

1996
DECEMBER 31
FOURTH QUARTER

[LOGO]

RAND CAPITAL
CORPORATION

January 24, 1997

To Our Shareholders:

One of our goals for 1996 was to improve shareholder communication. So, for the first time in Rand's history, we are issuing an unaudited fourth quarter report to provide more timely information. We also intend to produce an annual report, which will be sent in March, along with the Notice of our Annual Meeting.

As we end the year, it is customary to provide a brief review of 1996 and a preview of 1997. There is only one way to describe 1996: it was a dismal year for the shareholders. As a company whose sole goal is to maximize shareholder value, we are dissatisfied with the results.

Over the past few years, the movements in our stock price can be tied to the expectations of Aria Wireless Systems, Inc. This promising venture (along with our related investment in Bydatel) represented 46% of our assets at year end 1994 and attracted many new investors who bought Rand solely to own Aria. Unfortunately, the company failed and filed for bankruptcy protection in 1996. While Aria did file a reorganization plan in 1996, its initial failure led many shareholders to sell their stock throughout 1996. Quite often this created an excess of supply and drove the stock price to a low trade of \$1.00 in February. The year ended with the stock price at \$1.50.

While the stock price was a disappointment, we are pleased with the changes we made in the strategy and structure of our company and its' investments. In conjunction with the Board of Directors, we developed a plan in early 1996 to provide Rand with a new strategy and the resources necessary for implementation. The four basic goals were :

- Reduce costs;
- Concentrate on investments that provide current income;
- Restructure current investments; and
- Raise new capital.

We have successfully implemented all aspects of the plan, as illustrated by the following:

- Expenses were reduced 21% from 1995 to 1996;
- We made four new investments bearing both an average interest rate of 10% and warrants;
- Equity investments declined from 75% of our portfolio mix at year end 1995 to 63% by year end 1996; and
- We raised approximately \$2.5 million in new capital

through a private placement offering of common shares in January 1997.

In 1997, we will continue to follow the plan as outlined above. We are pleased with the results of our capital raising efforts, which will continue through February. The new shares were sold at net asset value, making it a non-dilutive transaction. This new capital will be used to grow our investment portfolio under our new strategy and to further our business plan objectives.

In January 1997, we added to the strength of our Board of Directors by electing Luiz F. Kahl, former President of The Carborundum Company and Chief Executive Officer of BP Advanced Materials, subsidiaries of British Petroleum, plc, and manufacturers of high technology ceramic and composite materials. Mr. Kahl brings a wealth of international and manufacturing experience, rounding out the Board's diverse areas of expertise.

It is appropriate to point out the significant contributions of our Directors. They were very active supporters of our company, and continued to demonstrate their confidence in new management by collectively having purchased a total of 350,000 shares in the open market and 392,000 shares in the private placement.

In the fourth quarter, we liquidated our equity investment in Jamestown Savings Bank and sold 7,000 shares of Heartland Wireless Communications, Inc., generating a total of \$667,000 in cash. In December, we converted our Mobile Data Solutions, Inc. debenture into 30,734 common shares. We recently sold all of those shares at a pre-tax gain of \$500,000.

Finally, we appreciate the support of our current shareholders and welcome your comments. We are committed to providing exceptional shareholder value.

Allen F. Grum
President

Nora B. Sullivan
Executive Vice President

Rand Capital Corporation
Portfolio Valuation
December 31, 1996
<TABLE>
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Date Acquired	Company and Business	Type of Investment	December 31, 1996		September 30, 1996		Value of Rand	of Rand
			Per Cost	Per Share Value	Per share Value	of Rand		
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	0.04	150,000	0.04	
8/29/91	ARS, INC. Cheektowaga, NY. Assembles and distributes replacement automotive products	Common stock - 25 shares Subordinated convertible debentures at 14 2/3%; due August 2000	125,000	250,000	0.06	250,000	0.06	
11/6/95	BIO WORKS, INC. Geneva, N.Y. Develops and manufactures	Series A Convertible Preferred Stock - 32,000 shares	56,000	56,000	0.01	56,000	0.01	

biological
 alternative to
 chemical pesticides

02/23/96	CLEARVIEW CABLE TV, INC. New Providence, NJ. Wireless cable television operator	Common stock - 400 shares	56,000	55,541	0.01	56,000	0.01
10/16/95	COMMERCIAL MAINTENANCE ORGANIZATION, INC. Coral Springs, FL. Maintenance service network for retailers, restaurants, vendors	Common stock - 148,526 shares	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	693,998	246,105	0.06	272,684	0.07
		Term loan at prime less 1%, due June 1998	102,678	102,678	0.03	112,946	0.03
3/31/94	CORAL SYSTEMS, INC. Longmont, CO. Develops fraud prevention software for the wireless industry	Series A Convertible preferred stock 200,000 shares	200,000				
		Common stock - 11,993 shares	18,271	440,493	0.10	440,493	0.10
3/18/96	HEALTHWAY PRODUCTS COMPANY, INC. Syracuse, NY. Manufactures air filters and climate control devices	Promissory Note, 21% interest, 4,667 warrants	100,000	100,000	0.02	100,000	0.02
2/23/96	HEARTLAND WIRELESS COMMUNICATIONS, INC. Richardson, TX. Wireless cable television system operator	Common stock - 2,880 shares	59,165	38,045	0.01	232,575	0.06
2/26/88	J. GIARDINO Buffalo, NY. Owns and leases commercial property	First mortgage at 10% interest	220,347	218,448	0.05	220,347	0.05
11/9/95	JAMESTOWN SAVINGS BANK Jamestown, NY Community savings bank	Common stock - 50,000 shares	500,000	-	-	500,000	0.12
5/19/94	MOBILE DATA SOLUTIONS, INC. Vancouver, BC. Develops mobile data software	Common stock - 30,734 shares	100,000	465,851	0.11	315,560	0.07

12/31/90 MOBILE MEDIA CORP. Common stock - 94,250 34,729 0.01 325,575 0.08
 New York, NY. 71,292 shares
 Provider of paging
 and other wireless
 data services

10/4/95 REFLECTION Series J 500,000 500,000 0.12 500,000 0.12
 TECHNOLOGY, INC. Convertible
 Waltham, MA. Preferred Stock -
 Develops and 243,902 shares
 licenses
 proprietary virtual
 display technology

1/6/95 TRANSWORLD Common stock - 131,498 37,058 0.01 139,866 0.03
 TELECOMMUNICATIONS, 132,826 shares
 INC.
 Salt Lake City, UT.
 Wireless cable
 television systems
 operator

12/11/92 ULTRA-SCAN Common stock - 276,986 276,986 0.07 276,986 0.07
 CORPORATION 47,583 shares
 Buffalo, NY Note at 6%, due 50,000 50,000 0.01 50,000 0.01
 Ultrasonic June 1997
 fingerprint
 scanning technology

OTHER INVESTMENTS Other 100,060 100,060 0.02 100,060 0.02

Total portfolio investments	\$3,956,994	1.94	\$4,934,092	1.17
Cash and money market investments	1,602,786	0.38	1,105,807	0.26
Net receivables (payables)	145,233	0.03	199,389	0.04
Net assets before taxes	\$5,705,013	1.35	\$6,239,288	1.47
Tax provision (benefit)	(795,351)	(0.19)	(795,351)	(0.19)
Net assets	\$6,500,364		\$7,034,639	
Net asset value per share (4,225,477)	\$1.54		\$1.66	

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RAND CAPITAL CORPORATION

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
 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

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

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nsullivan@randcap.com