

RAND CAPITAL CORP  
Form 10-Q  
November 01, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarter ended September 30, 2013**

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 814-00235**

**Rand Capital Corporation**

**(Exact Name of Registrant as specified in its Charter)**

<b>New York</b> <b>(State or Other Jurisdiction of</b>	<b>16-0961359</b> <b>(IRS Employer</b>
<b>Incorporation or organization)</b>	<b>Identification No.)</b>
<b>2200 Rand Building, Buffalo, NY</b> <b>(Address of Principal executive offices)</b>	<b>14203</b> <b>(Zip Code)</b>
<b>(716) 853-0802</b>	
<b>(Registrant's telephone number, including area code)</b>	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input checked="" type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

As of November 1, 2013 there were 6,424,918 shares of the registrant's common stock outstanding.

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**RAND CAPITAL CORPORATION**

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As of September 30, 2013 and December 31, 2012

	September 30, 2013 (Unaudited)	December 31, 2012
<b><u>ASSETS</u></b>		
Investments at fair value:		
Control investments (cost of \$1,715,432 and \$1,920,831, respectively)	\$ 10,380,951	\$ 10,571,317
Affiliate investments (cost of \$11,054,897 and \$9,374,343, respectively)	10,403,360	8,099,815
Non-Control/Non-Affiliate investments (cost of \$6,272,992 and \$7,196,885, respectively)	7,385,241	11,108,654
Total investments, at fair value (cost of \$19,043,321 and \$18,492,059, respectively)	28,169,552	29,779,786
Cash and cash equivalents	3,946,504	4,224,763
Interest receivable (net of allowance: 9/30/13 \$122,000 and 12/31/12 \$196,795)	26,973	33,025
Prepaid income taxes	125,623	
Other assets	412,358	214,839
Total assets	\$ 32,681,010	\$ 34,252,413
<b><u>LIABILITIES AND STOCKHOLDERS EQUITY (NET ASSETS)</u></b>		
<b>Liabilities:</b>		
Debentures guaranteed by the SBA	\$ 5,500,000	\$ 4,900,000
Deferred tax liability	1,963,891	2,946,614
Income tax payable		27,695
Accounts payable and accrued expenses	119,332	561,940
Deferred revenue	28,313	33,864
Total liabilities	7,611,536	8,470,113
<b>Stockholders equity (net assets):</b>		
Common stock, \$.10 par; shares authorized 10,000,000; shares issued 6,863,034; shares outstanding of 6,424,918 as of 9/30/13 and 6,610,236 as of 12/31/12	686,304	686,304
Capital in excess of par value	10,581,789	10,581,789
Accumulated net investment (loss)	(357,043)	(1,043,795)
Undistributed net realized gain on investments	9,636,003	9,148,536
Net unrealized appreciation on investments	5,672,756	7,013,260

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Treasury stock, at cost; 438,116 shares as of 9/30/13 and 252,798 shares at 12/31/12	(1,150,335)	(603,794)
Total stockholders equity (net assets), (per share at 9/30/13 and 12/31/12 \$3.90)	<b>25,069,474</b>	25,782,300
Total liabilities and stockholders equity	<b>\$ 32,681,010</b>	<b>\$ 34,252,413</b>

See accompanying notes

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**RAND CAPITAL CORPORATION AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

**For the Three Months and Nine Months Ended September 30, 2013 and 2012**

(Unaudited)

	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
<b>Investment income:</b>				
Interest from portfolio companies:				
Control investments	\$ 37,669	\$ 9,818	\$ 119,662	\$ 32,259
Affiliate investments	110,189	123,269	370,007	355,316
Non-Control/Non-Affiliate investments	38,213	22,957	108,572	38,824
Total interest from portfolio companies	186,071	156,044	598,241	426,399
Interest from other investments	2,110	1,845	7,452	6,483
Total interest from other investments	2,110	1,845	7,452	6,483
Dividend and other investment income:				
Control investments	234,727	1,246,825	1,247,652	1,560,606
Affiliate investments	79,964	44,030	124,761	178,186
Non-Control/Non-Affiliate investments			16,670	6,950
Total dividend and other investment income	314,691	1,290,855	1,389,083	1,745,742
Other income:				
Control investments	5,500	2,000	10,500	4,000
Affiliate investments	600		3,800	2,000
Non-Control/Non-Affiliate investments	1,250	668	3,750	668
Total other income	7,350	2,668	18,050	6,668
<b>Total investment income</b>	<b>510,222</b>	<b>1,451,412</b>	<b>2,012,826</b>	<b>2,185,292</b>
<b>Operating expenses:</b>				
Salaries	135,375	122,478	406,125	365,683
Bonus and profit sharing				144,000
Employee benefits	27,297	31,350	114,792	105,387
Directors fees	14,250	12,750	86,250	82,500
Professional fees	27,595	30,793	102,957	113,250
Stockholders and office operating	25,457	24,046	104,824	99,848
Insurance	7,500	12,228	27,004	31,470

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Corporate development	19,730	20,988	57,743	53,846
Other operating	1,360	3,500	3,863	10,402
	258,564	258,133	903,558	1,006,386
Interest on SBA obligations	33,806	20,681	129,730	131,012
Bad debt expense (recovery)		64,654	(64,654)	64,654
<b>Total expenses</b>	<b>292,370</b>	<b>343,468</b>	<b>968,634</b>	<b>1,202,052</b>
<b>Investment gain before income tax expense</b>	<b>217,852</b>	<b>1,107,944</b>	<b>1,044,192</b>	<b>983,240</b>
Income tax expense	74,324	281,017	357,440	215,320
<b>Net investment gain</b>	<b>143,528</b>	<b>826,927</b>	<b>686,752</b>	<b>767,920</b>
<b>Realized gain (loss) on investments:</b>				
Affiliate investments			(1,063,698)	
Non-Control/Non-Affiliate investments		379,612	1,842,265	415,097
Realized gain on investments before income taxes		379,612	778,567	415,097
Income tax expense		144,087	291,100	156,507
Net realized gain on investments		235,525	487,467	258,590
<b>Net increase (decrease) in unrealized appreciation on investments:</b>				
Control investments	8,381		15,033	
Affiliate investments	(440,707)	(337,546)	622,991	(337,546)
Non-Control/Non-Affiliate investments	(205,650)	(3,501,050)	(2,799,520)	1,473,336
Change in unrealized appreciation before income taxes	(637,976)	(3,838,596)	(2,161,496)	1,135,790
Deferred income tax (benefit) expense	(250,156)	(1,378,868)	(820,992)	475,511
Net (decrease) increase in unrealized appreciation on investments	(387,820)	(2,459,728)	(1,340,504)	660,279
<b>Net realized and unrealized (loss) gain on investments</b>	<b>(387,820)</b>	<b>(2,224,203)</b>	<b>(853,037)</b>	<b>918,869</b>
<b>Net (decrease) increase in net assets from operations</b>	<b>(\$244,292)</b>	<b>(\$1,397,276)</b>	<b>(\$166,285)</b>	<b>\$1,686,789</b>
<b>Weighted average shares outstanding</b>	<b>6,481,172</b>	<b>6,808,607</b>	<b>6,551,116</b>	<b>6,812,457</b>
<b>Basic and diluted net (decrease) increase in net assets per share from operations</b>	<b>(\$0.04)</b>	<b>(\$0.21)</b>	<b>(\$0.03)</b>	<b>\$0.25</b>

See accompanying notes

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**RAND CAPITAL CORPORATION AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**For the Nine Months Ended September 30, 2013 and 2012**

**(Unaudited)**

	Nine months ended September 30, 2013	Nine months ended September 30, 2012
<b>Cash flows from operating activities:</b>		
Net (decrease) increase in net assets from operations	(\$166,285)	\$ 1,686,789
Adjustments to reconcile net (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	32,238	59,902
Original issue discount accretion	(11,619)	(15,988)
Change in interest receivable allowance	(74,795)	64,654
Decrease (increase) in unrealized appreciation of investments	2,161,496	(1,135,790)
Deferred tax (benefit) expense	(982,723)	662,397
Realized gain on portfolio investments, net	(778,567)	(415,097)
Non-cash conversion of debenture interest	(245,501)	(84,655)
Changes in operating assets and liabilities:		
Decrease (increase) in interest receivable	80,847	(40,611)
(Increase) decrease in other assets	(185,835)	1,119,074
(Increase) decrease in prepaid income taxes	(125,623)	169,645
(Decrease) increase in accounts payable and accrued expenses	(442,608)	3,392
Decrease in income taxes payable	(27,695)	
(Decrease) increase in deferred revenue	(5,550)	8,333
Total adjustments	(605,935)	395,256
<b>Net cash (used in) provided by operating activities</b>	<b>(772,220)</b>	<b>2,082,045</b>
<b>Cash flows from investing activities:</b>		
Investments originated	(2,875,002)	(3,130,728)
Proceeds from sale of investments	2,977,145	823,669