

July 18, 1997

To Our Shareholders:

For the first time in seven quarters, Rand Capital posted an increase in net assets. This resulted from a decrease in expenses, an increase in operating income and appreciation of our portfolio investments. We are working to ensure that this is the first of many increases. The management of Rand Capital would like to acknowledge the help of its Board of Directors and the patience of the shareholders. It has been a long time.

During the second quarter, we finished the recapitalization of ARIA Wireless Systems, Inc., and are pleased that it emerged from Chapter 11 on May 23, 1997. Rand participated in the transaction by purchasing 438,000 shares of common stock representing approximately 8% of the company. ARIA anticipates that its shares will traded on the OTC market within the third quarter. We believe that the combination of new management, a new business model and a new operating strategy will allow ARIA to maximize its market potential. Concurrently, we will evaluate our ownership in Bydatel Corporation. Bydatel anticipates receiving shares in ARIA to satisfy its claim as a creditor. This may lead to Rand recognizing a positive value for its equity position in Bydatel.

During the first quarter, we invested \$100,000 in 3-D Ventures, LLC which provided the production and marketing of 3-D special television events in Venezuela. We are pleased to announce that the venture was successful and Rand received \$150,000 in July. Our partners in the venture are based in Buffalo and have a track record and expertise throughout the world. Also, we assisted ARS, Inc. in raising \$12,000,000 in growth capital. In July, Rand received \$1,257,820 for its original investment of \$500,000. We reinvested \$1,000,000 into Subordinated Debt with a 12% coupon and warrants. The company used the capital to repurchase outstanding debt and equity.

In June, we re-negotiated the terms of our mortgage with John Giardino. The new note calls for accelerated principal payments and annual interest rate increases with a final maturity date in 2002. Unfortunately, one of our directors, Frederick Winter, is relocating to the University of Pittsburgh to serve as the Dean of the School of Management. Our loss is their gain. We will miss Rick's valued advice and commitment to Rand Capital and thank him for his contributions.

We are highly liquid with approximately \$3.7 million (or 64 cents per share) in current assets. We continue to pursue opportunities that are consistent with our investment strategy. Thank you for your continued support of Rand Capital. We welcome any questions or comments.

Regards,

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

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

STATEMENTS OF FINANCIAL POSITION
June 30, 1997 and December 31, 1996

<TABLE>
<CAPTION>

	Unaudited June 30, 1997	December 31, 1996
Assets		
Investments at Directors' valuation	\$ 4,675,878	\$ 4,075,174
(cost: at 6/30/97 - \$4,063,020; at 12/31/96 - \$3,737,286)		

Cash and cash equivalents	3,293,126	1,605,501
Interest receivable (net of allowance of \$64,042 at 6/30/97 and \$0 at 12/31/96)	36,495	100,411
Deferred tax asset	548,742	751,106
Other assets	203,785	77,004
Total Assets	<u>\$ 8,758,026</u>	<u>\$ 6,609,196</u>

Liabilities and Stockholder's
Equity (Net Assets)

Liabilities:

Accounts payable and accrued expenses \$ 121,494 \$ 150,660

Income taxes payable 5,800 0

Total Liabilities 127,294 150,660

Stockholders's Equity (Net Assets):

Common stock, \$.10 par - shares
authorized 10,000,000
issued and outstanding 5,708,034
at June 30, 1997 and 4,225,477
at December 31, 1996.

Capital in excess of par value 6,907,517 4,810,369

Undistributed net investment (loss) (1,656,700) (1,210,521)

Undistributed realized gain on
investments 2,571,029 2,258,384

Net unrealized appreciation of
investments 238,082 177,756

Net Assets (per share 6/30/97
\$1.51; 12/31/96 - \$1.53) 8,630,732 6,458,536

Total Liabilities and
Stockholder's Equity \$ 8,758,026 \$ 6,609,196

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STATEMENTS OF OPERATIONS

Six months ended June 30, 1997 and year ended December 31, 1996

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<CAPTION>

	Unaudited June 30, 1997	Unaudited December 31, 1996
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Investment income:		
Interest from portfolio companies	\$ 84,284	\$ 122,255
Interest from other investments	69,038	38,730
Other income	11,405	12,921
	<u>164,727</u>	<u>173,906</u>

Expenses:

Salaries	164,477	273,258
Employee benefits	18,781	32,188
Directors' fees	23,398	33,830
Legal fees	19,122	106,003
Professional fees	11,053	33,464
Stockholder and office	41,897	76,122
Insurance	47,190	94,263
Corporate development	37,395	79,557

Other operating	28,440	40,742
	<u>391,753</u>	<u>769,427</u>
Investment (loss) before income taxes	(227,026)	(595,521)
Income taxes provision	8,900	13,000
Deferred income tax provision (benefit)	94,827	(210,736)
Investment (loss) - net	<u>(330,753)</u>	<u>(397,785)</u>
Realized and unrealized gain (loss) on investments:		
Net gain (loss) on sales and dispositions	312,499	(462,964)
Net realized gain (loss) on investments	312,499	(462,964)
Deferred income tax provision	115,764	145,952
Net realized gain (loss)	<u>196,735</u>	<u>(608,916)</u>
Unrealized appreciation on investments:		
Beginning of period	337,889	3,236,040
End of period	389,988	337,889
Increase (decrease) in unrealized appreciation	52,099	(2,898,151)
Deferred income tax provision (benefit)	8,226	(1,030,083)
Net increase (decrease) in unrealized appreciation	<u>60,325</u>	<u>(1,868,068)</u>
Net realized and unrealized gain (loss) on investments	<u>257,060</u>	<u>(2,476,984)</u>
Net (decrease) in net assets from operations \$	<u>(73,693)</u>	<u>\$ (2,874,769)</u>

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PORTFOLIO VALUATION / JUNE 30, 1997

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<CAPTION>

Date	Acquired Company and Business	Type of Investment	Per share of	Per share	Rand	Value of Rand
			Cost	Value		
6/23/95	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 with detachable warrants	150,000	150,000	0.03	150,000 0.03
5/23/97	ARIA Wireless Systems, Inc.* Orchard Park, NY. Markets radio transmission communication equipment	Common stock - 438,000 shares	438,000	438,000	0.08	0 0.00
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	125,000 375,000	507,820 750,000	0.09 0.13	507,820 0.09 750,000 0.13

8/29/91	BioVector, Inc. Orchard Park, NY.	Common stock - 50,000 shares	50,000	50,000	0.00	0	0.00
	Medical technological sales	Convertible promissory note at 8%, due April 2002. Option to purchase 100,000 common shares	360,000	360,000	0.06	0	0.00
10/16/95	Commercial Maintenance Organization, Inc. Coral Springs, FL.	Common stock - 163,526	100,000	100,000	0.02	100,000	0.02
	Maintenance service network for retailers, restaurants, vendors						
6/29/95	Compek Research, Inc.*	Common stock - 49,221 shares**	693,998	375,556	0.06	283,021	0.05
9/13/94	Buffalo, NY.	Develops electronic systems for military and non-military applications	Term loan at price less 1%, due June 1999	82,143	82,143	0.01	92,410 0.02
3/31/94	Coral Systems, Inc. Longmont, CO.	Series A convertible preferred stock - 99,999 shares	200,000	422,222	0.07	422,222	0.07
	Develops fraud prevention software for the wireless industry	Common stock - 11,938 shares	18,271	18,271	0.00	18,271	0.00
3/18/96	HealthWay Products Company, Inc. Syracuse, NY.	Promissory note at 15%, 4,667 warrants for Series A preferred stock	100,000	100,000	0.02	100,000	0.02
	Manufactures air filters and climate control devices						
2/26/88	J. Giardino Buffalo, NY.	First mortgage at 10%	211,545	211,545	0.04	214,553	0.04
	Owns and leases commercial property						
10/4/95	Reflection Technology, Inc. Waltham, MA	Series J convertible preferred stock - 443,784	500,000	500,000	0.09	500,000	0.09
	Develops and Licenses proprietary virtual display technology						
12/11/92	Ultra-Scan Corporation Buffalo, NY.	Common stock - 47,583 shares	276,986	276,986	0.05	276,986	0.05
	Ultrasonic fingerprint scanning technology	Term loan at 6%, due September 1997	50,000	50,000	0.01	50,000	0.01
	Other investments	Other	491,045	283,335	0.05	336,269	0.05
	Total portfolio investments		\$4,675,878	0.81	\$3,801,552	0.67	
	Cash and cash equivalents		3,293,126	0.58	4,110,391	0.72	
	Net receivables (payables)		118,786	0.02	159,309	0.02	
	Net assets before taxes		\$8,087,790	1.41	\$8,071,252	1.41	
	Tax provision (benefit)		(542,942)	(0.10)	(559,071)	(0.10)	
	Net assets		\$8,630,732		\$8,630,323		

Net assets value per share (5,708,034 shares at June 30, 1997 and March 31, 1997)	\$1.51	\$1.51
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* 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 - 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.

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Email: pgrum@randcap.com

nsullivan@randcap.com