

HARRIS & HARRIS GROUP INC /NY/
Form 10-Q
November 12, 2013

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 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: 0-11576

HARRIS & HARRIS GROUP, INC.
(Exact Name of Registrant as Specified in Its Charter)

New York 13-3119827
(State or Other Jurisdiction of (I.R.S. Employer Identification No.)
Incorporation or Organization)

1450 Broadway, New York, New York 10018
(Address of Principal Executive Offices) (Zip Code)

(212) 582-0900

(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 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. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at November 12, 2013
Common Stock, \$0.01 par value per share	31,159,256 shares

Harris & Harris Group, Inc.

Form 10-Q, September 30, 2013

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

The information furnished in the accompanying consolidated financial statements reflects all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the interim period presented.

Harris & Harris Group, Inc.[®] (the "Company," "us," "our" and "we"), is an internally managed venture capital company that has elected to operate as a business development company ("BDC") under the Investment Company Act of 1940 (the "1940 Act"). Certain information and disclosures normally included in the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted as permitted by Regulation S-X and Regulation S-K. Accordingly, they do not include all information and disclosures necessary for a fair presentation of our financial position, results of operations and cash flows in conformity with GAAP. The results of operations for any interim period are not necessarily indicative of the results for the full year. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2012.

HARRIS & HARRIS GROUP, INC.**CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES**

	September 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Investments, in portfolio securities at value:		
Unaffiliated privately held companies (cost: \$29,399,423 and \$29,365,558, respectively)	\$ 29,923,729	\$ 24,949,756
Unaffiliated rights to milestone payments (adjusted cost basis: \$3,291,750 and \$3,291,750, respectively)	3,375,388	3,400,734
Unaffiliated publicly traded securities (cost: \$2,790,739 and \$5,070,447, respectively)	8,504,540	14,422,261
Non-controlled affiliated privately held companies (cost: \$65,269,025 and \$57,789,263, respectively)	51,573,574	60,792,397
Non-controlled affiliated publicly traded companies (cost: \$0 and \$2,000,000, respectively)	0	1,348,227
Controlled affiliated privately held companies (cost: \$8,750,349 and \$14,233,804, respectively)	1,006,305	3,088,816
Total, investments in private portfolio companies, rights to milestone payments and public securities at value (cost: \$109,501,286 and \$111,750,822, respectively)	\$ 94,383,536	\$ 108,002,191
Investments, in U.S. Treasury obligations at value (cost: \$0 and \$13,996,136, respectively)	0	13,998,880
Cash	13,528,468	8,379,111
Receivable from sales of investments (Note 3)	22,799,975	0
Restricted funds (Note 3)	10,028	10,015
Funds held in escrow from sales of investments at value (Note 3)	1,168,671	1,052,345
Receivable from portfolio company	4,160	23,830
Interest receivable	15,124	49,068
Prepaid expenses (Note 5)	827,016	97,410
Other assets	338,302	377,400
Total assets	\$ 133,075,280	\$ 131,990,250
LIABILITIES & NET ASSETS		
Accounts payable and accrued liabilities	\$ 1,499,238	\$ 1,262,202
Post retirement plan liabilities (Note 8)	851,877	1,876,447
Deferred rent	362,656	368,977
Written call options payable (premiums received: \$190,564 and \$50,000, respectively) (Note 7)	127,500	42,500
Debt interest and other payable	42	3,350
Total liabilities	2,841,313	3,553,476

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Net assets	\$ 130,233,967	\$ 128,436,774
Net assets are comprised of:		
Preferred stock, \$0.10 par value, 2,000,000 shares authorized; none issued	\$ 0	\$ 0
Common stock, \$0.01 par value, 45,000,000 shares authorized at 9/30/13 and 12/31/12;	329,880	329,456
32,987,996 issued at 9/30/13 and 32,945,621 issued at 12/31/12		
Additional paid in capital (Note 9)	214,072,112	213,194,474
Accumulated net operating and realized loss	(66,678,532) (77,943,238)
Accumulated unrealized depreciation of investments	(15,054,686) (3,738,387)
Accumulated other comprehensive income (Note 8)	970,724	0
Treasury stock, at cost (1,828,740 shares at 9/30/13 and 12/31/12)	(3,405,531) (3,405,531)
Net assets	\$ 130,233,967	\$ 128,436,774
Shares outstanding	31,159,256	31,116,881
Net asset value per outstanding share	\$ 4.18	\$ 4.13

The accompanying unaudited notes are an integral part of these consolidated financial statements.

HARRIS & HARRIS GROUP, INC.**CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2013	2012	2013	2012
Investment income:				
Interest from:				
Unaffiliated companies	\$ 58,363	\$ 64,019	\$ 190,209	\$ 185,340
Non-controlled affiliated companies	9,187	236,695	111,957	86,319
Controlled affiliated companies	28,441	44,042	72,377	111,043
Cash and U.S. Treasury obligations and other	3,115	5,213	12,148	17,910
Miscellaneous income	35,919	46,277	123,387	128,078
Total investment income	135,025	396,246	510,078	528,690
Expenses:				
Salaries, benefits and stock-based compensation (Note 9)	1,305,405	1,200,902	4,065,804	5,148,293
Administration and operations	221,182	212,917	697,527	795,143
Professional fees	311,428	222,467	974,296	740,106
Rent (Note 3)	98,539	105,705	301,240	303,402
Directors' fees and expenses	53,687	63,015	184,563	240,747
Custody fees	13,919	13,653	41,693	35,635
Depreciation	13,774	15,020	41,670	43,618
Interest and other debt expense	9,885	12,901	21,590	36,741
Total expenses	2,027,819	1,846,580	6,328,383	7,343,685
Net operating loss	(1,892,794)	(1,450,334)	(5,818,305)	(6,814,995)
Net realized gain (loss):				
Realized gain (loss) from investments:				
Unaffiliated companies	0	0	105,313	476,887
Non-Controlled affiliated companies	10,006,915	354	5,770,882	11,775
Publicly traded companies	2,845,191	2,695,339	11,389,252	3,366,218
Written call options	42,049	80,573	(84,713)	458,911
Purchased put options	0	0	(72,209)	0
U.S. Treasury obligations/other	0	(218)	0	(218)
Realized gain from investments	12,894,155	2,776,048	17,108,525	4,313,573
Income tax expense (Note 10)	3,343	7,161	25,514	15,236
Net realized gain from investments	12,890,812	2,768,887	17,083,011	4,298,337
Net (decrease) increase in unrealized appreciation on investments:				

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Change as a result of investment sales	(11,820,261)	(3,616,482)	(13,703,473)	(4,287,361)
Change on investments held	(1,604,307)	(2,483,303)	2,331,610	6,281,233
Change on written call options	330,388	1,111,515	55,564	527,333
Net (decrease) increase in unrealized appreciation on investments	(13,094,180)	(4,988,270)	(11,316,299)	2,521,205
Net realized and unrealized (loss) gain on investments	(203,368)	(2,219,383)	5,766,712	6,819,542
Net (decrease) increase in net assets resulting from operations:				
Total	\$ (2,096,162)	\$ (3,669,717)	\$ (51,593)	\$ 4,547
Per average basic and diluted outstanding share	\$ (0.07)	\$ (0.12)	\$ (0.00)	\$ 0.00
Average outstanding shares – basic and diluted	31,159,256	31,000,601	31,131,654	31,000,601

The accompanying unaudited notes are an integral part of these consolidated financial statements.

HARRIS & HARRIS GROUP, INC.**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(Unaudited)**

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2013	2012	2013	2012
Net (decrease) increase resulting from operations	\$ (2,096,162)	\$ (3,669,717)	\$ (51,593)	\$ 4,547
Other comprehensive income:				
Prior service cost (Note 8)	0	0	1,101,338	0
Amortization of prior service cost	(43,538)	0	(130,614)	0
Other comprehensive (loss) income	(43,538)	0	970,724	0
Comprehensive income (loss)	\$ (2,139,700)	\$ (3,669,717)	\$ 919,131	\$ 4,547

The accompanying unaudited notes are an integral part of these consolidated financial statements.

HARRIS & HARRIS GROUP, INC.**CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Cash flows used in operating activities:		
Net (decrease) increase in net assets resulting from operations	\$ (51,593) \$ 4,547
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used in) operating activities:		
Net realized gain and unrealized depreciation on investments	(5,792,226) (6,834,778
Depreciation of fixed assets, amortization of premium or discount on U.S. government securities, and bridge note interest	(172,361) (168,346
Stock-based compensation expense	939,979	2,457,423
Purchase of U.S. government securities	(115,598,392) (9,999,356
Sale of U.S. government securities	129,599,974	0
Purchase of affiliated portfolio companies	(10,200,939) (8,242,326
Purchase of unaffiliated portfolio companies	(818,880) (1,575,514
Principal payments received on debt investments	726,059	331,264
Proceeds from sale of investments	29,290,630	5,062,210
Proceeds from call option premiums	1,027,127	