

1996  
SEPTEMBER 30  
THIRD QUARTER

[LOGO]

RAND CAPITAL  
CORPORATION

October 25, 1996

To Our Shareholders:

Please notice that our address, look and the content of this report all have changed. We have moved upstairs in the Rand Building to a smaller office suite to reduce our expense base. The new "look" and report content are the beginnings of an ongoing program to improve shareholder communication. We will expand the discussions of our individual portfolio companies to provide more information about their results. Look for more changes in the future. We welcome you to share your thoughts with us.

In July we signed a letter of intent to provide expansion capital to Strategic Staffing Affiliates (SSA), a company formed by the owners/management of an existing temporary staffing agency in Williamsville, New York. The company's business plan is to acquire small to mid-sized temporary staffing agencies in the United States and then to provide capital, cash flow and certain back office operations while allowing each agencies to maintain its independence in the daily operations. The first acquisition was Key Resource Group, where management has 55 years of combined experience. The funds from our investment, in the form of a debenture and warrants, will be used for their next acquisition. Rand's investment reflects our new investment approach, as we outlined in our June 1996 Shareholder Report: later stage development financing with a current pay feature, solid management and geographic proximity.

In the second quarter of 1996, Aria Wireless Systems, Inc. filed for bankruptcy protection under Chapter 11. Since then, Rand has provided debtor in possession financing of \$100,000. We have also worked closely with Compass Partners to develop financial and operating plans that will allow Aria to emerge from bankruptcy as an operating company. Compass Partners intends to provide one million dollars in DIP financing and ultimately acquire control of the company. These plans should be finalized in early 1997. We expect all Aria shareholders' interests to be eliminated under any plan. We hope to have the option of either converting our secured loan into equity or receiving all of our principal and interest. The results of these proceedings will occur during the next few quarters.

During the third quarter, we made an additional investment in Ultra-Scan Corporation in the form of a \$50,000 note and we purchased 23,986 common shares of Coral Systems, Inc. We received a partial distribution from Clearview Cable and liquidated 7,000 shares of Heartland Wireless Communications, Inc. in accordance with our public stock management policy.

Our net asset value as of September 30, 1996 was \$7,034,639 or \$1.66 per share, as compared to \$7,425,198 or \$1.76 per share as of June 30, 1996. The decline was primarily due a decline in the prices of our publicly held stocks.

We encourage your participation in the re-vitalization of Rand Capital and thank you for investing in our future.

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

Rand Capital Corporation  
 Portfolio Valuation  
 September 30, 1996

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<CAPTION>

Date Acquired	Company and Business	Type of Investment	September 30, 1996		June 30, 1996		Value of Rand	Value of Rand
			Per Share Cost	Per Share Value	Per share Value	Per share Value		
6/23/95	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 April 2001 with detachable warrants	150,000	150,000	150,000	0.04	150,000	0.04
8/29/91	AUTO RADIATOR SALES, INC. Cheektowaga, NY. Manufactures and distributes replacement automotive products	Common stock - 25 shares Subordinated convertible debentures at 14 2/3%	375,000	1,000,000	125,000	0.24	1,000,000	0.24
02/23/96	CLEARVIEW CABLE TV, INC. New Providence, NJ. Wireless cable television operator	Common stock - 400 shares	56,000	56,000	56,000	0.01	124,000	0.03
10/16/95	COMMERCIAL MAINTENANCE ORGANIZATION, INC. Coral Springs, FL. Maintenance service network for retailers, restaurants, vendors	Common stock - 170 shares	85,000	85,000	85,000	0.02	85,000	0.02
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 1998	806,944	385,630	385,630	0.09	391,891	0.09
3/31/94	CORAL SYSTEMS, INC. Longmont, CO. Develops fraud prevention software for the wireless industry	Convertible preferred stock 200,000 shares Common stock - 23,986 shares	218,271	440,493	422,222	0.10	422,222	0.10
3/18/96	HEALTHWAY PRODUCTS COMPANY, INC. Syracuse, NY.	Promissory Note, 15% interest, due June 18, 1996	100,000	100,000	100,000	0.02	100,000	0.02

Manufactures air filters and climate control devices

2/23/96	HEARTLAND WIRELESS COMMUNICATIONS, INC. Richardson, TX. Wireless cable television system operator	Common stock - 9,880 shares	218,247	232,575	0.06	384,134	0.09
2/26/88	J. GIARDINO Buffalo, NY. Owns and leases commercial property	First mortgage at 10% interest	220,347	220,347	0.05	223,139	0.05
11/9/95	JAMESTOWN SAVINGS BANK Jamestown, NY Community savings bank	Common stock - 50,000 shares	500,000	500,000	0.12	500,000	0.12
5/19/94	MOBILE DATA SOLUTIONS, INC. Vancouver, BC. Develops mobile data software	Convertible debenture at 7.5%, due December 1996	100,000	315,560	0.07	299,738	0.07
12/31/90	MOBILE MEDIA CORP. New York, NY. Provider of paging and other wireless data services	Common stock - 71,292 shares	94,250	325,575	0.08	747,567	0.18
10/4/95	REFLECTION TECHNOLOGY, INC. Waltham, MA. Develops and licenses proprietary virtual display technology	Series J Convertible Preferred Stock - 243,902 shares	500,000	500,000	0.12	500,000	0.12
11/6/95	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
1/6/95	TRANSWORLD TELECOMMUNICATIONS, INC. Salt Lake City, UT. Wireless cable television systems operator	Common stock - 132,826 shares	131,498	139,866	0.03	112,072	0.03
12/11/92	ULTRA-SCAN CORPORATION Buffalo, NY Ultrasonic fingerprint scanning technology	Common stock - 47,583 shares Note at 6%, due June 1997	326,986	326,986	0.08	276,986	0.07
	OTHER INVESTMENTS	Other	100,060	100,060	0.02	25,060	0.00
	Total portfolio investments		\$4,934,092	1.17	\$5,397,809	1.28	
	Cash and money market investments		1,105,807	0.26	1,119,448	0.26	

Net receivables (payables)	199,389	0.05	231,473	0.06
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Net assets before taxes	\$6,239,288	1.48	\$6,748,730	1.60
Tax provision (benefit)	(795,351)	(0.19)	(676,468)	(0.16)
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Net assets	\$7,034,639		\$7,425,198	
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Net asset value per share (4,225,477)	\$1.66		\$1.76	

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RAND CAPITAL CORPORATION

BOARD OF DIRECTORS

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 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  
 c - MEMBER OF COMPENSATION COMMITTEE  
 g - MEMBER OF GOVERNANCE COMMITTEE

OFFICERS

-----  
 Allen F. Grum.....President, Chief Executive Officer  
 Nora B. Sullivan.....Executive Vice President  
 Robin K. Penberthy...Secretary and Treasurer

CORPORATE DATA

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