

March 31, 1997 / First Quarter

April 18, 1997

To Our Shareholders:

During the first quarter we reached an agreement to provide equity and convertible subordinated debt to BioVector, which is a medical product design and distribution company. Located in Western New York, the company provides a national and international sales organization for medical companies. This allows medical companies to concentrate their resources on product development and provides a cost efficient mechanism for them to market products. The management team for BioVector is headed by Bill Burns, founder and former CEO of Matrx Medical, and is one of the strongest we have encountered. This is the first result of our efforts to target the Health and Medical field.

During the quarter we continued to work with Aria Wireless Systems, Inc. and Compass Partners to enable Aria to emerge from Chapter 11 as an operating company. The hearing date to confirm the Reorganization Plan is scheduled for May 2. The Plan calls for the court approved Debtor in Possession loan in the amount of \$3,000,000 to be converted into equity equal to 80% of Reorganized Aria, with the remaining 20% distributed to certain creditors.

The plan also allows for Rand to convert its existing DIP loan to equity in the Reorganized Aria as well as participate in the DIP loan described above. It is anticipated that the Reorganized Aria will be a publicly traded company when it emerges from Chapter 11. (The Plan also extinguishes the equity interests of old Aria of which Rand was an owner. Rand wrote this investment off in the first quarter of 1996)

Aria is also undertaking a series of depositions with various members of senior management of Comptek Research, Inc. Aria has asserted that Comptek may not have fulfilled its financial obligations under the merger agreements and that Comptek may be liable for damages. We are closely monitoring this situation with counsel to determine Rand's legal rights as a shareholder of both Aria and Comptek.

During the first quarter, we also initiated an action against Rand Pharmaceutical and Larry Artz, a former officer of that company. We are pursuing damages against him for his failure to account for the disposition of Rand Pharmaceutical's assets.

Over the past six months, we have been working with ARS, Inc. to raise approximately \$10 million of new subordinated debt. This money will be used to retire their current debentures, repurchase equity and provide expansion capital. Consistent with that capital plan and our valuation policy, we have increased our valuation in ARS to \$1,257,820. During the first quarter, we continued to liquidate our publicly traded equity positions. Our debenture in Mobile Data Solutions, Inc. was converted into common stock and these shares were sold for a gain of \$500,000. We also liquidated our holdings in Transworld Telecommunications, Inc. and sold 2,880 shares of Heartland Wireless Communications. Additionally, we wrote off our investment in Mobile Media Corporation to reflect their Chapter 11 filing. The net result of these activities was a \$.02 decline in our Net Asset Value from \$1.53 at December 31, 1996 to \$1.51 at March 31, 1997.

For the first time in 30 years Don Ross's name is not listed as a Director of Rand Capital. His contributions as a founder, Chief Executive Officer and Director were a valuable asset to Rand. We thank him for his service.

Our liquidity position is at a recent all-time high with over \$4 million in available funds. We are working hard to invest these

funds into profitable investments. We look forward to sharing the results of these efforts in the coming year.

s/Allen F. Grum

Allen F. Grum
President

s/Nora B. Sullivan

Nora B. Sullivan
Executive Vice President

<TABLE>

<CAPTION>

Portfolio Valuation / March 31, 1997

		March 31, 1997		December 31, 1997			
Date Acquired	Company and Business	Type of Investment	Per share Cost	Per share of Value	of Rand	Value	Rand
6/23/95	American Tactile Corporation Medina, N.Y. 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	0.03	150,000	0.04
8/29/91	ARS, Inc. Cheektowaga, NY Assembles and distributes replacement automotive products	Common stock - 25 shares Convertible debentures at 14 2/3% due August 2000	125,000 375,000	314,455 943,365	0.09 0.13	250,000 750,000	0.06 0.18
11/6/95	BioWorks, 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
2/23/96	Clearview Cable TV, Inc. New Providence, NJ Wireless cable television system operator	Common stock - 400 shares	55,541	55,541	0.01	55,541	0.01
10/16/95	Commercial Maintenance Organization, Inc. Coral Springs, FL Maintenance service network for retailers, restaurants, vendors	Common stock - 163,526 shares	100,000	100,000	0.02	85,000	0.01
9/13/94	Comptek Research, Inc.*	Common stock - 49,221 shares^	92,410	693,998 92,410	283,021 0.02	246,105 102,678	0.06 0.02

	Buffalo, NY	Term loan at						
	Develops	prime less 1%,						
	electronic	due June 1998						
	systems for							
	military and non-							
	military							
	applications							
3/31/94	Coral Systems, Inc.	Series A convertible preferred stock	200,000	422,222	0.07	422,222	0.10	
	Longmont, CO	99,999 shares	18,271	18,271	0.00	18,271	0.00	
	Develops fraud prevention software for the wireless industry	Common stock - 11,938 shares						
3/18/96	HealthWay Products Company, Inc.	Promissory note at 12%, 4,667 warrants for Series A preferred stock	100,000	100,000	0.02	100,000	0.02	
	syracuse, NY							
	Manufactures air filters and climate control devices							
2/23/96	Heartland Wireless Communications, Inc.*	Common Stock - 2,880 shares^	65,174	6,552	0.00	38,045	0.01	
	Richardson, TX	7,963 shares	180,203	18,116	0.00	118,180	0.03	
	Wireless cable television system operator							
2/26/88	J. Giardino Buffalo, NY Owns and leases commercial property	First mortgage at 10%	214,553	214,553	0.04	218,448	0.05	
5/19/94	Mobile Data solutions, Inc.*	Common stock - 0 shares^	0	0	0.00	465,851	0.11	
	Vancouver, BC							
	Develops mobile data software							
12/31/90	MobileMedia Corporation*	Common stock - 50,923 shares^	67,322	0	0.00	25,461	0.01	
	New York, NY	20,369 shares	26,028	0	0.00	9,268	0.00	
	Provider of paging and other wireless data services							
10/4/95	Reflection Technology, Inc.	Series J convertible preferred stock	500,000	500,000	0.09	500,000	0.12	
	Waltham, MA	443,784 shares						
	Develops and licenses proprietary virtual display technology							
1/6/95	Transworld Telecommunication s, Inc.*	Common stock - 0 shares^	0	0	0.00	37,058	0.01	
	Salt Lake City, UT							
	Wireless cable television systems operator							
12/11/92	Ultra-Scan Corporation	Common stock - 47,583 shares	276,986	276,986	0.05	276,986	0.07	
		50,000	50,000	0.01	50,000	0.01		

Buffalo, NY Note at 6%, due
 Ultrasonic September 1997
 fingerprint
 scanning
 technology

Other investments	Other	200,060	200,060	0.04	100,060	0.02
Total portfolio investments		\$3,801,552	0.67	\$4,075,174	0.96	
Cash and money market investments		4,110,391	0.72	1,605,501	0.38	
Net receivables (payables)		159,309	0.02	24,174	0.01	
Net assets before taxes		\$8,071,252	1.41	\$5,704,849	1.35	
Tax provision (benefit)		(559,071)	(0.10)	(753,687)	(0.18)	
Net Assets		\$8,630,323		\$6,458,536		
Net asset value per share		\$1.51		\$1.53		
5,708,034 shares at March 31, 1997 and						
4,225,477 shares at December 31, 1996						

</TABLE>

* 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

c, g Jayne K. Rand

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 Chief Financial Officer

Corporate Data

Stock Listing - Over the Counter - NASDAQ 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.

Tel: 716-853-0802

Fax: 716-854-8480

Email: pgrum@randcap.com

nsullivan@randcap.com