

2006

June 30, 2006

Semi-Annual Report



RAND CAPITAL
CORPORATION

2200 Rand Building
Buffalo, New York 14203



July 27, 2006

Dear Shareholders:

I am pleased to share the results of the quarter. We ended the quarter with a Net Asset Value of \$1.58, an increase of \$0.04 per share.

Since the last quarter, we announced one new investment in **Adampluseve LLC** (New York, NY). They are a super stylish and modern luxury fashion sportswear concept for men and women. The Company was recently featured on the Oprah Winfrey Show. Our investment was a \$550,000 Senior Subordinated Note with Warrants.

We continued to liquidate our investment in **Minrad International, Inc.**, selling 58,000 shares. We have 329,640 shares that remain eligible for sale. We also sold our interest in **Vanguard Modular Building Systems**.

I am pleased with the performance in many of our companies. They continue to post record sales and profits which will eventually lead to successful exits.

Thank you for your continued support.

Allen F. My

President's
Letter

Consolidated Portfolio Valuation / June 30, 2006

| Company and Business | Type of Investment | (b) Date Acquired | (c) Equity | Cost | June 30, 2006 | | March 31, 2006 | |
|---|---|-------------------------|---------------|---------------|---------------|-------------------------|----------------|-------------------------|
| | | | | | (d) Value | Per Share of Rand | (d) Value | Per Share of Rand |
| APF Group, Inc. (e)(g) Mount Vernon, NY. Manufacturer of museum quality picture frames and framed mirrors for museums, art galleries, retail frame shops, upscale designers and prominent collectors. www.apfgroup.com | \$500,000 Senior Subordinated note at 12.5% due July 1, 2009. \$94,594 Senior Subordinated Note at 14% due July 31, 2007. Warrants to purchase 10,2941 shares of common stock. | 7/8/04 | 6% | \$ 594,594 | \$ 594,594 | 0.10 | \$ 594,594 | 0.10 |
| Carolina Skiff, LLC (e)(g) Waycross, GA. Manufacturer of fresh water, ocean fishing and pleasure boats. www.carolinaskiff.com | \$985,000 Class A preferred membership interest at 11%. Redeemable January 31, 2010. 5% common membership interest. | 1/30/04 | 5% | 1,000,000 | 1,038,000 | 0.18 | 1,038,000 | 0.18 |
| Concentrix Corporation (e)(g) Pittsford, NY. Marketing service company generating returns through multi-channel demand generation and renewal marketing services. www.concentrix.com | \$600,000 Senior Subordinated note at 14% due November 11, 2007. | 6/1/05 | 0% | 600,000 | 600,000 | 0.10 | 600,000 | 0.10 |
| Contract Staffing Buffalo, NY. PEO providing human resource administration for small businesses. www.contract-staffing.com | Preferred stock repurchase agreement through March 31, 2010 at 5%. | 11/8/99 | 10% | 141,400 | 141,400 | 0.02 | 141,400 | 0.02 |
| EmergingMed.com, Inc. (g) New York, NY. Cancer clinical trial matching and referral service. www.emergingmed.com | \$500,000 Senior Subordinated note at 10% due December 19, 2010. | 12/19/05 | 5% | 500,000 | 500,000 | 0.09 | 500,000 | 0.09 |
| Gemcor II, LLC (e)(g) West Seneca, NY. Designs and sells automatic riveting machines used in the assembly of aircraft components. www.gemcor.com | \$250,000 note at 8% due June 28, 2010 with warrant to purchase 6.25 membership units. 25 membership units. | 6/28/04 | 33% | 741,097 | 741,097 | 0.13 | 750,000 | 0.13 |
| Q-TEC Natural Gas Systems Buffalo, NY. Manufactures and distributes systems that allow natural gas to be used as an alternative fuel to gases. www.gas-tec.com | 41.322% Class A membership interest. 8% cumulative dividend. | 8/31/99 | 41% | 400,000 | 300,000 | 0.05 | 300,000 | 0.05 |
| Innov-X Systems, Inc. (e)(g) Woburn, MA. Manufacturers portable x-ray fluorescence (XRF) analyzers used in metals/alloy analysis. www.innovxsys.com | \$350,000 Subordinated Debenture at 8.5% due September 27, 2009. 12,344 warrants to purchase common shares. 3,500 Series A preferred stock. \$250,000 Series B Secured Subordinated term note at 8.5% due March 1, 2010. 12,345 warrants to purchase common shares. | 9/27/04 | 10% | 635,000 | 635,000 | 0.11 | 635,000 | 0.11 |
| Kionix, Inc. Ithaca, NY. Develops innovative MEMS-based technology applications. www.kionix.com | 30,241 shares Series B preferred stock. (g) 2,862,091 shares Series A preferred stock. 714,285 shares Series B preferred stock. | 5/17/02 | 2% | 1,262,340 | 977,863 | 0.17 | 977,863 | 0.17 |
| Minrad International, Inc. (AMEX-BUF) (h)(j) Buffalo, NY. Developer of acute care devices and anesthetics. www.minrad.com | 343,440 common shares. | 8/4/97 | 1% | 465,431 | 1,363,457 | 0.24 | 969,953 | 0.17 |
| New Monarch Machine Tool, Inc. (e)(g)(i) Cortland, NY. Manufactures and services vertical/horizontal machining centers. www.monarchmt.com | \$527,876.85 note at 12% due January 13, 2009. Warrants for 22.84 shares of common stock. \$300,000 note at 14% due January 13, 2009. | 9/24/03 | 15% | 765,328 | 765,328 | 0.13 | 803,001 | 0.14 |
| Niagara Dispensing Technologies, Inc. (g) Tonawanda, NY. Beverage dispense technology development and products manufacturer, specializing in beer dispensing systems. www.exactpour.com | \$500,000 Senior Subordinated note at 8% due March 7, 2011. Adjustable warrant for 4% of common stock. | 3/8/06 | 4% | 500,000 | 500,000 | 0.09 | 500,000 | 0.09 |
| Photonic Products Group, Inc. (OTC:PHPG,OB) (a)(f) (Formerly INRAD, Inc.) Northvale, NJ. Develops and manufactures products for laser photonics industry. www.inrad.com | 100 shares convertible Series B preferred stock, 10% dividend. 18,000 shares common stock. | 10/31/00 | <1% | 155,000 | 128,820 | 0.02 | 126,100 | 0.02 |
| RAMSCO (e)(g) Albany, NY. Distributor of water, sanitary, storm sewer and specialty construction materials to the contractor, highway and municipal markets. www.ramsco.com | \$916,947.23 notes at 13% due November 18, 2007. Warrants to purchase 12.5% of common shares. | 11/19/02 | 13% | 916,947 | 916,947 | 0.16 | 916,947 | 0.16 |
| Rocket Broadband Networks, Inc. (g) Rochester, NY. Communications service provider of satellite TV, broadband internet and VoIP digital phone targeting multiple dwelling units. www.rocketbroadband.com | 285,829 preferred shares. | 12/20/05 | 6% | 204,082 | 204,082 | 0.04 | 204,082 | 0.04 |
| Somerset Gas Transmission Company, LLC Buffalo, NY. Natural gas transportation company. www.somersetgas.com | 26,5337 units. | 7/10/02 | 2% | 719,097 | 786,748 | 0.14 | 786,748 | 0.14 |
| Synacor, Inc. (e) (g) Buffalo, NY. Develops provisioning platforms for aggregation and delivery of content for broadband access providers. www.synacor.com | \$350,000 convertible note at 10% due November 18, 2007. 200,000 shares of Series B preferred stock. 59,828 Series A preferred shares. Warrants for 299,146 common shares. | 11/18/02 | 5% | 820,000 | 828,674 | 0.14 | 828,674 | 0.14 |
| Topps Meat Company, LLC (e)(g) Elizabeth, NJ. Producer and supplier of premium branded frozen hamburgers and portion controlled meat products. www.toppsmeat.com | Preferred A and Class A common membership interest. | 4/3/03 | 3% | 595,000 | 927,000 | 0.16 | 927,000 | 0.16 |
| Ultra-Scan Corporation Amherst, NY. Biometrics application developer of ultrasonic fingerprint technology. www.ultra-scan.com | 536,596 common shares, 107,104 Series A-1 preferred shares. (g) 95,284 Series A-1 preferred shares. | 12/11/92 | 3% | 938,164 | 1,203,000 | 0.21 | 1,203,000 | 0.21 |
| UStec, Inc. Victor, NY. Markets digital wiring systems for new home construction. www.ustecnet.com | \$100,000 note at 5% due February 1, 2007 (e). 50,000 common shares. Warrants for 139,395 common shares. (g) \$350,000 Senior Subordinated Convertible Debenture at 6% due February 2, 2008. | 6/26/98 | <1% | 450,500 | 475,000 | 0.08 | 475,000 | 0.08 |
| WineIsIt.com, Corp (e) Amherst, NY. Marketing company specializing in customer loyalty programs supporting the wine and spirit industry. www.wineisit.com | \$20,000 note at 12% due April 26, 2007. (g) \$500,000 Senior Subordinated note at 10% due December 17, 2009. \$250,000 note at 10% due April 16, 2005. Warrants to purchase 100,000 shares Class B common stock. | 12/18/02 | 2% | 821,918 | 571,918 | 0.10 | 551,918 | 0.10 |
| Other investments: | Other | Various | | 521,510 | 35,500 | 0.02 | 36,750 | 0.01 |
| | Total portfolio investments | | | \$ 13,747,408 | \$ 14,234,428 | \$2.48 | \$ 14,001,030 | \$2.45 |
| | Cash and cash equivalents | | | 1,492,122 | 0.26 | 790,782 | 0.14 | 0.14 |
| | SBA Debenture Liability | | | (7,600,000) | (1.33) | (7,200,000) | (1.26) | (1.26) |
| | Portfolio Interest Receivables (net of reserve) | | | 386,225 | 0.07 | 328,963 | 0.06 | 0.06 |
| | Net receivables(payable) | | | 18,264 | 0.00 | 152,790 | 0.03 | 0.03 |
| | Net assets before taxes | | | 8,531,039 | 1.49 | 8,073,564 | 1.41 | 1.41 |
| | Tax provision (benefit) | | | (517,000) | (0.09) | (736,000) | 0.13 | 0.13 |
| | Net assets | | | \$ 9,048,039 | \$1.58 | \$ 8,809,564 | \$1.54 | \$1.54 |

Note: This report includes the consolidated holdings of Rand Capital Corporation and Rand Capital SBIC, L. P. Additional investor information can be obtained at www.sec.gov. Net asset value calculated based on 5,718,934 shares outstanding at June 30, 2006 and 5,718,934 at March 31, 2006.

- (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 June 30, 2006 restricted securities represented approximately 99% of the value of the investment portfolio. Freed Maxick & Battaglia, CPAs, PC has not examined the business descriptions of the portfolio companies.
- (b) The Date Acquired column indicates the year in which the Corporation acquired its first investment in the company or a predecessor company.
- (c) The equity percentages estimate the Corporation's ownership interest in the portfolio investment. The estimated ownership is calculated based on the percent of outstanding voting securities held by the Corporation or the potential percentage of 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, or other available data. Freed Maxick & Battaglia, CPAs, PC has not audited the equity percentages of the portfolio companies. The symbol "<1%" indicates that the Corporation holds equity interest of less than one percent.
- (d) The Corporation has adopted the SBA's valuation guidelines for SBIC's which describes the policies and procedures used in valuing investments. 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-held 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 might reasonably expect to receive if the portfolio 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 and these favorable or unfavorable differences could be material. 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.
- (e) These investments are income producing. All other investments are non-income producing. Income producing investments have generated cash payments of interest or dividends within the last twelve months.
- (f) Income Tax Information - As of June 30, 2006, the aggregate cost of investment securities approximated \$13.7 million. Net unrealized appreciation aggregated approximately \$487,000 of which \$1,634,000 related to appreciated investment securities and \$1,147,000 related to depreciated investment securities.
- (g) Rand Capital SBIC, L.P. investment.
- (h) This is a publicly owned security. The Corporation's shares are restricted until December 2005 at which time they become tradable in the open market under Rule 144.
- (i) Reduction in cost and value reflects current principal payment.
- (j) Publicly owned company.

Rand Capital Corporation

Board of Directors

| | |
|------------------------------------|--|
| | Reginald B. Newman II, Chairman of the Board |
| | Allen F. Grum |
| a, g | Erland E. Kailbourne |
| a, g | Ross B. Kenzie |
| c | Willis S. McLeese |
| c, g | Jayne K. Rand |
| c, g | Robert M. Zak |
| a - Member of audit committee | c - Member of compensation committee |
| g - Member of governance committee | |

| Officers | Title | Email |
|---------------------|------------------------------|--|
| Allen F. Grum | President/CEO | pgrum@randcapital.com |
| Daniel P. Penberthy | Executive Vice President CFO | dpenberthy@randcapital.com |

Corporate Data

| | |
|------------------------------------|---|
| Stock Listing | NASDAQ SmallCap Market-symbol RAND |
| Transfer Agent and Registrar | Continental Stock Transfer & Trust Company www.continentalstock.com |
| General Counsel | Hodgson, Russ LLP |
| Independent Accountants..... | Freed Maxick & Battaglia, PC |
| Number of Shareholders | 998 (as of March 17, 2006) |

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

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www.randcapital.com