its charter)

Delaware 001-00566 31-4388903
(State or other jurisdiction (Commission (IRS Employer
of incorporation) File Number) Identification No.)
425 Winter Road, Delaware, Ohio 43015
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (740) 549-6000
Not Applicable
(Former name or former address, if changed since last report.)

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Section 2 – Financial Information

Item 2.02. Results of Operations and Financial Condition.

On August 30, Greif, Inc. (the “Company”) issued a press release (the “Earnings Release”) announcing the financial results for its third quarter ended July 31, 2018. The full text of the Earnings Release is attached as Exhibit 99.1 to this Current Report on Form 8-K.

The Earnings Release included the following non-GAAP financial measures (the “non-GAAP Measures”):

- (i) the Company's consolidated operating profit, before special items, for the third quarter of 2018 and the third quarter of 2017, which is equal to the Company's consolidated operating profit for the applicable period plus restructuring charges, plus acquisition-related costs, plus non-cash asset impairment charges, less gains on disposal of properties, plants, equipment and businesses, net, each on a consolidated basis for the applicable period;
- (ii) the Company's net income, excluding the impact of special items, for the third quarter of 2018 and the third quarter of 2017, which is equal to the Company's consolidated net income for the applicable period plus restructuring charges, plus acquisition-related costs, plus non-cash asset impairment charges, plus non-cash pension settlement charges, less gains on disposal of properties, plants, equipment and businesses, net, each net of tax, noncontrolling interest and equity earnings of unconsolidated affiliates and on a consolidated basis for the applicable period;
- (iii) the Company's earnings per diluted class A share, excluding the impact of special items, for the third quarter of 2018 and the third quarter of 2017, which is equal to earnings per diluted class A share of the Company for the applicable period plus restructuring charges, plus acquisition-related costs, plus non-cash asset impairment charges, plus non-cash pension settlement charges, less gains on disposal of properties, plants, equipment and businesses, net, each net of tax, noncontrolling interest and equity earnings of unconsolidated affiliates and on a consolidated basis for the applicable period;
- (iv) the Company's income tax rate, excluding the impact of special items, for the third quarter of 2018, which is equal to the Company's consolidated tax expense for such period plus the tax expense (benefit) of restructuring charges, plus the tax expense (benefit) of acquisition-related costs, plus the tax expense (benefit) of non-cash asset impairment charges, plus the provisional net tax benefit resulting from the Tax Cuts and Jobs Act of 2017 (the “Tax Reform Act”), plus the tax expense (benefit) of non-cash pension settlement charges, less the tax expense (benefit) of gains on disposal of properties, plants, equipment and businesses, net, divided by the Company's consolidated income before income tax expense and equity earnings of unconsolidated affiliates, net for such period plus restructuring charges, plus acquisition-related costs, plus non-cash asset impairment charges, plus non-cash pension settlement charges, less gains on disposal of properties, plants, equipment and businesses, net, each on a consolidated basis for such period;
- (v) the Company's consolidated free cash flow excluding the additional U.S. pension contribution for the third quarter of 2018 and the third quarter of 2017, which is equal to the Company's consolidated net cash provided by operating activities, excluding the one-time \$65.0 million contribution by the Company during the third quarter of 2018 to its U.S. defined benefit plan, for the applicable period less cash paid for purchases of properties, plants and equipment for the applicable period;
- (vi) net sales excluding foreign currency translation for the Company's Rigid Industrial Packaging & Services business segment for the third quarter of 2018 and the third quarter of 2017, which is equal to that business segment's net sales for the applicable quarter, after adjusting such sales for the third quarter of 2018 for foreign currency translation;
- (vii) operating profit before special items for the Company's Rigid Industrial Packaging & Services business segment for the third quarter of 2018 and the third quarter of 2017 which is equal to that business segment's operating profit plus restructuring charges, plus acquisition-related costs, plus non-cash asset impairment charges, less gains on disposal of properties, plants, equipment and businesses, net, each for the applicable period;
- (viii) operating profit before special items for the Company's Paper Packaging & Services business segment for the third quarter of 2018 and the third quarter of 2017 which is equal to that business segment's operating profit plus restructuring charges, each for the applicable period;

- net sales excluding foreign currency translation for the Company's Flexible Products & Services business segment
- (ix) for the third quarter of 2018 and the third quarter of 2017, which is equal to that business segment's net sales for the applicable quarter, after adjusting such sales for the third quarter of 2018 for foreign currency translation;
- operating profit before special items for the Company's Flexible Products & Services business segment for the third
- (x) quarter of 2018 and the third quarter of 2017, which is equal to that business segment's operating profit plus restructuring charges, less gains on disposal of properties, plants, equipment and businesses, net, each for the applicable period; and
- operating profit before special items for the Company's Land Management business segment for the third quarter
- (xi) of 2018 and the third quarter of 2017, which is equal to that business segment's operating profit less gains on disposal of properties, plants, equipment and businesses, net, each for the applicable period.

The Earnings Release also included the following forward-looking non-GAAP measures:

- (i) the Company's full year 2018 Class A earnings per share before special items guidance, which is equal to earnings per diluted class A share of the Company for such period plus restructuring charges, plus acquisition-related costs, plus non-cash asset impairment charges, plus non-cash pension settlement charges, plus the provisional net tax benefit resulting from the Tax Reform Act, less gains on disposal of properties, plants, equipment and businesses, net, each net of tax, noncontrolling interest and equity earnings of unconsolidated affiliates and on a consolidated basis for such period; and
- (ii) the Company's full year 2018 tax rate guidance, excluding the impact of special items, which is equal to the Company's consolidated tax expense for such period plus the tax expense (benefit) of restructuring charges, plus the tax expense (benefit) of acquisition-related costs, plus the tax expense (benefit) of non-cash asset impairment charges, plus the provisional net tax benefit resulting from the Tax Reform Act, plus the tax expense (benefit) of non-cash pension settlement charges, less the tax expense (benefit) of gains on disposal of properties, plants, equipment and businesses, net, divided by the Company's consolidated income before income tax expense and equity earnings of unconsolidated affiliates, net for such period plus restructuring charges, plus acquisition-related costs, plus non-cash asset impairment charges, less gains on disposal of properties, plants, equipment and businesses, net, each on a consolidated basis for such period; and
- (iii) the Company's full year 2018 projected free cash flow guidance, which is equal to the Company's consolidated net cash provided by operating activities for such period and scenario less cash paid for capital expenditures for the applicable period and scenario. A reconciliation of this forward-looking non-GAAP financial measure was included in the Earnings Release.

No reconciliation of the forward-looking non-GAAP financial measures were included in the Earnings Release for items (i) and (ii) because, due to the high variability and difficulty in making accurate forecasts and projections of some of the excluded information, together with some of the excluded information not being ascertainable or accessible, the Company is unable to quantify certain amounts that would be required to be included in the most directly comparable GAAP financial measures without unreasonable efforts.

Management of the Company uses the non-GAAP Measures to evaluate ongoing operations and believes that these non-GAAP Measures are useful to investors. The exclusion of the impact of the identified special items (restructuring charges, acquisition-related costs, non-cash asset impairment charges, non-cash pension settlement charges, the provisional net tax benefit resulting from the Tax Reform Act and disposals of properties, plants, equipment and businesses, net) enable management and investors to perform meaningful comparisons of current and historical performance of the Company. Management of the Company also believes that the exclusion of the impact of the identified special items provide a stable platform on which to compare the historical performance of the Company and that investors desire this information. Management believes that the use of consolidated free cash flow, which excludes cash paid for capital expenditures from the Company's consolidated net cash provided by operating activities, provides additional information on which to evaluate the cash flow generated by the Company and believes that this is information that investors find valuable. The non-GAAP Measures are intended to supplement and should be read together with our financial results. The non-GAAP Measures should not be considered an alternative or substitute for, and should not be considered superior to, our reported financial results. Accordingly, users of this

financial information should not place undue reliance on the non-GAAP Measures.

Section 7 – Regulation FD

Item 7.01. Regulation FD Disclosure.

On August 30, 2018, management of the Company held a conference call with interested investors and financial analysts (the “Conference Call”) to discuss the Company’s financial results for its third quarter ended July 31, 2018. The file transcript of the Conference Call is attached as Exhibit 99.2 to this Current Report on Form 8-K.

Section 9 – Financial Statements and Exhibits

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

Exhibit No. Description

<u>99.1</u>	Press release issued by Greif, Inc. on August 29, 2018 announcing the financial results for its third quarter ended July 31, 2018
<u>99.2</u>	File transcript of conference call with interested investors and financial analysts held by management of Greif, Inc. on August 30, 2018.

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 hereunto duly authorized.

GREIF, INC.

Date: September 4, 2018 By/s/ Lawrence A. Hilsheimer

Lawrence A. Hilsheimer,

Executive Vice President and Chief Financial Officer

D> (198,771)

Current income tax expense (benefit)

36,082 (1,842) 217,447 8,158

Deferred income tax expense (benefit)

377,982 123,402 (12,151) 120,783

Net investment (loss)

(414,214) (35,494) (161,545) (327,712)

Realized and unrealized gain (loss) on investments:

Net gain on sales and dispositions

555,000 292,633 516,204 519,527

Unrealized appreciation (depreciation) on investments:

Beginning of period

9,735,146 487,020 9,616,025 (342,028)

End of period

8,822,146 193,516 8,822,146 193,516

Change in unrealized appreciation (depreciation) before income taxes

(913,000) (293,504) (793,879) 535,544

Deferred income tax (benefit) expense

(421,115) (117,402) (377,529) 214,217

Net change in unrealized appreciation (depreciation) on investments

(491,885) (176,102) (416,350) 321,327

Net realized and unrealized gain on investments

63,115 116,531 99,854 840,854

Net (decrease) increase in net assets from operations

\$(351,099) \$81,037 \$(61,691) \$513,142

Weighted average shares outstanding

5,718,934 5,718,934 5,718,934 5,718,934

Basic and diluted net (decrease) increase in net assets from operations per share

\$(0.06) \$0.01 \$(0.01) \$0.09

See accompanying notes

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Rand Capital Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2007 and 2006
(Unaudited)

	September 30, 2007	September 30, 2006
Cash flows from operating activities:		
Net (decrease) increase in net assets from operations	\$ (61,691)	\$ 513,142
Adjustments to reconcile net (decrease) increase in net assets to net cash used in operating activities:		
Depreciation and amortization	25,487	20,603
Original issue discount accretion	(62,333)	
Decrease in unrealized appreciation of investments	793,879	(535,544)
Deferred tax benefit	(389,547)	335,000
Net realized gain on portfolio investments	(516,204)	(519,527)
Non-cash conversion of debenture interest	(50,000)	(12,877)
Changes in operating assets and liabilities:		
Increase in interest receivable	(85,013)	(189,098)
Increase in prepaid income taxes	(207,130)	
(Increase) decrease in other assets	(59,244)	61,985
(Decrease) in income taxes payable	(410,575)	
(Decrease) in accounts payable and accrued expenses	(230,833)	(21,849)
(Decrease) in deferred revenue	(24,635)	(69,123)
Total adjustments	(1,216,148)	(930,430)
Net cash used in operating activities	(1,277,839)	(417,288)
Cash flows from investing activities:		
Investments originated	(1,030,010)	(1,820,622)
Proceeds from sale of portfolio investments	255,440	1,397,831
Proceeds from loan repayments	1,885,414	773,927
Capital expenditures	(1,350)	(12,256)
Net cash provided by investing activities	1,109,494	338,880
Cash flows from financing activities:		
Proceeds from SBA debenture		900,000
Origination costs to SBA		(19,125)
Net cash provided by financing activities		880,875
Net (decrease) increase in cash and cash equivalents	(168,345)	802,467

Cash and cash equivalents:

Beginning of period	4,299,852	1,209,839
End of period	\$ 4,131,507	\$ 2,012,306

See accompanying notes

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Rand Capital Corporation and Subsidiaries
Condensed Consolidated Statements of Changes in Net Assets
For the Three Months and Nine Months Ended September 30, 2007 and 2006
(Unaudited)

	Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Net assets at beginning of period	\$ 17,388,066	\$ 9,048,039	\$ 16,782,405	\$ 8,615,934
Cumulative effect adjustment for uncertain tax positions FIN 48			316,253	
Net investment loss	(414,214)	(35,494)	(161,545)	(327,712)
Net realized gain on investments	555,000	292,633	516,204	519,527
Net change in unrealized appreciation (depreciation) of investments	(491,885)	(176,102)	(416,350)	321,327
Net (decrease) increase in net assets from operations	(351,099)	81,037	(61,691)	513,142
Net assets at end of period	\$ 17,036,967	\$ 9,129,076	\$ 17,036,967	\$ 9,129,076

See accompanying notes

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Rand Capital Corporation and Subsidiaries
Condensed Consolidated Schedule of Portfolio Investments
September 30, 2007
(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
Allworx Corp. (g) East Rochester, NY. Manufactures and distributes a line of converged voice and data networking products for small businesses (SMBs). www.alloworxcorp.com	943,396 shares Series A Preferred. Warrants to purchase 311,320 common shares.	7/22/07	3%	500,000	500,000	.09
APF Group, Inc. (g)(h) 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	\$584,328 Consolidated Senior Subordinated note at 13.99% due June 30, 2011. Warrants to purchase 10,2941 shares of common stock.	7/8/04	6%	566,504	566,504	.10
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 11%. Redeemable January 31, 2010. 5% common membership interest.	1/30/04	5%	1,000,000	1,227,000	.21
Contract Staffing (e) Buffalo, NY. PEO providing human resource administration for small businesses. www.contract-staffing.com	Preferred Stock Repurchase Agreement through March 31, 2010 at 5%.	11/8/99	10%	141,400	141,400	.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.	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%	680,254	680,254	.12
G-TEC Natural Gas Systems Buffalo, NY. Manufactures and distributes systems that allow natural gas to be used as an alternative fuel to gases. www.gas-tec.com	33.057% Class A membership interest. 8% cumulative dividend.	8/31/99	33%	400,000	198,000	.03
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.	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%	1,506,044	1,221,568	.21
New Monarch Machine Tool, Inc. (e)(g)(h) Cortland, NY. Manufactures and services vertical/horizontal machining centers. www.monarchmt.com	\$527,877 note at 12% due January 13, 2009. \$300,000 note at 12% due January 13, 2009. Warrants for 22.84 shares of common stock.	9/24/03	15%	565,270	565,270	.10

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Rand Capital Corporation and Subsidiaries
Condensed Consolidated Schedule of Portfolio Investments
September 30, 2007 (Continued)
(Unaudited)

Company and Business	Type of Investment	(b) Date Acquired	(c) Equity	Cost	(d) Value	Per Share of Rand
Niagara Dispensing Technologies, Inc. (e)(g) Tonawanda, NY. Beverage dispensing technology development and products manufacturer, specializing in beer dispensing systems. www.exactpour.com	\$500,000 Senior Subordinated note at 8% due March 7, 2011. Adjustable warrant for 4% of common stock. 200 shares common stock. \$250,000 Promissory Note at 14% due July 10, 2008.	3/8/06	4%	790,010	790,010	.14
Photonic Products Group, Inc (OTC:PHPG.OB) (i) Northvale, NJ. Develops and manufactures products for laser photonics industry. www.inrad.com	100 shares convertible Series B preferred stock, 10% dividend. (a) 26,000 shares common stock.	10/31/00	<1%	165,000	172,000	.03
RAMSCO (e)(g)(h) 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, Inc. (g) Rochester, NY. Communications service provider of satellite TV, broadband internet and VoIP digital phone targeting multiple dwelling units. www.rocketbroadband.com	285,829 Series A Preferred shares. 247,998 Series A-1 Preferred shares. 996,441 Series B Preferred shares	12/20/05	11%	680,000	680,000	.12
Somerset Gas Transmission Company, LLC (e)	26.5337 Units.	7/10/02	2%	719,097	786,748	.14

Columbus, OH. Natural gas transportation company.
www.somersetgas.com

Synacor Inc. (g) Buffalo, NY. Develops provisioning platforms for aggregation and delivery of content for broadband access providers. www.synacor.com	200,000 shares of Series B preferred stock. 78,186 Series A preferred shares. 80,126 Series C preferred shares. Warrants for 299,146 common shares.	11/18/02	4%	999,478	3,818,000	.67
Topps Meat Company LLC (e)(g) Elizabeth, NJ. Producer and supplier of premium branded frozen hamburgers and other portion controlled meat products. www.toppsmeat.com	Preferred A and Class A common membership interest.	4/3/03	3%	595,000	0	.00
Ultra Scan Corporation Amherst, NY. Biometrics application developer of ultrasonic fingerprint technology. www.ultra-scan.com	536,596 common shares, 107,104 Series A-1 preferred shares. (g) 95,284 Series A-1 preferred shares.	12/11/92	4%	938,164	1,203,000	.21
WineIsIt.com, Corp. (e) Amherst, NY. Marketing company specializing in customer loyalty programs supporting the wine and spirit industry. www.wineisit.com	\$20,000 note at 12% due April 26, 2007. (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.	12/18/02	2%	821,918	100,000	.02
Other Investments	Various			615,344	28,833	.02
	Total portfolio investments			\$13,551,483	\$22,373,628	\$3.91

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Rand Capital Corporation and Subsidiaries
Condensed Consolidated Schedule of Portfolio Investments
September 30, 2007 (Continued)
(Unaudited)

Notes to Consolidated Schedule of Portfolio Investments

- (a) Unrestricted securities are freely marketable securities having readily available market quotations. All other securities are restricted securities, which are subject to one or more restrictions on resale and are not freely marketable. At September 30, 2007 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 its 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 September 30, 2007, the aggregate cost of investment securities approximated \$13.6 million. Net unrealized appreciation aggregated approximately \$8.8 million, of which \$11.2 million related to appreciated investment securities and \$2.4 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.
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Rand Capital Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
For the Nine Months Ended September 30, 2007 and 2006
(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. Rand continues to operate as a publicly held venture capital company, listed on the NASDAQ Capital Market tier of the NASDAQ Stock 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 September 30, 2007, 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. Rand SBIC was approved to obtain SBA leverage at a 2:1 matching ratio, resulting in a total capital pool eligible for investment of \$15 million. 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 a 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

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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 seek 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 had 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 SBICs, 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 discussions 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. Based on the current status of these discussions, 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

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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 September 30, 2007 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, 2006. Information contained in this filing should also be reviewed in conjunction with the Corporation's related filings with the SEC during the period of time 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, 2006
Form 10-Q	Quarterly Report on Form 10-Q for the quarters ended June 30, 2007, March 31, 2007 and September 30, 2006
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.

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.

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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 one OID for the period ending September 30, 2007 that was fully accreted into income due to the fact that the underlying debt instrument was paid in full. The OID accreted into income during the nine months ended September 30, 2007 was \$62,333.

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 \$20,987 for the nine months ended September 30, 2007, compared to \$19,470 for the nine months ended September 30, 2006.

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 during the nine months ended September 30, 2007 and 2006 amounted to \$842,960 and \$9,151, respectively. Interest paid during the nine months ended September 30, 2007 and 2006 amounted to \$468,184 and \$392,080, respectively. During the nine months ended September 30, 2007 and 2006, the Corporation converted \$50,000 and \$12,877, respectively, of interest receivable into equity investments.

Accounting Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Stockholders Equity (Net Assets) At September 30, 2007 and December 31, 2006, 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 the nine month periods ended September 30, 2007 and 2006 the Corporation did not purchase any shares for the treasury.

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Stock Option Plan In July 2001, the stockholders of the Corporation authorized the establishment of an Employee Stock Option Plan (the Plan). The Plan provides for the award of options to purchase up to 200,000 common shares to eligible employees. In 2002, the Corporation placed the Plan on inactive status as it developed a new profit sharing plan for the Corporation's employees in connection with the establishment of its SBIC subsidiary. As of September 30, 2007 and 2006, 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.

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 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 since the initial adoption in the first quarter of 2007.

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 January 1, 2007 and September 30, 2007.

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 2006. The Corporation's state income tax returns are open to audit under the statute of limitations for the years ended December 31, 2004 through 2006.

The prepaid income taxes balance at September 30, 2007 represents 2007 estimated tax payments that the Corporation estimates will be refundable based on its current 2007 taxable income.

Concentration of Credit Risk At September 30, 2007 Innov-X Systems, Inc. and Synacor Inc. represent 39% and 17%, respectively, of the fair value of the Corporations investment portfolio.

Table of Contents**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, 2006 Form 10-K in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations .

Table of Contents**Financial Condition**

Overview:

	9/30/07	12/31/06	Increase (Decrease)	% (Decrease)
Total assets	\$28,346,663	\$29,463,944	(\$ 1,117,281)	(3.8%)
Total liabilities	11,309,696	12,681,539	(1,371,843)	(10.8%)
Net assets	\$17,036,967	\$16,782,405	\$ 254,562	1.5%

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.

	9/30/07	12/31/06	(Decrease)	% (Decrease)
Investments, at cost	\$13,551,483	\$14,033,789	(\$ 482,306)	(3.4%)
Unrealized appreciation, net	8,822,146	9,616,025	(793,879)	(8.3%)
Investments at fair value	\$22,373,629	\$23,649,814	(\$1,276,185)	(5.4%)

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

	Amount
New Investments:	
Allworx Corp. (Allworx)	\$ 500,000
RAMSCO (Ramsco)	300,000
Rocket Broadband Networks, Inc. (Rocket)	280,000
Niagara Dispensing Technologies, Inc. (Niagara Dispensing)	250,010
Total of investments made during the nine months ended September 30, 2007	\$ 1,330,010
Other Changes to investments:	
Adampluseve, Inc. (Adampluseve) warrant accretion	62,333
Niagara Dispensing interest conversion	40,000
Photonics interest conversion	10,000
Total of new investments and changes to investments during the nine months ended September 30, 2007	\$ 1,442,343

Sales/Investment Repayments

Ramsco	(819,428)
Adampluseve	(561,000)
UStec, Inc. (UStec)	(350,000)
New Monarch Machine Tool, Inc. (Monarch)	(127,393)
Gemcor II, LLC (Gemcor)	(42,679)
APF Group, Inc. (APF)	(19,984)
Takeform	(4,165)

Total of sales and investment repayments during the nine months ended September 30, 2007 (1,924,649)

Total change in investment balance, at cost during the nine months ended September 30, 2007 (\$ 482,306)

Net asset value (NAV) per share was \$2.98/share at September 30, 2007 versus \$2.93/share at December 31, 2006.

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The Corporation's total investments at fair value, whose fair value have been estimated by the Board of Directors, approximated 131% of net assets at September 30, 2007 and 141% of net assets at December 31, 2006.

Cash and cash equivalents approximated 24% of net assets at September 30, 2007 compared to 26% at December 31, 2006.

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. 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 idle cash balances. The investment income is impacted by the Corporation's ability to fund investments that fit its strategic profile and the level of liquidity events within its investment portfolio which can not be predicted with any certainty.

Comparison of the nine months ended September 30, 2007 to the nine months ended September 30, 2006

	September 30, 2007	September 30, 2006	Increase (Decrease)	% Increase (Decrease)
Interest from portfolio companies	\$ 474,962	\$ 539,783	(\$64,821)	(12.0%)
Interest from other investments	133,853	24,856	108,997	438.5%
Dividend and other investment income	586,291	191,994	394,297	205.4%
Other income	26,637	63,910	(37,273)	(58.3%)
Total investment income	\$1,221,743	\$ 820,543	\$ 401,200	48.9%

Interest from portfolio companies The portfolio interest income decrease can be attributed to the fact that four debenture instruments Concentrix Corporation (Concentrix), Innov-X Systems, Inc.(Innov-X), UStec and Synacor Inc (Synacor) that contributed to portfolio interest income for the nine months ended September 30, 2006 were either repaid or converted into equity instruments during the last six months of 2006 and the first quarter of 2007, thereby reducing portfolio interest income during the nine months ended September 30, 2007.

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

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

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Company	Interest Rate	Investment Cost	Year that Interest Accrual Ceased
Contract Staffing	5%	\$ 141,400	2006
G-Tec	8%	400,000	2004
UStec	5%	100,000	2006
WineIsIt.com	10%	821,918	2005

Interest from other investments The increase in interest income is primarily due to higher yields on idle cash balances and the fact that the cash balance was \$2,119,201 higher at September 30, 2007 than at September 30, 2006.

Dividend and other investment income Dividend income is comprised of distributions from Limited Liability Companies (LLC s) in which the Corporation has invested. The Corporation s investment agreements with certain LLC s require the entities to distribute funds to the Corporation for payment of income taxes on its allocable share of the entities profits. These dividends will fluctuate based upon the profitability of the entities and the timing of the distributions. Dividend income for the nine months ended September 30, 2007 consisted of distributions from Gemcor II, LLC (Gemcor) for \$494,807, Carolina Skiff LLC (Carolina Skiff) for \$39,069, Somerset Gas Transmission Company, LLC (Somerset) for \$36,789, Topps Meat Company LLC (Topps) for \$14,944 and Vanguard Modular Building Systems (Vanguard) for \$682. Dividend income for the nine months ended September 30, 2006 consisted of distributions from Topps for \$22,752, Gemcor for \$159,087, Carolina Skiff for \$8,981 and Vanguard for \$1,174.

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.

Other income decreased due to the fact that the Corporation only charged two portfolio companies closing fees in 2006 and the first nine months of 2007. The annualized financing fee income based on the existing portfolio will be approximately \$30,000 in 2007 and less than \$10,000 annually thereafter.

Operating Expenses***Comparison of the nine months ended September 30, 2007 to the nine months ended September 30, 2006***

	September 30, 2007	September 30, 2006	Increase	% Increase
Total Expenses	\$ 1,177,992	\$ 1,019,314	\$ 158,678	16%

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

The increase in operating expenses during the nine months ended September 30, 2007 can be attributed to the 56% or \$53,614 increase in professional fees. This line item is comprised of audit and

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legal fees. The audit and tax expense increased 22% or \$11,564 from September 30, 2006 to September 30, 2007. The legal fees expense were \$85,824 and \$43,774 for the nine months ended September 30, 2007 and 2006, respectively. This \$42,050, or 96%, increase in legal fees can be attributed to the proposed 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 in either the fourth quarter of 2007 or the first quarter of 2008.

Interest expense also increased 9% or \$30,662 in the current nine month period ending September 30, 2007. The Corporation has borrowed \$8,100,000 from the SBA as of September 30, 2007 at an average borrowing rate, including surcharges, of approximately 5.9%. The Corporation expects that interest costs will continue to increase in 2007 and beyond as it continues to draw down SBA leverage up to the maximum approved leverage of \$10 million. The Corporation may draw the remaining SBA leverage of \$1,900,000 in 2008. This interest is paid on a semi-annual basis.

In addition, director fee expense increased 45% or \$20,750 from \$46,500 for the nine months ended September 30, 2006 to \$67,250 for the nine months ended September 30, 2007. This increase is attributable to the increased directors annual retainer and meeting fees.

Net Realized Gains and Losses on Investments

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

During the nine months ended September 30, 2006, the Corporation recognized a net realized gain of \$600,527 on its sale of 448,341 shares of Minrad. The average sales price of Minrad was \$2.75/share and the basis of the stock was \$1.36/share. In addition, the Corporation sold its interest in Vanguard during the nine months ended September 30, 2006 and recognized an (\$81,000) loss on the disposition.

Net Change in Unrealized Appreciation (Depreciation) of Investments

The Corporation recorded a net decrease in unrealized appreciation on investments of \$(793,879) during the nine months ended September 30, 2007, as compared to an increase of \$535,544 during the nine months ended September 30, 2006. The decrease of \$(793,879) in unrealized appreciation on investments is due to the following valuation changes made by the Corporation:

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

The Topps investment was revalued to zero during the third quarter when the plant that produces its frozen meat products was forced to recall its frozen hamburgers products. Topps announced on October 5, 2007 that because of the economic impact of the recall it closed its Elizabeth, NJ plant. The Corporation will reevaluate its investment in Topps at December 31, 2007 to determine if it should convert Topps to a realized loss.

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

Photonics 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 two amendments to the S-1 registration statement in October 2007. 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 occurred in the third quarter of 2007 with respect to the Synacor investment.

The Corporation recorded a net increase in unrealized appreciation on investments of \$535,544 during the nine months ended September 30, 2006. The increase was due to the following valuation changes made by the Corporation:

	September 30, 2006
Minrad valuation to market	\$ 829,717
Increase Carolina Skiff valuation	189,000
Vanguard Sale	135,000
Photonics valuation to market	(7,920)
Decrease Wineisit valuation	(176,918)
Minrad Stock Sales	(433,335)
Total change in net unrealized appreciation during the nine months ended September 30, 2006	\$ 535,544

The Corporation recognized appreciation on its equity investment in Carolina Skiff based on the improving financial condition of this portfolio company since the Corporation's first investments. Per the Corporation's valuation policy, a portfolio company can be valued based on a very conservative financial measure if the portfolio company has been self-financing and has had positive cash flow from operations for at least the past two fiscal years. These portfolio companies were valued on a multiple of earnings before interest, tax, depreciation and amortization (EBITDA).

The Corporation held 229,640 shares of Minrad stock at September 30, 2006. These shares were valued at the average closing price for the last three days of the period ending September 30, 2006.

For the period ending September 30, 2006 Photonics, which was a publicly traded stock (NASDAQ symbol: PHPG.OB), was marked to market at the end of the quarter.

The Wineisit investment was revalued during the nine month period ended September 30, 2006 after a review by management which identified that the Wineisit business model had deteriorated since the time of the original funding, as compared to their original plan. Wineisit remains in operation and has developed a new business strategy.

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

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consolidated statements of operations. For the nine months ended September 30, 2007, the net decrease in net assets from operations was (\$61,691) as compared to a net increase in net assets from operations of \$513,142 for the same nine month period in 2006. The decrease for the period ending September 30, 2007 is attributed to the decrease of (\$793,879) in unrealized appreciation in the current year. The net investment (loss) was (\$161,545) and (\$327,712) for the periods ending September 30, 2007 and 2006, respectively. This represents a \$166,167 increase in net investment income during the current nine month period which is due to improved investment income from the Corporation's portfolio investments.

Liquidity and Capital Resources

The Corporation's investment objective is to achieve long-term capital appreciation on its equity investments while maintaining a current cash flow from its debenture and pass through equity instruments. The equity features of our investment portfolio are structured to realize capital appreciation over the long-term and may not necessarily generate current income in the form of dividends or interest.

As of September 30, 2007, the Corporation's total liquidity, consisting of cash and cash equivalents, totaled \$4,131,507.

As of September 30, 2007 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 September 30, 2007. These SBA borrowings will have balloon maturities beginning in 2014. Management expects that it will not be necessary to draw down the SBA leverage for the remainder of 2007, and that the large cash balance will be adequate to fund new investments and operating activities. The Corporation may draw the remaining \$1,900,000 in outstanding SBA leverage during fiscal year 2008, prior to the expiration of the commitment, to fund operations and new investments.

Management believes that the cash and cash equivalents at September 30, 2007, coupled with the additional SBIC leverage draw downs and 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 (depreciation).

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

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orderly fashion or a willing purchaser must be available when a sale is to be made. Should an economic or other event occur that would not allow the markets to trade in an orderly fashion, the Corporation may not be able to realize the fair value of its marketable investments or other investments in a timely manner.

As of September 30, 2007 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.

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**PART II.
OTHER INFORMATION**

Item 1. Legal Proceedings

On June 8, 2007 Rand and Rand SBIC were named as defendants, together with Summer Street Capital Funds (lead investor), Onondaga Venture Capital Fund, Inc. and the directors of 331 Holdings, Inc. (UStec), in a complaint filed in State of New York Supreme Court, County of Monroe. The complaint requests damages of \$10,000,000 or such greater or lesser sum as shall be equal to all of the plaintiffs' damages to be proven on the trial of this action. The damages arise out of an alleged breach of a letter agreement entered into by Rand, Rand SBIC and other shareholders of the portfolio company in connection with the transfer of certain patents to the plaintiffs. Rand and Rand SBIC and the other defendants have filed a timely answer to the complaint and believe the suit is without merit and intend to vigorously defend the matter.

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 (depreciation).

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.

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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 far above average amount of risk and volatility and may well result in loss of principal. The Corporation's 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.

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.

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.

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The Corporation may face litigation risks relating to investments that could have a material effect on the operation of our business.

One action has been filed against the Corporation in connection with a former investment. See Part II, Item 1.

Legal Proceedings for a more detailed description of these proceedings. The Corporation may be subject to other litigation or government investigations arising in connection with our investments and operations. These proceedings may be time-consuming, expensive and disruptive to normal business operations, and the outcome of any such proceeding is difficult to predict. The defense of such lawsuits or investigations could result in significant expense and the diversion of our management's time and attention from the operation of our business, which could impede our ability to achieve our business objectives.

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

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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 Limited Partnership of Rand Capital SBIC, L.P. incorporated by reference to Exhibit 10.4 to the Corporation's Form 10-K filed for the year ended December 31, 2001.
- (10.5) Limited Liability Corporation Agreement of Rand Capital Management, LLC incorporated by reference to Exhibit 10.5 to the Corporation's Form 10-K Report filed for the year ended December 31, 2001.
- (10.6) Certificate of Formation of Rand Capital Management, LLC incorporated by reference to Exhibit 10.6 to the Corporation's Form 10-K Report filed for the year ended December 31, 2001.
- (10.7) 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 filed herewith
- (32.2) Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 Rand Capital SBIC, L.P. filed herewith

* Management contract or compensatory plan.

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Signatures

Pursuant to the requirements of Section 13 or 15(d) of Securities Exchange Act of 1934, the registrant has duly caused this Report on Form 10-Q to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: November 5, 2007

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