

June 30, 1999  
Semi-Annual Report

July 13, 1999

Dear Shareholders:

During the second quarter of 1999, we increased our investment in Pathlight Technology, Inc. by purchasing \$225,000 preferred stock, and converting our Note to preferred stock. Pathlight is a leading developer of storage area network technology specifically designed for the sharing of critical data storage resources. The company recently entered a multi-year agreement with the IBM Storage System Division.

During the quarter, we also increased our investment in Hammertime Kitchen & Bath Works, Inc. with a \$100,000 short-term Note. Hammertime is one of eight kitchen and bath installers nationally licensed by Sears Roebuck & Company.

Also during the quarter, we entered into one new investment, Ellicottville Energy, Inc., with a \$145,000 short-term Note. Ellicottville Energy is a cogeneration facility selling electricity to a regional utility. They also operate a hardwood lumber drying facility.

We ended the quarter with a net asset value of \$1.42 per share and a cash position of \$3.1 million. Our pipeline of potential investments is very active and we hope to report on these transactions in the coming quarters.

Thank you for your support.

Allen F. Grum  
President

<TABLE>  
<CAPTION>

Portfolio Valuation / June 30, 1999

| Company and Business  | Type of Investment  | Date Acquired | June 30, 1999 |         | March 31, 1999 |         | Value of Rand | Value of Rand |
|---|---|---------------|---------------|---------|----------------|---------|---------------|---------------|
|   |   |               | Per share     | Cost    | Per share      | Value   |               |               |
| <S>   | <C>   | <C>           | <C>           | <C>     | <C>            | <C>     | <C>           | <C>           |
| American Tactile Corporation<br>Medina, NY. Develops equipment<br>and systems to produce signage.<br>www.americantactile.com                          | Convertible<br>Debentures at 8%<br>due June 2000<br>and April 2001 with<br>detachable warrants                        | 6/23/95       | 150,000       | 50,000  | 0.01           | 50,000  | 0.01          |               |
| ARIA Wireless Systems, Inc.<br>(OTC:AWSI)*<br>Buffalo, NY. Markets wireless<br>radio transmission<br>communication equipment.<br>www.ariawireless.com | Common Stock -<br>488,000 shares  | 5/23/97       | 438,000       | 122,000 | 0.02           | 122,000 | 0.02          |               |
| BioVector, Inc.<br>Buffalo, NY.<br>Medical technological sales<br>force company.  | Common Stock -<br>125,000 shares<br>Preferred Stock -<br>260,000 shares<br>Option to purchase<br>10,000 Common Shares | 4/17/97       | 445,030       | 520,030 | 0.09           | 485,000 | 0.08          |               |
| BioWorks, Inc.<br>Geneva, NY. Develops and<br>manufactures<br>biological alternative to   | Series A<br>Convertible<br>Preferred Stock -<br>32,000 shares   | 11/6/95       | 56,000        | 56,000  | 0.01           | 56,000  | 0.01          |               |

chemical pesticides.  
www.bioworksbiocontrol.com

|   |  |          |         |         |      |                    |      |
|---|--|----------|---------|---------|------|--------------------|------|
| Clearview Cable TV, Inc.<br>New Providence, NJ. Cable<br>television operator.   | Common Stock - 400<br>shares   | 2/23/96  | 55,541  | 55,541  | 0.01 | 55,541             | 0.01 |
| DataView, LLC<br>Mt. Kisco, NY. Designs,<br>develops and markets<br>browser based software for<br>investment professionals.<br>www.marketgauge.com                | Convertible<br>Subordinated Note -<br>\$200,000<br>8% Due October 15,<br>1999  | 10/1/98  | 200,000 | 200,000 | 0.04 | 200,000            | 0.04 |
| Ellicottville Energy, Inc.<br>Ellicottville, NY.<br>Cogeneration facility selling<br>electricity to a regional<br>utility.  | Note at 9.3%, due<br>June 29, 2000   | 6/29/99  | 145,000 | 145,000 | 0.03 | -                  | -    |
| Fertility Acoustics, Inc.<br>Buffalo, NY. Developer of<br>proprietary methods<br>to diagnose onset of<br>ovulation.   | Common Stock<br>-600,000 shares<br>Option to purchase<br>180,000 shares  | 10/1/97  | 50,000  | 125,000 | 0.02 | 125,000            | 0.02 |
| J. Giardino<br>Buffalo, NY. Commercial real<br>estate.  | First mortgage @<br>13%, paid in full<br>June 1999   | 2/26/88  | -0-     | -0-     | 0.00 | 121,112            | 0.02 |
| Hammertime, Inc.<br>Clarence, NY. Exclusive Sears<br>licensed installer<br>of kitchens and baths.<br>www.healthway.com  | Convertible<br>Preferred Stock -<br>1,000 Shares<br>Senior Subordinated<br>Note at 12% due<br>October 2000<br>Promissory Note at<br>15%, due August 1999 | 10/1/98  | 300,000 | 300,000 | 0.05 | 100,000<br>100,000 | 0.04 |
| HealthWay Products Company,<br>Inc. Syracuse, NY.<br>Manufactures air<br>filters and climate<br>control devices.<br>www.healthway.com                             | Common Stock-1,000<br>shares<br>Promissory Note at<br>24%, due June 1996<br>4,667 warrants for<br>Series A Preferred<br>Stock                            | 3/18/96  | 100,100 | 100,100 | 0.02 | 100,100            | 0.02 |
| InfoMiners, Inc.<br>Amherst, NY. Data warehousing<br>and decision<br>support software for<br>healthcare industries.<br>www.infominers.com                         | Bridge loan at 10%<br>due June 1999<br>147,000 warrants<br>for shares of stock   | 12/21/98 | 420,000 | 420,000 | 0.07 | 420,000            | 0.07 |
| Lightbridge, Inc.<br>(NASDAQ:LTBG)*<br>Burlington, MA. Provides<br>software based services<br>for wireless<br>telecommunications industry.<br>www.lightbridge.com | Common Stock -<br>5,843 shares   | 3/31/94  | 109,439 | 72,307  | 0.01 | 66,648             | 0.01 |
| MINRAD, Inc.<br>Buffalo, NY. Developer of   | Common Stock -<br>118,689 shares   | 8/4/97   | 429,000 | 949,512 | 0.17 | 949,512            | 0.17 |

laser guided surgical devices.

|   |   |          |                      |                  |        |             |        |
|---|---|----------|----------------------|------------------|--------|-------------|--------|
| Pathlight Technology, Inc.<br>Ithaca, NY. Develops high<br>technology Serial<br>Storage Architecture for<br>computer industry.<br>www.pathlight.com | Class A Series<br>Convertible<br>Preferred<br>Stock - 200,000<br>shares with 6%<br>cumulative<br>dividend.<br>Preferred Class B -<br>117,187 shares<br>67,578 warrants for<br>shares of stock | 10/7/97  | 425,000              | 425,000          | 0.07   | 200,000     | 0.04   |
| Platform Technology Holdings,<br>LLC<br>Charlottesville, VA. Provides<br>sales support and<br>management for unique medical<br>businesses.          | Two units with<br>option for two<br>additional units  | 9/24/97  | 8,045                | 60,000           | 0.01   | 60,000      | 0.01   |
| Reflection Technology, Inc.<br>Waltham, MA. Develops and<br>licenses proprietary<br>virtual display technology.<br>www.reflectiontech.com           | Series J<br>Convertible<br>Preferred Stock -<br>243,903 shares  | 10/4/95  | 500,000              | 150,000          | 0.03   | 150,000     | 0.02   |
| UStec, Inc.<br>Victor, NY. Manufacturers and<br>markets digital wiring<br>systems for residential new<br>home construction.<br>www.ustecnet.com     | Promissory Note at<br>12% due December<br>2003<br>50,000 warrants for<br>common shares  | 12/17/98 | 100,000              | 100,000          | 0.02   | 100,000     | 0.02   |
| Other investments   | Other   |          | 471,296              | 62               | 0.00   | 10,330      | 0.00   |
|   | Total portfolio<br>investments  |          | <u>4,402,451</u>     | <u>3,850,552</u> | 0.68   | 3,471,243   | 0.61   |
|   | Cash and Cash<br>equivalents  |          | 3,076,444            |                  | 0.54   | 3,505,402   | 0.61   |
|   | Net receivables(payables)   |          | -----<br>79,078      | -----<br>-----   | 0.01   | 98,868      | 0.02   |
|   | Net Assets before<br>Taxes  |          | 7,000,074            |                  | 1.23   | 7,075,513   | 1.24   |
|   | Tax provision (benefit)   |          | -----<br>(1,071,880) | -----<br>-----   | (0.19) | (1,071,880) | (0.19) |
|   | Net Assets  |          | <u>8,077,954</u>     | <u>8,147,393</u> |        |             |        |
|   | Net Asset Value per<br>Share (5,708,034<br>shares outstanding<br>during both periods)   |          |                      |                  | 1.42   | 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 27, 1999)

|         |                       |                       |
|---------|-----------------------|-----------------------|
|         | Reginald B. Newman II | Chairman of the Board |
|         | Allen F. Grum         |                       |
| a, c    | Luiz F. Kahl          |                       |
| g       | Erland E. Kailbourne  |                       |
| 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 | pglum@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       | 786 (as of March 15, 1999)                    |

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.

Rand Capital Corporation  
2200 Rand Building  
Buffalo, NY 14203  
Tel: 716-853-0802  
Fax: 716-854-8480

Rand Capital Corporation  
Statements of Financial Position  
June 30, 1999 and December 31, 1998

<TABLE>  
<CAPTION>

| Assets   | Unaudited June 30, 1999 | December 31, 1998 |
|--|-------------------------|-------------------|
| -----  | -----                   | -----             |
| <S>  | <C>                     | <C>               |
| Investments at Directors' valuation(cost: at 6/30/99 - \$4,402,451; at 12/31/98 - \$4,047,800) | \$ 3,852,213            | \$ 3,387,170      |
| Cash and cash equivalents  | 3,076,444               | 3,757,399         |
| Interest receivable (net of allowance of \$13,167 at 6/30/99 and \$13,167 at 12/31/98)         | 60,164                  | 65,616            |
| Deferred tax asset   | 1,071,880               | 1,071,880         |
| Other assets   | 70,782                  | 23,973            |
|  | -----                   | -----             |
| Total Assets   | \$ 8,131,482            | \$ 8,306,038      |
|  | =====                   | =====             |

Liabilities and Stockholders' Equity (Net Assets)

Liabilities:

|   |              |              |
|---|--------------|--------------|
| Accounts payable and accrued expenses   | \$ 50,168    | \$ 67,306    |
| Income taxes payable  | 1,701        | 1,700        |
|   | ----         | ----         |
| Total Liabilities   | 51,869       | 69,006       |
|   | -----        | -----        |
| Stockholders' Equity (Net Assets):  |              |              |
| Common stock, \$.10 par - shares authorized<br>10,000,000 issued and outstanding 5,708,034 at<br>June 30, 1999 and December 31, 1998. | 570,804      | 570,804      |
| Capital in excess of par value  | 6,889,379    | 6,889,379    |
| Undistributed net investment (loss)   | (1,806,535)  | (1,568,711)  |
| Undistributed realized gain on investments  | 2,710,831    | 2,739,156    |
| Net unrealized (depreciation) of investments  | (284,865)    | (393,596)    |
|   | -----        | -----        |
| Net Assets (per share 6/30/99 \$1.42; 12/31/98 - \$1.44)  | 8,079,614    | 8,237,032    |
|   | -----        | -----        |
| Total Liabilities and Stockholder's Equity  | \$ 8,131,482 | \$ 8,306,038 |
|   | =====        | =====        |

</TABLE>

Rand Capital Corporation

Statements of Operations

Six Months ended June 30, 1999 and December 31, 1998

<TABLE>

<CAPTION>

|  | Unaudited June 30, 1999 | December 31, 1998 |
|--|-------------------------|-------------------|
|  | -----                   | -----             |
| <S>  | <C>                     | <C>               |
| Investment income:                                     |                         |                   |
| Interest from portfolio companies                      | \$ 73,622               | \$ 211,795        |
| Interest from other investments                        | 76,724                  | 76,217            |
| Other income   | 10,680                  | 57,198            |
|  | -----                   | -----             |
|  | 161,026                 | 345,210           |
|  | -----                   | -----             |
| Expenses:  |                         |                   |
| Salaries   | 156,034                 | 179,964           |
| Employee benefits                                      | 44,674                  | 9,828             |
| Directors' fees  | 20,000                  | 13,500            |
| Legal fees   | 18,957                  | 23,816            |
| Professional fees                                      | 15,398                  | 9,043             |
| Stockholder and office                                 | 33,487                  | 69,238            |
| Insurance  | 20,400                  | 22,500            |
| Corporate development                                  | 10,617                  | 43,391            |
| Other operating  | 73,382                  | (16,781)          |
|  | -----                   | -----             |
|  | 392,949                 | 354,499           |
|  | -----                   | -----             |
| Investment (loss) before income taxes                  | (231,923)               | (9,289)           |
| Income taxes provision                                 | 5,900                   | 5,600             |
| Deferred income tax provision (benefit)                | -                       | (120,805)         |
|  | -----                   | -----             |
| Investment (loss) - net                                | (237,823)               | 105,916           |
|  | -----                   | -----             |
| Realized and unrealized gain (loss) on<br>investments: |                         |                   |
| Net gain (loss) on sales and dispositions              | (28,325)                | (91,013)          |
|  | -----                   | -----             |
| Net realized gain (loss) on investments                | (28,325)                | (91,013)          |
| Deferred income tax provision                          | 0                       | -                 |
|  | -----                   | -----             |
| Net realized gain (loss)                               | (28,325)                | (91,013)          |

|  |           |           |
|--|-----------|-----------|
| Unrealized appreciation (depreciation) on investments: |           |           |
| Beginning of period                                    | (660,630) | (532,947) |
| End of period  | (551,889) | (660,630) |
|  | -----     | -----     |
| Increase (decrease) in unrealized appreciation         | 108,731   | (127,683) |
| Deferred income tax provision (benefit)                |           | 79,826    |
|  | -----     | -----     |
| Net increase (decrease) in unrealized appreciation     | 108,731   | 207,509   |
|  | -----     | -----     |
| Net realized and unrealized gain (loss) on investments | 80,406    | 298,522   |
|  | -----     | -----     |
| Net increase (decrease) in net assets from operations  | \$157,417 | \$192,606 |
|  | =====     | =====     |

</TABLE>