

January 21, 1999

To Our Shareholders:

For the quarter ended December 31, 1998, we increased our assets by \$84,622 and ended the year with a Net Asset Value of \$1.44.

In December, Auto Radiator Sales was sold to Visteon Automotive Systems (a unit of Ford Motor) and we received \$1.2 million as proceeds from the sale. This ends a seven year association with ARS and we are proud to have helped the company grow from a startup to \$75 million in annual sales. We wish we had more investments with management like Auto Radiator Sales.

We entered into two new and one follow on investments during the Quarter.

We participated by providing \$420,000 in a convertible bridge loan for InfoMiners, Inc. InfoMiners, Inc. serves the healthcare market and provides data mining tools that assist decision support solutions through database systems. They are currently raising \$4 million and we will have the option to convert our loan at the same terms as the new financing. In addition to the loan, we received a warrant to purchase 147,000 shares. We also participated in a financing for Dataview, LLC. Information about this company can be found at www.marketgauge.com. Dataview designs, develops and markets browser-based software products which are geared toward the financial market, enabling capitalization on the growth of Internet technology. Under the terms of our investment, our loan will convert to 2.70% of Dataview, LLC. Finally, we participated in a follow on investment with Pathlight Technology, Inc. and invested \$100,000 in a Convertible Note.

We end 1998 with \$3.75 million in cash or \$.66 per share of our Net Asset Value in cash. Our goal in 1999 is to prudently invest these funds and increase our shareholder value.

I thank you for your support.

Allen F. Grum
President

PORTFOLIO VALUATION / DECEMBER 31, 1998

<TABLE>

<CAPTION>

Company and Business <S>	Date <C>	Type of Investment <C>	December 31, 1998		September 30, 1998		Value <C>	Rand
			Per Share Acquired <C>	Cost <C>	Per Share Value <C>	Rand <C>		
American Tactile Corporation Medina, NY. Develops equipment and systems to produce signage.	6/23/95	Convertible Debentures at 8% due June 2000 and April 2001 with detachable warrants	150,000	50,000	0.01	50,000	0.01	
ARIA Wireless Systems, Inc. (OTC:AWSI)* Buffalo, NY. Markets wireless radio transmission communication equipment. www.ariawireless.com	5/23/97	Common Stock - 488,000 shares	438,000	122,000	0.02	122,000	0.02	
ARS, Inc. Buffalo, NY. Distributes replacement auto products.	-	Debenture at 18.74% (repaid 12/98)	-	-	1,087,000	0.19		
BioVector, Inc. Orchard Park, NY.	4/17/97	Common Stock - 50,000 shares Convertible Promissory Note at 8%,	50,000 360,000	125,000 360,000	0.08	125,000 360,000	0.08	

Medical technological sales force company.	due April 2002 Option to purchase 165,000 Common Shares							
BioWorks, Inc. Geneva, NY. Develops and manufactures biological alternative to chemical pesticides.	Series A Convertible Preferred Stock - 32,000 shares	11/6/95	56,000	56,000	0.01	56,000	0.01	
Clearview Cable TV, Inc. New Providence, NJ. Cable television operator.	Common Stock - 400 shares	2/23/96	55,541	55,541	0.01	55,541	0.01	
DataView, LLC Mt. Kisco, N.Y. Designs, develops and markets browser based software for investment professionals. www.marketgauge.com	Convertible Subordinated Note- \$100,000 8% Due October 15, 1999	10/1/98	100,000	100,000	0.02	-	-	
Fertility Acoustics, Inc. Orchard Park, NY. Developer of proprietary methods to diagnose onset of ovulation.	Common Stock -150,000 shares Option to purchase 15,000 shares	10/1/97	50,000	125,000	0.02	125,000	0.02	
J. Giardino Buffalo, NY. Commercial real estate.	First mortgage @ 12%	2/26/88	121,112	121,112	0.02	172,034	0.03	
Hammertime, Inc. Clarence, NY. Exclusive Sears licensed installer of kitchens and baths.	Convertible Preferred Stock - 100,000 Shares Senior Subordinated Note at 12% due October 6, 2000	10/1/98	100,000	100,000	0.04	-	0.01	
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	3/18/96	100,000	100,000	0.02	100,000	0.02	
InfoMiners, Inc. Amherst, NY. Data warehousing & decision support software for healthcare industries. www.infominers.com	Bridge loan at 10% due June, 1999 147,000 warrants for shares of stock	12/21/98	420,000	420,000	0.07	-	-	
Lightbridge, Inc. (NASDAQ:LTBG)* Burlington, MA. Provides software based services for wireless telecommunications industry. www.lightbridge.com	Common Stock - 13,165 shares	3/31/94	218,271	72,408	0.01	57,012	0.01	
MINRAD, Inc. Orchard Park, NY. Developer of laser guided surgical devices.	Common Stock - 118,689 shares	8/4/97	429,000	949,512	0.17	949,512	0.17	
Pathlight Technology, Inc. Ithaca, NY. Develops high technology Serial Storage Architecture for computer industry. www.pathlight.com	Class A Series 1(a) Convertible Preferred Stock - 100,000 shares with 6% cumulative dividend. Subordinated Note at 7.5% due December 2000	10/7/97	100,000	100,000	0.04	100,000	0.02	
Platform Technology Holdings, LLC	Two units with option for two additional units	9/24/97	8,045	60,000	0.01	50,000	0.01	

Orchard Park, NY.
Provides sales support and management for unique medical businesses.

Reflection Technology, Inc. Series J Convertible Preferred 10/4/95 500,000 150,000 0.03 150,000 0.03
Waltham, MA. Develops Stock - 243,903 shares
and licenses proprietary virtual display technology.
www.reflectiontech.com

UStec, Inc. Promissory Note at 12% 12/17/98 100,000 100,000 0.02 100,000 0.02
Victor, NY. due December 2003
Manufacturers & markets digital wiring systems for residential new home construction.
www.ustecnet.com

Other investments

Other - 491,832 20,597 0.00 52,757 0.01

Total portfolio investments 4,047,801 3,387,170 0.59 3,741,856 0.66

Cash and Cash equivalents 3,757,399 0.66 3,369,044 0.59

Net receivables(payables) 20,583 0.00 13,110 -

Net Assets before Taxes 7,165,152 1.25 7,124,010 1.25
(1,071,880) (0.19) (1,028,400) (0.18)

Tax provision (benefit)

Net Assets 8,237,032 8,152,410

Net Asset Value per Share (5,708,034 shares outstanding during both periods) 1.44 1.43

</TABLE>

* Publicly owned company ^ Unrestricted securities as defined in Note (a)

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. 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.

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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