

1999

[LOGO]

RAND CAPITAL
CORPORATION

Rand Capital Corporation is a registered closed-end management investment company investing in the securities of businesses, which offer unique opportunities for growth. Since its formation in 1969, Rand Capital has provided venture capital to support the growth and development of businesses in varied industries, primarily in the Western New York and Upstate New York Region. Rand's portfolio is comprised of such investments which include debt and/or equity holdings in primarily privately owned companies. Rand Capital is traded on The NASDAQ SmallCap Market tier under the symbol: RAND.

Thirty Years of Venture Capital

Since 1969, the Management and Board of Directors have received thousands of business plans and have averaged one new investment per quarter throughout Rand Capital Corporation's thirty year history. As typical in the venture capital industry, not all of our investments were successful. However, several noteworthy financial results have been achieved over the years and continue to provide a powerful incentive to those who are drawn to the risks and rewards of this investment capital market.

Rand Capital Investment Highlights

1969 Comax Telcom Corporation, Buffalo, NY

Comax, founded in 1968, operated local cable television systems. Rand funded an initial investment of \$13,000 in 1969. The company aggressively expanded during the 1970's was renamed International Cable and had more than 87,000 subscribers. Rand's investment was sold in 1981 for a realized gain of \$5.7 million.

1970 Astronics Corporation, Buffalo, NY

Astronics was founded in 1969 as an R&D Company to develop electroluminescent technology. Rand acquired a 20% equity interest for \$64,000 in the company in 1970. Rand recruited a new management team in the company, which included Kevin Keane, who remains as its current CEO. Astronics issued shares in an initial public offering in 1972. In 1977 Rand distributed its shares of Astronics to Rand shareholders. In 1998, Astronics announced that it had received a \$30 million U.S. military contract for use of its night-vision lighting technology in military aircraft. Astronics, headquartered in Buffalo, is traded on the NASDAQ stock market under the symbol ATRO and currently has a \$50 million market capitalization.

1997 Research Frontiers Incorporated (RFI), Woodbury, NY

Rand made an initial \$15,000 investment in RFI in 1972, which specialized in light control technology. Rand assisted RFI in implementing its growth plan and provided additional financing. RFI issued shares in an initial public offering in 1986. Rand sold its investment in 1991, realizing a gain of \$493,000. RFI is traded on the NASDAQ stock market under the symbol REFR, and currently has an \$87 million market capitalization.

1978 Aero Services International, Incorporated, Teterboro, NJ

Rand made a \$200,000 investment in Aero, a private aircraft service business, in 1978. Aero had exclusive contracts with several airports and also provided exclusive air service at the Winter Olympics in Lake Placid in 1980. The company issued its shares in an initial public offering in 1981 and was traded on the NASDAQ stock exchange. Rand sold its investment in 1985 for a realized gain of \$2.1 million.

1985 Datarex Systems, Incorporated, Cheektowaga, NY

Datarex was a wholesale distributor of computer-related equipment supplies and accessories, with the ability to provide unique "next day" shipment. Rand invested \$220,000 in equity during 1985 to help fund

sales development and expansion. Datarex was acquired by Azerty Information Processing in 1988 (currently headquartered in Orchard Park), and Rand realized a gain of \$4.1 million.

1987 Rand Communications, New York, NY

Rand Communications provided computer databases and financial periodicals for security traders, in addition to publishing its Chemical Week magazine. Rand invested \$400,000 in 1987 and liquidated its investment in 1991 for a realized gain of \$956,000.

1991 International Imaging Materials (IIMAK), Amherst, NY

IIMAK is a manufacturer of thermal transfer ribbons used primarily in bar code applications. Rand acquired an equity investment in IIMAK for \$305,000 in 1991.

The investment was sold in 1995 for a realized gain of \$412,000.

1991/1997 Auto Radiator Sales (ARS), Buffalo, NY

In 1991, Rand invested \$500,000 in Auto Radiator Sales, a manufacturer and assembler of automotive aftermarket industry products. ARS received \$11 million in a 1997 recapitalization of the company. Rand realized a gain of \$758,000 on its investment and provided investment banking services and invested \$1 million as a high yield debt security in the recapitalization of the company. ARS was sold to a division of the Ford Motor Co. in 1998.

Major Dates in the History of Rand

1969 Rand founded by George F. Rand III(Chairman) and Donald A. Ross (President)
/ One of Rand's investments is Comax Cable

1971 Rand's initial public stock offering, 250,000 shares

1976 Rand SBIC founded, with \$500,000 subscribed capital 1977 Rand distributes Astronics stock to Rand Shareholders

1981 Rand issues 200,000 shares

1985 Rand stock buyback, 292,642 shares

1986 Rand stock buyback, 15,832 shares / Rand issues 29,836 shares / Rand declares 300% stock distribution

1991 Death of George F. Rand III / Thomas R. Beecher, Jr. elected as Chairman

1992 Rand declares 25% stock distribution

1993 Rand declares 25% stock distribution

1994 Rand declares 25% stock distribution / Rand issues 530,000 shares / Rand SBIC merged with Rand Capital Corporation

1995 Rand declares 25% stock distribution / Rand issues 40,000 shares / Donald A. Ross retires as President

1996 Reginald B. Newman elected as Chairman / New management team of Allen Grum and Nora Sullivan begins to develop Rand's new business model

1997 Rand issues 1,482,557 shares

1998 Death of Donald A. Ross, former President of Rand Capital

As Rand Capital Corporation enters its 30th year of business, it's appropriate that we pause and express our sorrow for the passing of Donald A. Ross. As founder and Chief Executive Officer for 27 years, his contributions to Rand Capital and to the Western New York community were many. He was a "big man" in many ways and we will miss him.

During 1998, we continued to execute on the tenants of the Business Plan that we developed in 1996. We continued to grow our investment income and saw it increase from \$173,000 in 1995 to \$593,000 in 1998. We also continued to reduce expenses in 1998. Finally, we invested \$1.3 million in six investments.

Our investments in MINRAD, Inc. and InfoMiners, Inc. bring us to a total of

six in the healthcare industry. Currently 63% of our investment portfolio is in health care related industries. We continue to develop a core competency in this industry and we intend to seek out additional opportunities.

During 1998 we liquidated or received distributions from four companies, totaling \$2.2 million in proceeds. We ended the year with over \$3.7 million in cash. We continue to seek opportunities to wisely invest these funds and will report on our progress in upcoming reports. It is also appropriate that we thank and praise the contributions of Thomas R. Beecher, Jr. After 30 years of assisting Rand Capital as an officer, chairman and board member, Mr. Beecher will not be seeking reelection to the Board. However, he will continue his valued service to Rand in the capacity of Director Emeritus. His contributions are invaluable and we look forward to continue working with him in the future. The following pages contain detailed information about our investments and our investment criteria. In the coming months, we will unveil our web page, which will provide more information on Rand Capital and our portfolio investments.

Sincerely,

Reginal B. Newman II
Chairman

Allen F. Grum
President

Portfolio of Investments December 31, 1998

American Tactile Corporation (DELTA)

Medina, NY. Develops equipment and systems to produce commercial signage.
www.americantactile.com

Type of Investment: Convertible Debentures at 8% due June 2000 and April 2001 with detachable warrants

Year Acquired: 1995
Cost: \$ 150,000
Percent Equity: 11%
Value: \$ 50,000

ARIA Wireless Systems, Inc. (OTC:AWSI)* (DELTA)

Buffalo, NY. Markets wireless radio transmission communication equipment.
www.ariawireless.com

Type of Investment: Common Stock - 488,000 shares

Year Acquired: 1997
Cost: \$ 438,000
Percent Equity: 9%
Value: \$ 122,000

BioVector, Inc. (DELTA)

Orchard Park, NY. Medical technological sales force company.

Type of Investment: (1) Common Stock - 50,000 shares. (2) Convertible Promissory Note at 8%, due April 2002.

Option to purchase 165,000 Common Shares

Year Acquired: 1997
Cost: \$ 50,000 (1) 360,000 (2)
Percent Equity: 9%
Value: \$ 125,000 (1) 360,000 (2)

BioWorks, Inc.

Geneva, NY. Develops and manufactures biological alternative to chemical pesticides.

www.bioworksbiocontrol.com

Type of Investment: Series A Convertible Preferred Stock - 32,000 shares

Year Acquired: 1995
Cost: \$ 56,000
Percent Equity: <1%
Value: \$ 56,000

Clearview Cable TV, Inc.
New Providence, NJ. Wireless Cable television system operator.
Type of Investment: Common Stock - 400 shares

Year Acquired: 1996
Cost: \$ 55,541
Percent Equity: 5%
Value: \$ 55,541

DataView, LLC
Mt. Kisco, NY. Designs, develops and markets browser based software for investment professionals.
www.marketgauge.com
Type of Investment: Convertible Subordinated Note - \$100,000 8% Due October 15, 1999

Year Acquired: 1998
Cost: \$ 100,000
Percent Equity: 3%
Value: \$ 100,000

Fertility Acoustics, Inc.
Orchard Park, NY. Developer of proprietary methods to diagnose onset of ovulation.
Type of Investment: Common Stock -150,000 shares. Option to purchase 15,000 shares

Year Acquired: 1997
Cost: \$ 50,000
Percent Equity: 8%
Value: \$ 125,000

J. Giardino
Buffalo, NY. Commercial real estate.
Type of Investment: First mortgage @ 12%

Year Acquired: 1988
Cost: \$ 121,112
Value: \$ 121,112

Hammertime Kitchen & Bath Works, Inc. (DELTA)
Clarence, NY. Exclusive multi-state Sears licensed installer of kitchens and baths.
Type of Investment: (1) Convertible Preferred Stock - 1,000 Shares. (2) Senior Subordinated Note at 12% due October 6, 2000

Year Acquired: 1998
Cost: \$ 100,000 (1) 100,000(2)
Percent Equity: 13%
Value: \$ 100,000 (1) 100,000 (2)

HealthWay Products Company, Inc.
Syracuse, NY. Manufactures air filters and climate control devices.
www.healthway.com
Type of Investment: Promissory Note at 24%, due June 1996. 4,667 warrants for Series A Preferred Stock

Year Acquired: 1996
Cost: \$ 100,000
Percent Equity: <1%
Value: \$ 100,000

InfoMiners, Inc. (DELTA) Amherst, NY. Data warehousing & decision support software for healthcare industries.
www.infominers.com
Type of Investment: Bridge loan at 10% due June 1999. 147,000 warrants for shares of stock

Year Acquired: 1998
Cost: \$ 420,000
Percent Equity: <1%
Value: \$ 420,000

Lightbridge, Inc. (NASDAQ:LTBG)*
 Burlington, MA. Provides software based services for wireless telecommunications industry.
 www.lightbridge.com
 Type of Investment: Common Stock - 13,165 shares

Year Acquired: 1994
 Cost: \$ 218,271
 Percent Equity: <1%
 Value: \$ 72,408

MINRAD, Inc. (DELTA)
 Orchard Park, NY. Developer of laser guided surgical devices.
 Type of Investment: Common Stock - 118,689 shares

Year Acquired: 1997
 Cost: \$ 429,000
 Percent Equity: <4%
 Value: \$ 949,512

Pathlight Technology, Inc.
 Ithaca, NY. Develops high technology Serial Storage Architecture for computer industry.
 www.pathlight.com
 Type of Investment: (1) Class A Series 1(a) Convertible Preferred Stock - 100,000 shares with 6% cumulative dividend. (2) Subordinated Note at 7.5% due December 2000

Year Acquired: 1997
 Cost: \$ 100,000 (1) 100,000 (2)
 Percent Equity: 3%
 Value: \$ 100,000 (1) 100,000 (2)

Platform Technology Holdings, LLC (DELTA)
 Charlottesville, VA. Provides sales support and management for unique device and diagnostic businesses.
 Type of Investment: Two units with option for two additional units

Year Acquired: 1997
 Cost: \$ 8,045
 Percent Equity: <1%
 Value: \$ 60,000

Reflection Technology, Inc.
 Waltham, MA. Develops and licenses proprietary virtual display technology.
 www.reflectiontech.com
 Type of Investment: Series J Convertible Preferred Stock - 243,903 shares

Year Acquired: 1995
 Cost: \$ 500,000
 Percent Equity: <1%
 Value: \$ 150,000

UStec, Inc.
 Victor, NY. Manufacturers & markets digital wiring systems for residential new home construction. 50,000 warrants for common stock.
 www.ustecnet.com
 Type of Investment: Promissory Note at 12% due December 2003

Year Acquired: 1998
 Cost: \$ 100,000
 Value: \$ 100,000

Other	491,831	20,597
	-----	-----
Total portfolio investments	4,047,800	3,387,170
	=====	=====
	(Cost Basis)	(Valuation)

* Publicly-owned Company

(DELTA) Indicates those companies which Rand has Board Seat.

Notes to Portfolio of Investments

(a) Unrestricted securities are freely marketable securities having readily available market quotations. All other securities are restricted securities which are subject to one or more restrictions on resale and are not freely marketable. At December 31, 1998, restricted securities represented 98% of the value of the investment portfolio. (b) The Year Acquired line indicates the year in which the Corporation acquired its first investment in the company or a predecessor company. (c) The equity percentages express the percent of outstanding voting securities held by the Corporation or the potential percentage of voting securities held by the Corporation upon exercise of its warrants or conversion of debentures. The symbol "<1%" indicates that the Corporation holds equity interest of less than one percent. (d) Under the valuation policy of the Corporation, unrestricted securities are valued at the closing price for publicly held securities for the last three days of the month. 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.

Changes in Investments at Cost & Realized Loss Year Ended December 31, 1998

<TABLE>
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	Cost Increase (Decrease)	Realized Gain (Loss)
<S>	<C>	<C>
New and Additions to Previous Investments:		
Dataview, Inc.	\$ 100,000	
Hammertime Kitchen and Bath Works, Inc.		200,000
InfoMiners, Inc.	420,000	
Minrad, Inc.	429,000	
Pathlight, Inc.	100,000	
UStec, Inc.	100,000	

	1,349,000	
Investments Sold/Exchanged:		
ARS, Inc.	(1,000,000)	\$ 79,400
Comptek Research, Inc.	(693,998)	(225,546)
Minrad, Inc.	(420,000)	-
Heartland Wireless Systems	(171,277)	(170,413)
	-----	-----
	(2,285,275)	(316,559)
	-----	-----
Other Changes:		
Debenture repayments and distributions		(166,131) 0
	-----	---
Net Change in Investments at Cost and Realized Gain	=====	=====
	\$ (1,102,406)	\$ (316,559)

</TABLE>

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	1998 ----	1997 ----
<S>	<C>	<C>
Assets		
Investments at Directors' valuation (identified cost: 1998 - \$4,047,800; 1997 - \$5,150,206) (Note 1)	\$ 3,387,170	\$ 4,143,541
Cash and cash equivalents	3,757,399	3,031,391
Interest receivable (net of allowance of \$13,167 in 1998 and \$58,042 in 1997)	65,616	103,436
Deferred tax asset (Note 2)	1,071,880	1,028,400
Other assets	23,973	148,732
	-----	-----
Total Assets	\$ 8,306,038	\$ 8,455,500
	=====	=====

Liabilities and Stockholders' Equity (Net Assets)

Liabilities		
Accounts payable and accrued expenses (Notes 4 and 5)	\$ 67,306	\$ 113,980
Income taxes payable	1,700	300
	-----	---
Total Liabilities	69,006	114,280
	-----	-----

Stockholders' Equity (Net Assets) (Note 3)

Common stock, \$.10 par - shares authorized 10,000,000; issued and outstanding 5,708,034 shares in 1998 and 1997	570,804	570,804
Capital in excess of par value	6,889,379	6,889,379
Undistributed net investment (loss)	(1,568,711)	(1,512,372)
Undistributed net realized gain on investments	2,739,156	3,055,715
Net unrealized (depreciation) on investments	(393,596)	(662,306)
	-----	-----
Net assets (per share 1998-\$1.44; 1997-\$1.46)	8,237,032	8,341,220
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 8,306,038	\$ 8,455,500
	=====	=====

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Statements of Operations Years Ended December 31, 1998 & 1997

	1998 ----	1997 ----
<S>	<C>	<C>
Investment Income:		
Interest from portfolio companies	\$ 327,592	\$ 178,695
Interest from other investments	156,920	174,193
Other income	108,574	104,626
	-----	-----
	593,086	457,514
	-----	-----
Expenses:		
Salaries	341,886	320,695
Employee benefits	45,460	34,712
Directors' fees	37,500	40,648
Legal fees	35,648	34,334
Professional fees	17,953	21,377
Shareholders and office	97,033	106,862
Insurance	49,180	94,357
Corporate development	92,473	74,434
Other operating	41,497	45,092

	----- 758,630 -----	----- 772,511 -----
Investment (loss) before income taxes	(165,544)	(314,997)
Income tax provision (Note 2)	11,600	12,000
Deferred income tax (benefit) (Note 2)	(120,805)	(25,248)
	-----	-----
Investment (loss) - net	(56,339)	(301,749)
	-----	-----
Realized and unrealized gain (loss) on investments:		
Net (loss) gain on sales and dispositions	(316,559)	1,106,402
	-----	-----
Net realized (loss) gain on investments	(316,559)	1,106,402
Deferred income tax provision		309,073
Net realized (loss) gain	(316,559)	797,329
	-----	-----
Unrealized appreciation (depreciation) on investments:		
Beginning of period	(1,006,665)	337,889
End of period	(660,630)	(1,006,665)
	-----	-----
(Decrease) in unrealized appreciation before income taxes	346,035	(1,344,554)
Deferred income tax (benefit) (Note 2)	77,325	(504,392)
	-----	-----
Net increase (decrease) in unrealized appreciation	268,710	(840,162)
Net realized and unrealized (loss) on investments	(47,849)	(42,833)
	-----	-----
Net (decrease) in net assets from operations	\$ (104,188)	\$ (344,582)
	=====	=====

</TABLE>

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Statements of Changes in Net Assets Years Ended December 31, 1998 & 1997

	1998	1997
	---	---
<S>	<C>	<C>
Net assets at beginning of period (includes undistributed net investment loss of \$1,512,372 and \$1,210,623 respectively)	\$ 8,341,220	\$ 6,458,536
	-----	-----
Operations:		
Net investment loss	(56,339)	(301,749)
Net realized (loss) gain on investments	(316,559)	797,329
Net increase (decrease) in unrealized appreciation of investments	268,710	(840,162)
	-----	-----
Net (decrease) in net assets from operations	(104,188)	(344,582)
Net proceeds of private offering	-	2,227,266
	---	-----
Net assets at end of period (including undistributed net investment loss of \$1,568,711 and \$1,512,372 respectively)	\$ 8,237,032	\$ 8,341,180
	=====	=====

</TABLE>

Notes to Financial Statements Years Ended December 31, 1998 and 1997

1. Summary Of Significant Accounting Policies

The Corporation operates as a closed-end management investment company registered under the Investment Company Act of 1940. It is a publicly held

venture capital Corporation listed on the NASDAQ Small Cap Market under the symbol "RAND." The Corporation was founded in 1969 and is headquartered in Buffalo, New York. The Corporation's investment strategy is to provide expansion capital and investment, as well as investment banking and financial advisory services, to companies both inside and outside of the Western New York community.

Investments are stated at fair value as determined in good faith by the Board of Directors, as described in the Notes to Schedule of Portfolio Investments on page 7. Certain investments have been determined by the Board of Directors in the absence of readily ascertainable fair values. The estimated valuations are not necessarily indicative of amounts which may ultimately be realized as a result of future sales or other dispositions of securities, and these differences could be material.

Amounts reported as realized gains and losses are measured by the difference between the proceeds of sale or exchange and the cost basis of the investment without regard to unrealized gains or losses reported in prior periods. The cost of securities that have, in the Directors' judgment, become worthless, are written off and reported as realized losses.

Temporary cash investments having a maturity of three months or less when purchased are considered to be cash equivalents.

Interest income generally is recorded on the accrual basis except where the investment is valued at less than cost to reflect risk of loss. In such cases, interest is recorded at the time of receipt. A reserve for possible losses on interest receivable is maintained when appropriate.

Net assets per share are based on the number of shares of common stock outstanding during the respective year.

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reporting amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Income Taxes

Deferred tax assets and liabilities are recorded for temporary differences between the financial statement and tax bases of assets and liabilities using the currently enacted tax rate expected to be in effect when the taxes are actually paid or recovered.

The net deferred tax asset presented in the Statements of Financial Position includes the following:

	1998	1997
	----	----
Deferred tax asset - current	\$ 1,143,920	\$ 1,108,096
Deferred tax liability - current	72,040	79,696
	-----	-----
Deferred tax asset, net	\$ 1,071,880	\$ 1,028,400
	=====	=====

The tax effect of the major temporary difference and carryforwards that give rise to the Corporation's net deferred tax asset are as follows:

	1998	1997
	----	----
Operations	\$ (7,634)	\$ (7,634)
Investments	244,235	321,560
Net operating loss carryforwards	835,279	714,474
Capital loss carryforwards	0	0
	---	---
Deferred tax asset, net	\$ 1,071,880	\$ 1,028,400
	=====	=====

The components of income tax expense (benefit) reported in the statement of operations are as follows:

	1998	1997
	----	----
Current:		
State	\$ 11,600	\$ 12,000
	-----	-----
Deferred:		
(Benefit) on change in unrealized appreciation:		
Federal	(25,670)	(189,091)
State	(17,810)	(31,476)
	-----	-----
	(43,480)	(220,567)
	-----	-----
Total	<u>\$ (31,880)</u>	<u>\$ (208,567)</u>

A reconciliation of the benefit for the income taxes at the federal statutory rate to the benefit reported is as follows:

	1998	1997
	----	----
Net investment (loss) and realized (loss) before income taxes (benefit)	\$ (136,068)	\$ (553,149)
	-----	-----
Expected tax (benefit) at statutory rate of 34%	(34,513)	\$ (188,071)
State - net of federal effect	(4,099)	(12,854)
Other	6,732	(7,642)
	-----	-----
Total	<u>\$ (31,880)</u>	<u>\$ (208,567)</u>

Deferred income tax (benefit) of approximately \$(308,000) and \$(393,600) at December 31, 1998 and 1997, respectively, relate to net unrealized (depreciation) appreciation of investments. Such (depreciation) appreciation is not included in taxable income until realized.

Included in deferred taxes on the accompanying statements of financial position is approximately \$64,000 and \$72,000 at December 31, 1998 and 1997, respectively, applicable to a gain being reported under the installment method for income tax purposes. This amount will be reduced in future periods as payments are received.

At December 31, 1998, the Corporation had a federal and state net operating loss carry forward of approximately \$2,090,000 and \$2,000,000, respectively, which expire commencing in 2007.

The Corporation believes it is more likely than not that the deferred tax asset will be realized and, accordingly, no valuation has been provided.

3. Stockholders' Equity

In February 1997, the Corporation completed the sale of 1,482,557 shares of common stock at \$1.55 per share via a private placement. The price of the shares sold was equal to the then current net asset value, making it a non-dilutive transaction.

At December 31, 1998 and 1997, there were 500,000 shares of \$10 par value preferred stock authorized and unissued. Summary of change in capital accounts:

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	Undistributed Net Investment Loss -----	Undistributed Realized Gain (Loss) on Investment Realized Gain -----	Net Unrealized Appreciation (Depreciation) on Investment -----
<S>	<C>	<C>	<C>
Balance, December 31, 1996	\$ (1,210,623)	\$ 2,258,386	\$ 177,856
Net (decrease) increase in net assets from operations	(301,749)	797,329	(840,162)
Balance, December 31, 1997			
Net (decrease) in net assets from operations	\$ (1,512,372)	\$ 3,055,715	\$ (662,306)
Balance, December 31, 1998	(56,339)	(316,559)	268,710
	-----	-----	-----
	\$ (1,568,711)	\$ 2,739,156	\$ (393,596)
	=====	=====	=====
	Common Stock Shares -----	Common Stock Amount -----	Capital Excess of Par -----
Balance, December 31, 1998 and December 31, 1997	\$ 5,708,034 =====	\$ 570,804 =====	\$6,889,379 =====

</TABLE>

4. Commitments and Contingencies

The Corporation has a deferred compensation agreement which includes health and dental benefits with a former officer of the Corporation and his spouse. Payments under this agreement are expected to be paid through September 30, 1999. Total accrued deferred compensation under this agreement at December 31, 1998 and 1997 was \$59,270 and \$95,977, respectively.

5. Pension Expense

The Corporation has a defined contribution 401(k) plan. The Plan provides a base contribution of 1% for eligible employees and also provides up to 5% matching contribution. Pension Plan expense was \$17,492 and \$16,289 in 1998 and 1997 respectively.

<TABLE>
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Schedules of Selected Per Share Data and Ratios Five Years Ended December 31, 1998

Selected data for each share of capital stock outstanding throughout the five most current years is as follows:

Year ended December 31,	1998	1997	1996	1995*	1994*
<S>	<C>	<C>	<C>	<C>	<C>
Investment income	\$0.07	\$0.08	\$0.04	\$0.09	\$0.07
Expenses	.09	0.14	0.18	0.23	0.17
Investment (loss) before income taxes	(.02)	(0.06)	(0.14)	(0.14)	(0.10)
(Benefit) for income taxes (Note 2)	-	-	(0.05)	(0.05)	(0.03)
Net investment (loss)	(.02)	(0.06)	(0.09)	(0.09)	(0.07)
Net realized and unrealized	-	(0.01)	(0.59)	(0.89)	0.18

gain (loss) on investments		-----	-----	-----	----
Increase (decrease) in net asset value	(.02)	(0.07)	(0.68)	(0.98)	0.11
Net asset value - beginning of year	1.46	1.53	2.21	3.19	3.07
	1.46				
	1.53				
	2.21				
	3.19				
	3.07				
Net proceeds from private placement	0.00	0.00	0.00	0.00	0.00
	----	----	----	----	
Net asset value - end of year	\$1.44	\$1.46	\$1.53	\$2.21	\$3.19
	=====	=====	=====	=====	=====
Ratio of expense to average net assets	9.15%	9.26%	9.75%	8.73%	6.13%
	9.15%				
	9.26%				
	9.75%				
	8.73%				
	6.13%				
Ratio of net investment (loss) to average net assets	(1.00)%	(3.62)%	(5.04)%	(3.48)%	(2.32)%
Number of shares outstanding at end of period	5,708,034	5,708,034	4,225,477	4,225,477	4,185,477

</TABLE>

*Per share data presented has been restated from prior years to reflect the 25% stock distributions of the Corporation occurring in 1995 and 1994.

Independent Auditors Report Deloitte & Touche llp

To the Board of Directors and Stockholders
 Rand Capital Corporation
 Buffalo, New York

We have audited the accompanying statements of financial position of Rand Capital Corporation, (the "Corporation") as of December 31, 1998 and 1997, including the schedule of portfolio investments as of December 31, 1998, and the related statements of operations and changes in net assets for the years then ended, and the selected per share data and ratios for each of the five years in the period then ended. These financial statements and the selected per share data and ratios are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements and the selected per share data and ratios based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and per share data and ratios are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included examination or confirmation of securities owned as of December 31, 1998 and 1997. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and selected per share data and ratios referred to above present fairly, in all material respects, the financial

position of Rand Capital Corporation as of December 31, 1998 and 1997, the results of its operations and changes in its net assets for the years then ended and the selected per share data and ratios for each of the five years in the period then ended, in conformity with generally accepted accounting principles.

As explained in Note 1, the financial statements include securities valued at \$3,387,170 (41% of net assets), and \$4,143,541 (50% of net assets) at December 31, 1998 and 1997, respectively, whose values have been estimated by the Board of Directors in the absence of readily ascertainable market values. We have reviewed the procedures used by the Board of Directors in arriving at its estimate of fair value of such securities and have inspected underlying documentation, and, in the circumstances, we believe the procedures are reasonable and the documentation appropriate. The estimated valuations, however, are not necessarily indicative of amounts which may ultimately be realized as a result of future sales or other dispositions of securities, and these differences could be material.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of changes in investments at cost and realized gain on page 8 for the year ended December 31, 1998 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This schedule is the responsibility of the Corporation's management. Such schedule has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

January 22, 1999
Buffalo, NY

Shareholder Information Years Ended December 31, 1998 and 1997

Transfer Agent

For information on ownership, lost/missing shares or other information regarding Rand stock certificates please contact our transfer agent. If you need additional assistance please contact Rand Capital directly.

Continental Stock Transfer & Trust Company
2 Broadway
New York, NY 10004
Phone: 212-509-4000
www.continentalstock.com

Shareholders

The Corporation had an estimated total of 786 shareholders, which included approximately 216 record holders of its common stock, and an estimated 570 shareholders with shares held under beneficial ownership in nominee name or within clearinghouse positions of brokerage firms or banks.

Market Prices

The common stock of Rand Capital is traded on The NASDAQ SmallCap Market tier of The NASDAQ Stock Market under the symbol: RAND. The following high and low selling prices for the shares during each quarter of the last two years were taken from quotations provided to the Corporation by the National Association of Securities Dealers, Inc.

Stock Selling Price Data

Quarter	1998 High	1998 Low	1997 High	1997 Low
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1st	1 1/2	7/8	2	1 7/16

2nd	1 3/8	1 1/16	2	1

3rd 1 1/4 1 3/16 1 9/16 1 3/16

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4th 1 1/16 3/4 1 13/32 7/8

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Notice of Annual Meeting

The Annual Meeting of Shareholders of Rand Capital Corporation will be held on Tuesday, April 27, 1999 at 10:00 am at the Rand Building, Room 602, 14 LaFayette Square, Buffalo, New York. All shareholders are encouraged to attend.

Directors

Reginald B. Newman II, / President, NOCO Energy Corp. Chairman, Rand Capital Corp. Buffalo, NY

Allen F. Grum / President, Rand Capital Corp / Buffalo, NY

Luiz F. Kahl / President, The Vector Group, LLC / Buffalo, NY

Erland E. Kailbourne(nominated) / Chief Executive Officer & President, John R. Oishei Foundation / Buffalo, NY

Ross B. Kenzie / Retired / Buffalo, NY

Willis S. McLeese / Chairman, Colmac Holdings Ltd./ Toronto, Canada

Jayne K. Rand / Vice President, M&T Bank / Buffalo, NY

Officers

Allen F. Grum	President
Nora B. Sullivan	Executive Vice President
Daniel P. Penberthy	Treasurer/Secretary

Corporate Counsel Independent Accountants

Hodgson, Russ, Andrews, Woods & Goodyear, LLP	Deloitte & Touche LLP
1800 One M&T Plaza	KeyBank Tower
Buffalo, NY 14203	50 Fountain Plaza, Suite 250
www.hodgsonruss.com	Buffalo, NY 14202
	www.us.deloitte.com

Rand Capital Corporation	
2200 Rand Building	Email: pgrum@randcap.com
Buffalo, New York 14203	nsullivan@randcap.com
Tel: 716-853-0802	dpenberthy@randcap.com
Fax: 716-854-8480	www.randcap.com (Spring 1999)

ShareholderInformation: shareholders@randcap.com

How to Apply for Funds

To help applicants for investment funds, we are pleased to reprint in full the eight subjects we would prefer to be included in investment applications. Please send this information to us so that we may study it before arranging a personal meeting to discuss the investment:

1. History of company, nature of business or service and main products; Standard Industrial Classification (SIC) number of the industry; number of employees.
2. Biographical sketches of all executives, key personnel, directors and major stockholders; signed personal statement of net worth for each principal.
3. Personal, business and technical references.
4. Projected and historical financial statement for five years including balance sheets, income statements and cash flows, preferable audited.

5. Amount requested, and proposed use of funds; growth projections.
6. Names of principal suppliers and customers.
7. Analysis of the market and industry, method of distribution, and competition.
8. Samples of promotional or descriptive literature on products or services offered.

The above information should be forwarded to:

Mr. Allen F. Grum
c/o New Investment Proposals
2200 Rand Building
Buffalo, New York 14203

Rand Capital Corporation believes in the future of Western New York and is actively seeking out investment opportunities. If you are currently seeking financing for your business, or are aware of a business that is, please contact us. Together, we can continue to make Western New York prosper.

2200 Rand Building / Buffalo, New York 14203 / 716-853-0802
Traded on NASDAQ - Symbol: "RAND"