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RAND CAPITAL CORP
Form ARS
March 30, 2004

[RAND CAPITAL CORPORATION LOGO]

RAND CAPITAL

CORPORATION

2003 Annual Report

April 6, 2004

Dear Shareholders,

2002 was marked by Rand Capital creating Rand Capital SBIC, L.P. which was licensed by the Small Business Administration. This new entity was funded by \$5,000,000 in equity from the parent, Rand Capital, and anticipates borrowing up to \$10,000,000 in additional funds. Rand Capital SBIC could create a pool of capital of \$15,000,000 for new investments.

2003 was marked by investments in seven companies for a total of \$1.6 million. During the first quarter of 2004 we continued to be active investors with two new investments representing \$1.4 million of capital.

We have pursued a strategy of growing our portfolio income while managing our operating expenses. Since 2001 our income has grown almost 300% while our expenses have grown by only 15%. We will continue to pursue this strategy in 2004 with a goal of growing our income by 20% while holding out expenses flat.

On the transaction side we have a robust pipeline of future opportunities and continue to see business conditions improve within our portfolio companies. We will continue to work with these opportunities to deliver improved shareholder performance.

The Board of Directors reauthorized a program to repurchase up to 5% of our shares on October 16, 2003. This program is used to repurchase outstanding shares when market conditions are appropriate. This is an active program and we have repurchased 44,100 shares as of the date of this letter.

As always we appreciate your support throughout the year and thank you for your interest in Rand.

[COIN ICON]

Sincerely,

/s/ Reginald B. Newman II

Reginald B. Newman II

Chairman

/s/ Allen F. Grum

Allen F. Grum

President

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PORTFOLIO OF INVESTMENTS DECEMBER 31, 2003

[CONTRACT STAFFING LOGO]

CONTRACT STAFFING/\nBuffalo, NY. PEO providing human resource administration for small businesses.
www.contact-staffing.com

TYPE OF INVESTMENT
10,000 shares Series A 8% cumulative preferred stock.

Year Acquired:..... 1999 Cost:..... \$100,000
Percent Equity:..... 10% Value:..... \$100,000

[DATAVIEW, LLC LOGO]

DATAVIEW, LLC
Mt. Kisco, NY. Designs, develops and markets browser based software for
investment professionals. www.marketgauge.com

TYPE OF INVESTMENT
5% Membership Interest

Year Acquired:..... 1998 Cost:..... \$310,357
Percent Equity:..... 5% Value:..... \$155,179

[G-TEC NATURAL GAS SYSTEMS LOGO]

G-TEC NATURAL GAS SYSTEMS/\nBuffalo, NY. Manufactures and distributes systems that allow natural gas to be
used as an alternative fuel to gases. www.gas-tec.com

TYPE OF INVESTMENT
41.67% Class A membership interest. 8% cumulative dividend.

Year Acquired:..... 1999 Cost:..... \$300,000
Percent Equity:..... 42% Value:..... \$300,000

[KIONIX, INC. LOGO]

KIONIX, INC.+
Ithaca, NY. Develops innovative MEMS based technology applications.
www.kionix.com

TYPE OF INVESTMENT
2,862,091 shares Series A preferred stock.

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Year Acquired:..... 2002 Cost:.... \$1,000,000
Percent Equity:..... 2% Value:... \$1,000,000

[MINRAD, INC. LOGO]

MINRAD, INC./\
Buffalo, NY. Developer of acute care devices and anesthetics. www.minrad.com

TYPE OF INVESTMENT
677,980 common shares. Stock option - 10,000 shares common.

Year Acquired:..... 1997 Cost:..... \$919,422
Percent Equity:..... 3% Value:..... \$508,500

[NEW MONARCH MACHINE TOOL, INC. LOGO]

NEW MONARCH MACHINE TOOL, INC.+\
Cortland, NY. Manufactures and services vertical/horizontal machining centers.
www.monarchmt.com

TYPE OF INVESTMENT
\$500,000 note at 12% payable monthly through September 24, 2006. Warrant for
11.59 shares of common stock.

Year Acquired:..... 2003 Cost:..... \$479,545
Percent Equity:..... 12% Value:..... \$479,545

[PHOTONIC PRODUCTS GROUP INC. LOGO]

PHOTONIC PRODUCTS GROUP INC. (OTC: PHPG.OB)*
(FORMERLY INRAD, INC.)
Northvale, NJ. Develops and manufactures products for laser photonics industry.
www.inrad.com

TYPE OF INVESTMENT
100 shares Series B preferred stock. 10% dividend. 10,000 shares common stock.

Year Acquired:..... 2000 Cost:..... \$125,000
Percent Equity:.....