

2006**September 30, 2006**

Quarterly Report



RAND CAPITAL

 CORPORATION

 2200 Rand Building
 Buffalo, New York 14203


October 26, 2006

Dear Shareholders:

I am pleased to report that we increased our net assets to \$1.60 during the last quarter. This was the third consecutive quarter that we increased our net assets.

We made four new investments totaling approximately \$1.5 million. We invested \$561,000 in **Adampluseve, LLC**, a stylish and modern luxury fashion concept for men and women, founded by Adam Lippes. Adam has had a long and successful career in the fashion business and was recently featured on The Oprah Winfrey Show.

We also increased our investments in three of our Portfolio companies, **Rocket Broadband Networks, Inc.**, **Kionix, Inc.**, and **Synacor, Inc.** All of these investments were for working capital to fund the companies' growth. **Synacor** is the market leader on a global basis in the delivery of premium online content and technology solutions. They continue to post record revenues. **Kionix** is a pioneer in developing ultra-small mechanical sensors and elements integrated with electronics to create

MicroElectroMechanical Systems (MEMS) solutions for the consumer and industrial applications. They have received record orders from laptop and hard drive manufacturers. **Rocket** is continuing to grow its market share of the multi-dwelling (MDU) housing complexes in Upstate New York through its relationship with DirecTV.

As our portfolio matures, we look forward to adjusting our portfolio to reflect the increased equity values of the companies. Such was the case in our adjustment of **Carolina Skiff LLC**. Our valuation policy requires that, among other factors, the company has been self-financing and has had positive cash flow from operations for at least the past two fiscal years. Several of our companies are reaching this stage and will be reevaluated in the coming quarters. We look forward to sharing the results with you.

Thank you for your continued support.

 President's
 Letter

Consolidated Portfolio Valuation / September 30, 2006

Company and Business	Type of Investment	(b) Date Acquired	(c) Equity Cost	September 30, 2006		June 30, 2006		
				(d) Value	Per Share of Rand	(d) Value	Per Share of Rand	
Adampluseve, LLC (g) New York, NY. Luxury sports wear company for men and women. www.adampluseve.com	\$561,000 Senior Subordinated note at 10% due July 14, 2011. Warrants to purchase approximately 2.5% of Company.	7/14/06	3% \$ 561,000	\$ 563,267	0.10			
APF Group, Inc. (g)(i) 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% 586,488	\$ 586,488	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	1,227,000	0.21	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% 0	0	0.00	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)(i) 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% 736,601	736,601	0.13	741,097	0.13	
G-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. 696,296 shares Series C preferred stock. (g) 2,862,091 shares Series A preferred stock. 714,285 shares Series B preferred stock.	5/17/02	2% 1,506,044	1,221,567	0.21	977,863	0.17	
Minrad International, Inc. (AMEX:BUF) (h)(j) Buffalo, NY. Developer of acute care devices and anesthetics. www.minrad.com	229,640 common shares.	8/4/97	1% 311,118	907,078	0.16	1,363,457	0.24	
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. \$300,000 note at 12% due January 13, 2009. Warrants for 22.84 shares of common stock.	9/24/03	15% 726,481	726,481	0.13	765,328	0.13	
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. 22,000 shares common stock.	10/31/00	<1% 155,000	125,300	0.02	128,820	0.02	
RAMSCO (e)(g)(i) 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% 870,087	870,087	0.15	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. 247,998 Series A-1 Preferred shares.	12/20/05	6% 400,000	400,000	0.07	204,082	0.04	
Somerset Gas Transmission Company, LLC Columbus, OH. 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	
Topp's Meat Company, LLC (e)(g) Elizabeth, NJ. Producer and supplier of premium branded frozen hamburgers and portion controlled meat products. www.toppmeat.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	
WinelsIt.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	395,000	0.07	571,918	0.10	
Other investments:	Other	Various		520,260	34,250	0.02	35,500	0.02
				<u>\$ 13,894,158</u>	\$ 14,089,941	\$ 2.46	\$ 14,234,428	\$ 2.48
Total portfolio investments				2,012,306	0.35	1,492,122	0.26	
Cash and Money Market Investments				(8,100,000)	(1.42)	(7,600,000)	(1.33)	
SBA Debenture Liability				486,717	0.09	386,225	0.07	
Portfolio Interest Receivables (net of reserve)				129,112	0.02	18,264	0.00	
Net receivables(payable)								
Net assets before taxes				8,618,076	1.51	8,531,039	1.49	
Tax provision (benefit)				(511,000)	(0.09)	(517,000)	(0.09)	
Net assets				<u>\$ 9,129,076</u>	<u>\$1.60</u>	<u>\$ 9,048,039</u>	<u>\$1.58</u>	

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 September 30, 2006 and 5,718,934 at June 30, 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 September 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 September 30, 2006, the aggregate cost of investment securities approximated \$13.9 million. Net unrealized appreciation aggregated approximately \$196,000 of which \$1,523,000 related to appreciated investment securities and \$1,327,000 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			Corporate Data		
Board of Directors			Stock ListingNASDAQ Capital Market-symbol RAND		
	Reginald B. Newman II	Chairman of the Board	Transfer Agent and RegistrarContinental Stock Transfer & Trust Company www.continentalstock.com		
a, g	Allen F. Grum		General CounselHodgson, Russ LLP		
a, g	Erland E. Kailbourne		Independent Accountants.....Freed Maxick & Battaglia, PC		
c	Ross B. Kenzie		Number of Shareholders998 (as of March 17, 2006)		
c, g	Willis S. McLeese		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.		
c, g	Jayne K. Rand		Rand Capital Corporation		
c, g	Robert M. Zak		2200 Rand Building		
a - Member of audit committee c - Member of compensation committee			Buffalo, NY 14203		
g - Member of governance committee			Tel: 716-853-0802 Fax: 716-854-8480		
Officers			www.randcapital.com		
	Allen F. Grum	President/CEO	pgrum@randcapital.com		
	Daniel P. Penberthy	Executive Vice President CFO	dpenberthy@randcapital.com		