RAND CAPITAL CORP Form 10-Q November 01, 2013 Table of Contents

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)

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New York (State or Other Jurisdiction of

16-0961359 (IRS Employer

Incorporation or organization)

Identification No.)

2200 Rand Building, Buffalo, NY (Address of Principal executive offices) (716) 853-0802 14203 (Zip Code)

(Registrant s telephone number, including area code)

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 x No $\ddot{}$

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
 Accelerated filer
 "

 Non-accelerated filer
 x (Do not check if a smaller reporting company)
 Smaller reporting company
 "

 Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the
 "
 "

 Act).
 Yes " No x
 No x
 "

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

RAND CAPITAL CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements and Supplementary Data

RAND CAPITAL CORPORATION AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of September 30, 2013 and December 31, 2012

	September 30, 2013 (Unaudited)		December 31, 2012
ASSETS			
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
LIABILITIES AND STOCKHOLDERS EQUITY (NET ASSETS) Liabilities:			
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
Stockholders equity (net assets):			
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)	25,069,474	25,782,300
Total liabilities and stockholders equity	\$ 32,681,010	\$ 34,252,413

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
Investment income:				
Interest from portfolio companies:				
Control investments	\$ 37,669		\$ 119,662	\$ 32,259
Affiliate investments	110,189		370,007	355,316
Non-Control/Non-Affiliate investments	38,213	22,957	108,572	38,824
Total interest from portfolio companies	186,071		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		1,247,652	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		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
Total investment income	510,222	1,451,412	2,012,826	2,185,292
Operating expenses:	· - · · ,	1,101,111	_,01_,020	_,,
Salaries	135,375	122,478	406,125	365,683
Bonus and profit sharing				144,000
Employee benefits	27,297		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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Conjunate to even printin 17,500 20,380 30,493 30,380 Other operating 1,360 3,800 3,863 10,402 Description 258,564 258,133 903,558 10,402 Bad debt expense (recovery) 64,654 (64,654) 64,654 Total expenses 292,370 343,468 968,634 1,202,052 Investment gain before income tax expense 217,852 1,107,944 1,044,192 983,240 Income tax expense 74,324 281,017 357,440 215,320 Net investment gain 143,528 826,927 686,752 767,920 Realized gain (loss) on investments: (1,063,698) Non-Control/Non-Affiliate investments 379,612 778,567 415,097 Realized gain on investments 379,612 778,567 415,097 Income tax expense 144,087 291,100 156,507 Net increase (decrease) in unrealized appreciation on investments (235,525 487,467 258,590 Net increase (decrease) in unrealized appreciation before income taxes (337,546) (622,991	Corporate development	19,730	20,988	57,743	53,846
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) 343,468 968,634 1,202,052 Investment gain before income tax expense 217,852 1,107,944 1,044,192 983,240 Income tax expense 74,324 281,017 357,440 215,320 Net investment gain 143,528 826,927 686,752 767,920 Realized gain (loss) on investments: (1,063,698) 1,842,626 415,097 Realized gain on investments 379,612 7,85,67 415,097 Realized gain on investments 235,525 487,467 258,590 Net increase (decrease) in unrealized appreciation before income taxes 379,612 778,567 415,097 Non-Control/Non-Affiliate investments 8,381 15,033 4ffiliate investments 235,525 487,467 258,590 Net increase (decrease) in unrealized appreciation before income taxes 620,950 (3,37,546) 622,991 (337,546) Non-Control/Non-Affiliate investments	Corporate development Other operating	· · · ·			
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Interest on SBA obligations 33,806 20.681 129,730 131,012 Bad debt expense (recovery) 64,654 (64,654) 64,654 Total expenses 292,370 343,468 968,634 1,202,052 Investment gain before income tax expense 217,852 1,107,944 1,044,192 983,240 Income tax expense 74,324 281,017 357,440 215,320 Net investment gain 143,528 826,927 686,752 767,920 Realized gain (loss) on investments: (1.063,698) Non-Control/Non-Affiliate investments 379,612 1,842,265 415,097 Realized gain on investments 379,612 778,567 415,097 186,507 Net realized gain on investments 235,525 487,467 258,590 Net increase (decrease) in unrealized appreciation a investments (205,650) (3,501,050) (2,799,520) 1,473,336 Change in unrealized appreciation before income taxes (237,976) (3,838,596) (2,161,496) 1,135,790 Deferred income tax (benefit) expense (250,156) (1,578,868) (820,992)		258 564	258 133	903 558	1 006 386
Bad debt expense (recovery) 64,654 (64,654) 64,654 Total expenses 292,370 343,468 968,634 1,202,052 Investment gain before income tax expense 217,852 1,107,944 1,044,192 983,240 Income tax expense 74,324 281,017 357,440 215,320 Net investment gain 143,528 826,927 686,752 767,920 Realized gain (loss) on investments: (1,063,698) Non-Control/Non-Affiliate investments 379,612 1,842,265 415,097 Realized gain on investments 235,525 487,467 258,590 Net increase (decrease) in unrealized appreciation on investments 235,525 487,467 258,590 Net increase (decrease) in unrealized appreciation before income taxes 8,381 15,033 4ffiliate investments (20,560) (337,546) 622,991 (337,546) Control investments (440,707) (337,546) (21,61,496) 1,135,790 Deferred income tax (benefit) expense (250,156) (1,340,504) 660,279 Net (decrease) increase in unrealized appreciation on investments (387,8	Interest on SBA obligations	· · · ·			
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Net investment gain143,528826,927686,752767,920Realized gain (loss) on investments: Affiliate investments(1,063,698) 1,842,265415,097Realized gain on investments before income taxes Income tax expense379,612778,567415,097Realized gain on investments before income taxes appreciation on investments235,525487,467228,590Net realized gain on investments235,525487,467258,590Net increase (decrease) in unrealized appreciation on investments: Control investments15,03315,033Affiliate investments8,38115,033Affiliate investments(205,650)(3,501,050)(2,799,520)Non-Control/Non-Affiliate investments(205,650)(3,501,050)(2,799,520)Net (decrease) increase in unrealized appreciation taxes(387,820)(2,459,728)(1,340,504)Net (decrease) increase in unrealized appreciation on investments(387,820)(2,224,203)(853,037)Net (decrease) increase in net assets from operations(3244,292)(\$1,397,276)(\$166,285)\$1,686,789Weighted average shares outstanding Basic and diluted net (decrease) increase in net assets per share from operations(\$0,04)(\$0,21)(\$0,03)\$0,25					
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Realized gain (0.08s) on 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 Net increase (decrease) in unrealized appreciation on investments: 235,525 487,467 258,590 Control investments 8,381 15,033 4ffiliate investments: 201,100 137,546) Control 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) (2,24,203) (853,037) 918,869 Net (decrease) increase in net assets from operations (\$244,292) (\$1,397,276) <				60 6 	
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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 Net increase (decrease) in unrealized appreciation on investments: 235,525 487,467 258,590 Control investments 8,381 15,033 411114 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 Net realized and unrealized (loss) gain on investments (387,820) (2,224,203) (853,037) 918,869	Realized gain (loss) on invostments:				
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Income tax expense 144,087 291,100 156,507 Net realized gain on investments 235,525 487,467 258,590 Net increase (decrease) in unrealized appreciation on investments: 235,525 487,467 258,590 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) (2,2459,728) (1,340,504) 660,279 Net realized and unrealized (loss) gain on investments (387,820) (2,224,203) (853,037) 918,869 Net (decrease) increase in net assets from operations (\$244,292) (\$1,397,276) (\$166,285) \$1,686,789 Neeighted average shares outstanding 6,481,172 6,808,607 6,551,116 6,812,457 Basic and diluted net (decrease) incre	Realized gain on investments before income taxes		379.612	778.567	415,097
Net realized gain on investments 235,525 487,467 258,590 Net increase (decrease) in unrealized appreciation on investments: 15,033 15,033 Control 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 Net realized and unrealized (loss) gain on investments (387,820) (2,224,203) (853,037) 918,869 Net (decrease) increase in net assets from operations (\$244,292) (\$1,397,276) (\$166,285) \$1,686,789 Weighted average shares outstanding Basic and diluted net (decrease) increase in net assets from operations (\$0,04) (\$0,21) (\$0,03) \$0,25	-		,		
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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 Net realized and unrealized (loss) gain on investments (387,820) (2,224,203) (853,037) 918,869 Net (decrease) increase in net assets from operations (\$244,292) (\$1,397,276) (\$166,285) \$1,686,789 Weighted average shares outstanding Basic and diluted net (decrease) increase in net assets per share from operations 6,808,607 6,551,116 6,812,457 Basic and diluted net (decrease) increase in net assets per share from operations (\$0.04) (\$0.21) (\$0.03) \$0.25	Net increase (decrease) in unrealized				
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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 Net realized and unrealized (loss) gain on investments (387,820) (2,224,203) (853,037) 918,869 Net (decrease) increase in net assets from operations (\$244,292) (\$1,397,276) (\$166,285) \$1,686,789 Weighted average shares outstanding Basic and diluted net (decrease) increase in net assets in net asset in net as	Change in unrealized appreciation hafers income				
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Net (decrease) increase in unrealized appreciation on investments(387,820)(2,459,728)(1,340,504)660,279Net realized and unrealized (loss) gain on investments(387,820)(2,224,203)(853,037)918,869Net (decrease) increase in net assets from operations(\$244,292)(\$1,397,276)(\$166,285)\$1,686,789Weighted average shares outstanding Basic and diluted net (decrease) increase in net assets per share from operations6,481,1726,808,6076,551,1166,812,457(\$0.04)(\$0.21)(\$0.03)\$0.25					
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on investments (387,820) (2,459,728) (1,340,504) 660,279 Net realized and unrealized (loss) gain on investments (387,820) (2,224,203) (853,037) 918,869 Net (decrease) increase in net assets from operations (\$244,292) (\$1,397,276) (\$166,285) \$1,686,789 Weighted average shares outstanding Basic and diluted net (decrease) increase in net assets in net asset in net	Net (decrease) increase in unrealized appreciation				
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investments (387,820) (2,224,203) (853,037) 918,869 Net (decrease) increase in net assets from operations (\$244,292) (\$1,397,276) (\$166,285) \$1,686,789 Weighted average shares outstanding Basic and diluted net (decrease) increase in net assets per share from operations 6,481,172 6,808,607 6,551,116 6,812,457 (\$0.04) (\$0.21) (\$0.03) \$0.25					
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operations (\$244,292) (\$1,397,276) (\$166,285) \$1,686,789 Weighted average shares outstanding 6,481,172 6,808,607 6,551,116 6,812,457 Basic and diluted net (decrease) increase in net assets per share from operations (\$0.04) (\$0.21) (\$0.03) \$0.25					
Weighted average shares outstanding6,481,1726,808,6076,551,1166,812,457Basic and diluted net (decrease) increase in net assets per share from operations(\$0.04)(\$0.21)(\$0.03)\$0.25		(\$244.202)	(\$1.207.27()	(\$166.205)	¢1 (0(7 00
Basic and diluted net (decrease) increase in net assets per share from operations(\$0.04)(\$0.21)(\$0.03)\$0.25	operations	(\$244,292)	(\$1,397,276)	(\$166,285)	\$1,686,789
Basic and diluted net (decrease) increase in net assets per share from operations(\$0.04)(\$0.21)(\$0.03)\$0.25	Weighted average charge outstanding	6 481 177	6 808 607	6 551 116	6 812 457
assets per share from operations (\$0.04) (\$0.21) (\$0.03) \$0.25		0,401,172	0,000,007	0,551,110	0,012,437
		(\$0.04)	(\$0.21)	(\$0.03)	\$0.25
		, ,		(\$0.05)	ψ0 .2 2

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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
Cash flows from operating activities:		
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
Net cash (used in) provided by operating activities	(772,220)	2,082,045
Cash flows from investing activities:		
Investments originated	(2,875,002)	(3,130,728)
Proceeds from sale of investments	2,977,145	823,669