

RAND CAPITAL CORP  
Form DEF 14A  
March 27, 2008

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

**SCHEDULE 14A**

(RULE 14a-101)

**SCHEDULE 14A INFORMATION**

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No. \_\_\_\_\_ )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only (as permitted by**

**Rule 14a-6(e)(2))**  Definitive Proxy Statement  Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

**Rand Capital Corporation**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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**Rand Capital Corporation**

**2200 Rand Building**

**Buffalo, New York 14203**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**TO OUR SHAREHOLDERS**

The 2008 Annual Meeting of Shareholders of Rand Capital Corporation will be held on Monday, April 28, 2008 at 10:30 a.m. in Room 300, Rand Building, 14 Lafayette Square, Buffalo, New York, for the following purposes:

1. To elect seven Directors to hold office until the next annual meeting of shareholders and until their successors have been elected and qualified.

2. To consider and act upon such other business as may properly come before the meeting.

Shareholders of record at the close of business on March 14, 2008 are entitled to notice of, and to vote at the meeting, and any adjournment thereof.

April 3, 2008  
Buffalo, New York

By order of the Board of Directors,  
Reginald B. Newman II  
Chairman

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Proxy Statement Rand Capital Corporation

**Rand Capital Corporation  
2200 Rand Building  
Buffalo, New York 14203  
Proxy Statement**

**GENERAL INFORMATION**

We are furnishing this Proxy Statement in connection with the solicitation of proxies by the Board of Directors of Rand Capital Corporation for the Annual Meeting of Shareholders to be held on April 28, 2008. Only shareholders of record at the close of business on March 14, 2008, are entitled to notice of and to vote at the meeting, and at any adjournment thereof. On that date Rand had outstanding 5,718,934 Common Shares, par value \$.10 per share ( shares ).

Each share entitles the holder to one vote. Shares cannot be voted at the meeting unless the shareholder is present or represented by proxy. If the enclosed form of proxy is returned properly executed, the shares represented thereby will be voted at the meeting in accordance with the instructions contained in the proxy, unless the proxy is revoked prior to its exercise. Any shareholder may revoke a proxy by executing a subsequently dated proxy or a notice of revocation, provided that the subsequent proxy or notice is delivered to us prior to the taking of a vote, or by voting in person at the meeting.

Under the New York Business Corporation Law (the BCL ) and our by-laws, the presence, in person or by proxy, of the holders of a majority of the outstanding stock is necessary to constitute a quorum of the shareholders to take action at the annual meeting. The shares that are present at the meeting or represented by a proxy will be counted for quorum purposes. Proxies submitted with abstentions and broker non-votes will be counted in determining whether or not a quorum is present. Under the BCL and our by-laws, once a quorum is established, Directors standing for election may be elected by a plurality of the votes cast.

This Proxy Statement and accompanying form of proxy are being mailed to shareholders on or about April 3, 2008. A copy of Rand s 2007 Annual Report, which contains financial statements, accompanies this Proxy Statement.

We will bear the cost of soliciting proxies in the accompanying form. We do not expect to pay any compensation for the solicitation of proxies, but may pay brokers, nominees, fiduciaries and other custodians their reasonable fees and expenses for sending proxy materials to beneficial owners and obtaining their instructions. In addition to solicitation by mail, our Directors, officers and employees may solicit proxies in person or by telephone, and they will receive no additional compensation therefore.

Our office is located at 2200 Rand Building, Buffalo, New York 14203; telephone number 716-853-0802.

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## Proxy Statement Rand Capital Corporation

**BENEFICIAL OWNERSHIP OF SHARES**

Unless otherwise indicated, the following table sets forth beneficial ownership of our common shares on March 14, 2008, by (a) persons known by us to be beneficial owners of more than 5% of the outstanding shares, (b) the Directors, nominees for Director, and all the executive officers of Rand, (c) all Directors and executive officers as a group. Unless otherwise stated, each person named in the table has sole voting and investment power with respect to the shares indicated as beneficially owned by that person.

Beneficial Owner	Amount and Nature of Beneficial Ownership (1)	Percent of Class (4)
(a) More than 5% Owners:		
Brown Advisory Holdings Inc. (BAHI) 901 South Bond Street, Baltimore, MD	1,368,751(5)	23.9%
Willis S. McLeese c/o 2200 Rand Building, Buffalo, NY	800,000(2)	13.9%
Reginald B. Newman, II 50 North Airport Drive, Buffalo, NY	416,778	7.2%
(b) Directors, nominees for director and executive officers:		
Allen F. Grum	73,128	1.3%
Erland E. Kailbourne	10,000	*
Ross B. Kenzie	100,000	1.7%
Willis S. McLeese	800,000(2)	13.9%
Reginald B. Newman II	416,778	7.2%
Jayne K. Rand	149,016	2.6%
Robert M. Zak	20,000	*
Daniel P. Penberthy	50,000	*
(c) All Directors and executive officers as a group	1,618,922(3)	28%

\* Less than 1%

(1) The beneficial ownership information presented is based upon information furnished by each person or contained in filings made with the

Securities and  
Exchange  
Commission.

- (2) These shares are owned by Colmac Holdings, Ltd., a corporation of which Mr. McLeese is the Chairman and principal owner.
- (3) Except as indicated above, members of the group have sole voting and investment power over these shares.
- (4) Percent of Class calculated based on 5,718,934 common shares outstanding at Record Date.
- (5) Shares are owned by clients of Brown Advisory Services, LLC, a broker-dealer and investment advisory subsidiary of BAH. BAH has shared dispositive power but no voting power with respect to the shares. Shares were reported on a Schedule 13F filed by Brown



Advisory  
Security LLC  
on February 5,  
2008.

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Proxy Statement Rand Capital Corporation

**1. ELECTION OF DIRECTORS**

Seven Directors are to be elected at the meeting, each to serve until the next annual meeting of shareholders and until his or her successor has been elected and qualified. Unless marked to the contrary, the proxies received will be voted FOR the election of the seven nominees below.

Each of the nominees is presently a member of the Board of Directors and was recommended for election by the Governance and Nominating Committee, which is comprised of non-management, independent Directors. Each of the nominees has consented to serve as a Director, if elected. If at the time of the meeting any nominee should be unable to serve, it is the intention of the persons designated as proxies to vote, in their discretion, for such other person as may be designated as a nominee by the Board of Directors. Each of the nominees was elected at Rand's last Annual Meeting of Shareholders.

**Director Independence**

The Board of Directors affirmatively determined that four of the six non-management Directors, Erland E. Kailbourne, Ross B. Kenzie, Jayne K. Rand and Robert M. Zak are Independent Directors under the rules of the SEC and under the rules and guidelines of the National Association of Security Dealers (NASD) for NASDAQ listed companies and, therefore, that a majority of a corporation's seven-person Board of Directors is currently independent as so defined. The Board of Directors has determined that there are no relationships between Rand and the Directors classified as independent other than service on its Board of Directors and compensation paid to Directors.

Three of the Directors are deemed to be Interested Persons under Section 2(a)(19) of the Investment Company Act of 1940 with respect to Rand: Allen F. Grum because he is an executive officer of Rand, and Willis S. McLeese and Reginald B. Newman, II, because each of them beneficially owns more than 5% of Rand's outstanding common shares. Persons who are Interested Persons are not independent directors under the rules and guidelines of the NASD.

The independence determination of the Board of Directors under the SEC rules and under the NASD rules and guidelines also included conclusions of the Board of Directors that:

each of the members of the Audit Committee and of the Governance and Nominating Committee, and a majority of the members of the Compensation Committee are independent under the standards described above for purposes of membership on each of those committees;

the 2007 compensation of the senior executive officers was determined by a majority of the independent Directors of the Board; and

each of the members of the Audit Committee also meets the additional independence requirements under SEC Rule 10A-3(b) and NASDAQ Rule 4350(d).

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Mr. Kailbourne is currently serving as the lead independent Director for purposes of scheduling and setting the agenda for the executive sessions of the independent Directors. It is presently contemplated that these executive sessions will occur at least twice during the fiscal year ending December 31, 2008, in conjunction with regularly scheduled Board meetings, in addition to the separate meetings of the standing committees of the Board of Directors.

**Shareholder Communications**

Communications to an individual Director, to non-management Directors as a group, or to the entire Board, should be addressed as follows: Reginald B. Newman, II, Security Holder Board Communications, 2200 Rand Building, Buffalo, New York, 14203, with an indication of the individual or subgroup (if any) to whose attention the communication is directed. All security holder communications addressed in that manner will be delivered directly to Mr. Newman, who will receive communications for the Board and non-management Directors, and who will deliver the communication unopened to any individual indicated Director.

**Meeting Attendance**

Last year all Directors attended the Annual Meeting of Stockholders, and they are expected to do so this year. A meeting of the Board of Directors will take place on the same day and at the same place as the Annual Meeting of Stockholders, and Directors are expected to attend all Board and Committee meetings of Rand and the annual meeting of shareholders, but such attendance is not required.

**Information Regarding Directors, Nominees for Director, and Officers**

The following table provides information concerning all persons who are Directors, nominees for director, or officers of Rand. Rand is not part of a fund complex.

<b>Name, Age and Address</b>	<b>Position(s) held with Fund</b>	<b>Length of Time Served (1)</b>	<b>Principal Occupation During Last Five Years</b>	<b>Other Directorships</b>
<b>Directors who are Interested Persons</b> (2)				
Willis S. McLeese (94) c/o 2200 Rand Building Buffalo, NY 14203	Director	1986	Chairman of Colmac Holdings Limited, Toronto, Canada, which develops, owns and operates cogeneration and alternative energy electric power generating plants.	None

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<b>Name, Age and Address</b>	<b>Position(s) held with Fund</b>	<b>Length of Time Served (1)</b>	<b>Principal Occupation During Last Five Years</b>	<b>Other Directorships</b>
Reginald B. Newman II (69) 50 North Airport Drive Buffalo, NY 14225	Director and Chairman of Board	1987	Mr. Newman has been Chairman of the Board since 1996. Mr. Newman is the Chairman of Prior Aviation Services, Inc., the fixed base operator at Buffalo Niagara International Airport, Buffalo, NY. Mr. Newman is also a Director of M&T Bank Corporation, a financial institution headquartered in Buffalo, NY. He is a Director of Dunn Tire LLC and Taylor Devices, Inc. and also serves as Trustee and Chairman of the University at Buffalo Foundation, Inc.	Director of M&T Bank Corporation, Dunn Tire LLC and Taylor Devices.
Allen F. Grum (50) c/o 2200 Rand Building Buffalo NY 14203	President of Rand and a Director	1996	President and Chief Executive Officer. Prior thereto, Mr. Grum served as Senior Vice President of the Corporation commencing in June 1995. From 1994 to 1995, Mr. Grum was Executive Vice President of Hamilton Financial Corporation and from 1991-1994 he served as Senior Vice President of Marine Midland Mortgage Corporation. Mr. Grum serves on a number of Boards of Directors of companies in which the Corporation has an investment.	None
<b>Directors who are not Interested Persons</b>				
<b>Erland E. Kailbourne</b> (66) 220 Liberty Street P.O. Box 227 Warsaw, NY 14569	Director	1999	Chairman of Financial Institutions, Inc. and its subsidiary Five Star Bank since January 2006. From May 2002 until March 2003, Mr. Kailbourne was Chairman and Interim CEO of Adelphia Communications. (Adelphia filed a petition under Chapter 11 of the United States Bankruptcy Code in June 2002.) He retired as Chairman and Chief Executive Officer (New York Region) of Fleet National Bank, a banking subsidiary of Fleet Financial Group, Inc., in 1998. He was Chairman and Chief Executive Officer of Fleet Bank, also a subsidiary of Fleet Financial Group, Inc., from 1993 until its merger into Fleet National Bank in 1997. He is a Director of the New York ISO, The John R. Oishei Foundation, Albany International Corporation, Allegany Co-op Insurance Company, USA Niagara Development Corp. and the Farash Corporation and the Max and Marian Farash Foundation.	Chairman of Financial Institutions, Inc. and its subsidiary Five Star Bank, and Albany International



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## Proxy Statement Rand Capital Corporation

<b>Name, Age and Address</b>	<b>Position(s) held with Fund</b>	<b>Length of Time Served (1)</b>	<b>Principal Occupation During Last Five Years</b>	<b>Other Directorships</b>
<b>Ross B. Kenzie</b> (76) 369 Franklin Street Buffalo, NY 14202	Director	1996	Mr. Kenzie has been retired since 1989. Prior thereto, he was the Chairman of the Board and Chief Executive Officer of Goldome Bank, Buffalo, NY, a savings bank, since 1980. Prior thereto, Mr. Kenzie was Executive Vice President and Director of Merrill Lynch Pierce Fenner & Smith as well as Merrill Lynch & Co. Through 2006, Mr. Kenzie also served on the Board of Directors of Biophan Technologies, Inc. and Natural Nano, Inc., development companies specializing in highly marketable business devices and naturally occurring nanotube technologies; and is a former Director of Merchants Mutual Insurance Company.	
<b>Jayne K. Rand</b> (47) c/o 2200 Rand Building Buffalo, NY 14203	Director	1989	Since 1993, Miss Rand has been a Vice President of M&T Bank.	
<b>Robert M. Zak</b> (50) 250 Main Street Buffalo, NY 14202	Director	2005	Since 1995, Mr. Zak has been President and Chief Executive Officer of Merchants Mutual Insurance Company, which operates under the trade name Merchants Insurance Group. Mr. Zak joined Merchants in 1985. Prior to that, his career was in public accounting.	

**Non-Director Officers**

<b>Daniel P. Penberthy</b> (45) c/o 2200 Rand Building Buffalo, NY 14203	Executive Vice President and Treasurer of Rand	N/A	Mr. Penberthy has served as Treasurer of the Corporation since August 1997. Since January 2002, Mr. Penberthy has served as Senior Vice President, and he has continued to serve as the Chief Financial Officer since 1997. From 1993 to 1997, Mr. Penberthy served as Chief Financial Officer for both the Greater Buffalo Partnership (formerly the Chamber of Commerce) and the Greater Buffalo Convention and Visitors Bureau. Prior thereto, from 1990 to 1993, Mr. Penberthy served as a Senior Associate with the Greater Buffalo Development Foundation, a regional business development organization. Prior to 1990, Mr. Penberthy was employed by KPMG, a public accounting firm.	
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(1)

Indicates initial year in which person became director. All Directors terms of office will be through the next annual meeting of shareholders and until their successors have been elected and qualified.

- (2) Willis S. McLeese and Reginald B. Newman, II, each beneficially own more than 5% of Rand s outstanding securities, and Mr. Allen F. Grum is an officer of Rand, and are deemed to be Interested Persons under Section 2(a)(19) of the Investment Company Act of 1940.

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**Approximate Value of Investments in Rand**

The following table indicates the range of value as of March 14, 2008 of the common shares of Rand beneficially owned by each Director and nominee for Director of Rand. Rand is not part of a family of investment companies.

Name of Director or Nominee	Dollar Range of Equity Securities in the Fund
(a) Directors who are not Interested Persons:	
Erland E. Kailbourne	\$ 10,001 \$50,000
Ross B. Kenzie	Over \$100,000
Jayne K. Rand	Over \$100,000
Robert M. Zak	\$ 50,001 \$100,000
(b) Directors who are Interested Persons:	
Allen F. Grum	Over \$100,000
Willis S. McLeese	Over \$100,000
Reginald B. Newman, II	Over \$100,000

**COMMITTEES AND MEETING DATA**

**The Committees of the Board of Directors have the following members:**

<b>Compensation Committee</b>	<b>Governance and Nominating Committee</b>	<b>Audit Committee</b>
Ross B. Kenzie	Erland E. Kailbourne	Ross B. Kenzie
Willis S. McLeese	Jayne K. Rand	Erland E. Kailbourne
Jayne K. Rand	Robert M. Zak	Robert M. Zak

In 2007 the full Board met on four occasions, the Audit Committee met six times, the Governance and Nominating Committee met twice and the Compensation Committee met once. All incumbent Directors attended 100% of the total number of meetings of the Board of Directors and the total number of meetings of committees of the Board that the respective Director was eligible to attend during 2007.

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**Compensation Committee**

The Compensation Committee advises the independent members of the Board of Directors with respect to the compensation of senior executive officers and reviews the criteria that form the basis for management compensation.

The 2007 compensation levels of the President and Executive Vice President were submitted to the independent members of the Board of Directors, representing a majority of its membership, for approval.

The Compensation Committee has a Charter, a current copy of which can be accessed at Rand's website, [www.randcapital.com](http://www.randcapital.com).

**Governance and Nominating Committee**

The primary purposes of the Governance and Nominating Committee include:  
developing, recommending to the Board and assessing  
corporate governance policies for Rand;

overseeing the evaluation of the Board;

recommending to the Board of Directors the individuals  
qualified to serve on Rand's Board of Directors for election by  
shareholders at each annual meeting of shareholders and to fill  
vacancies on the Board of Directors.

The Governance and Nominating Committee has a Charter, a current copy of which can be accessed at Rand's website, [www.randcapital.com](http://www.randcapital.com). None of the persons on the Governance and Nominating Committee are interested persons as defined in section 2(a)(19) of the Investment Company Act of 1940.

**Nomination of Directors**

Our Governance and Nominating Committee, as part of the responsibilities under its Charter, performs nominating committee functions and oversees the identification of qualified individuals to serve on the Board.

We seek Directors who have the required and appropriate skills and characteristics including; business experience and personal skills in finance, marketing, business, and other areas that are expected to contribute to an effective board. We identify new Director candidates from prominent business persons and professionals in the communities Rand serves. We consider nominees of shareholders in the same manner as other nominees.

Once a Board vacancy occurs, the Governance and Nominating Committee may recommend a replacement candidate to the Board. The Board may appoint the new Director to fill the unexpired term of the seat. Annually, the Governance and Nominating Committee will recommend a slate of new and/or continuing candidates for the Board of Directors. The Board will select a slate of nominees for Director from recommendations of the Governance and Nominating

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**Proxy Statement Rand Capital Corporation**

Committee, and submit the slate of nominees to be voted on by shareholders at Rand's next Annual Meeting.

Our by-laws provide that an Annual Meeting of Shareholders shall be held on the fourth Tuesday in April, or such other time within 30 days before or after such date as the Chairman or Board of Directors shall determine. The number of Directors is determined by the Board of Directors, but in no event may it be less than three.

**Procedure for Shareholders to Nominate Directors**

Any shareholder who intends to present a Director nomination proposal for consideration at the 2009 Annual Meeting and intends to have that proposal included in the proxy statement and related materials for the 2009 Annual Meeting must deliver a written copy of the proposal to Rand no later than the deadline, and in accordance with the procedures, specified under "Shareholder Proposals" in this proxy statement, and in accordance with the requirements of SEC Rule 14a-8.

If a shareholder does not comply with the foregoing procedures, the shareholder may use the procedures set forth in Rand's by-laws, although Rand would not in the latter case be required to include the nomination as a proposal in its proxy statement and proxy card mailed to stockholders in connection with the next annual meeting.

The shareholder nomination proposal referred to above must set forth (1) the name and address of the shareholder who intends to make the nomination and of the person or persons to be nominated; (2) a representation that the shareholder is a shareholder of record of Rand common shares entitled to vote at the meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the proposal; (3) a description of the arrangements or understandings between the shareholder and each nominee or any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are being made by the shareholder; (4) such other information regarding each nominee proposed by the shareholder as would have been required to be included in a proxy statement filed under the proxy rules of the SEC had each nominee been nominated or intended to be nominated by the Board of Directors; and (5) the consent of each nominee to serve as a Director of the Corporation if elected. The Governance and Nominating Committee may refuse to acknowledge a proposal for the nomination of any person not made in accordance with the foregoing procedure. Recommendations for nominees should be sent to: Rand Capital Corporation, Attention: Board Nominations, 2200 Rand Building, Buffalo, New York 14203.

Rand did not receive any nominations from shareholders for the 2008 Board of Director election.

**Code of Business Conduct and Ethics**

Rand has adopted a Code of Ethics which applies to Rand's chief executive officer, chief financial officer, and controller, and a Business Ethics Policy applicable to Rand's Directors, officers and employees. The Code of Ethics and the Business Ethics Policy are available in the Governance section of Rand's website located at [www.randcapital.com](http://www.randcapital.com). They are also available in

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Proxy Statement Rand Capital Corporation

print to any shareholder who requests it. Rand will disclose any substantive amendments to or waiver from provisions of the Code of Ethics made with respect to the chief executive officer, chief financial officer or controller via its website.

**Audit Committee**

The Board of Directors has determined that the members of the Audit Committee are independent, as described above under Director Independence. The Board of Directors has determined that Ross B. Kenzie is an Audit Committee financial expert (as defined by SEC regulations) (see Mr. Kenzie's relevant work experience in this Proxy's Table of Information Regarding Nominees for Director). Mr. Kenzie is an independent member of Rand's Board of Directors (as defined by SEC and NASD regulations).

The Audit Committee operates under a written charter adopted by the Audit Committee and Board of Directors. The Charter can be accessed on Rand's website at [www.randcapital.com](http://www.randcapital.com). The Audit Committee reviews the scope and results of the annual audit, receives reports from Rand's independent public accountants, and reports the Audit Committee's findings and recommendations to the Board of Directors.

The Audit Committee has adopted necessary reporting procedures for the confidential submission, receipt, retention and treatment of accounting and auditing complaints.

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**Independent Auditor Appointment**

**Independent Auditors Appointment**

Rand Capital Corporation's Audit Committee has appointed Rand's current independent auditors, Freed Maxick & Battaglia, CPAs, PC, (Freed), to examine the accounts of Rand for the 2008 fiscal year. The Audit Committee members approving such selection are not interested persons of Rand as defined in the 1940 Act. Freed audited the accounts of Rand for the 2007, 2006 and 2005 fiscal years.

A representative of Freed is expected to be present at the Annual Meeting of Shareholders, will have the opportunity to make a statement if desired, and will be available to respond to appropriate questions.

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**Independent Accountant Fees**

The aggregate fees for each of the last two fiscal years for services rendered by Freed Maxick & Battaglia, CPAs, PC (Freed) are as follows:

**Audit Fees**

This category consists of fees for the audit of annual financial statements, review of financial statements included in quarterly reports on Form 10-Q and services that are normally provided by the independent auditor in connection with statutory and regulatory filings or audit engagements for those fiscal years.

Freed provided professional services for the audit of Rand's annual financial statements for the fiscal years ended December 31, 2007 and 2006 were \$50,000 and \$46,500, respectively.

**Audit Related Fees**

This category consists of assurance and related services by the independent accountant that are reasonably related to the performance of the audit and review of financial statements and are not reported under audit fees.

During the fiscal year ended December 31, 2007, Freed performed services related to entity level control recommendations for a fee of \$2,400. For the fiscal year ended December 31, 2006, Rand did not incur any fees for assurance and related services.

**Tax Fees**

This category consists of professional services rendered by the independent accountant for tax compliance and tax planning. The services for the fees disclosed under this category include tax return preparation and technical advice.

During the fiscal year ended December 31, 2007, Rand was billed \$20,550 in tax fees and for the fiscal year ended December 31, 2006, the Corporation was billed \$17,500 by Freed.

**All Other Fees**

This category consists of fees not covered by Audit Fees, Audit Related Fees and Tax Fees.

For the fiscal years ended December 31, 2007 and 2006, Rand did not receive or pay for any products or services in this category from Freed.

For fiscal years 2007 and 2006, all of the services of Freed described in the above categories were pre-approved by the Audit Committee.

Rand's annual audit, quarterly review and tax related fees which are estimated to be paid during the year are submitted annually to the Audit Committee for their review and pre-approval and then budgeted for by Rand. All other non-audit services must be pre-approved by the Audit Committee prior to engagement, as required by the Committee's Charter.

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**Audit Committee Report**

The Audit Committee has reviewed and discussed Rand's audited consolidated financial statements with management. In addition, the Audit Committee has discussed with Rand's independent accountants, Freed Maxick & Battaglia, CPAs, PC, the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (AICPA, *Professional Standards*, Vol. 1 AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T.

The Audit Committee has received the written disclosures and the letter from the independent accountants required by Independence Standards Board Standard No. 1 (Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*), as adopted by the Public Company Accounting Oversight Board in Rule 3600T and has discussed with the independent accountant the independent accountant's independence. The Audit Committee also has considered the independent accountant's provision of non-audit services to Rand and has concluded that such services are compatible with Freed's independence.

Based on the Audit Committee's discussions with management and the independent accountants, the Audit Committee's review of the representations of management, and the report of the independent accountants, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in Rand Capital Corporation's Annual Report on Form 10-K for the year ended December 31, 2007 for filing with the Securities and Exchange Commission.

This report is respectfully submitted by the Audit Committee of the Board of Directors.

Ross B. Kenzie (Chairman)

Erland E. Kailbourne

Robert M. Zak

The information provided in the preceding Audit Committee Report will not be deemed to be soliciting material or filed with the Securities and Exchange Commission or subject to Regulation 14A or 14C, or to the liabilities of section 18 of the Securities Exchange Act, unless in the future the Corporation specifically requests that the information be treated as soliciting material or specifically incorporates it by reference into any filing under the Securities Act or the Securities Exchange Act.

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Proxy Statement Rand Capital Corporation

**COMPENSATION DISCUSSION AND ANALYSIS**

Rand's Chief Executive Officer, Executive Vice President, Controller and Office Manager are salaried employees of Rand. Rand pays the salaries and other employee benefits of these employees. Rand has a wholly owned subsidiary, Rand Capital SBIC, L.P. ( "Rand SBIC" ). The Chief Executive Officer and the Executive Vice President serve as the Management Committee of the subsidiary and they are parties to a Profit Sharing Plan of Rand SBIC that was adopted by Rand as a requirement for the licensing of Rand SBIC.

Rand's principal executive officers are its Chief Executive Officer, Allen F. Grum, and its Executive Vice President/Chief Financial Officer, Daniel P. Penberthy.

The Compensation Committee, a majority of which are independent members of the Board, advises the Board of Directors with respect to the compensation of the principal executive officers. The Compensation Committee recommendations are then reviewed by the independent members of the Board, who are then responsible for establishing such compensation. Rand's Chief Executive Officer is responsible for the compensation levels of its Controller and Office Manager.

***Introduction***

This Compensation Discussion and Analysis is designed to provide shareholders with an understanding of our compensation philosophy and objectives as well as the analysis that we performed in setting executive compensation. It discusses the Compensation Committee's determination of how and why, in addition to what, compensation actions were taken for the executive officers who are identified in the Summary Compensation Table (the "Named Executive Officers" ).

***Objectives of Rand's Compensation Programs and What it is Designed to Reward***

For its long-term success and enhancement of long-term stockholder value, Rand depends on the management and analytical abilities of its executive officers, who are employees of, and are compensated by, Rand. The Compensation Committee's compensation objectives are to provide a critical oversight function of compensation and appropriate levels of compensation, reward above average corporate performance, recognize individual initiative and achievement, assist Rand in attracting and retaining qualified management to contribute to its success, and motivate management to enhance stockholder value.

***Key Elements of Rand's Compensation Plans and Why it is Paid:***

**Base Salary** Our philosophy is that base salaries should meet the objectives of attracting and retaining the executive officers needed to successfully manage the business. Actual individual salary amounts are not objectively determined, but instead reflect the Committee's judgment with respect to each executive officer's responsibility, performance, experience, the individual's historical compensation, internal equity considerations and other factors, including any retention concerns. Rand sets a base salary for its executive officers at levels that are intended to be appropriate given the scope of their duties and responsibilities.

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**Proxy Statement Rand Capital Corporation**

**Bonus** Rand may pay annual bonuses to executive officers at levels that are intended to motivate them to achieve Rand's principal business and investment goals and to bring their total compensation to competitive levels. The bonus is based on a qualitative consideration of individual performance. The Committee considers, and may make appropriate adjustments for unusual items that were not included in the Corporation's budget and are deemed to be outside the control of the executives.

**Profit Sharing Plan** Rand provides long term incentives to its executive officers through its Profit Sharing Plan, which allows them to participate in the growth of its portfolios and aligns their long term interests with those of Rand's shareholders. The terms of Rand's license to maintain its Small Business Investment Company (SBIC) subsidiary require that it maintain a Profit Sharing Plan, which provides for payment by Rand of designated percentages of the net realized capital gains of the subsidiary. The Committee does not have discretion to change the quantitative amounts due under the Plan.

**Equity** Although we believe that equity ownership by management aligns management's interests with increasing stockholder value, restrictions imposed by the Investment Company Act preclude Rand from offering stock options or other equity incentives to its executive officers at any time when it also allows them to participate in a profit sharing plan. Rand has a stock option plan that was adopted in 2001 (see Option Plan, below), but no options have been or will be granted under it while the Profit Sharing Plan is in effect.

**Standard Employee Benefits** Rand also provides standard employee benefits that are considered appropriate to provide competitive employee compensation and necessary to attract and retain talented personnel. Rand maintains a 401(k) Plan for its employees. Under the plan, participants may elect to contribute up to 20% of their compensation on a pretax basis, up to a maximum of \$15,500 for 2007. Rand makes a flat contribution of 1% of compensation for each participant and matches participant contributions up to 5% of compensation. Rand may also elect to contribute annual discretionary amounts under the 401(k) Plan as determined by the Board. Rand also provides life insurance and automobile reimbursement benefits to its executive officers.

***How the Amounts of Each Element of the Compensation are Determined and How They Fit Into Rand's Overall Compensation Objectives***

**Salary and Bonus**

The Compensation Committee determined that the salary and bonuses paid to Rand employees during the 2007 fiscal year were at levels that were in the best interests of our stockholders. In making its determination, the Compensation Committee considered whether the salaries and bonuses paid by Rand to its executive officers were consistent with the compensation philosophies described above.

***The Analysis Used in Setting Compensation Levels***

When making compensation decisions for individual executive officers, the Committee takes many factors into account, including the individual's role and responsibilities, performance, tenure, and experience; the overall performance of the Corporation; the recommendations of Board

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Proxy Statement Rand Capital Corporation

Committee Chairmen; the individual's historical compensation; and comparison to other executive officers of the Corporation. The Corporation did not utilize any benchmarking or performance targets to set its compensation levels.

Specifically, the Committee has considered factors such as:

total compensation in relation to Rand's size and the composition and performance of its investments;

Rand's success in identifying appropriate investment opportunities and returns;

the value of Rand's assets; and

the responsibilities and duties of the executive officers.

***Evaluating Performance***

The Committee evaluates the performance of the Named Executive Officers on an annual basis. The Committee consults with the other directors and Committee Chairmen regarding the performance of the Named Executive Officers. The Committee also seeks the advice of the Chief Executive Officer in connection with the performance evaluation for other executive officers; however, the Chief Executive Officer is not present when the Committee meets to evaluate his performance and determine his compensation.

***Individual Performance***

The Committee uses discretion in a qualitative evaluation of individual performance and considers the following factors, among others, in approving the annual incentive awards of the Named Executive Officers: the input of other Board Committee Chairmen, the NEO's leadership, management, strategic planning, business development, and investment returns.

***Change of Control and Termination Benefits***

The Corporation does not provide any employment contracts, change of control and/or termination benefits.

***Accounting and Tax Treatments of Compensation***

The Committee's policy is to structure compensation that will be fully deductible where doing so will further the purposes of executive compensation programs. The Committee also considers it important to retain flexibility to design compensation programs that recognize a full range of criteria important to our success, even where compensation payable under the programs may not be fully deductible.

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Proxy Statement Rand Capital Corporation

**Profit Sharing Plan**

We believe Rand's provisions for salaries and bonuses create an appropriate focus on longer term objectives and promote executive retention. We also believe that the Profit Sharing Plan is an effective means of promoting long-term stockholder value and providing for executive retention.

Under the Profit Sharing Plan, Rand will pay its executive officers aggregate profit sharing payments equal to 12% of the net realized capital gains of its SBIC subsidiary, net of all realized capital losses and unrealized depreciation of the subsidiary, for the fiscal year, computed in accordance with the Plan and the Corporation's interpretation of such policies.

The profit sharing payments will be split equally between Rand's two executive officers, who are fully vested in the Plan. Under Investment Company Act requirements, the aggregate amount of benefits which may be paid or accrued under the Profit Sharing Plan and any other profit sharing plan maintained by Rand during any fiscal year may not in any event exceed 20% of Rand's net income after taxes for that fiscal year. In accordance with Investment Company Act requirements, a majority of the members of the Board who were not Interested Persons approved the Profit Sharing Plan on the basis that the plan is reasonable and fair to Rand's shareholders, does not involve overreaching of Rand or its shareholders on the part of any person concerned, and is consistent with the interests of the shareholders of Rand.

No payments have been made or accrued under the Profit Sharing Plan since its inception in 2002.

**Conclusion**

Through the compensation and incentive structure described above, a significant portion of the amounts that may be payable as compensation has been, and will continue to be, contingent on Rand's performance, and realization of incentive benefits is closely linked to increases in long-term stockholder value. Rand remains committed to this philosophy of pay for performance, recognizing that the competitive market for talented executives and the volatility of Rand's business may result in highly variable compensation from year to year.

Based on the factors identified, the independent members of the Board approved the 2008 salary levels of the executive officers in January 2008. Based on the same factors, in January 2008 the Independent Directors approved bonuses of \$25,000 payable to each of Mr. Grum and Mr. Penberthy for their services in 2007. Rand accrued these amounts in its 2007 financial statements.

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Proxy Statement Rand Capital Corporation

**Compensation Committee Report**

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on its review and discussions with management, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement.

**Submitted by the Compensation Committee**

Ross B. Kenzie, Chairman  
Willis S. McLeese  
Jayne K. Rand

The information provided in the preceding Compensation Committee Report will not be deemed to be soliciting material or filed with the Securities and Exchange Commission or subject to Regulation 14A or 14C, or to the liabilities of section 18 of the Securities Exchange Act, unless in the future the Corporation specifically requests that the information be treated as soliciting material or specifically incorporates it by reference into any filing under the Securities Act or the Securities Exchange Act.

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Proxy Statement Rand Capital Corporation

**Compensation Committee Interlocks and Insider Participation**

The Compensation Committee's three members are independent directors.

**Summary Compensation Table**

The following table sets forth information with respect to the compensation paid or earned for the 2007 and 2006 fiscal years to each named executive officer, and to each officer of Rand with aggregate compensation from Rand in excess of \$100,000. Rand is not part of a fund complex.

Name and Principal Position (1)	Year	Salary (2)	Bonus	All Other	Total
			(2)(3)	Compensation (4)(5)	
Allen F. Grum, President & Director	2007	\$160,000	\$25,000	\$12,640	\$212,531
				\$14,891(5)	
	2006	\$155,000	\$50,000	\$9,521	\$214,521

Name and Principal Position (1)	Year	Salary (2)	Bonus	All Other	Total
			(2)(3)	Compensation (4)(5)	
Daniel P. Penberthy, Treasurer	2007	\$140,000	\$25,000	\$11,548	\$176,548
	2006	\$130,000	\$50,000	\$7,847	\$187,847

(1) Mr. Grum is Rand's principal executive officer, and Mr. Penberthy is Rand's principal financial officer. Neither of them has an employment contract with Rand.

(2) Represent amounts earned, prior to employee 401(k) contributions, as described in footnote (4), made by named executive.

(3) Bonuses were accrued by

Rand at December 31, 2007 and paid in 2008. Bonuses for December 31, 2006 were paid in 2007.

- (4) Included within the indicated compensation payment are contributions by Rand to its 401(k) Plan. Under the 401(k) Plan, participants may elect to contribute up to 20% of their compensation on a pretax basis by salary reduction up to a maximum of \$15,500 for 2007. For eligible employees, Rand makes a flat contribution of 1% of compensation and matches employee contributions of up to a maximum of 5%. In addition, Rand may elect to contribute an annual discretionary amount as determined by the Board of Directors. In 2007, Rand did not make a

discretionary  
contribution to  
the 401(k) Plan.

- (5) Amount indicated includes the cost of life insurance, disability insurance and business automobile reimbursement benefits. In 2007 for Mr. Penberthy, the aggregate amount of such compensation was \$7,055. In 2006, the aggregate amount of such compensation was less than \$10,000 for each Rand executive.

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## Proxy Statement Rand Capital Corporation

**Option Plan**

Rand does not have any outstanding equity awards, options or stock vesting rights.

In July 2001, Rand's shareholders approved an Employee Stock Option Plan (the "Option Plan"). The Option Plan provides for the award of options to purchase up to 200,000 common shares to eligible employees. In 2002, Rand placed the Option Plan on inactive status as it developed its Profit Sharing Plan in connection with the establishment of its SBIC subsidiary. As of December 31, 2007, no stock options had been awarded under the Plan.

Because Section 57(n) of the Investment Company Act prohibits maintenance of a profit sharing plan for the officers and employees of a Business Development Company when any option, warrant or right is outstanding under an executive compensation plan, no options will be granted under the Option Plan while the Profit Sharing Plan is in effect.

**Pension Benefits**

Rand does not provide any tax-qualified defined benefit plan or supplemental executive retirement plan, or similar plan that provides for specified retirement payments or benefits.

**DIRECTOR COMPENSATION**

During 2007, under Rand's standard compensation arrangements with Directors, the Chairman of the Board received an annual Chairman retainer of \$5,000, each non-employee Director received an annual fee of \$5,000 plus \$1,000 for attendance at each meeting of the Board of Directors. Audit Committee members received \$750 for each meeting attended and Compensation Committee and Governance and Nominating Committee members received \$500 for each meeting attended. Rand reimburses directors for reasonable out of pocket expenses incurred in attending meetings of the Board.

The following table sets forth information with respect to the compensation paid to or earned by each Director, excluding named executive officers, for the 2007 fiscal year. Rand did not pay or accrue any other compensation to the following Directors for the 2007 fiscal year.

Name	Fees Earned or Paid in Cash
Erland E. Kailbourne	\$ 13,750
Ross B. Kenzie	\$ 13,250
Willis S. McLeese	\$ 9,500
Reginald B. Newman, II	\$ 14,000
Jayne K. Rand	\$ 11,500
Robert M. Zak	\$ 12,750

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Proxy Statement Rand Capital Corporation

**Section 16(a) Beneficial Ownership Compliance**

Section 16(a) of the Securities Exchange Act of 1934 requires Rand's Directors and executive officers, and persons who own more than ten percent of Rand's stock, to file with the Securities and Exchange Commission initial reports of stock ownership and reports of changes to stock ownership. Reporting persons are required by SEC regulations to furnish Rand with all Section 16(a) reports they file.

To our knowledge, based solely on review of the copies of such reports furnished to Rand and written representations that no other reports were required, the Corporation believes all Section 16(a) filing requirements applicable to its officers, Directors and greater than ten percent beneficial owners were complied with during the fiscal year ended December 31, 2007.

**Directors and Officer's Liability Insurance**

Rand has an insurance policy from American International Specialty Lines Insurance Company that indemnifies (1) Rand for any obligation incurred as a result of its indemnification of its Directors and officers under the provisions of the New York Business Corporation Law and Rand's by-laws, and (2) Rand's Directors and officers as permitted under the New York State Business Corporation Law and Rand's by-laws. The policy covers all Directors and officers of Rand for the 12 months ending December 2008 for a total premium of \$41,489.90. No sums have been paid to Rand or its officers under the insurance contract.

**2. OTHER BUSINESS**

Rand does not know of any other matters to come before the meeting. If any other matters properly come before the meeting, it is the intention of the persons designated as proxies to vote in accordance with their best judgment on such matters.

**Shareholder Proposals for the 2009 Annual Meeting**

Shareholder proposals intended to be presented at the 2009 Annual Meeting of Shareholders must be received at Rand's offices not later than December 6, 2008, to be considered for inclusion in Rand's proxy statement and form of proxy for that meeting.

April 3, 2008

By Order of the Board of Directors  
Reginald B. Newman II  
Chairman of the Board

**It is important that proxies be promptly returned. Shareholders are urged to sign, date and return the proxy in the enclosed envelope, to which no postage need be affixed if mailed in the United States. If you attend the meeting you may, if you wish, withdraw your proxy and vote in person.**

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Proxy Statement Rand Capital Corporation

**Multiple Copies of our Annual Report and Proxy Statement (Householding)**

When more than one holder of Rand common stock shares the same address, we may deliver only one annual report and one proxy statement to that address unless we have received contrary instructions from one or more of those shareholders. Similarly, brokers and other intermediaries holding shares of Rand common stock in street name for more than one beneficial owner with the same address may deliver only one annual report and one proxy statement to that address if they have received consent from the beneficial owners of the stock.

Rand will deliver promptly upon written or oral request a separate copy of the annual report and proxy statement to any shareholder, including a beneficial owner of stock held in street name, at a shared address to which a single copy of either of those documents was delivered. To receive additional copies of our annual report and proxy statement, you may call or write Elspeth A. Donaldson, Office Manager, Rand Capital Corporation, 2200 Rand Building, Buffalo, New York 14203, telephone (716) 853-0802 or email her at edonaldson@randcapital.com. You may also access a copy of Rand's annual report and proxy statement on our website, [www.randcapital.com](http://www.randcapital.com), or via the SEC's home page, [www.sec.gov](http://www.sec.gov).

You may also contact Ms. Donaldson at the address or telephone number above if you are a shareholder of record of Rand and you wish to receive a separate annual report and proxy statement in the future, or if you are currently receiving multiple copies of our annual report and proxy statement and want to request delivery of a single copy in the future. If your shares are held in street name and you want to increase or decrease the number of copies of our annual report and proxy statement delivered to your household in the future, you should contact the broker or other intermediary who holds the shares on your behalf.

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Proxy Statement Rand Capital Corporation

**FINANCIAL STATEMENTS AVAILABLE**

A copy of Rand's 2007 Annual Report containing audited financial statements accompanies this Proxy Statement

**Rand will provide without charge to each stockholder upon written request a copy (without exhibits, unless otherwise requested) of Rand's Annual Report on Form 10-K required to be filed with the Securities and Exchange Commission ( SEC ) for the year ended December 31, 2007. Requests for copies should be addressed to Investor Relations, Rand Capital Corporation, 2200 Rand Building, Buffalo, New York, 14203. Requests may also be directed to (716) 853-0802 or to [edonaldson@randcapital.com](mailto:edonaldson@randcapital.com) via email. Copies may also be accessed electronically by means of the SEC's home page on the internet at <http://www.sec.gov>.**

**FINAL PAGE OF PROXY**

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**6 FOLD AND DETACH HERE AND READ THE REVERSE SIDE 6**

**RAND CAPITAL CORPORATION**

2200 Rand Building  
Buffalo, New York 14203

**2008 PROXY**

**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

The undersigned hereby appoints Jayne K. Rand and Allen F. Grum as proxies, each with the power to appoint a substitute, and hereby authorizes them to represent and to vote as designated below all the shares of Common Stock of Rand Capital Corporation (the Company) held of record by the undersigned at the annual meeting of shareholders to be held on April 28, 2008 or any adjournment hereof.

*(Continued and to be dated and signed on reverse side)*

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**PROXY** *(Continued from reverse side)*

1. Election of Directors:

**Election of**

<b>A.F. Grum</b>	<b>E.E. Kailbourne</b>	<b>R.B. Kenzie</b>
<b>W.S. McLeese</b>	<b>R.B. Newman II</b>	
<b>J.K. Rand</b>	<b>R.M. Zak</b>	

**FOR ALL  
NOMINEES**  
(except as marked to  
the contrary below)

o

**WITHHOLD  
AUTHORITY FOR  
ALL NOMINEES**

o

INSTRUCTIONS: To withhold authority to vote for an individual nominee, write that nominee's name in the space provided below:

Please mark  
your votes **X**  
like this

2. In their discretion, the Proxies are authorized to vote upon such other business as may properly come before the meeting.

This proxy, when properly executed, will be voted in the manner directed herein by the undersigned shareholder. **If no direction is made, the proxy will be voted for proposal 1.**

**PLEASE DATE, SIGN AND PROMPTLY RETURN IN THE ENCLOSED ENVELOPE.**

**COMPANY ID:**

**PROXY NUMBER:**

**ACCOUNT NUMBER:**

Signature

Signature

Date

, 2008.

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Please sign exactly as names appears above. When signing as a Trustee, Executor or Administrator, or Guardian, give title as such. All joint owners should sign. If a corporation, please sign in full corporate name by authorized officer, giving title. If a partnership, please sign in partnership name by authorized persons.