RAND CAPITAL CORPORATION
BUFFALO, NEW YORK

[LOGO]

Annual Report
Proxy Statement

December 1996

NET ASSET VALUE 1987 to 1996

Net Asset Value Per Share*

Rand Capital Corporation is a registered closed-end management investment company investing in the securities of small businesses, which offer unique opportunities for growth.

[Description - There follows a table in the form of a bar graph with a rectangle showing the net asset value for each year shown]

Year		Net Asset Value Per Share
1987	-	2.07
1988	-	2.44
1989	-	2.53
1990	-	2.07
1991	-	2.12
1992	-	3.07
1993	-	3.07
1994	-	3.19
1995	-	2.21
1996	-	1.53

* adjusted for stock distributions

MANAGEMENT'S LETTER Allen F. Grum and Nora B. Sullivan

To Our Shareholders,

1996 was a watershed year for Rand Capital. The year started with a new management team. We spent the next twelve months developing and implementing a strategic plan that integrated the strengths of management, the needs of the company and the investment opportunities that are available. The four goals of this plan can be summarized as:

1. Reduce expenses
2. Raise capital
3. Invest in instruments that provide for a current return
4. Restructure the current portfolio

With the help of our Board of Directors we were successful in all four areas.

1. Expenses were reduced by 21%
2. We raised approximately $2.3 million in new capital
3. We made 4 new investments that provided a current return
4. Equity investments were reduced from 75% of our portfolio to 63%

We were very pleased with the results of these efforts in 1996 and will continue on the plan in 1997.

The financial performance of our portfolio was dismal in 1996. We wrote off our investments in Aria and Bydatel (which had represented 46% of our assets at December, 1994) when Aria filed for bankruptcy protection. We also lost over $2.5 million in our common stock portfolio. These investments were primarily in MobileMedia and various cable stocks where we typically received restricted shares. Unfortunately, these restrictions limited our ability to sell the shares. It was a very frustrating and enlightening experience.

We enter 1997 with a highly liquid balance sheet including $3,000,000 available for new investments. We are currently evaluating a handful of promising opportunities and should be reporting on them in the coming quarters.

We need to thank our Board of Directors for their support and guidance. They were instrumental in developing our strategic plan and raising capital. They have also supported us with their wallets by purchasing 742,000 shares in the open market and through a private placement.

The following pages contain detailed information about Rand and our investment criteria. If you have any questions or ideas, please contact us. Our address, phone number, and e-mail addresses are enclosed.

We look forward to writing to you and announcing positive financial results.

Sincerely,

s/Allen F. Grum   s/Nora B. Sullivan

PORTFOLIO OF INVESTMENTS   December 31, 1996

<TABLE>
<CAPTION>

Company	Type of Investment (a)	YearFirst Acquired (b)	Percent Equity (c)	Cost	Value (d)
<S>	<C>	<C>	<C>	<C>	<C>
AMERICAN TACTILE CORPORATION Medina, NY. Develops equipment and systems to produce ADA signs for the visually impaired	Convertible debentures at 8% due June 2000 and April 2001, 90,109 warrants for preferred stock	1995	-	150,000	150,000
ARS, INC. Cheektowaga, NY Assembles and distribute replacement automotive products	Common stock - 25 shares	1991	2.5%	125,000	250,000
	Convertible debentures at 14 2/3% due August 2000		7.5%	375,000	750,000
BIOWORKS, INC. (FORMERLY TGT, INC.) Geneva, NY. Develops and manufactures biological alternatives to chemical pesticides	Series A convertible preferred stock - 32,000	1995	<1%	56,000	56,000
CLEARVIEW CABLE TV, INC. New Providence, NJ. Wireless cable television operator	Common stock - 400 shares	1996	6.0%	55,541	55,541
COMMERCIAL MAINTENANCE ORGANIZATION, INC. Coral Springs, FL. Maintenance service network for retailers, restaurants, vendors	Common stock - 148,256 shares	1995	19.8%	85,000	85,000
COMPTEK RESEARCH, INC.* Buffalo, NY. Develops	Common stock - 49,221 shares^	1994	<1%	693,998	246,105

electronic systems for military and non-military applications	Term loan at prime less 1%, due June 1998	-	-	102,678	102,678
CORAL SYSTEMS, INC. Longmont, CO. Develops fraud prevention software for the wireless industry	Series A convertible preferred stock - 99,999 shares	1994	1.1%	200,000	422,222
	Common stock - 11,938 shares		<1%	18,271	18,271
HEALTHWAY PRODUCTS COMPANY, INC. Syracuse, NY. Manufactures air filters and climate control devices	Note, 21% interest, 4,667 warrants for Series A preferred stock	1996	-	100,000	100,000
HEARTLAND WIRELESS COMMUNICATIONS, INC.* Richardson, TX. Wireless cable television system operator	Common stock - 2,880 shares^	1996	<1%	59,165	38,045
	Common stock - 10,843 shares	1996	<1%	245,391	118,180
J. GIARDINO Buffalo, NY. Own and leases commercial property	First mortgage at 10% interest	1988	-	218,448	218,448
MOBILE DATA SOLUTIONS INC.* Vancouver, BC. Develops mobile data software	Common stock - 30,734 shares^	1994	<1%	100,000	465,851
MOBILEMEDIA CORPORATION* New York, NY. Provider of paging and other wireless data services	Common stock - 50,923 shares^	1990	<1%	67,322	25,461
	Common stock - 20,369 shares		<1%	26,928	9,268
REFLECTION TECHNOLOGY, INC. Waltham, MA. Develops and licenses proprietary virtual display technology	Series J convertible preferred stock - 443,784 shares	1995	1.1%	500,000	500,000
TRANSWORLD TELECOMMUNICATIONS, INC.* Salt Lake City, UT. Wireless cable television system operator	Common stock - 132,826 shares^	1995	<1%	131,498	37,058
Ultra-Scan Corporation Buffalo, NY. Ultrasonic fingerprint scanning technology	Common stock - 47,583 shares	1992	12.6%	276,986	276,986
	Term loan, 6% interest, due September 1997		-	50,000	50,000
OTHER INVESTMENTS	Other investments			100,060	100,060
				-------	-------
	Total Investments			$3,737,286	$4,075,174
				=========	=========

* Publicly-owned Company ^ Unrestricted securities as defined in Note (a)
</TABLE>

NOTES TO PORTFOLIO OF INVESTMENTS

(a) Unrestricted securities (indicated by ^) are freely marketable securities having readily available market quotations. All other securities are restricted securities which are subject to one or more restrictions on resale and are not freely marketable. At December 31,1996 restricted securities represented 80% of the value of the investment portfolio.

(b) The Year First Acquired column indicates the year in which the Corporation acquired its first investment in the company or a predecessor company.

(c) The equity percentages express the percent of outstanding voting securities held by the Corporation or the potential percentage of voting securities held by the Corporation or the potential percentage of voting securities held by the company upon exercise of its warrants or conversion of debentures. The symbol "<1%" indicates that the Corporation holds equity interest of less than one percent.

(d) Under the valuation policy of the Corporation, unrestricted securities are valued at the closing bid price for over-the-counter securities for the last three days of the month. Restricted securities, including securities of publicly-owned companies which are subject to restrictions on resale, are valued at fair value as determined by the Board of Directors. Fair value is considered to be the amount which the Corporation may reasonably expect to receive for portfolio securities if such securities were sold on the valuation date. Valuations as of any particular date, however, are not necessarily indicative of amounts which may ultimately be realized as a result of future sales or other dispositions of securities. Among the factors considered by the Board of Directors in determining the fair value of restricted securities are the financial condition and operating results, projected operations, and other analytical data relating to the investment. Also considered are the market prices for unrestricted securities of the same class (if applicable) and other matters which may have an impact on the value of the portfolio company.

See notes to financial statements

CHANGES IN INVESTMENTS AT COST AND REALIZED LOSS
Year ended December 31, 1996

<TABLE>
<CAPTION>

	Cost Increase (Decrease)	Realized Gain(Loss)
<S>	<C>	<C>
New and Additions to Previous Investments:		
American Tactile Corporation	$ 50,000	
Aria Wireless Systems, Inc.	100,000	
Clearview Cable TV, Inc.	124,000	
Commercial Maintenance Organization, Inc.	5,000	
Comptek Research, Inc.	193,991	
Coral Systems, Inc.	18,271	
HealthWay Products, Inc.	100,000	
Heartland Wireless Communications, Inc.	716,015	
MobileMedia Corporation	8,250	
Ultra-Scan Corporation	50,000	

	1,365,527	

Investments Sold/Exchanged:		
Cable Maxx, Inc.	(97,500)	0
CAI Wireless Systems, Inc.	(237,547)	157,618
Heartland Wireless Communications, Inc.	(656,850)	76,199
Jamestown Savings Bank	(500,000)	0
Phoenix Data Communications Corporation	(100,000)	0
Three Sixty Corporation	(987,906)	0
	-----------	-------
	(2,579,803)	233,817
	-----------	-------
Investments Written Off:		
Aria Wireless Systems, Inc.	(400,000)	(400,000)
Bydatel Corporation	(520,000)	(520,000)
	-----------	---------
	(920,000)	(920,000)
	-----------	---------
Other Changes:		
Debenture repayments and distributions	(136,363)	223,219
Net Change in Investments at Cost and Realized Loss	$ (2,270,639)	$ (462,964)

</TABLE>

STATEMENTS OF FINANCIAL POSITION December 31, 1996 and 1995

<TABLE>
<CAPTION>

	1996	1995
<S>	<C>	<C>
ASSETS		
Investments at Directors' valuation (identified cost: 1996 - $3,737,286; 1995 - $5,761,573) (Note 1)	$ 4,075,174	$ 8,997,613
Cash and cash equivalents	1,605,501	707,559
Interest receivable (net of allowance of $0 in 1996 and $20,400 in 1995	100,411	147,556
Deferred tax asset (Note 2)	751,106	0
Income taxes receivable (Note 2)	2,581	4,187
Other assets	74,423	46,957
	---------	---------
TOTAL ASSETS	$ 6,609,196	$ 9,903,872
	=========	=========
LIABILITIES AND STOCKHOLDERS EQUITY (NET ASSETS) LIABILITIES		
Accounts payable and accrued expenses (Notes 4 and 6)	$ 150,660	$ 226,808
Deferred tax liability (Note 2)	0	343,759
	---------	---------
TOTAL LIABILITIES	150,660	570,567
	=========	=========
STOCKHOLDERS EQUITY (NET ASSETS) (Note 3)		
Common stock, $.10 par - shares authorized 7,000,000; issued and outstanding 4,225,477 shares in 1996 and 1995	422,548	422,548
Capital in excess of par value	4,810,369	4,810,369
Undistributed net investment (loss)	(1,210,521)	(812,838)
Undistributed net realized gain on investments	2,258,384	2,867,302
Net unrealized appreciation of investments	177,756	2,045,924
	----------	---------
Net assets (per share 1996 - $1.53; 1995 - $2.21)	6,458,536	9,333,305
	----------	---------
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 6,609,196	$ 9,903,872
	==========	=========

See notes to financial statements.
</TABLE>
STATEMENTS OF OPERATIONS Year ended December 31, 1996 and 1995
<TABLE>
<CAPTION>

	1996	1995
<S>	<C>	<C>
INVESTMENT INCOME: (Note 5)		
Interest from portfolio companies	$ 122,255	$ 225,042
Interest from other investments	38,730	85,896
Other income	12,921	37,266
	----------	---------
	173,906	348,204
	==========	=========
EXPENSES:		

Salaries	273,258	469,985
Employee benefits	32,188	166,412
Directors' fees	33,830	17,750
Legal fees	106,003	82,612
Professional fees	33,464	18,162
Shareholders and office	76,122	52,368
Insurance	94,263	35,942
Corporate development	79,557	27,140
Other operating	40,742	119,324
	----------	----------
	769,427	989,695
	----------	----------
INVESTMENT (LOSS) BEFORE INCOME TAXES	(595,521)	(641,491)
Income tax provision (Note 2)	13,000	14,100
Deferred income tax (benefit) (Note 2)	(210,736)	(245,660)
	----------	-----------
INVESTMENT (LOSS) - NET	(397,785)	(409,931)
	----------	-----------
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:		
Net loss on sales and dispositions	(462,964)	(65,416)
	----------	----------
Net realized (loss) on investments	(462,964)	(65,416)
Deferred income tax provision	145,952	30,003
	----------	----------
NET REALIZED (LOSS)	(608,916)	(95,419)
	----------	----------
UNREALIZED APPRECIATION ON INVESTMENTS:		
Beginning of period	3,236,040	9,064,200
End of period	337,889	3,236,040
	----------	---------
(Decrease) in unrealized appreciation before income taxes	(2,898,151)	(5,828,160)
Deferred income tax (benefit) (Note 2)	(1,030,083)	(2,229,884)
	----------	---------
NET (DECREASE) IN UNREALIZED APPRECIATION	(1,868,068)	(3,598,276)
	----------	---------
NET REALIZED AND UNREALIZED (LOSS) ON INVESTMENTS	(2,476,984)	(3,693,695)
	----------	---------
NET (DECREASE) IN NET ASSETS FROM OPERATIONS	$ (2,874,769)	$ (4,103,626)
	==========	==========

See notes to financial statements.
</TABLE>
STATEMENTS OF CHANGES IN NET ASSETS/Years ended December 31,1996 and 1995
<TABLE>
<CAPTION>

<S>	1996 <C>	1995 <C>
Net assets at beginning of period (including undistributed net investment loss of $409,931 and $319,192, respectively)	$ 9,333,305	$ 13,351,926

OPERATIONS:		
Net investment loss	(397,785)	(409,931)
Net realized loss on investments	(608,916)	(95,419)
Net (decrease) in unrealized appreciation of investments	(1,868,068)	(3,598,276)
	----------	----------
Net (decrease) in net assets from operations	(2,874,769)	(4,103,626)
Net proceeds of private offering and stock distribution	0	85,005
NET ASSETS AT END OF PERIOD (INCLUDES UNDISTRIBUTED NET INVESTMENT LOSS OF $397,785 AND $409,931, RESPECTIVELY)	$ 6,458,536	$ 9,333,305
	=============	===========

</TABLE>

NOTES TO FINANCIAL STATEMENTS Years ended December 31, 1996 and 1995

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Corporation operates as a closed-end management investment company registered under the Investment Company Act of 1940.

Investments are stated at market or fair value as determined in good faith by the Board of Directors, as described in the Notes to Portfolio of Investments on page 5. Certain investments have been determined by the Board of Directors in the absence of readily ascertainable market values. Because of the inherent uncertainty of valuation, these values may differ significantly from the values that would have been used had a ready market for the securities existed, and the difference could be material.

Temporary cash investments having a maturity of three months or less when purchased are considered to be cash equivalents.

Interest income generally is recorded on the accrual basis except where the investment is valued at less than cost to reflect risk of loss. In such cases, interest is recorded at the time of receipt. A reserve for possible losses on interest receivable is maintained when appropriate.

Amounts reported as realized gains and losses are measured by the difference between the proceeds of sale or exchange and the cost basis of the investment without regard to unrealized gains or losses reported in prior periods. The cost of securities that have, in the Directors' judgment, become worthless, are written off and reported as realized losses.

Net assets per share are based on the number of shares of common stock outstanding during the respective year. The prior years have been restated to show the effects of a twenty-five percent stock distribution that occurred during 1995, 1994 and 1993 and a private offering which occurred during 1995.

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reporting amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. INCOME TAXES

The Corporation accounts for income taxes in accordance with FASB Statement No. 109, Accounting for Income Taxes. A requirement of FASB Statement No. 109 is that deferred tax assets and liabilities are recorded for temporary differences between the financial statement and tax bases of assets and liabilities using the currently enacted tax rate expected to be in effect when the taxes are actually paid or recovered.

The net deferred tax liability (asset) presented in the balance sheet includes the following:

	1996	1995
Deferred tax liability	$ 253,214	$ 1,280,976
Deferred tax asset	1,004,320	937,217
Net deferred tax liability (asset)	$ (751,106)	$ 343,759

The tax effect of the major temporary difference and carryforwards that give rise to the Corporation's net deferred tax liability (asset) are as follows:

	1996	1995
Operations	$ (6,020)	$ (3,700)
Investments	253,213	1,280,976
Net operating loss carryforwards	(689,226)	(478,490)
Net deferred tax liability (asset)	$ (751,106)	$ 343,759

Income tax expense (benefit) is reported in the statement of operations as follows:

	1996	1995
Current:		
State	$ 13,000	$ 14,100
	13,000	14,100
Deferred:		
Tax (benefit) on change in unrealized appreciation:		
Federal	(936,010)	(2,084,137)
State	(158,857)	(361,404)
	(1,094,867)	(2,445,541)
Total	$(1,081,867)	$(2,431,441)

A reconciliation of the benefit for the income taxes at the federal statutory rate to the benefit reported is as follows:

	1996	1995
Net investment (loss) and realized (loss) before income taxes (benefit)	$(3,956,636)	$(6,535,067)
Expected tax (benefit) at statutory rate of 34%	$(1,295,888)	$(2,239,193)
State - net of federal effect	(96,264)	(592,727)
Other	310,285	400,479
Total	$(1,081,867)	$(2,431,441)

Deferred income taxes of approximately $172,000 and $1,196,000 at December 31, 1996 and 1995, respectively, relate to net unrealized appreciation of investments.

Such appreciation is not included in taxable income until realized.

Included in deferred taxes on the accompanying statements of financial position is approximately $81,000 and $85,000 at December 31, 1996 and 1995, respectively, applicable to a gain being reported under the installment method for income tax purposes. This amount will be reduced in future periods as payments are received.

At December 31, 1996, the Corporation had a federal and state net operating loss carryforward of approximately $1,719,000 and $1,185,000, respectively, which expire commencing in 2007.

3. STOCKHOLDERS EQUITY

On June 16, 1995, the Corporation issued 837,150 shares of common stock to shareholders of record as of May 26, 1995 in conjunction with a 25% stock distribution declared by the Board of Directors. Per share amounts reported in the financial statements and in the schedule of selected per share data and ratios have been restated to reflect the stock distribution. An amount equal to par value was charged to undistributed net investment income and credited to common stock.

On October 19, 1995, the Corporation completed the sale of 40,000 shares of authorized and unissued common stock of the Corporation at $3.32 per share.

At December 31, 1996 and 1995, there were 500,000 shares of $10 par value preferred stock authorized and unissued.

Summary of change in capital accounts:

<TABLE>
<CAPTION>

	Undistributed Net Investment Income	Undistributed Net Realized Gain on Investments	Net Unrealized Appreciation on Investments
<S>	<C>	<C>	<C>
Balance, December 31, 1994	$ (319,192)	$ 2,962,721	$ 5,644,200
Net (decrease) in net assets from operations	(409,931)	(95,419)	(3,598,276)
Stock distribution	(83,715)	0	0
Balance, December 31, 1995	(812,838)	2,867,302	2,045,924
Net (decrease) in net assets from operations	(397,785)	(608,918)	(1,868,168)
Balance, December 31, 1996	$ (1,210,623)	$ 2,258,384	$ 177,756

</TABLE>
<TABLE>
<CAPTION>

	Common Stock Shares	Common Stock Amount	Capital in Excess of Par
<S>	<C>	<C>	<C>
Balance, December 31, 1994*	3,348,327	$ 334,833	$ 4,729,364
Private offering and stock distribution - 1995	877,150	87,715	81,005
Balance, December 31, 1995 and December 31, 1996	4,225,477	$ 422,548	$ 4,810,369

</TABLE>

* As previously reported, pre-1995 stock distribution

4. COMMITMENTS AND CONTINGENCIES

In 1995, the Corporation entered into an agreement with a former officer of the Corporation which, among other things, stipulated the following:

a) From the date of retirement of December 31, 1995, until the earlier of December 31, 1999 or death, the Corporation could employ this former officer as a consultant. The former officer was retained as a consultant in 1996 at an annual fee of $10,000. This agreement was subject to annual renewal and was not renewed for 1997.

b) This former officer will continue to be compensated under terms of a deferred compensation agreement. Payments under this agreement are expected to be paid out over the period of January 1, 1996 through September 1, 1999. The amounts under this agreement have been accrued as of December 31, 1995 due to all terms of the contract being satisfied by that fiscal year end.

c) The Corporation offers health and dental benefits to this former officer and his family under terms of the deferred compensation agreement. These benefits are accounted for under Statement of Financial Accounting Standards No. 106, "Employers Accounting for Postretirement Benefits Other Than Pensions" (FASB 106), requiring the accrual method of accounting for these benefits.

5. TRANSACTIONS WITH AFFILIATES

Income from affiliates of the Corporation as of December 31 was as follows:

	1996	1995
Interest Income	$ 61,678	$ 85,896
Other	0	32,014
Total	$ 61,678	$ 117,910

6. PENSION EXPENSE

The Corporation sponsored a contributory and non-contributory defined benefit plan. On September 23, 1996, the Corporation terminated the Plans. Prior to the termination, a former officer received a lump sum payment from the Plan in 1996 of approximately $486,000, and another participant received a lump sum distribution. As of the termination date, the Plan termination liability was $11,527 and is to be distributed to the two remaining vested participants in 1997. Defined benefits were not provided under a successor Plan. The Plan ceased to exist as an entity.

Prior to termination, the Corporation accounted for its pension plans in accordance with Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions. The Plan was for all employees meeting specified age and service requirements. Benefits were determined based on compensation history. Net pension expense for the Plan was $21,398 in 1995. At December 31, 1995, the fair value of plan assets was $496,340 and the pension liability was $2,331.

For years ended December 31, 1996 and 1995, total retirement expense amounted to $9,785 and $81,131, respectively. Actual contributions to the Plan amounted to $8,040 and $78,718 in 1996 and 1995, respectively.

7. SUBSEQUENT EVENT

The Corporation raised approximately $1.8 million in new capital via a private placement offering of common shares in January 1997. The new shares were sold at the then current net asset value, making it a non-dilutive transaction. Appropriately, the financial statements have not been restated for this event.

SCHEDULE OF SELECTED PER SHARE DATA AND RATIOS Five Years ended December 31, 1996 and 1995

Selected data for each share of capital stock outstanding throughout the five most current years is as follows:

<TABLE>
<CAPTION>

	Year ended December 31,				
	1996	1995	1994*	1993*	1992*
<S>	<C>	<C>	<C>	<C>	<C>
Investment income (Note 5)	$ 0.04	$ 0.09	$ 0.07	$ 0.13	$ 0.17
Expenses	0.18	0.23	0.17	0.18	0.18
Investment (loss) before income taxes	(0.14)	(0.14)	(0.10)	(0.05)	(0.01)
Provision (benefit) for income taxes (Note 2)	(0.05)	(0.05)	(0.03)	(0.01)	0.00
Net investment (loss)	(0.09)	(0.09)	(0.07)	(0.04)	(0.01)
Net realized and unrealized gain (loss) on investments	(0.59)	(0.89)	0.18	(0.02)	0.96
Increase (decrease) in net asset value before cumulative effect of change in method of accounting	(0.68)	(0.98)	0.11	(0.06)	0.95
Cumulative effect of change in method of accounting for income taxes (Note 2)	0.00	0.00	0.00	0.06	0.00
Increase (decrease) in net asset value	(0.68)	(0.98)	0.11	0.00	0.95
Net asset value - beginning	2.21	3.19	3.07	3.07	2.12
Net proceeds of private placement	0.00	0.00	0.01	0.00	0.00
Net asset value - ending	$ 1.53	$ 2.21	$ 3.19	$ 3.07	$ 3.07
Ratio of expense to average net assets	9.75%	8.73%	6.13%	5.86%	6.66%
Ratio of net investment (loss) to average net assets	(5.04)%	(3.48)%	(2.32)%	(1.11)%	(0.38)%
Number of shares outstanding at end of period	4,225,477	4,225,477	4,185,477	3,357,352	3,357,352

</TABLE>

*Per share data presented has been restated from prior years to reflect the 25% stock distributions of the Corporation occurring in 1995, 1994 and 1993.

See notes to financial statements.

INDEPENDENT AUDITOR'S REPORT Deloitte & Touche LLP

To the Board of Directors and Stockholders
Rand Capital Corporation
Buffalo, New York

We have audited the accompanying statements of financial position of Rand Capital Corporation, including the schedules of portfolio investments, as of December 31, 1996 and 1995, and the related statements of operations and changes in net assets for the years then ended, and the selected per share data and ratios for each of the five years in the period then ended. These financial statements and per share data and ratios are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements and per share data and ratios based on our audits.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and per share data and ratios are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included examination or confirmation of securities owned as of December 31, 1996 and 1995. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and selected per share data and ratios referred to above present fairly, in all material respects, the financial position of Rand Capital Corporation as of December 31, 1996 and 1995, the results of its operations and changes in its net assets for the years then ended and the selected per share data and ratios for each of the five years in the period then ended, in conformity with generally accepted accounting principles.

As explained in Note 1, the financial statements include securities valued at $4,075,174 (63% of net assets), and $8,997,613 (96% of net assets) at December 31, 1996 and 1995, whose values have been estimated by the Board of Directors in the absence of readily ascertainable market values. We have reviewed the procedures used by the Board of Directors in arriving at its estimate of value of such securities and have inspected underlying documentation, and, in the circumstances, we believe the procedures are reasonable and the documentation appropriate. However, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of changes in investments at cost for the year ended December 31, 1996, on page 6, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This schedule is the responsibility of the Corporation's management. Such schedule has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

s/Deloitte & Touche LLP

Buffalo, NY
January 24, 1997

SHAREHOLDER INFORMATION

Transfer Agent

Continental Stock Transfer & Trust Company
2 Broadway
New York, NY 10004

Shareholders

The Corporation had approximately 179 record holders of its common stock. This total does not include an estimated 739 shareholders with shares held under beneficial ownership in nominee name or within clearinghouse positions of brokerage firms or banks.

Market Prices

The common stock of Rand Capital is traded on The NASDAQ SmallCap Market tier of The NASDAQ Stock Market under the symbol: RAND. The following high and low bid prices for the shares during each quarter of the last two years were taken from quotations provided to the Corporation by the National Association of Securities Dealers, Inc.

Stock Bid Price Data*

	1996		1995	
Quarter	High	Low	High	Low
1st	3 1/2	1	4 1/4	3 1/2
2nd	2 1/4	1 3/8	5 3/8	4 1/2
3rd	2 1/8	1 1/2	7	5 1/4
4th	1 11/16	1 3/16	6 1/2	3

*Stock bid price data has been adjusted for stock distribution

Notice of Annual Meeting

The Annual Meeting of Shareholders of Rand Capital Corporation will be held on Thursday, April 17, 1997 at 10:00 am at the Rand Building (Room 1734), 14 LaFayette Square, Buffalo, New York. All shareholders are encouraged to attend.

Directors

Reginald B. Newman II........President, NOCO Energy Corporation
Buffalo, NY Chairman, Rand Capital Corporation
Thomas R. Beecher, Jr........President, Beecher Securities
Buffalo, NY
Allen F. Grum...............President, Rand Capital Corporation
Buffalo, NY
Luiz F. Kahl................President, Vector Group, LLC
Buffalo, NY
Ross B. Kenzie..............Retired
Buffalo, NY
Willis S. McLeese............Chairman, Colmac Holdings Ltd.
Toronto, Canada
Jayne K. Rand...............Vice President, M&T Bank, N.A.
Buffalo, NY
Donald A. Ross..............Retired
Buffalo, NY
Frederick W. Winter..........Dean, School of Management,
Buffalo, NY University of New York at Buffalo

Officers

Allen F. Grum - President
Nora B. Sullivan - Executive Vice President
Robin K. Penberthy - Chief Financial Officer

Corporate Counsel

Hodgson, Russ, Andrews,Woods & Goodyear, LLP
1800 One M&T Plaza
Buffalo, NY 14203

Independent Accountants

Deloitte & Touche LLP
KeyBank Tower
50 Fountain Plaza, Suite 250
Buffalo, NY 14202

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