

January 22, 1998

To Our Shareholders:

During the past quarter we were pleased that seven of our investments were re-valued at higher levels. They were:

1. ARIA Wireless Systems, Inc. was increased by \$50,000 to \$488,000 to reflect an option we received to purchase 100,000 shares at \$.50 per share. We received this option as compensation for various investment banking activities that we performed on the company's behalf.
2. Comptek Research, Inc. was increased by \$50,000 to reflect a put option that we received to settle various disputes arising over the bankruptcy of ARIA. This option allows us to sell our 49,221 shares at \$9.50.
3. MINRAD, Inc. was increased by \$31,000 to \$40,000. This was primarily caused by our receipt of 2,500 shares that were issued to Rand in conjunction with a working capital loan to MINRAD, Inc. We also received a cash fee of \$21,500 for the loan.
4. Fertility Acoustics, Inc. and BioVector each increased by \$75,000 to reflect their successful efforts in raising new capital at higher prices than our purchase. Each of these companies raised equity at \$2.50 per share, up from our investment at \$1.00 per share.
5. Platform Technology Holdings, LLC was valued at \$25,000. We received these shares as compensation for our contributions to Platform Technology.
6. ARS, Inc. was increased by \$18,000 to reflect the increase in the value of the warrants that were issued in conjunction with the debenture that we own.

This increased value of \$232,500 was augmented by a gain of \$75,000 received in a settlement of a claim against an insurance carrier. The claim was for defense fees paid by Rand in the StopFire Litigation, which was dismissed earlier this year.

These gains were offset by our decision to write off our investment in Ultra-Scan Corporation. In September they failed to repay a term loan that came due. We received a judgment against the company and are moving to collect on the judgment. In light of this action, we felt that it is prudent to write off our stock investment. We will continue to monitor the situation to insure that our interests are protected.

With over \$3,000,000 in liquid assets (53 cents per share), we are actively looking for new investments. Our ability to wisely invest this cash is the key to the success of Rand. We look forward to sharing these successes with you.

Regards,

s/Allen F. Grum s/Nora B. Sullivan
Allen F. Grum Nora B. Sullivan
President Executive Vice President

Portfolio Valuation / December 31, 1997 (unaudited)

<TABLE>
<CAPTION>

Date Acquired	Company & Business	Type of Investment	12/31/97 Per Of Rand	Cost	9/30/97 Per Value of Rand	Share	Value	Share
5/23/97	ARIA Wireless Systems, Inc.* Buffalo, NY. Markets radio transmission communication equipment	Common stock - 488,000 shares	<C>	438,000	488,000	0.09	438,000	0.08

7/1/97	ARS, Inc. Cheektowaga, NY. Assembles and distributes replacement automotive products	Participation in subordinated debenture at 12% due July, 2002 through April 2005 with detachable warrants	1,000,000	1,029,000	0.18	1,011,233	0.18
4/1/97	BioVector, Inc. Orchard Park, NY. Medical technological sales	Common stock - 50,000 shares Convertible promissory note at 8%, due April 2002. Option to purchase 140,000 common shares	50,000 360,000	125,000 360,000	0.02 0.06	50,000 360,000	0.01 0.06
6/29/95 9/13/94	Comptek Research, Inc.* Buffalo, NY. Develops electronic systems for military and non-military applications	Common stock - 49,221 shares^ Term loan at prime less 1%, due June 1999	693,998 61,607	464,023 61,607	0.08 0.01	418,379 71,875	0.07 0.01
3/31/94	Lightbridge, Inc.* Burlington, MA. Provides software based services for wireless telecommunications industry. Acquired former coral Systems, Inc. investment, November '97.	Common Stock - 14,253 shares	218,271	218,271	0.04	218,271	0.04
10/1/97	Fertility Acoustics, Inc. Orchard Park, NY. Developer of proprietary methods to diagnose onset of ovulation.	Common stock - 50,000 shares Option to purchase 15,000 shares	50,000	125,000	0.02	0	0.00
3/18/96	HealthWay Products Company, Inc. Syracuse, NY. Manufactures air filters and climate control devices	Promissory note at 24%, due June 1996. 4,667 warrants for Series A preferred stock	100,000	100,000	0.02	100,000	0.02
2/26/88	J. Giardino Buffalo, NY. Owns and leases commercial property	First mortgage at 11%	194,921	194,921	0.03	197,797	0.03
8/4/97 10/3/97	MINRAD Orchard Park, NY. Developer of laser guided surgical devices.	Common stock - 4,000 shares Term loan at 12%, due March 1998	9,000 420,000	40,000 420,000	0.01 0.08	9,000 0	0.00
10/7/97	Pathlight Technology, Inc. Ithaca, NY. Develops high technology Serial Storage Architecture for computer industry.	Class A Series 1(a) Convertible Preferred stock - 100,000 shares with 6% cumulative dividend	100,000	100,000	0.02	0	0.00

10/4/95	Reflection Technology, Inc. Waltham, MA. Develops and licenses proprietary virtual display technology	Series J convertible preferred stock - 243,903 shares	500,000	150,000	0.03	150,000	0.03
12/11/92	Ultra-Scan Corporation Buffalo, NY. Ultrasonic fingerprint scanning technology	Common stock - 47,583 shares Term loan at 6%, due September 1997	276,986 50,000	0 50,000	0.00 0.01	276,986 50,000	0.05 0.01
	Other investments	Other	627,423	217,719	0.04	206,690	0.04
	Total portfolio investments		5,150,206	4,143,541	0.73	3,558,231	0.62
	Cash and cash equivalents		3,031,391	0.53	3,693,596	0.65	
	Net receivables (payables)		138,188	0.02	57,399	0.01	
	Net assets before taxes		7,313,120	1.28	7,309,226	1.28	
	Tax provision(benefit)		(1,028,100)	(0.18)	(806,786)	(0.14)	
	Net assets		\$8,341,220		\$8,116,012		
	Net asset value per share (5,708,034 shares at December 31, 1997 and September 30, 1997)			\$1.46		\$1.42	

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* Publicly owned company ^ Unrestricted securities

Rand Capital Corporation

Board of Directors

Reginald B. Newman II Chairman of the Board
g Thomas R. Beecher, Jr.
Allen F. Grum
a, c Luiz F. Kahl
c, g Ross B. Kenzie
a Willis S. McLeese
a, c, g Jayne K. Rand

a - Member of audit committee c - Member of compensation committee g - Member of
governance committee

Officers

Allen F. Grum President, Chief Executive Officer
Nora B. Sullivan Executive Vice President
Daniel P. Penberthy Chief Financial Officer

Corporate Data

Stock Listing NASDAQ SmallCap Market - symbol RAND
Transfer Agent and Registrar Continental Stock Transfer & Trust Company
General Counsel Hodgson, Russ, Andrews, Woods & Goodyear, LLP
Independent Accountants Deloitte & Touche LLP

We appreciate the support of our current shareholders and welcome your comments.

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