

RAND CAPITAL CORP  
Form 10-Q  
August 02, 2016  
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 quarterly period ended June 30, 2016**

**.. 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**  
**Incorporation or Organization)**  
**2200 Rand Building, Buffalo, NY**  
**(Address of Principal executive offices)**

**16-0961359**  
**(IRS Employer**  
**Identification No.)**  
**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

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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 August 2, 2016, there were 6,328,538 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>Consolidated Statements of Financial Position as of June 30, 2016 (Unaudited) and December 31, 2015</u>	3
	<u>Consolidated Statements of Operations for the Three Months and Six Months Ended June 30, 2016 and 2015 (Unaudited)</u>	4
	<u>Consolidated Statements of Changes in Net Assets for the Three Months and Six Months Ended June 30, 2016 and 2015 (Unaudited)</u>	5
	<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2016 and 2015 (Unaudited)</u>	6
	<u>Consolidated Schedule of Portfolio Investments as of June 30, 2016 (Unaudited)</u>	7
	<u>Consolidated Schedule of Portfolio Investments as of December 31, 2015</u>	15
	<u>Notes to the Consolidated Financial Statements (Unaudited)</u>	23
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	34
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	40
Item 4.	<u>Controls and Procedures</u>	41

**PART II. OTHER INFORMATION**

Item 1.	<u>Legal Proceedings</u>	42
Item 1A.	<u>Risk Factors</u>	42
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	42
Item 3.	<u>Defaults upon Senior Securities</u>	42
Item 4.	<u>Mine Safety Disclosures</u>	42
Item 5.	<u>Other Information</u>	42
Item 6.	<u>Exhibits</u>	43

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements and Supplementary Data**

**RAND CAPITAL CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**As of June 30, 2016 and December 31, 2015**

	<b>June 30, 2016 (Unaudited)</b>	<b>December 31, 2015</b>
<b>ASSETS</b>		
Investments at fair value:		
Control investments (cost of \$99,500 and \$1,141,472, respectively)	<b>\$ 1,512,000</b>	\$ 13,916,472
Affiliate investments (cost of \$16,708,952 and \$17,663,217, respectively)	<b>12,824,154</b>	14,662,219
Non-Control/Non-Affiliate investments (cost of \$13,468,832 and \$8,606,053, respectively)	<b>13,321,933</b>	8,253,709
Total investments, at fair value (cost of \$ 30,277,284 and \$27,410,742, respectively)	<b>27,658,087</b>	36,832,400
Cash	<b>14,376,673</b>	5,844,795
Interest receivable (net of allowance: \$122,000 at 6/30/16 and 12/31/15)	<b>254,801</b>	215,224
Deferred tax asset	<b>633,086</b>	
Prepaid income taxes		65,228
Other assets	<b>1,650,534</b>	1,604,413
<b>Total assets</b>	<b>\$ 44,573,181</b>	\$ 44,562,060
<b>LIABILITIES AND STOCKHOLDERS EQUITY (NET ASSETS)</b>		
<b>Liabilities:</b>		
Debentures guaranteed by the SBA (net of debt issuance costs)	<b>\$ 7,814,073</b>	\$ 7,800,373
Income tax payable	<b>1,417,888</b>	
Deferred tax liability		2,361,186
Profit sharing and bonus payable	<b>1,593,659</b>	282,000
Accounts payable and accrued expenses	<b>249,177</b>	238,911
Deferred revenue	<b>60,336</b>	25,930
Total liabilities	<b>11,135,133</b>	10,708,400
Commitments and contingencies (See Note 5)		
<b>Stockholders equity (net assets):</b>		
Common stock, \$.10 par; shares authorized 10,000,000; shares issued 6,863,034; shares outstanding of 6,328,538 as of 6/30/16 and 12/31/15	<b>686,304</b>	686,304
Capital in excess of par value	<b>10,581,789</b>	10,581,789
Accumulated net investment loss	<b>(1,261,104)</b>	(24,580)

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Undistributed net realized gain on investments	<b>26,629,373</b>	18,262,401
Net unrealized (depreciation) appreciation on investments	<b>(1,750,823)</b>	5,795,237
Treasury stock, at cost; 534,496 shares as of 6/30/16 and 12/31/15	<b>(1,447,491)</b>	(1,447,491)
Total stockholders' equity (net assets) (per share 6/30/16: \$5.28, 12/31/15: \$5.35)	<b>33,438,048</b>	33,853,660
<b>Total liabilities and stockholders' equity</b>	<b>\$ 44,573,181</b>	\$ 44,562,060

See accompanying notes

Table of Contents**RAND CAPITAL CORPORATION AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF OPERATIONS****For the Three Months and the Six Months Ended June 30, 2016 and 2015****(Unaudited)**

	<b>Three months ended June 30, 2016</b>	<b>Three months ended June 30, 2015</b>	<b>Six months ended June 30, 2016</b>	<b>Six months ended June 30, 2015</b>
<b>Investment income:</b>				
Interest from portfolio companies:				
Control investments	\$	\$ 20,275	\$ 11,828	\$ 42,420
Affiliate investments	<b>94,614</b>	96,522	159,575	211,651
Non-Control/Non-Affiliate investments	<b>68,527</b>	66,422	129,632	115,222
Total interest from portfolio companies	<b>163,141</b>	183,219	301,035	369,293
Interest from other investments:				
Non-Control/Non-Affiliate investments	<b>18,648</b>	8,369	21,709	15,190
Total interest from other investments	<b>18,648</b>	8,369	21,709	15,190
Dividend and other investment income:				
Control investments		491,208		903,359
Affiliate investments	<b>33,232</b>	29,061	80,797	58,429
Total dividend and other investment income	<b>33,232</b>	520,269	80,797	961,788
Fee income:				
Control investments		2,000	2,000	4,000
Affiliate investments	<b>1,167</b>	416	1,862	1,833
Non-Control/Non-Affiliate investments	<b>4,318</b>	4,251	7,234	8,167
Total fee income	<b>5,485</b>	6,667	11,096	14,000
<b>Total investment income</b>	<b>220,506</b>	718,524	414,637	1,360,271
<b>Operating expenses:</b>				
Salaries	<b>155,437</b>	149,555	310,875	299,110
Bonus and profit sharing			1,411,659	
Employee benefits	<b>36,711</b>	29,394	126,222	59,801
Directors fees	<b>47,380</b>	29,300	94,755	51,050
Professional fees	<b>86,288</b>	20,433	151,048	93,502
Stockholders and office operating	<b>61,542</b>	55,717	124,036	115,114
Insurance	<b>6,258</b>	6,300	17,518	17,554

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Corporate development	16,055	14,400	31,525	31,381
Other operating	2,375	2,224	5,975	5,874
	412,046	307,323	2,273,613	673,386
Interest on SBA obligations	77,570	77,569	155,139	151,891
Total operating expenses	489,616	384,892	2,428,752	825,277
<b>Net investment (loss) income before income taxes</b>	<b>(269,110)</b>	333,632	(2,014,115)	534,994
Income tax (benefit) expense	(114,564)	101,920	(777,591)	173,987
<b>Net investment (loss) income</b>	<b>(154,546)</b>	231,712	(1,236,524)	361,007
<b>Net realized gain on investments:</b>				
Control investments			13,176,313	
Non-Control/Non-Affiliate investments	168,140	131,181	168,140	262,925
Net realized gain before income taxes	168,140	131,181	13,344,453	262,925
Income tax expense	34,520	42,591	4,977,481	89,742
Net realized gain on investments	133,620	88,590	8,366,972	173,183
<b>Net change in unrealized depreciation or appreciation on investments:</b>				
Control investments			(11,362,500)	
Affiliate investments	(325,000)	(193,436)	(747,800)	(193,436)
Non-Control/Non-Affiliate investments	69,444	(73,219)	69,444	(127,728)
Change in unrealized depreciation or appreciation before income taxes	(255,556)	(266,655)	(12,040,856)	(321,164)
Deferred income tax benefit	(78,390)	(89,449)	(4,494,796)	(109,618)
Net decrease in unrealized depreciation or appreciation on investments	(177,166)	(177,206)	(7,546,060)	(211,546)
<b>Net realized and unrealized (loss) gain on investments</b>	<b>(43,546)</b>	(88,616)	820,912	(38,363)
<b>Net (decrease) increase in net assets from operations</b>	<b>(\$ 198,092)</b>	\$ 143,096	(\$ 415,612)	\$ 322,644
<b>Weighted average shares outstanding</b>	<b>6,328,538</b>	6,328,538	6,328,538	6,328,538
<b>Basic and diluted net (decrease) increase in net assets per share from operations</b>	<b>(\$ 0.03)</b>	\$ 0.02	(\$ 0.07)	\$ 0.05

See accompanying notes

Table of Contents

**RAND CAPITAL CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**  
**For the Three Months and the Six Months Ended June 30, 2016 and 2015**  
**(Unaudited)**

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
<b>Net assets at beginning of period</b>	<b>\$ 33,636,140</b>	<b>\$ 32,532,989</b>	<b>\$ 33,853,660</b>	<b>\$ 32,353,441</b>
Net investment (loss) income	(154,546)	231,712	(1,236,524)	361,007
Net realized gain on investments	133,620	88,590	8,366,972	173,183
Net change in unrealized depreciation or appreciation on investments	(177,166)	(177,206)	(7,546,060)	(211,546)
<b>Net (decrease) increase in net assets from operations</b>	<b>(198,092)</b>	<b>143,096</b>	<b>(415,612)</b>	<b>322,644</b>
<b>Total (decrease) increase in net assets</b>	<b>(198,092)</b>	<b>143,096</b>	<b>(415,612)</b>	<b>322,644</b>
				71,183
<b>Mexico (15.9%)</b>				
<b>Sovereign (15.9%)</b>				
Mexican Bonos,				
8.00%, 6/11/20	MXN	998,200	93,769	
10.00%, 12/5/24 11/20/36		1,628,375	175,703	
			269,472	
<b>Peru (1.6%)</b>				
<b>Sovereign (1.6%)</b>				
Peru Government Bond,				
7.84%, 8/12/20	PEN	37,745	15,377	
Peruvian Government International Bond,				
7.84%, 8/12/20		30,000	12,222	
			27,599	
<b>Philippines (0.9%)</b>				
<b>Sovereign (0.9%)</b>				
Philippine Government International Bond,				
4.95%, 1/15/21	PHP	648,000	15,283	



		Face Amount (000)	Value (000)
<b>Poland (6.4%)</b>			
<b>Sovereign (6.4%)</b>			
Poland Government Bond, 5.50%, 10/25/19	PLN	307,287	\$ 109,119
<b>Russia (2.5%)</b>			
<b>Sovereign (2.5%)</b>			
Russian Foreign Bond - Eurobond, 7.85%, 3/10/18 (d)	RUB	1,095,000	41,808
<b>South Africa (9.4%)</b>			
<b>Sovereign (9.4%)</b>			
South Africa Government Bond, 7.25%, 1/15/20	ZAR	985,200	139,193
8.00%, 12/21/18		140,000	20,830
			160,023
<b>Thailand (4.0%)</b>			
<b>Sovereign (4.0%)</b>			
Thailand Government Bond, 4.25%, 3/13/13	THB	1,597,940	54,025
5.25%, 7/13/13		395,100	13,621
			67,646
<b>Turkey (9.9%)</b>			
<b>Sovereign (9.9%)</b>			
Turkey Government Bond, Zero Coupon, 8/3/11 1/25/12	TRY	181,800	105,824
10.00%, 2/15/12		19,789	12,130
10.50%, 1/15/20		69,900	43,963
16.00%, 3/7/12		9,340	5,775
			167,692
<b>Venezuela (0.1%)</b>			
<b>Sovereign (0.1%)</b>			
Venezuela Government International Bond, 9.25%, 9/15/27	\$	1,349	1,015
<b>Total Fixed Income Securities (Cost \$1,578,813)</b>			<b>1,669,201</b>

	Shares	Value (000)
<b>Short-Term Investment (1.5%)</b>		
<b>Investment Company (1.5%)</b>		
Morgan Stanley Institutional Liquidity Funds - Money Market Portfolio - Institutional Class (e) (Cost \$25,629)	25,628,661	\$ 25,629
<b>Total Investments (100.0%) (Cost \$1,604,442) +</b>		1,694,830
<b>Liabilities in Excess of Other Assets</b>		(312,996)
<b>Net Assets</b>		\$ 1,381,834

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- (a) Variable/Floating Rate Security Interest rate changes on these instruments are based on changes in a designated base rate. The rates shown are those in effect on July 31, 2011.
- (b) Security has been deemed illiquid at July 31, 2011.
- (c) Issuer is in default.
- (d) 144A security Certain conditions for public sale may exist. Unless otherwise noted, these securities are deemed to be liquid.
- (e) The Fund invests in the Morgan Stanley Institutional Liquidity Funds - Money Market Portfolio - Institutional Class (the Liquidity Fund ), an open-end management investment company managed by the Adviser. Investment advisory fees paid by the Fund are reduced by an amount equal to the advisory and administrative service fees paid by the Liquidity Fund with respect to assets invested by the Fund in the Liquidity Fund.
- + At July 31, 2011, the U.S. Federal income tax cost basis of investments was approximately \$1,604,442,000 and, accordingly, net unrealized appreciation for U.S. Federal income tax purposes was approximately \$90,388,000 of which approximately \$126,151,000 related to appreciated securities and approximately \$35,763,000 related to depreciated securities.
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**Foreign Currency Exchange Contracts Information:**

The Fund had the following foreign currency exchange contract(s) open at period end:

Counterparty		Currency to Deliver (000)	Value (000)	\$	Value (000)	Settlement Date	In Exchange For (000)	\$	Value (000)	Unrealized Appreciation (Depreciation) (000)
JPMorgan Chase Bank	USD	104,185	\$	104,185	8/11/11	RUB	2,917,637	\$	105,465	\$ 1,280
JPMorgan Chase Bank	USD	65,673		65,673	8/18/11	MYR	197,710		66,534	861
JPMorgan Chase Bank	USD	51,001		51,001	8/22/11	THB	1,528,000		51,142	141
			\$	220,859				\$	223,141	\$ 2,282

BRL	Brazilian Real
CLP	Chilean Peso
COP	Colombian Peso
HUF	Hungarian Forint
IDR	Indonesian Rupiah
MXN	Mexican New Peso
MYR	Malaysian Ringgit
PEN	Peruvian Nuevo Sol
PHP	Philippine Peso
PLN	Polish Zloty
RUB	Russian Ruble
THB	Thai Baht
TRY	Turkish Lira
USD	United States Dollar
ZAR	South African Rand

**Fair Value Measurement Information:**

The following is a summary of the inputs used to value the Fund's net assets as of July 31, 2011. (See Note to the Portfolio of Investments for further information regarding fair value measurement.)

Investment Type	Level 1 Unadjusted quoted prices (000)	Level 2 Other significant observable inputs (000)	Level 3 Significant unobservable inputs (000)	Total (000)
<b>Assets:</b>				
<b>Fixed Income Securities</b>				
Corporate Bonds	\$	\$ 3,193	\$	\$ 3,193
Sovereign		1,666,008		1,666,008
<b>Total Fixed Income Securities</b>		1,669,201		1,669,201
<b>Short-Term Investment</b> Investment Company	25,629			25,629
<b>Foreign Currency Exchange Contracts</b>		2,282		2,282
<b>Total Assets</b>	\$ 25,629	\$ 1,671,483	\$	\$ 1,697,112

Transfers between investment levels may occur as the markets fluctuate and/or the availability of data used in an investment's valuation changes. The Fund recognizes transfers between the levels as of the end of the period. As of July 31, 2011, the Fund did not have any significant investments transfer between valuation levels.

Following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value.

	Loans (000)
<b>Beginning Balance</b>	\$ 33,683
Net purchases (sales)	(33,540)
Amortization of discount	
Transfers in	
Transfers out	
Change in unrealized appreciation/depreciation	1,998
Realized gains (losses)	(2,141)
<b>Ending Balance</b>	\$
Net change in unrealized appreciation/depreciation from investments still held as of July 31, 2011	\$

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

Notes to the Portfolio of Investments • July 31, 2011 (unaudited)

**Security Valuation:** Bonds and other fixed income securities may be valued according to the broadest and most representative market. In addition, bonds and other fixed income securities may be valued on the basis of prices provided by a pricing service. The prices provided by a pricing service take into account broker dealer market price quotations for institutional size trading in similar groups of securities, security quality, maturity, coupon and other security characteristics as well as any developments related to the specific securities. Securities listed on a foreign exchange are valued at their closing price except as noted below. Unlisted securities and listed securities not traded on the valuation date for which market quotations are readily available are valued at the mean between the current bid and ask prices. Equity securities listed on a U.S. exchange are valued at the latest quoted sales price on the valuation date. Equity securities listed or traded on NASDAQ, for which market quotations are available, are valued at the NASDAQ Official Closing Price. Short-term debt securities purchased with remaining maturities of 60 days or less are valued at amortized cost, unless the Board of Directors (the Directors) determines such valuation does not reflect the securities market value, in which case these securities will be valued at their fair value as determined in good faith under procedures adopted by the Directors.

All other securities and investments for which market values are not readily available, including restricted securities, and those securities for which it is inappropriate to determine prices in accordance with the aforementioned procedures, are valued at fair value as determined in good faith under procedures adopted by the Directors, although the actual calculations may be done by others. Factors considered in making this determination may include, but are not limited to, information obtained by contacting the issuer, analysts, or the appropriate stock exchange (for exchange-traded securities), analysis of the issuer's financial statements or other available documents and, if necessary, available information concerning other securities in similar circumstances.

Most foreign markets close before the New York Stock Exchange ( NYSE ). Occasionally, developments that could affect the closing prices of securities and other assets may occur between the times at which valuations of such securities are determined (that is, close of the foreign market on which the securities trade) and the close of business on the NYSE. If these developments are expected to materially affect the value of the securities, the valuations may be adjusted to reflect the estimated fair value as of the close of the NYSE, as determined in good faith under procedures established by the Directors.

**Fair Value Measurement:** Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) 820, Fair Value Measurements and Disclosure ( ASC 820 ), defines fair value as the value that the Fund would receive to sell an investment or pay to transfer a liability in a timely transaction with an independent buyer in the principal market, or in the absence of a principal market the most advantageous market for the investment or liability. ASC 820 establishes a three-tier hierarchy to distinguish between (1) inputs that reflect the assumptions market participants would use in valuing an asset or liability developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (2) inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in valuing an asset or liability developed based on the best information available in the circumstances (unobservable inputs) and to establish classification of fair value measurements for disclosure purposes. Various inputs are used in determining the value of the Funds' investments. The inputs are summarized in the three broad levels listed below.

- Level 1 unadjusted quoted prices in active markets for identical investments

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- Level 2 other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
  
  - Level 3 significant unobservable inputs including the Fund's own assumptions in determining the fair value of investments. Factors considered in making this determination may include, but are not
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limited to, information obtained by contacting the issuer, analysts, or the appropriate stock exchange (for exchange-traded securities), analysis of the issuer's financial statements or other available documents and, if necessary, available information concerning other securities in similar circumstances.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities and the determination of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to each security.

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**Item 2. Controls and Procedures.**

(a) The Fund's principal executive officer and principal financial officer have concluded that the Fund's disclosure controls and procedures are sufficient to ensure that information required to be disclosed by the Fund in this Form N-Q was recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, based upon such officers' evaluation of these controls and procedures as of a date within 90 days of the filing date of the report.

(b) There were no changes in the Fund's internal control over financial reporting that occurred during the registrant's fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Fund's internal control over financial reporting.

**Item 3. Exhibits.**

(a) A separate certification for each principal executive officer and principal financial officer of the registrant are attached hereto.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

/s/ Arthur Lev  
Arthur Lev  
Principal Executive Officer  
September 20, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Arthur Lev  
Arthur Lev  
Principal Executive Officer  
September 20, 2011

/s/ Francis Smith  
Francis Smith  
Principal Financial Officer  
September 20, 2011

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