

RAND CAPITAL CORPORATION
1300 Rand Building
Buffalo, New York 14203

SEMI ANNUAL REPORT
June 30, 1996

August 5, 1996

TO OUR SHAREHOLDERS:

Enclosed is our report for the six months ended June 30, 1996. Net asset value was \$7,425,198 or \$1.76 per share, compared to \$9,333,304 or \$2.21 per share at December 31, 1995.

During the second quarter, we made an additional investment in American Tactile Corporation, a maker of equipment for the manufacture of signs for the visually impaired. We received a \$12,965 dividend from Sand River Resources Limited, and Phoenix Data Corporation liquidated so we recouped all of our original \$100,000 investment. We sold all 38,570 shares of CAI Wireless Systems, Inc. at a pre-tax gain of \$132,000 and we sold 15,000 shares of Heartland Wireless Communications, Inc. at a pre-tax gain of \$72,000.

Due to a change in estimate in the valuation of Ultra-Scan Corporation, we re-valued our investment at cost, resulting in a \$1.3 million decrease in unrealized appreciation. Our change in estimate is due primarily to a longer than anticipated engineering development cycle. The company recently expanded its management team with the addition of a Sales and Marketing Executive.

In our 1995 annual report, we indicated we would conduct a strategic review of the company in 1996, focusing on cost structure, investment strategy and investment management policy. In conjunction with the Board of Directors, management did complete such a review and formulated certain policies to ensure continued maximization of shareholder value. Expenses for 1996 are projected to be 25% below 1995 total expenses and represent permanent reductions in certain categories of our expense base. In the near term, we will focus on investing in later stage companies with instruments containing a current pay feature to generate revenue. We reviewed and refined our investment valuation and public stock management policies.

For the third quarter, management, in conjunction with the Board of Directors, plans to address future capital requirements and methods to improve the quality of shareholder communications.

We remain optimistic about the long term growth and appreciation of Rand's assets and thank you for continuing to invest in our future.

Sincerely,

Reginald B. Newman II Allen F. Grum Nora B. Sullivan
Chairman President Executive Vice President

BOARD OF DIRECTORS

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

a Member of audit committee

| | | |
|--|------------------|------------------|
| Common stock, \$.10 par - authorized 7,000,000 shares; issued and outstanding 4,225,477 shares | 422,548 | 422,548 |
| Capital in excess of par value | 4,810,369 | 4,810,369 |
| Undistributed net investment (loss) | (1,116,448) | (812,838) |
| Undistributed realized gain on investments | 2,676,581 | 2,867,302 |
| Net unrealized appreciation of investments | 632,145 | 2,045,924 |
| Net assets (per share 06/30/96 \$1.76; 12/31/95 - \$2.21) | 7,425,195 | 9,333,305 |
| | <u>7,603,751</u> | <u>9,903,872</u> |
| | ===== | ===== |

STATEMENTS OF OPERATIONS

Six months ended June 30, 1996 and year ended December 31, 1995

| | Unaudited | |
|---|------------------|----------------------|
| | June 30, 1996 | December 31, 1995 |
| Investment Income: | | |
| Interest from portfolio companies | 66,720 | 225,042 |
| Interest from other investments | 9,873 | 85,896 |
| Other income | 12,853 | 37,266 |
| | <u>89,446</u> | <u>348,204</u> |
| Expenses: | | |
| Salaries | 134,538 | 469,985 |
| Employee benefits | 20,486 | 166,412 |
| Directors' fees | 23,886 | 17,750 |
| Legal fees | 39,924 | 82,612 |
| Auditing and accounting | 7,050 | 14,715 |
| Consulting fees | 9,500 | 3,447 |
| Stockholder and office expenses | 33,411 | 31,808 |
| Occupancy | 11,040 | 20,560 |
| Insurance | 44,277 | 35,942 |
| Travel | 37,967 | 27,140 |
| Other operating expenses | 18,538 | 119,324 |
| | <u>380,617</u> | <u>989,695</u> |
| Investment (loss) before income taxes | (291,171) | (641,491) |
| Income taxes provision | 12,439 | 14,100 |
| Deferred income tax (benefit) | - | (245,660) |
| | <u>(303,610)</u> | <u>(409,931)</u> |
| Net investment (loss) | (303,610) | (409,931) |
| Realized and unrealized gain (loss) on investments: | | |
| Realized gain (loss) on investments | | |
| Cost of sales and dispositions | (458,219) | (65,416) |
| | <u>(458,219)</u> | <u>(65,416)</u> |
| Realized (loss) before income tax | (458,219) | (65,416) |
| Deferred income tax provision | 267,497 | 30,003 |
| | <u>(190,722)</u> | <u>(95,419)</u> |
| Net realized (loss) | (190,722) | (95,419) |
| Unrealized appreciation on investments: | | |
| Balance at beginning of period | 3,236,040 | 9,064,200 |
| Balance at end of period | 1,066,715 | 3,236,040 |
| | <u>1,066,715</u> | <u>3,236,040</u> |

Decrease in unrealized appreciation (2,169,325) (5,828,160)
before income taxes

Deferred income tax provision 755,547 2,229,884

Net decrease in unrealized appreciation (1,413,778) (3,598,276)

Net realized and unrealized (loss) on investments (1,604,500) (3,693,695)

Net decrease in net assets from operations (1,908,110) (4,103,626)

<TABLE>
<CAPTION>

PORTFOLIO VALUATION
June 30, 1996 and December 31, 1995

| | | June 30, 1996 | | December 31, 1995 | | | |
|----------|--|---|-----------|-------------------|---------|------------|---------|
| Date | Company and Business | Type of Investment | Per Share | Per Share of | of Rand | Value | Rand |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| 10/29/91 | ARIA Wireless Systems, Inc. Buffalo, NY. Manufactures and markets radio transmission communication equipment | CI A stock - 1,800 shares | \$ - | \$ - | \$ - | \$ 198,000 | \$ 0.05 |
| | | CI B stock - 1,798,200 | | | | | |
| 06/23/95 | American Tactile Corp. Medina, NY. Develops equipment and systems to produce ADA signs for the visually impaired | Convertible debentures at 8% due June 2000 and June 2001 with detachable warrants | 150,000 | 150,000 | 0.04 | 100,000 | 0.02 |
| 08/29/91 | Auto Radiator Sales, Inc. Cheektowaga, NY. Manufactures and distributes replacement automotive products | Common stock - 25 shares Subordinated convertible debentures at 14 2/3% interest, due August 2000 | 125,000 | 250,000 | | 1,000,000 | 0.24 |
| 04/28/89 | Bydatel Corporation Buffalo, NY. Licensor of telecommunication technology | Common stock - 219,262 shares Demand loans with warrants | 0 | 0 | 0.00 | 33,000 | 0.01 |
| | | | 0 | 0 | 0.00 | 0 | 0.00 |
| 10/06/95 | CAI Wireless Systems, Inc. Albany, NY. Wireless cable television systems operator | Common stock - 0 shares | 0 | 0 | 0.00 | 467,447 | 0.11 |
| 10/17/95 | CableMaxx, Inc. Austin, TX. Wireless cable television systems operator | Common stock - 0 shares | 0 | 0 | 0.00 | 114,400 | 0.03 |
| 09/30/88 | Chem Pub LP New York, NY. Limited partnership invested in "Chemical Week" Magazine | Limited partnership interest | 0 | 0 | 0.00 | 183,775 | 0.04 |

| | | | | | | | |
|----------|---|--|---------|---------|------|-----------|------|
| 02/23/96 | Clearview Cable TV, Inc. New Providence, NJ. Wireless cable television systems operator | Common stock - 400 shares | 124,000 | 124,000 | 0.03 | 0 | 0.00 |
| 10/16/95 | Commercial Maintenance Organization, Inc. Coral Springs, FL. Maintenance service network for retailers, restaurants, vendors. | Capital stock - 170 shares | 85,000 | 85,000 | 0.02 | 80,000 | 0.02 |
| 09/13/94 | Comptek Research, Inc. Buffalo, NY. Develops electronic systems for military and non-military applications | Common stock - 49,221 shares | 693,998 | 258,409 | 0.06 | 238,307 | 0.06 |
| | | Term loan at prime less 1%, due June 1998 | 133,482 | 133,482 | 0.03 | 154,017 | 0.04 |
| 03/31/94 | Coral Systems, Inc. Longmont, CO. Develops fraud prevention software for the wireless industry | Convertible preferred stock - 200,000 shares | 200,000 | 422,222 | 0.10 | 200,000 | 0.05 |
| 03/18/96 | HealthWay Products Company, Inc. Syracuse, NY. Manufactures air filters and climate control devices | Debenture, 15% interest, due June 18, 1996 | 100,000 | 100,000 | 0.02 | 0 | 0.00 |
| 02/23/96 | Heartland Wireless Communications, Inc. Richardson, TX. Wireless cable television systems operator | Common stock - 16,880 shares | 376,265 | 384,134 | 0.09 | 0 | 0.00 |
| 02/26/88 | J. Giardino Buffalo, NY. Own and leases commercial property | First mortgage at 10% interest | 223,139 | 223,139 | 0.05 | 228,516 | 0.05 |
| 11/09/95 | Jamestown Savings Bank Jamestown, NY. Community savings bank | Common stock - 50,000 shares | 500,000 | 500,000 | 0.12 | 500,000 | 0.12 |
| 05/24/94 | Mobile Data Solutions Inc. Vancouver, BC. Develops mobile data software | Convertible debenture at 7.5%, due December 1996 | 100,000 | 299,738 | 0.07 | 197,800 | 0.05 |
| 12/31/90 | MobileMedia Corp. New York, NY. Provider of paging and other wireless data services | Common stock - 71,292 shares | 94,250 | 747,587 | 0.18 | 1,586,200 | 0.38 |
| 06/08/94 | Phoenix Data Communications Corp. Warwick, RI. Develops computer networking and multi-protocol software. | Convertible preferred stock - 4,000 shares | 0 | 0 | 0.00 | 100,000 | 0.02 |
| 10/04/95 | Reflection Technology, Inc. Waltham, MA. Develops | Series J convertible preferred stock - | | | | | |

| | | | | | | |
|---|---|-----------|---------|-----------|-----------|------|
| and licenses proprietary virtual display technology. | 243,902 shares | 500,000 | 500,000 | 0.12 | 500,000 | 0.12 |
| 11/06/95 TGT, Inc. Geneva, NY. Develops and manufactures biological alternative to chemical pesticides. | Series A convertible preferred stock 32,000 shares | 56,000 | 56,000 | 0.01 | 56,000 | 0.01 |
| 02/26/87 Three Sixty Corp. New Providence, NJ. Acquires and manages cable television properties. | Common stock - 0 shares Convertible debenture at 8% Convertible debenture at 15% | 0 | 0 | 0.00 | 600,000 | 0.14 |
| | | 0 | 0 | 0.00 | 200,000 | 0.05 |
| | | 0 | 0 | 0.00 | 451,306 | 0.11 |
| 01/06/95 Transworld Telecommunications, Inc. Salt Lake City, UT. Wireless cable television systems operator | Common stock - 132,826 shares | 131,498 | 112,072 | 0.03 | 136,998 | 0.03 |
| 12/11/92 Ultra-Scan Corporation Buffalo, NY. Ultrasonic fingerprint scanning technology. | Common stock - 47,583 shares | 276,986 | 276,986 | 0.07 | 1,665,386 | 0.39 |
| Other investments | Other | 25,060 | 25,057 | 0.01 | 6,461 | 0.00 |
| | Total portfolio investments | 5,397,806 | 1.28 | 8,997,613 | 2.13 | |
| | Cash and money market investments | 1,119,448 | 0.26 | 707,559 | 0.17 | |
| | Net receivables (payables) | 231,473 | 0.06 | (28,109) | (0.01) | |
| | Net assets before taxes | 6,748,727 | 1.60 | 9,677,063 | 2.29 | |
| | Tax provision (benefit) | (676,468) | 0.16 | 343,759 | 0.08 | |
| | Net assets | 7,425,195 | | 9,333,304 | | |
| | Net asset value per share (4,225,477 shares) | | \$1.76 | | \$2.21 | |

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