

October 16, 1997

To Our Shareholders:

Our third quarter can be characterized by positive events that could have happened. Unfortunately they did not materialize during this quarter and I am disappointed to report that the net result was a decrease in our Net Asset Value of nine cents per share.

An inability to execute on their Business Plans and disappointing financial results have led us to reduce our valuations in Reflection Technology, Inc., American Tactile Corp. and Commercial Maintenance Organization, Inc. This was offset in part by small increases in our valuations of Comptek Research, Inc. and the warrants that we received with our investment in ARS, Inc.

We anticipated that ARIA Wireless Systems, Inc. would have begun trading in the public market during the third quarter. Various factors prevented this from happening. ARIA has recently completed the necessary NASDAQ filings and we hope that their stock will begin to trade in the fourth quarter. On a positive note, we received a put option for our shares of Comptek stock to settle various disputes associated with the bankruptcy of ARIA.

During the quarter, we agreed to provide \$430,000 in a working capital loan for MINRAD and exercised an option to purchase \$50,000 of shares in Fertility Acoustics, Inc. Both of these medical device companies use BioVector to distribute its products. The funds for these transactions will be disbursed in the fourth quarter. We were successful in our litigation against Rand Pharmaceutical and the CEO, Larry Artz. We obtained a judgment against the company and him for violating various terms of our investment agreement.

I am pleased to report that the Rand Annual Report was recognized by the American Business Communicators by awarding Rand the First Place Award for Financial Content and two Second Place Awards for Cover Design and Letter to Shareholders.

We continue to execute the business strategy that we outlined in our previous communications to you and believe that this will result in maximizing shareholder value. We appreciate your continued support.

Regards,

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

PORTFOLIO VALUATION / SEPTEMBER 30, 1997

<TABLE>

<CAPTION>

Date	Type of	September	June 30,	Per share	Per share	Value	of Rand
Acquired	Company and Business	30, 1997	1997	Cost	of Rand	Value	of Rand
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	50,000	0.01	150,000	0.03
5/23/97	ARIA Wireless Systems, Inc.*	Common stock - 438,000	438,000	438,000	0.08	438,000	0.08

	Orchard Park, NY.	shares						
	Markets radio							
	transmission							
	communication							
	equipment							
8/29/91	ARS, Inc.	Common stock	125,000	0	0.00	507,820	0.09	
	Cheektowaga, NY.	- 25 shares						
	Assembles and	Subordinated	375,000	0	0.00	750,000	0.13	
	distributes	convertible						
	replacement	debentures at						
	automotive products	14-2/3%, due						
		August 2000.						
		Investment						
		redeemed						
		July, 1997						
7/1/97	ARS, Inc.	Participation	1,000,000	1,011,233	0.18	0	0.00	
	Cheektowaga, NY.	in						
	Assembles and	subordinated						
	distributes	debentures at						
	replacement	12% due July,						
	automotive products	2002 through						
		April 2005						
		with						
		detachable						
		warrants						
4/17/97	BioVector, Inc.	Common stock	50,000	50,000	0.01	50,000	0.00	
	Orchard Park, NY.	- 50,000						
	Medical	shares	360,000	360,000	0.06	360,000	0.06	
	technological sales	Convertible						
		promissory						
		note at 8%,						
		due April						
		2002. Option						
		to purchase						
		100,000						
		common shares						
10/16/95	Commercial	Common stock	100,000	20,000	0.00	100,000	0.02	
	Maintenance	- 163,256						
	Organization, Inc.	shares						
	Coral Springs, FL.							
	Maintenance service							
	network for							
	retailers,							
	restaurants, vendors							
6/29/95	Comptek Research, Inc.*	Common stock	693,998	418,379	0.07	375,556	0.06	
	Buffalo, NY.	- 49,221						
		shares^						
9/13/94	Develops electronic systems for military and non-military applications	Term loan at prime less 1%, due June 1999	71,875	71,875	0.01	82,143	0.01	
3/31/94	Coral Systems, Inc.	Series A	200,000	200,000	0.04	422,222	0.07	
	Longmont, CO.	convertible						
	Develops fraud prevention software for the wireless industry	preferred stock	200,000	18,271	0.00	18,271	0.00	
		shares						
		Common stock						
		- 11,938						
3/18/96	HealthWay Products Company, Inc.	Promissory note at 15%, 4,667	100,000	100,000	0.02	100,000	0.02	
	Syracuse, NY.	warrants for Series A preferred stock						
	Manufactures air filters and climate control devices							

2/26/88	J. Giardino Buffalo, NY. Owns and leases commercial property	First mortgage at 11%	197,797	197,797	0.03	211,545	0.04
10/4/95	Reflection Technology, Inc. Waltham, MA. Develops and licenses propriety virtual display technology	Series J convertible preferred stock - 243,903 shares	500,000	150,000	0.03	500,000	0.09
12/11/92	Ultra-Scan Corporation Buffalo, NY. Ultrasonic fingerprint scanning technology	Common stock - 47,583 shares Term loan at 6%, due September 1997	276,986	276,986	0.05	276,986	0.05
	Other investments	Other	400,340	145,690	0.02	283,335	0.05
	Total portfolio investment		\$3,558,231	0.62	\$4,675,878	0.81	
	Cash and cash equivalents		3,693,596	0.65	3,293,126	0.58	
	Net receivables (payables)		57,399 -----	0.01 -----	118,786 -----	0.02	
	Net assets before taxes		7,309,226	1.28	8,087,790	1.41	
	Tax provision (benefit)		(806,786)	(0.14)	(542,942)	(0.10)	
	Net Assets		\$8,116,012		\$8,630,732		
	Net asset value per share		\$1.42		\$1.51		
	(5,708,034 shares at September 30, 1997 and June 30, 1997)						

* Publicly owned company ^ Unrestricted securities
</TABLE>

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
a, 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
Daniel P. 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 Deloitte & Touche LLP
Accountants

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

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nsullivan@randcap.com