

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)

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)	14203 (Zip Code)
(716) 853-0802	
(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 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 Accelerated filer

Non-accelerated filer (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

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

Table of Contents

RAND CAPITAL CORPORATION

TABLE OF CONTENTS FOR FORM 10-Q

PART I. FINANCIAL INFORMATION

Item 1.	<u>Financial Statements and Supplementary Data</u>	3
	<u>Condensed Consolidated Statements of Financial Position as of September 30, 2013 (Unaudited) and December 31, 2012</u>	3
	<u>Condensed Consolidated Statements of Operations for the Three Months and Nine Months Ended September 30, 2013 and 2012 (Unaudited)</u>	4
	<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2013 and 2012 (Unaudited)</u>	5
	<u>Condensed Consolidated Statements of Changes in Net Assets for the Three Months and Nine Months Ended September 30, 2013 and 2012 (Unaudited)</u>	6
	<u>Condensed Consolidated Schedule of Portfolio Investments as of September 30, 2013 (Unaudited)</u>	7
	<u>Notes to the Consolidated Financial Statements (Unaudited)</u>	11
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	28
Item 4.	<u>Controls and Procedures</u>	28

PART II OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	29
Item 1A.	<u>Risk Factors</u>	29
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	29
Item 3.	<u>Defaults upon Senior Securities</u>	29
Item 4.	<u>Mine Safety Disclosures</u>	29
Item 5.	<u>Other Information</u>	29
Item 6.	<u>Exhibits</u>	30

Table of Contents**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
<u>ASSETS</u>		
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
<u>LIABILITIES AND STOCKHOLDERS EQUITY (NET ASSETS)</u>		
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

Edgar Filing: RAND CAPITAL CORP - Form 10-Q

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

Table of Contents

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	\$ 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
Total investment income	510,222	1,451,412	2,012,826	2,185,292
Operating expenses:				
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

Edgar Filing: RAND CAPITAL CORP - Form 10-Q

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
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:				
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:				
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	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

See accompanying notes

Table of Contents

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
Proceeds from loan repayments	382,282	79,918
Capital expenditures	(7,547)	
Net cash provided by (used in) investing activities	476,878	(2,227,141)
Cash flows from financing activities:		
Repayment of SBA debentures	(900,000)	(3,100,000)
Proceeds from SBA debentures	1,500,000	3,000,000
Origination costs to SBA	(36,376)	(72,750)
Purchase of treasury stock	(546,541)	(157,158)

Net cash provided by (used in) financing activities	17,083	(329,908)
Net decrease in cash and cash equivalents	(278,259)	(475,004)
Cash and cash equivalents:		
Beginning of period	4,224,763	4,517,985
End of period	\$ 3,946,504	\$ 4,042,981

See accompanying notes

Table of Contents

RAND CAPITAL CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

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
Net assets at beginning of period	\$ 25,521,216	\$ 27,483,186	\$ 25,782,300	\$ 24,399,121
Net investment gain	143,528	826,927	686,752	767,920
Net realized gain on sales and dispositions of investments		235,525	487,467	258,590
Net (decrease) increase in unrealized appreciation	(387,820)	(2,459,728)	(1,340,504)	660,279
Net (decrease) increase in net assets from operations	(244,292)	(1,397,276)	(166,285)	1,686,789
Purchase of treasury stock	(207,450)	(157,158)	(546,541)	(157,158)
Total (decrease) increase in net assets	(451,742)	(1,554,434)	(712,826)	1,529,631
Net assets at end of period	\$ 25,069,474	\$ 25,928,752	\$ 25,069,474	\$ 25,928,752

See accompanying notes

Table of Contents

RAND CAPITAL CORPORATION AND SUBSIDIARY

CONDENSED CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

September 30, 2013

(Unaudited)

(a) Company, Geographic Location, Business	(b) Type of Investment	(c) Date Acquired	(d)(f) Equity Cost	(d)(f) Fair Value	Per Share of Rand
Non-Control/Non-Affiliate Investments:					
(j)					
BinOptics Corporation (e)(g) Ithaca, NY. Design and manufacture of semiconductor FP and DFB lasers. (Electronics Developer) www.binoptics.com	20,891,357 Series 2 preferred shares.	11/8/11	4% \$ 1,799,999	\$ 1,799,999	\$.28
Liazon Corporation (e)(g) Buffalo, NY. Private health benefits exchange. (Health Benefits Provider) www.liazon.com	120,000 Series C-1 preferred shares. 546,667 Series C-2 preferred shares. 100,000 Series D preferred shares.	11/9/10	3% 1,133,199	2,108,331	.33
Mercantile Adjustment Bureau, LLC (g) Williamsville, NY. Full service accounts receivable management and collections company. (Accounts Receivable) www.mercantilesolutions.com	\$1,075,000 note at 13% due October 30, 2017. Warrant for 2.47% membership interests.	10/22/12	2% 1,084,163	1,084,163	.17
SocialFlow, Inc. (e)(g) New York, NY. Provides instant analysis of current opportunities on social networks using proprietary, predictive analytic algorithm to determine best time for its	1,049,538 Series B preferred shares.	4/5/13	2% 500,000	500,000	.08

customers to publish or advertise. (Software)							
www.socialflow.com							
Somerset Gas Transmission Company, LLC	26.5337 units.	7/10/02	3%	719,097	786,748	.12	
Columbus, OH. Natural gas transportation company. (Oil and Gas)							
www.somersetgas.com							
Synacor, Inc. NASDAQ: SYNC (e)(g)(m)(n)	428,643 unrestricted common shares valued at \$2.58 per share.	11/18/02	3%	625,677	1,106,000	.17	
Buffalo, NY. Develops provisioning platforms for aggregation and delivery of content and services across multiple digital devices. (Software)							
www.synacor.com							
Other Non-Control/Non-Affiliate Investments				410,857	0	.00	
Subtotal Non-Control/Non-Affiliate Investments				\$ 6,272,992	\$ 7,385,241	\$ 1.15	
Affiliate Investments: (k)							
Carolina Skiff LLC (g)	\$985,000 Class A preferred membership interest at 9.8%. \$250,000 subordinated promissory note at 14% due December 31, 2016. 6.0825% Class A common membership interest.	1/30/04	7%	\$ 1,250,000	\$ 1,485,000	\$.23	
Waycross, GA. Manufacturer of fresh water, ocean fishing and pleasure boats. (Manufacturing)							
www.carolinaskiff.com							
Chequed.com, Inc. (e)(g)	305,118 Series A preferred shares.	11/18/10	12%	1,033,222	1,033,222	.16	
Saratoga Springs, NY. Predictive employee selection and development software. (Software)							
www.chequed.com							
EmergingMed.com, Inc. (e)(g)	\$778,253 senior subordinated note at 8% due	12/19/05	8%	778,253	0	.00	
New York, NY. Cancer clinical trial matching and referral service. (Software)							

www.emergingmed.com

March 27,
2015.
1,955,967
common equity
shares.

Table of Contents

RAND CAPITAL CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

September 30, 2013 (Continued)

(Unaudited)

(a) Company, Geographic Location, Business		(b)	(c)		(d)(f)	Per
Description, (Industry) and Website	Type of Investment	Date Acquired	Equity	Cost	Fair Value	Share of Rand
First Wave Products Group, LLC (e)(g) Batavia, NY. Develops medical devices including First Crush, a dual action pill crusher that crushes and grinds medical pills. (Manufacturing) www.firstwaveproducts.com	\$500,000 senior term notes at 10% due April 19, 2016. Warrant for 24,288 capital securities.	4/19/12	5%	577,556	577,556	.09
GiveGab, Inc. (e)(g) Ithaca, NY. GiveGab is a social network dedicated to helping volunteers and nonprofit organizations interact, on a local level, in their communities. (Software) www.givegab.com	1,397,428 Series A preferred shares.	3/13/13	6%	250,000	250,000	.04
G-TEC Natural Gas Systems (e) Buffalo, NY. Manufactures and distributes systems that allow natural gas to be used as an alternative fuel to gases. (Manufacturing) www.gas-tec.com	19.081% Class A membership interest. 8% cumulative dividend.	8/31/99	19%	400,000	100,000	.02
Intrinsiq Materials, Inc. (e)(g) Rochester, NY. Produces a variety of electronic ink, including screen-printable, inkjettable copper ink, silicon ink jet, and nickel ink jet utilizing a unique process of making nanomaterial based ink used in a room-temperature manufacturing environment on paper, plastics and metals. (Manufacturing)	599,055 Series 2 Preferred shares.	9/19/13	7%	600,002	600,002	.09

www.intrinsicmaterials.com Knoa Software, Inc. (e)(g)	973,533 Series A-1 convertible preferred shares.	11/20/12	6%	750,000	750,000	.12
New York, NY. End user experience management and performance (EMP) solutions utilizing enterprise applications. (Software)						
www.knoa.com Mezmeriz, Inc. (e)(g)	360,526 Series A preferred shares. \$100,000 convertible note at 8% due December 31, 2013.	1/9/08	10%	491,373	491,373	.07
Ithaca, NY. Micro-electronic mechanical systems (MEMS) developer enabling efficient, wide-angle, Pico projectors to be embedded in mobile devices. (Electronics Developer)						
www.mezmeriz.com Microcision LLC (g)	\$1,500,000 subordinated promissory note at 5%, 6% deferred interest due January 31, 2014. 15% Class A common membership interest.	9/24/09	15%	1,864,005	1,864,005	.29
Philadelphia, PA. Custom manufacturer of medical and dental implants. (Manufacturing)						
www.microcision.com QuaDPharma, LLC (g)(h)	\$340,648 senior subordinated term note at 10% due November 1, 2017. 141.75 Class A units of membership interest.	6/26/12	14%	656,285	656,285	.10
Clarence, NY. Small scale pre-commercial and commercial manufacturing for the Pharmaceutical industry. (Manufacturing)						
www.quadpharmainc.com Rheonix, Inc. (e)(g)	9,676 common shares. (g) 1,081,539 Series A preferred shares. 50,593 common shares.	10/29/09	5%	1,208,728	1,344,728	.21
Ithaca, NY. Developer of microfluidic testing devices including channels, pumps, reaction vessels, & diagnostic chambers, for testing of small volumes of chemicals and biological fluids. (Manufacturing)						
www.rheonix.com SciAps, Inc. (e)(g)	87,500 Class B common shares.	7/12/13	5%	700,000	700,000	.11
Woburn, MA. Instrumentation company specializing in portable analytical instruments. Provides durable, field-tested, portable instruments to identify any						

compound, any mineral, any element,
anyplace on the planet. (Manufacturing)

www.sciaps.com

Table of Contents

RAND CAPITAL CORPORATION AND SUBSIDIARY

CONDENSED CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

September 30, 2013 (Continued)

(Unaudited)

(a) Company, Geographic Location, Business	(b) Type of Investment	(c) Date Acquired	(d) Equity	(e) Cost	(f) Fair Value	(g) Per Share of Rand
SOMS Technologies, LLC (e)(g)	5,959,490	12/2/08	10%	472,632	528,348	.08
Valhalla, NY. Produces and markets the microGreen Extended Performance Oil Filter. (Auto Parts Developer)	Series B membership units.					
www.microgreenfilter.com						
Other Affiliate Investments				22,841	22,841	.00
Subtotal Affiliate Investments				\$ 11,054,897	\$ 10,403,360	\$ 1.61
Control Investments (l)						
Gemcor II, LLC (g)(h)	\$500,000	6/28/04	31%	\$ 1,606,451	\$ 10,281,451	\$ 1.60
West Seneca, NY. Designs and sells automatic riveting machines used in the assembly of aircraft components. (Manufacturing)	subordinated promissory note at 15% due December 1, 2014.					
www.gemcor.com	\$1,000,000 subordinated promissory note at 15% due September 1, 2017. 31.25 membership units.					
Other Control Investments				108,981	99,500	.02
Subtotal Control Investments				\$ 1,715,432	\$ 10,380,951	\$ 1.62
Total portfolio investments				\$ 19,043,321	\$ 28,169,552	\$ 4.38

Table of Contents

RAND CAPITAL CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED SCHEDULE OF PORTFOLIO INVESTMENTS

September 30, 2013 (Continued)

(Unaudited)

Notes to Consolidated Schedule of Portfolio Investments

(a) At September 30, 2013 restricted securities represented approximately 96% of the fair value of the investment portfolio. Restricted securities are subject to one or more restrictions on resale and are not freely marketable. Freed Maxick CPAs, P.C. has not audited the business descriptions of the portfolio companies. Individual securities with a fair value less than \$100,000 are included in Other Investments.

(b) The Date Acquired column indicates the year in which the Corporation acquired its first investment in the company or a predecessor company. Freed Maxick CPAs, P.C. has not audited the date acquired of the portfolio companies.

(c) Each equity percentage estimates the Corporation's ownership interest in the applicable 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 upon exercise of warrants or conversion of debentures, or other available data. Freed Maxick CPAs, P.C. has not audited the equity percentages of the portfolio companies. The symbol <1% indicates that the Corporation holds an equity interest of less than one percent. As of September 30, 2013, the Corporation held no equity interests of less than one percent.

(d) The investments are carried at fair value in accordance with Accounting Standards Codification (ASC) 820 Fair Value Measurements which defines fair value and establishes guidelines for measuring fair value. At September 30, 2013, ASC 820 designates 4% of the Corporation's investments as Level 1 and 96% as Level 3 assets. Under the valuation policy of the Corporation, unrestricted publicly held securities are valued at the average closing bid price for these securities for the last three trading days of the month. Restricted securities are subject to restrictions on resale, and are valued at fair value as determined by the management of the Corporation and submitted to the Board of Directors for approval. Fair value is considered to be the amount which the Corporation may reasonably expect to receive for portfolio securities when 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 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 (also see Note 3 Investments to the consolidated financial statements).

(e) These investments are non-income producing. All other investments are income producing. Non-income producing investments have not generated cash payments of interest or dividends including LLC tax related distributions within the last twelve months, or are not expected to do so going forward.

(f) As of September 30, 2013, the total cost of investment securities approximated \$19 million. Net unrealized appreciation was approximately \$9.1 million, which was comprised of \$10.6 million of unrealized appreciation of investment securities and (\$1.5) million related to unrealized depreciation of investment securities.

(g) Rand Capital SBIC, Inc. investment.

(h) Reduction in cost and value from previously reported balances reflects current principal repayment.

(i) Represents interest due (amounts over \$50,000 net of reserves) from investment included as interest receivable on the Corporation's Balance Sheet. As of September 30, 2013 there were no amounts exceeding \$50,000.

(j) Non-Control/Non-Affiliate investments are investments that are neither Control Investments nor Affiliated Investments.

(k) Affiliate investments are defined by the Investment Company Act of 1940, as amended (1940 Act), as those Non-Control investments in companies in which between 5% and 25% of the voting securities are owned.

(l) Control investments are defined by the 1940 Act as investments in companies in which more than 25% of the voting securities are owned or where greater than 50% of the board representation is maintained.

(m) Publicly owned company.

(n) On September 30, 2013, the Corporation's shares of Synacor were valued at \$2.58 per share in accordance with the Corporation's valuation policy for unrestricted publicly held securities (Level 1).

Table of Contents

Rand Capital Corporation and Subsidiary

Notes to the Consolidated Financial Statements

For the Nine Months Ended September 30, 2013 and 2012

(Unaudited)

Note 1. ORGANIZATION

Rand Capital Corporation (Rand) was incorporated under the laws of New York in February 1969. Rand operates as a publicly traded, closed-end, diversified management company that has elected to be treated as a business development company (BDC) under the Investment Company Act of 1940, as amended (the 1940 Act). Rand Capital SBIC, Inc. (Rand SBIC) is a wholly-owned subsidiary of Rand, operating as a small business investment company (SBIC) and licensed by the U.S. Small Business Administration (SBA). The predecessor of Rand SBIC had originally been organized as a Delaware limited partnership, and was converted into a New York corporation on December 31, 2008, at which time its operations as a licensed SBIC were continued by the newly formed corporation under its current name. Rand SBIC 's board of directors is comprised of the directors of Rand, a majority of whom are not interested persons of Rand or Rand SBIC. Rand and its wholly-owned subsidiary Rand SBIC are referred to herein, collectively, as the Corporation .

The Corporation is listed on the NASDAQ Capital Market under the symbol Rand .

Rand operates Rand SBIC for the same investment purposes and with investments in similar loan and equity securities as Rand. The operations of Rand SBIC are consolidated with those of Rand for both financial reporting and tax purposes.

On February 28, 2012, the SEC granted an Order of Exemption for Rand with respect to the operations of Rand SBIC to permit certain joint transactions that would otherwise be prohibited by the 1940 Act, but which would not be prohibited if Rand and Rand SBIC were a single entity and to permit an exemption from separate reporting requirements for Rand SBIC under Section 13(a) of the Securities Exchange Act of 1934 Act (the Exchange Act). At that time, although Rand SBIC was operated as if it were a BDC, it was registered as an investment company under the 1940 Act. Upon the Corporation 's receipt of the order granting the exemption, on March 28, 2012, Rand SBIC filed an election to be regulated as a BDC under the 1940 Act pursuant to which it may now engage in certain transactions which would be permitted if Rand and Rand SBIC were operated as a single entity, but which are not permitted between a parent BDC and a wholly-owned subsidiary BDC without specific exemptions.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation In Management 's opinion, the accompanying consolidated financial statements include all adjustments necessary for a fair presentation of the consolidated financial position, results of operations, and cash flows for the interim periods presented. Certain information and note disclosures normally included in audited annual financial statements prepared in accordance with United States generally accepted accounting principles (GAAP) have been omitted; however, the Corporation believes that the disclosures made are adequate to make the information presented not misleading. The interim results for the nine months ended September 30, 2013 are not necessarily indicative of the results for the full year.

Edgar Filing: RAND CAPITAL CORP - Form 10-Q

These statements should be read in conjunction with the consolidated financial statements and the notes included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2012. Information contained in this filing should also be reviewed in conjunction with the Corporation's related filings with the SEC prior to the date of this report. Those filings include, but are not limited to, the following:

Table of Contents

N-54A	Election to Adopt Business Development Company status
DEF-14A	Definitive Proxy Statement submitted to shareholders
Form 10-K	Annual Report on Form 10-K for the year ended December 31, 2012
Form 10-Q	Quarterly Report on Form 10-Q for the quarters ended June 30, 2013, March 31, 2013 and September 30, 2012

The Corporation's website is www.randcapital.com. The Corporation's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, charters for the Corporation's Board committees and other reports filed with the Securities and Exchange Commission (SEC) are available through the Corporation's website.

Principles of Consolidation The consolidated financial statements include the accounts of Rand and its wholly-owned subsidiary Rand SBIC. All intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents Temporary cash investments having an original maturity of three months or less when purchased are considered to be cash equivalents.

Financial Instruments The carrying value of cash and cash equivalents, accrued interest receivable and payable and other receivables and payables, approximates fair value due to the relative short maturities of these financial instruments. The Company's investments, including loan and debt securities and equity securities, are carried at their estimated fair value (See Note 3). The carrying amount of the SBA debentures approximates fair value because stated interest rates approximate current interest rates that are available for debt with similar terms.

Revenue Recognition Interest Income Interest income generally is recognized on the accrual basis except where the investment is in default or otherwise presumed to be in doubt. In such cases, the loan is placed on non-accrual status and interest income is recognized at the time of receipt. A reserve for possible losses on interest receivables is maintained when appropriate.

The Rand SBIC interest accrual is also regulated by the SBA's Accounting Standards and Financial Reporting Requirements for Small Business Investment Companies. Under these rules interest income cannot be recognized if collection is doubtful, and a 100% reserve must be established. The collection of interest is presumed to be in doubt when there is substantial doubt about a portfolio company's ability to continue as a going concern or the loan is in default for more than 120 days. Management also uses other qualitative and quantitative measures to determine the value of a portfolio investment and the collectability of any accrued interest.

Revenue Recognition Dividend Income The Corporation may receive distributions from portfolio companies that are limited liability companies and corporations and these distributions are classified as dividend income on the statement of operations. Dividend income is recognized on an accrual basis when it can be reasonably estimated.

Original Issue Discount Investments may include original issue discount or OID income. This occurs when the Corporation purchases a warrant and a note from a portfolio company simultaneously, which requires an allocation of a portion of the purchase price to the warrant and reduces the note or debt instrument by an equal amount in the form of a note discount or OID. The note is reported net of the OID and the OID is accreted into interest income over the life of the loan. The Corporation recognized \$11,619 and \$15,988 in OID income for the nine months ended September 30, 2013 and 2012, respectively.

Deferred Debenture Costs SBA debenture origination and commitment costs, which are included in other assets, are amortized ratably over the terms of the SBA debentures and are expensed when the debt is repaid. Amortization expense for the nine months ended September 30, 2013 and 2012 was \$32,238 and \$59,902, respectively.

Table of Contents

SBA Leverage The Corporation had \$5,500,000 and \$4,900,000 in outstanding SBA leverage at September 30, 2013 and December 31, 2012, respectively. The Corporation repaid \$900,000 in SBA leverage during the nine months ended September 30, 2013. The \$5,500,000 in outstanding leverage at September 30, 2013 matures in 2022 and 2023. The remaining undrawn SBA commitment at September 30, 2013 is \$2,500,000 and expires on September 30, 2016. Subsequent to September 30, 2013, the Corporation received proceeds from SBA debentures in the amount of \$1,500,000.

Net Assets per Share Net assets per share are based on the number of shares of common stock outstanding. There are no common stock equivalents.

Supplemental Cash Flow Information Income taxes paid, net of refunds, during the nine months ended September 30, 2013 and 2012 were \$963,589 and \$15,296, respectively. Interest paid during the nine months ended September 30, 2013 and 2012 was \$128,083 and \$135,870, respectively. The Corporation converted \$245,501 and \$84,655 of interest receivable into investments during the nine months ended September 30, 2013 and 2012, respectively.

Accounting Estimates The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Stockholders Equity (Net Assets) At September 30, 2013 and December 31, 2012, there were 500,000 shares of \$10.00 par value preferred stock authorized and unissued.

On November 1, 2012, the Board of Directors authorized the repurchase of up to 500,000 shares of the Corporation's outstanding common stock on the open market at prices no greater than the then current net asset value through November 1, 2013. The Corporation repurchased 185,318 shares during the nine months ended September 30, 2013 for a total cost of \$546,541 and an average cost of \$2.95/share. The Corporation had previously purchased 208,698 shares during 2012 and 44,100 during 2003 and 2002. At September 30, 2013, the total shares held in treasury were 438,116 with a total cost of \$1,150,335. On October 24, 2013, the Corporation extended the stock buyback program through October 24, 2014 to accumulate up to an aggregate of 1,000,000 shares of its common stock on the open market at prices no greater than the then current net asset value.

Profit Sharing and Stock Option Plan In 2001 the stockholders of the Corporation authorized the establishment of an Employee Stock Option Plan (the Option Plan), that provides for the award of options to purchase up to 200,000 common shares to eligible employees. In 2002, the Corporation placed the Option Plan on inactive status as it developed a new profit sharing plan for the Corporation's employees in connection with the formation of its SBIC subsidiary. As of September 30, 2013, no stock options had been awarded under the Option Plan. Because Section 57(n) of the 1940 Act prohibits maintenance of a profit sharing plan for the officers and employees of a BDC where any option, warrant or right is outstanding under an executive compensation plan, no options will be granted under the Option Plan while any profit sharing plan is in effect with respect to the Corporation.

In 2002, the Corporation established a Profit Sharing Plan (the Plan) for its executive officers in accordance with Section 57(n) of the 1940 Act. Under the Plan, the Corporation will pay its executive officers aggregate profit sharing payments equal to 12% of the net realized capital gains of its SBIC subsidiary, net of all realized capital losses and unrealized depreciation of the SBIC subsidiary, for the fiscal year, computed in accordance with the Plan and the Corporation's interpretation of the Plan. Any profit sharing paid or accrued cannot exceed 20% of the Corporation's net income, as defined. The profit sharing payments are split equally between the Corporation's two executive officers, each of whom is fully vested in the Plan.

Table of Contents

There were no amounts earned pursuant to the Plan for the nine months ended September 30, 2013 and \$144,000 was earned and accrued pursuant to the Plan for the nine months ended September 30, 2012. During the year ended December 31, 2012, the Corporation approved and accrued \$246,000 under the Plan, which was paid during the nine months ended September 30, 2013.

Income Taxes The Corporation reviews the tax positions it has taken to determine if they meet a more likely than not threshold for the benefit of the tax position to be recognized in the consolidated financial statements. A tax position that fails to meet the more likely than not recognition threshold will result in the recording of either a reduction of an income tax receivable or a deferred tax asset, or an income tax payable or a deferred tax liability.

It is the Corporation's policy to include interest and penalties related to income tax liabilities in income tax expense. There were no amounts recognized for interest or penalties related to tax expense for the nine months ended September 30, 2013 or 2012.

The Corporation is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended December 31, 2011 and 2012. In general, the Corporation's state income tax returns are open to audit under the statute of limitations for the years ended December 31, 2009 through 2012. The Corporation does not expect that the amounts of uncertain tax positions will change significantly within the next 12 months.

Concentration of Credit and Market Risk The Corporation's financial instruments potentially subject it to concentrations of credit risk. Cash is invested with banks in amounts which, at times, exceed insurable limits. Management does not anticipate non-performance by the banks.

At September 30, 2013 Gemcor II, LLC (Gemcor), Liazon Corporation (Liazon), Microcision, LLC (Microcision), BinOptics Corporation (Binoptics) and Carolina Skiff LLC (Carolina Skiff) represented 36%, 7%, 7%, 6% and 5%, respectively, of the fair value of the Corporation's investment portfolio.

Note 3. INVESTMENTS

The Corporation's investments are carried at fair value in accordance with Accounting Standards Codification (ASC) 820, fair value measurements and disclosures, which defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements.

Loan investments are defined as traditional loan financings with no equity features. Debt investments are defined as debt financings that include one or more equity features such as conversion rights, stock purchase warrants, and/or stock purchase options. A financing may also be categorized as a debt financing if it is accompanied by the direct purchase of an equity interest in the company.

The Corporation uses several approaches to determine the fair value of an investment. The main approaches are:

Loan and debt securities are valued at cost when it is representative of the fair value of an investment or sufficient assets or liquidation proceeds exist from a sale of a portfolio company at its estimated fair value.

Table of Contents

The loan and debt securities may also be valued at an amount other than the price the security would command in order to provide a yield to maturity equivalent to the current yield of similar debt securities. A loan or debt instrument may be reduced in value if it is judged to be of poor quality, collection is in doubt or insufficient liquidation proceeds exist.

Equity securities may be valued using the market approach or income approach. The market approach uses observable prices and other relevant information generated by similar market transactions. It may include the use of market multiples derived from a set of comparables to assist in pricing the investment. Additionally, the Corporation adjusts valuations if a subsequent significant equity financing has occurred that includes a meaningful portion of the financing by a sophisticated, unrelated new investor. The income approach employs a cash flow and discounting methodology to value an investment.

ASC 820 classifies the inputs used to measure fair value into the following hierarchy:

Level 1: Quoted prices in active markets for identical assets or liabilities, used in the Corporation's valuation at the measurement date.

Level 2: Quoted prices for similar assets or liabilities in active markets, or quoted prices for identical or similar assets or liabilities in markets that are not active, or other observable inputs other than quoted prices.

Level 3: Unobservable and significant inputs to determining the fair value.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement, which is not necessarily an indication of risks associated with the investment.

Any changes in estimated fair value are recorded in the statement of operations as Net (decrease) increase in unrealized appreciation.

Under the valuation policy, the Corporation values unrestricted publicly held securities at the average closing bid price for the last three trading days of the month.

In the valuation process, the Corporation values private securities, categorized as Level 3 investments, using financial information from these portfolio companies, which may include:

Financial information obtained from each portfolio company, including unaudited statements of operations, balance sheets and operating budgets;

Current and projected financial, operational and technological development of the portfolio company;

Current and projected ability of the portfolio company to service its debt obligations;

Edgar Filing: RAND CAPITAL CORP - Form 10-Q

The current capital structure of the business and the seniority of the various classes of equity if a deemed liquidation event were to occur;

Pending debt or capital restructuring of the portfolio company;

Current information regarding any offers to purchase the investment; or past sales transactions;

Current ability of the portfolio company to raise additional financing if needed;

Changes in the economic environment which may have a material impact on the operating results of the portfolio company;

Internal occurrences that may have an impact (both positive and negative) on the operating performance of the portfolio company;

Qualitative assessment of key management;

Contractual rights, obligations or restrictions associated with the investment; and

Other factors deemed relevant to assess valuation.

Table of Contents

This information is used to determine financial condition, performance, and valuation of the portfolio companies. The valuation may be reduced if a portfolio company's performance and potential have deteriorated significantly. If the factors which led to a reduction in valuation are overcome, the valuation may be readjusted.

Equity Securities

Equity Securities may include Preferred Stock, Common Stock, Warrants and Limited Liability Company Interests.

The significant unobservable inputs used in the fair value measurement of the Corporation's equity investments are EBITDA and revenue multiples where applicable, the financial and operational performance of the business, or the senior equity preferences which may exist in a deemed liquidation event. Standard industry multiples may be used when available, however the Corporation's portfolio companies are typically small and in early stages of development and these industry standards may be adjusted to more closely match the specific financial and operational performance of the portfolio company. Due to the nature of certain investments, fair value measurements may be based on other criteria, which may include third party appraisals. Significant changes to the unobservable inputs, such as variances in financial performance from expectations, may result in a significantly higher or lower fair value measurement.

Another key factor used in valuing equity investments is recent arms-length equity transactions with unrelated new investors entered into by the portfolio company. Many times the terms of these equity transactions may not be identical to the equity transactions between the portfolio company and the Corporation, and the impact of the difference in transaction terms on the market value of the portfolio company may be difficult or impossible to quantify.

When appropriate the Black-Scholes pricing model is used to estimate the fair value of warrants for GAAP accounting purposes. This model requires the use of highly subjective inputs including expected volatility and expected life, in addition to variables for the valuation of minority equity positions in small private and early stage companies. Significant increases or decreases in any of these unobservable inputs would result in a significantly higher or lower fair value measurement.

For recent investments, the Corporation generally relies on the cost basis, which is deemed to represent the fair value, unless other fair market value inputs are identified causing the Corporation to depart from this basis.

Loan and Debt Securities

The significant unobservable inputs used in the fair value measurement of the Corporation's debt securities are the financial and operational performance of the portfolio company, similar debt with similar terms with other portfolio companies, as well as the market acceptance for the portfolio company's products or services. These inputs will provide an indicator as to the probability of principal recovery of the investment. The Corporation's debt investments will often be junior secured or unsecured debt securities. Fair value may also be determined based on other criteria where appropriate. Significant changes to the unobservable inputs may result in a significantly higher or lower fair value measurement. For recent investments, the Corporation generally relies on the cost basis, which is deemed to represent the fair value, unless other fair market value inputs are identified causing the Corporation to depart from this level.

Table of Contents

The following table provides a summary of the significant unobservable inputs used to fair value the Corporation's Level 3 portfolio investments as of September 30, 2013:

Investment Type	Fair Value at September 30, 2013	Valuation Technique	Significant Unobservable Inputs	Range
Equity Investments	\$ 11,321,748	Market Approach	EBITDA Multiple	5X-12X
	414,214	Market Approach	Liquidation Seniority	1X
	99,500	Market Approach	Revenue Multiple	1X
	10,064,630	Market Approach	Transaction Pricing	Not applicable
		Black Scholes		
	72,000	Pricing Model	Stock pricing and volatility	\$1.13
Loan and Debt Investments	5,091,460	Face Value	Liquidation Seniority	Not applicable
Total	\$ 27,063,552			

The following table provides a summary of the components of Level 1, 2 and 3 Assets Measured at Fair Value on a Recurring Basis at September 30, 2013:

Description	September 30, 2013	Fair Value Measurements at Reported Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Significant Unobservable Inputs (Level 3)
Loan investments	\$ 1,287,736	\$	\$	\$ 1,287,736
Debt investments	3,803,724			3,803,724
Equity investments	23,078,092	1,106,000		21,972,092
Total Venture Capital Investments	\$ 28,169,552	\$ 1,106,000	\$ 0	\$ 27,063,552

The following table provides a summary of the components of Level 1, 2 and 3 Assets Measured at Fair Value on a Recurring Basis at December 31, 2012:

Description	December 31, 2012	Fair Value Measurements at Reported Date Using		
		Quoted Prices in	Significant Observable Inputs	Other Significant Unobservable

		Active Markets for (Level 2)		Inputs (Level 3)
		Identical Assets (Level 1)		
Loan investments	\$ 1,504,986	\$	\$	\$ 1,504,986
Debt investments	4,082,174			4,082,174
Equity investments	24,192,626	3,540,400		20,652,226
Total Venture Capital Investments	\$ 29,779,786	\$ 3,540,400	\$ 0	\$ 26,239,386

Table of Contents

The following table provides a summary of changes in Assets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3) for the nine months ended September 30, 2013:

Description	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			Total
	Loan Investments	Debt Investments	Equity Investments	
Ending Balance, December 31, 2012, of Level 3 Assets	\$ 1,504,986	\$ 4,082,174	\$ 20,652,226	\$ 26,239,386
Realized Losses included in net				
<u>change in net assets from operations</u>				
Mid America Brick & Structural Clay Products, LLC (Mid America Brick)		(126,698)	(937,000)	(1,063,698)
Total Realized Losses		(126,698)	(937,000)	(1,063,698)
Unrealized Gains or Losses included in net				
<u>change in net assets from operations</u>				
EmergingMed.com, Inc. (Emerging Med)		(440,707)		(440,707)
Mid America Brick		126,698	937,000	1,063,698
NDT Acquisitions, LLC (NDT)			15,033	15,033
Ultra-Scan Corporation (UltraScan)			(561,836)	(561,836)
Total Unrealized Gains and Losses		(314,009)	390,197	76,188
<u>Purchases of Securities/Changes to Securities/Non-cash conversions:</u>				
Chequed.com, Inc. (Chequed)			500,000	500,000
Emerging Med		103,207		103,207
First Wave Products Group, LLC (First Wave)		45,126		45,126
GiveGab, Inc			250,000	250,000
Intrinsiq Material, Inc. (Intrinsiq)			600,002	600,002
Mercantile Adjustment Bureau, LLC (Mercantile)		82,497		82,497
Mezmeriz, Inc. (Mezmeriz)		100,000	19,864	119,864
Microcision LLC (Microcision)		81,426		81,426
Mid America Brick	150,000			150,000
SciAps, Inc. (Sciaps)			700,000	700,000
SocialFlow, Inc. (Social Flow)			500,000	500,000
Total Purchases of Securities/Changes to Securities/Non-cash conversions	150,000	412,256	2,569,866	3,132,122
<u>Repayments of Securities</u>				
Gemcor II, LLC (Gemcor)	(190,365)			(190,365)

Edgar Filing: RAND CAPITAL CORP - Form 10-Q

Mid America Brick	(150,000)			(150,000)
NDT			(15,033)	(15,033)
QuaDPharma, LLC (Quadpharma)	(26,885)			(26,885)
UltraScan			(938,164)	(938,164)
Total Repayments of Securities	(367,250)		(953,197)	(1,320,447)
Transfers within Level 3		(249,999)	250,000	1
Ending Balance, September 30, 2013, of Level 3 Assets	\$ 1,287,736	\$ 3,803,724	\$ 21,972,092	\$ 27,063,552
Change in unrealized gains (losses) for the period included in changes in net assets				\$ 76,188
Total gains (losses) for the period included in changes in net assets				(\$385,978)

Table of Contents

The following table provides a summary of changes in Assets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3) for the nine months ended September 30, 2012:

Description	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Venture Capital Investments			Total
	Loan Investments	Debt Investments	Equity Investments	
Beginning Balance, December 31, 2011, of Level 3 Assets	\$ 327,111	\$ 2,854,564	\$ 20,750,186	\$ 23,931,861
Unrealized gains or losses included in net change in net assets from operations				
Liazon Corporation (Liazon)			833,332	833,332
Ultra-Scan Corporation (UltraScan)			(513,246)	(513,246)
EmergingMed.com, Inc. (Emerging Med)		(337,546)		(337,546)
Total Unrealized Gains and Losses		(337,546)	320,086	(17,460)
Purchases of Securities/Changes to Securities/Non-cash conversions				
Gemcor II, LLC (Gemcor)	1,000,000			1,000,000
QuaDPharma, LLC (Quadpharma)	250,000		250,000	500,000
Rheonix, Inc. (Rheonix)			455,728	455,728
First Wave Products Group, LLC (First Wave)		388,227	22,000	410,227
Liazon			275,000	275,000
Mezmeriz, Inc. (Mezmeriz)		250,000		250,000
Mid America Brick & Structural Clay Products, LLC (Mid America Brick)		126,698	137,000	263,698
Microcision LLC (Microcision)		76,718		76,718
Total Purchases of Securities/Changes to Securities/Non-cash conversions	1,250,000	841,643	1,139,728	3,231,371
Repayments of Securities				
Gemcor	(73,872)			(73,872)
QuaDPharma	(6,047)			(6,047)
NDT Acquisitions, LLC (NDT)			(15,271)	(15,271)
Total Repayments of Securities	(79,919)		(15,271)	(95,190)
Transfers within Level 3				
Transfers in or out of Level 3 (A) (B)			(5,700,000)	(5,700,000)
	\$ 1,497,192	\$ 3,358,661	\$ 16,494,729	\$ 21,350,582

**Ending Balance, September 30, 2012,
of Level 3 Assets**

Change in unrealized gains or losses for the period included in changes in net assets	(\$17,460)
Total gains or losses for the period included in changes in net assets	

- (A) The reporting entity's policy is to recognize transfers into and transfers out of level 3 as of the date of the event or change in circumstances that caused the transfer.
- (B) Transfer from level 3 to level 2 during the first quarter of 2012 because observable market data became available for the restricted security. The Synacor, Inc. shares became freely tradable during August 2012 and were transferred from Level 2 to Level 1 at September 30, 2012.

Table of Contents**Note 4. FINANCIAL HIGHLIGHTS**

The following schedule provides the financial highlights, calculated based on weighted average shares outstanding, for the nine months ended September 30, 2013 and the year ended December 31, 2012:

	Nine months ended	
	September 30,	Year ended
	2013	December 31,
	(Unaudited)	2012
Income from investment operations (1):		
Investment income	\$ 0.31	\$ 0.39
Expenses	0.15	0.27
Investment gain before income taxes	0.16	0.12
Income tax expense	0.06	0.02
Net investment gain	0.10	0.10
Purchase of treasury stock (2)	0.03	0.04
Net realized and unrealized (loss) gain on investments	(0.13)	0.18
Increase in net asset value	0.00	0.32
Net asset value, beginning of period	3.90	3.58
Net asset value, end of period	\$ 3.90	\$ 3.90
Per share market price, end of period	\$ 2.95	\$ 2.34
Total return based on market value	26.1%	(24.5)%
Total return based on net asset value	(2.76)%	9.01%
Supplemental data:		
Ratio of expenses before income taxes to average net assets	3.81%	7.16%
Ratio of expenses including taxes to average net assets	5.22%	7.65%
Ratio of net investment gain to average net assets	2.70%	2.73%
Portfolio turnover	10.81%	22.60%
Net assets, end of period	\$ 25,069,474	\$ 25,782,300
Shares outstanding, end of period	6,424,918	6,610,236

(1) *Per share data are based on weighted average shares outstanding and the results are rounded*

(2) *Net increase is due to purchase of common stock at prices less than beginning of period net asset value per share*
The Corporation's interim period results could fluctuate as a result of a number of factors; therefore results for any interim period should not be relied upon as being indicative of performance in future periods.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

You should read the following discussion and analysis of the Corporation's financial condition and results of operations in conjunction with the Corporation's consolidated financial statements and related notes included elsewhere in this report. Historical results and percentage relationships among any amounts in the consolidated financial statements are not necessarily indicative of trends in operating results for any future periods.

FORWARD LOOKING STATEMENTS

Statements included in this Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this report that do not relate to present or historical conditions are forward-looking statements within the meaning of that term in Section 27A of the Securities Act of 1933, and in Section 21F of the Securities Exchange Act of 1934. Additional oral or written forward-looking statements may be made by the Corporation from time to time, and forward-looking statements may be included in documents that are filed with the Securities and Exchange Commission. Forward-looking statements involve risks and uncertainties that could cause results or outcomes to differ materially from those expressed in the forward-looking statements. Forward-looking statements may include, without limitation, statements relating to the Corporation's plans, strategies, objectives, expectations and intentions and are intended to be made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Words such as believes, forecasts, intends, possible, expects, estimates, anticipates, or plans and similar are intended to identify forward-looking statements. Among the important factors on which such statements are based are assumptions concerning the state of the national economy and the local markets in which the Corporation's portfolio companies operate, the state of the securities markets in which the securities of the Corporation's portfolio companies trade or could be traded, liquidity within the national financial markets, and inflation. Forward-looking statements are also subject to the risks and uncertainties described under the caption Risk Factors contained in Part II, Item 1A of this report.

There may be other factors not identified that affect the accuracy of the Corporation's forward-looking statements. Further, any forward-looking statement speaks only as of the date it is made and, except as required by law, the Corporation undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which it is made or to reflect the occurrence of anticipated or unanticipated events or circumstances. New factors emerge from time to time that may cause the Corporation's business not to develop as we expect, and we cannot predict all of them.

Overview

The following discussion describes the financial position and operations of Rand Capital Corporation (Rand) and its wholly-owned subsidiary Rand SBIC, Inc. (Rand SBIC) (collectively, the Corporation).

Rand is incorporated in New York and has elected to operate as a business development company (BDC) under the 1940 Act. Its wholly-owned subsidiary, Rand SBIC, operates as a small business investment company (SBIC) regulated by the Small Business Administration (SBA). On February 28, 2012, the SEC granted an Order of Exemption for Rand with respect to the operations of Rand SBIC under which Rand SBIC was permitted to elect BDC status. On March 28, 2012, Rand SBIC elected BDC status with the SEC pursuant to which it may now engage in certain transactions which would be permitted if Rand and Rand SBIC were operated as a single entity, but which are not permitted between a parent BDC and a wholly-owned subsidiary BDC without specific exemption.

The Corporation anticipates that most, if not all, of its investments in the next year will be originated through the SBIC subsidiary.

Table of Contents

Business Developments

The United States and global economic conditions continued to improve throughout the first nine months of 2013 although a full economic recovery may take longer than expected due to various national and international issues which may have an adverse economic impact on all businesses, particularly small businesses. To the extent the financial market conditions continue to improve, the Corporation believes its financial condition and the financial condition of the portfolio companies will improve. It remains difficult to forecast when future investment exits will happen.

Critical Accounting Policies

The Corporation prepares its consolidated financial statements in accordance with U.S. generally accepted accounting principles (GAAP), which require the use of estimates and assumptions that affect the reported amounts of assets and liabilities. A summary of the Corporation's critical accounting policies can be found in the Corporation's 2012 Form 10-K under Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations.

Table of Contents**Financial Condition****Overview:**

	9/30/13	12/31/12	Decrease	% Decrease
Total assets	\$ 32,681,010	\$ 34,252,413	(\$1,571,403)	(4.6%)
Total liabilities	7,611,536	8,470,113	(858,577)	(10.1%)
Net assets	\$ 25,069,474	\$ 25,782,300	(\$712,826)	(2.8%)

Net asset value per share (NAV) was \$3.90 at September 30, 2013 and December 31, 2012.

During the first nine months of 2013, the Corporation paid off \$900,000 in SBA leverage with interest rates at 4.1%. The outstanding SBA leverage at September 30, 2013 is \$5,500,000 and will mature in 2022 and 2023.

Cash and cash equivalents approximated 16% of net assets at September 30, 2013 and December 31, 2012.

Composition of the Corporation's Investment Portfolio

The Corporation's financial condition is dependent on the success of its portfolio holdings. It has invested substantially all of its assets in small to medium-sized companies. The following summarizes the Corporation's investment portfolio at the period-ends indicated.

	9/30/13	12/31/12	Increase (Decrease)	% Increase (Decrease)
Investments, at cost	\$ 19,043,321	\$ 18,492,059	\$551,262	3.0%
Unrealized appreciation, net	9,126,231	11,287,727	(2,161,496)	(19.1%)
Investments at fair value	\$ 28,169,552	\$ 29,779,786	(\$1,610,234)	(5.4%)

The Corporation's total investments at fair value, as estimated by management and approved by the Board of Directors, approximated 112% of net assets at September 30, 2013 and 116% of net assets at December 31, 2012.

The change in investments during the nine months ended September 30, 2013, at cost, is comprised of the following:

	Cost Increase (Decrease)
New investments:	
SciAps, Inc. (Sciaps)	\$ 700,000
Intrinsiq Materials, Inc. (Intrinsiq)	600,002

Edgar Filing: RAND CAPITAL CORP - Form 10-Q

Chequed.com, Inc. (Chequed)	500,000
SocialFlow, Inc. (Social Flow)	500,000
GiveGab, Inc. (GiveGab)	250,000
Mid America Brick & Structural Clay Products, LLC (Mid America Brick)	150,000
Mezmeriz, Inc. (Mezmeriz)	100,000
Mercantile Adjustment Bureau, LLC (Mercantile)	75,000
Total of new investments	2,875,002
Other changes to investments:	
EmergingMed.com, Inc. (Emerging Med) interest conversion	103,207
Microcision LLC (Microcision) interest conversion	81,426
Mezmeriz interest conversion	19,864
First Wave Products Group, LLC (First Wave) interest conversion and OID amortization	45,126
Mercantile OID amortization	7,497
Total of other changes to investments	257,120
Investments repaid, sold or liquidated	
Mid America Brick loss and repayment	(1,213,698)
Ultra-Scan Corporation (Ultra-Scan) sale	(938,164)
Synacor, Inc. sale	(196,716)
Gemcor II, LLC (Gemcor) repayment	(190,365)
QuaDPharma, LLC (Quadpharma) repayment	(26,884)
NDT Acquisitions, LLC (NDT) repayment	(15,033)
Total of investments repaid, sold or liquidated	(2,580,860)
Net change in investments	\$ 551,262

Table of Contents**Results of Operations****Investment Income**

The Corporation's investment objective is to achieve long-term capital appreciation on its equity investments while maintaining a current cash flow from its debenture and pass through equity instruments. Therefore, the Corporation invests in a mixture of debenture and equity instruments, which will provide a current return on a portion of the investment portfolio. The equity features contained in the Corporation's investment portfolio are structured to realize capital appreciation over the long-term and may not generate current income in the form of dividends or interest. In addition, the Corporation earns interest income from investing its idle funds in money market instruments held at well capitalized financial institutions.

Comparison of the nine months ended September 30, 2013 to the nine months ended September 30, 2012

	September 30, 2013	September 30, 2012	Increase (Decrease)	% Increase (Decrease)
Interest from portfolio companies	\$ 598,241	\$ 426,399	\$ 171,842	40.3%
Interest from other investments	7,452	6,483	969	14.9%
Dividend and other investment income	1,389,083	1,745,742	(356,659)	(20.4%)
Other income	18,050	6,668	11,382	170.7%
Total investment income	\$ 2,012,826	\$ 2,185,292	(\$172,466)	(7.9%)

Interest from portfolio companies The portfolio interest income increase is due to the fact the Corporation originated over \$3.0 million in new debt instruments during the previous 18 months with interest rates ranging from 8% to 15%.

The Corporation ceased accruing interest income on the Emerging Med investment in 2013 and the G-Tec Natural Gas Systems (G-Tec) investment in 2004.

Interest from other investments The minor increase in interest from other investments is primarily due to higher average cash balances during the nine months ending September 30, 2013 versus the nine months ending September 30, 2012.

Dividend and other investment income Dividend income is comprised of distributions from Limited Liability Companies (LLCs) in which the Corporation has invested. The Corporation's investment agreements with certain LLCs require the LLCs to distribute funds to the Corporation for payment of income taxes on its allocable share of the LLC's profits. These portfolio companies may also elect to distribute additional discretionary distributions. These dividends will fluctuate based upon the profitability of the LLCs and the timing of the distributions. In addition, in the current year the Corporation received dividends from a non-LLC portfolio company.

Table of Contents

Dividend income for the nine months ended September 30, 2013 consisted of a distribution from Gemcor II, LLC (Gemcor) for \$1,247,300, New Monarch Machine Tool, Inc. (Monarch) for \$68,522, Carolina Skiff LLC (Carolina Skiff) for \$56,239, Somerset Gas Transmission Company, LLC (Somerset) for \$16,670 and NDT Acquisitions LLC (NDT) for \$352 .. Dividend income for the nine months ended September 30, 2012 consisted of a distribution from Gemcor for \$1,559,964, Monarch for \$169,023, Carolina Skiff for \$9,163, Somerset for \$6,950 and NDT for \$642. The Corporation exited its debt investment in Monarch in 2008 and continues to hold a small ownership in the company.

Other income Other income consists of the revenue associated with the amortization of financing fees charged to the portfolio companies upon successful closing of Rand SBIC financings and income associated with portfolio company board attendance fees. The income associated with the amortization of financing fees was \$5,550 and \$668 for the nine months ended September 30, 2013 and 2012, respectively. The board fees were \$12,500 and \$6,000 for the nine months ended September 30, 2013 and 2012, respectively.

Operating Expenses**Comparison of the nine months ended September 30, 2013 to the nine months ended September 30, 2012**

	September 30, 2013	September 30, 2012	Decrease	% Decrease
Total Expenses	\$ 968,634	\$ 1,202,052	(\$233,418)	(19.4%)

Operating expenses predominately consist of interest expense on outstanding SBA borrowings, compensation expense, and general and administrative expenses including shareholder and office expenses and professional fees.

The 19% or \$233,418 decrease in operating expenses for the nine months ended September 30, 2013 as compared to the same nine month period in 2012 is due primarily to the fact that the Corporation accrued \$144,000 in bonus expense attributed to realized gains during the nine months ended September 30, 2012 and did not accrue any bonus expense for the nine months ended September 30, 2013. In addition, operating expenses are less in the current period due to a bad debt recovery of \$64,654 during the nine months ended September 30, 2013.

Net Realized Gains and Losses on Investments**Comparison of the nine months ended September 30, 2013 to the nine months ended September 30, 2012**

	September 30, 2013	September 30, 2012	Increase
Net realized gain	\$ 778,567	\$ 415,097	\$ 363,470

During the nine months ended September 30, 2013, the Corporation recognized a net realized gain of \$1,164,545 on the sale of 252,200 shares of Synacor, Inc. (Synacor). Synacor trades on the NASDAQ Global Market under the symbol `SYNC` . As of September 30, 2013, the Corporation owned 428,643 shares of Synacor.

The Corporation also recognized a realized gain of \$670,808 on the sale of its shares in Ultra-Scan to a strategic acquirer during the nine months ended September 30, 2013.

Table of Contents

During the nine months ended September 30, 2013, the Corporation recognized a realized loss of \$1,063,698 on its investment in Mid-America Brick when the company announced in February 2013 that it had filed for bankruptcy. Due to the subordinated nature of the Corporation's investment holdings there was no recovery.

During the nine months ended September 30, 2012, the Corporation recognized a realized gain of \$415,097 on the sale of 133,825 shares of Synacor, Inc. (Synacor). Synacor completed an Initial Public Offering (IPO) at \$5.00 on February 10, 2012 and currently trades on the NASDAQ Global Market under the symbol "SYNC". The Corporation owned 986,187 shares prior to the IPO.

Net Change in Unrealized Appreciation of Investments

The Corporation recorded a net decrease in unrealized appreciation on investments of (\$2,161,496) during the nine months ended September 30, 2013 and a net increase of \$1,135,790 during the nine months ended September 30, 2012.

The decrease in unrealized appreciation for the nine months ended September 30, 2013 was comprised of the following:

	September 30, 2013
Reclass Mid America Brick & Structural Clay Products, LLC (Mid America Brick) to a realized loss	\$ 1,063,698
NDT Acquisition, LLC (NDT)	15,033
EmergingMed.com, Inc. (Emerging Med)	(440,707)
Reclass Ultra-Scan Corporation (Ultra-Scan) to realized gain	(561,836)
Synacor, Inc. (Synacor)	(2,237,684)
Total change in net unrealized appreciation during the nine months ended September 30, 2013	(\$2,161,496)

Synacor, as a publicly traded stock, is marked to market at the end of each quarter. The Corporation valued its 428,643 shares of Synacor at a three day average bid price of \$2.58 as of September 30, 2013.

The Emerging Med investment was written down based on a financial analysis of the company and to reflect anticipated liquidation proceeds. The NDT investment value was adjusted for royalties received.

The Mid America Brick investment was written off after the company filed for bankruptcy protection in the first quarter of 2013.

The increase in unrealized appreciation for the nine months ended September 30, 2012 was comprised of the following:

	September 30, 2012
Synacor, Inc. (Synacor)	\$ 1,153,250
Liazon Corporation (Liazon)	833,332
EmergingMed.com, Inc. (Emerging Med)	(337,546)
Ultra-Scan Corporation (Ultra-Scan)	(513,246)
Total change in net unrealized appreciation during the nine months ended September 30, 2012	\$ 1,135,790

Table of Contents

Synacor, as a publicly traded stock, is marked to market at the end of each quarter. The stock had restrictions on its sale that expired on August 11, 2012. The Corporation valued its 852,362 shares of Synacor at a three day average bid price of \$7.58 for the nine months ended September 30, 2012.

Liazon completed another significant equity financing, with a higher valuation, during the second quarter of 2012 and it was led by a new non-strategic outside investor. The Corporation, therefore, in accordance with its valuation policy, increased the value of its holdings in Liazon based on this financing.

The Ultra-Scan investment was written down during the nine months ended September 30, 2012 after a review by the Corporation's management of Ultra-Scan's financials and an analysis of the liquidation preferences of senior securities. The Emerging Med investment was written down based on a financial analysis of the company.

All of these value adjustments resulted from a review by management using the guidance set forth by ASC 820 and the Corporation's established valuation policy.

Net (Decrease) Increase in Net Assets from Operations

The Corporation accounts for its operations under GAAP for investment companies. The principal measure of its financial performance is net (decrease) increase in net assets from operations on its consolidated statements of operations. For the nine months ended September 30, 2013, the net decrease in net assets from operations was (\$166,285) as compared to a net increase in net assets from operations of \$1,686,789 for the same nine month period in 2012.

Liquidity and Capital Resources

The Corporation's principal objective is to achieve growth in net asset value per share through capital appreciation. Therefore, a significant portion of the investment portfolio is structured to maximize the potential for capital appreciation and certain portfolio investments may be structured to provide little or no current yield in the form of dividends or interest payments.

As of September 30, 2013, the Corporation's total liquidity, consisting of cash and cash equivalents, was \$3,946,504.

Management expects that the cash and cash equivalents at September 30, 2013, coupled with the \$2,500,000 of available SBA leverage and the scheduled interest and dividend payments on its portfolio investments, will be sufficient to meet the Corporation's cash needs throughout the next twelve months. The Corporation is also evaluating potential exits from portfolio companies to increase the amount of liquidity available for new investments, operating activities and future SBA debenture obligations.

Subsequent Events

Subsequent to September 30, 2013, the Corporation received proceeds from SBA debentures in the amount of \$1,500,000. Additionally, subsequent to quarter end, the Corporation extended the stock buyback program through October 24, 2014 to accumulate up to an aggregate of 1,000,000 shares of its common stock.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Corporation's investment activities contain elements of risk. The portion of the Corporation's investment portfolio consisting of equity and debt securities in private companies is subject to valuation risk. Because there is typically no public market for the equity and equity-linked debt securities in which it invests, the valuation of the equity interests in the portfolio is stated at fair value as determined in good faith by the management of the Corporation and submitted to the Board of Directors for approval. This is in accordance with the Corporation's investment valuation policy (see the discussion of valuation policy contained in Note 3.-Investments in the consolidated financial statements contained in Item 1 of this report, which is hereby incorporated herein by reference.) In the absence of readily ascertainable market values, the estimated value of the Corporation's portfolio may differ significantly from the values that would be placed on the portfolio if a ready market for the investments existed. Any changes in valuation are recorded in the Corporation's consolidated statement of operations as Net unrealized appreciation on investments.

At times the Corporation's portfolio may include marketable securities, including marketable securities traded in the over-the-counter market. In addition, there may be securities in the Corporation's portfolio for which no regular trading market exists. In order to realize the full value of a security, the market must trade in an orderly fashion or a willing purchaser must be available when a sale is to be made. Should an economic or other event occur that would not allow markets to trade in an orderly fashion, the Corporation may not be able to realize the fair value of its marketable investments or other investments in a timely manner.

As of September 30, 2013, the Corporation did not have any off-balance sheet arrangements or hedging or similar derivative financial instrument investments.

Item 4. Controls and Procedures

Disclosure Controls and Procedures. The Corporation maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that this information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Chief Executive Officer and the Chief Financial Officer carried out an evaluation of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures as of September 30, 2013. Based on the evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that the Corporation's controls and procedures were effective as of September 30, 2013.

Changes in Internal Control over Financial Reporting. There have been no significant changes in our internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**PART II.****OTHER INFORMATION****Item 1. Legal Proceedings**

None

Item 1A. Risk Factors

See Part I, Item 1A, Risk Factors, of the Annual Report on Form 10-K for the year ended December 31, 2012. The Risk Factors from our 2012 report on Form 10-K remain applicable with the exception of the following addition:

Fluctuations of Quarterly Results

The Corporation's quarterly operating results could fluctuate as a result of a number of factors. These factors include, among others, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which portfolio companies encounter competition in their markets and general economic conditions and the market value of publicly traded securities. As a result of these factors, results for any one quarter should not be relied upon as being indicative of performance in future quarters.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**Issuer Purchases of Equity Securities**

Period	Total number of shares purchased (1)	Average price paid per share (2)	Total number of shares	
			purchased as part of publicly announced plan (3)	Maximum number of shares that may yet be purchased under the share repurchase program
7/1/2013 - 7/31/2013	3,760	\$ 2.94	3,760	128,267
8/1/2013 - 8/31/2013				128,267
9/1/2013 - 9/30/2013	66,383	\$ 2.96	66,383	61,884

- (1) The total number of shares purchased was 70,143 for the third quarter of 2013. All transactions were made in the open market.
- (2) The average price paid per share is calculated on a settlement basis and includes commission.
- (3) On November 1, 2012, the Board of Directors authorized the repurchase of up to 500,000 shares of the Corporation's outstanding Common Stock on the open market at prices no greater than the then current net asset value through November 1, 2013. Subsequent to September 30, 2013, the Corporation extended the stock buyback program through October 24, 2014 to accumulate up to an aggregate of 1,000,000 shares of its common stock.

Item 3. Defaults upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

None

Table of Contents

Item 6. Exhibits

(a) Exhibits

The following exhibits are filed with this report or are incorporated herein by reference to a prior filing, in accordance with Rule 12b-32 under the Securities Exchange Act of 1934.

- (3)(i) Certificate of Incorporation of the Corporation, incorporated by reference to Exhibit (a) (1) of Form N-2 filed with the Securities Exchange Commission on April 22, 1997. (File No. 814-00235).
- (3)(ii) By-laws of the Corporation incorporated by reference to Exhibit (b) of Form N-2 filed with the Securities Exchange Commission on April 22, 1997. (File No. 814-00235).
- (4) Specimen certificate of common stock certificate, incorporated by reference to Exhibit (b) of Form N-2 filed with the Securities Exchange Commission on April 22, 1997. (File No. 814-00235).
- (31.1) Certification of the Chief Executive Officer Pursuant to Rules 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as amended, filed herewith
- (31.2) Certification of Chief Financial Officer Pursuant to Rules 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as amended, filed herewith
- (32.1) Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 Rand Capital Corporation furnished herewith

Table of Contents

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: November 1, 2013

RAND CAPITAL CORPORATION

By: /s/ Allen F. Grum
Allen F. Grum, President

By: /s/ Daniel P. Penberthy
Daniel P. Penberthy, Treasurer