

October 8, 1998

TO OUR SHAREHOLDERS:

For the quarter ended September 30, 1998, we decreased our net assets by \$277,000, or \$.05 per share, resulting in total net asset valuation of \$8,152,410.

On a positive note, we increased our valuation in MINRAD, Inc. from \$623,000 to \$949,512. During the quarter they entered into a strategic alliance with Wilson Greatbatch. In this transaction, MINRAD, Inc. received \$1.2 million cash, personnel and inventory for a line of products in the magnetic resonating industry that will be sold through BioVector, Inc. In exchange, Wilson Greatbatch received stock and options for approximately 9% of MINRAD, Inc. Separately, BioVector, Inc. reached an exclusive sales agreement with Electro-Catheter Corp. (OTCBB:ECTH) and Cardiac Control Systems, Inc. (OTCBB:DCS) in North America. We expect to generate revenues in October.

Offsetting these positive results and leading to the net decline of \$277,000, was a decline in the stock price of two of our publicly traded companies. We revalued our investment in ARIA Wireless Systems, Inc. from \$610,000 to \$122,000 and in Lightbridge, Inc. from \$126,495 to \$57,012.

Management and the Board of Directors remain committed to increasing the value of Rand Capital and our stock.

I thank you for your support.

Allen F. Grum
 President
 PORTFOLIO VALUATION / SEPTEMBER 30, 1998
 <TABLE>
 <CAPTION>

Company and Business	Date Type of Investment	September 30, 1998		June 30, 1998		Rand	Value	Rand	Value	Rand
		Per Share Acquired	Per Share Cost	Per Share Value	Per Share Rand					
<S> ARIA Wireless Systems, Inc. (OTC:AWSI)* Buffalo, NY. Markets radio transmission communication equipment www.ariawireless.com	<C> Common stock - 488,000 shares	<C> 488,000	<C> 5/23/97	<C> 438,000	<C> 122,000	<C> 0.02	<C> 122,000	<C> 0.02	<C> 610,000	<C> 0.11
ARS, Inc. Buffalo, NY. Assembles and distributes replacement automotive products www.arsradiators.com	Participation in subordinated debenture at 12% due July, 2002 through April 2005 with detachable warrants	7/1/97	1,000,000	1,087,000	0.19	1,067,000	0.19			
BioVector, Inc. Orchard Park, NY. Medical technological sales force company	Common stock - 50,000 shares Convertible promissory note at 8%, due April 2002. Option to purchase 165,000 common shares	4/17/97	50,000	360,000	125,000	0.02	125,000	0.02	360,000	0.06
Fertility Acoustics, Inc. Orchard Park, NY. Developer of proprietary methods to diagnose onset of ovulation.	Common stock - 50,000 shares Option to purchase 15,000 shares methods to diagnose onset of ovulation.	10/1/97	50,000	125,000	0.02	125,000	0.02			
J. Giardino Buffalo, NY. Owns and leases commercial property	First Mortgage at 12%	2/26/88	172,034	172,034	0.03	172,034	0.03			
HealthWay Products Company, Inc. Syracuse, NY. Manufactures air filters and climate control devices www.healthway.com	Promissory note at 24%, due June 1996. 4,667 warrants for Series A preferred stock	3/18/97	100,000	100,000	0.02	100,000	0.02			

Lightbridge, Inc. (NASDAQ: LTBG)* Common stock - 14,253 shares 3/31/94 218,271 57,012 0.01 126,495 0.02
 Burlington, MA. Provides software based services for wireless telecommunications industry.
 www.lightbridge.com

MINRAD, Inc. Common stock - 118,689 shares 8/4/97 429,000 949,512 0.17 623,000 0.11
 Orchard Park, NY. Developer of laser guided surgical devices. Option to purchase 5,000 shares

Pathlight Technology, Inc. Class A Series 1(a)Convertible Preferred stock - 100,000 shares 10/7/97 100,000 100,000 0.02 100,000 0.02
 Ithaca, NY. Develops high technology Serial Storage Architecture for computer with 6% cumulative dividend industry.
 www.pathlight.com

Reflection Technology, Inc. Series J convertible preferred stock - 243,903 shares 10/4/97 500,000 150,000 0.03 150,000 0.03
 Waltham, MA. Develops and licenses proprietary virtual display technology
 www.reflectiontech.com

UStec Common stock - 47,583 shares 6/26/98 100,000 100,000 0.02 100,000 0.02
 Victor, NY. Manufactures residential digital wiring systems Term loan at 6%, repaid January 1998
 www.ustecnet.com

Other investments (a)	Other	992,964	294,298	0.05	329,060	0.05

	Total portfolio investments	4,510,269	3,741,856	0.66	3,987,589	0.70
		=====				
	Cash and cash equivalents	3,369,044	0.59	3,354,765	0.59	
	Net receivables(payables)	13,110	--	58,883	0.01	
		-----	-----			
	Net assets before taxes	7,124,010	1.25	7,401,237	1.30	
	Tax provision(benefit)	(1,028,400)	(0.18)	(1,028,400)	(0.18)	
		-----	-----			
	Net assets	\$8,152,410		\$8,429,637		
		=====		=====		
	Net asset value per share		\$1.43		\$1.48	
	(5,708,034 shares at September 30, 1998 and June 30, 1998)					

</TABLE>

* Publicly owned company ^ Unrestricted securities (a) Includes Investments with valuation less than \$100,000 during both periods

Note: 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.

Rand Capital Corporation
 Board of Directors (Elected by Shareholders April 14, 1998)
 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 Title Email
Allen F. Grum President, Chief Executive Officer pgrum@randcap.com
Nora B. Sullivan Executive Vice President nsullivan@randcap.com
Daniel P. Penberthy Chief Financial Officer dpenberthy@randcap.com
Corporate Data
Stock Listing NASDAQ SmallCap Market - symbol RAND
Transfer Agent and Registrar Continental Stock Transfer & Trust Company
General Counsel Hodgson, Russ, Andrews, Woods & Goodyear, LLP
Independent Accountants Deloitte & Touche LLP
Number of Shareholders 1,087 (as of March 10, 1998)

Rand is actively seeking business opportunities for investment consideration. If you are aware of such businesses which may need Rand's support and assistance, please feel free to contact us.

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