

HARRIS & HARRIS GROUP INC /NY/
Form N-2/A
June 03, 2004

As filed with the Securities and Exchange Commission on June 3, 2004

Securities Act Registration No. 333-112862
Investment Company Act File Number 814-176

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-2

REGISTRATION STATEMENT

UNDER THE SECURITIES ACT OF 1933:

PRE-EFFECTIVE AMENDMENT NO. 4

POST-EFFECTIVE AMENDMENT NO.
AND/OR

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

111 West 57th Street
Suite 1100
New York, New York 10019
(Address of Principal Executive Offices)

(212) 582-0900
(Registrant's Telephone Number, including Area Code)

Charles E. Harris, Chairman, CEO
111 West 57th Street
Suite 1100
New York, New York 10019
(Name and Address of Agent for Service)

Copies to:

Richard T. Prins, Esq.
Skadden, Arps, Slate, Meagher & Flom LLP
Four Times Square
New York, New York 10036
(212) 735-3000

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Approximate Date of Proposed Public Offering:
From time to time after the effective date of this Registration Statement

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box. |X|

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price per Share	Proposed Maximum Aggregate Offering Price(1)
Common Shares, \$0.01 par value	7,000,000	\$14.18	\$99,260,000

- (1) Estimated solely for the purpose of determining the registration fee pursuant to Rule 45 Securities Act of 1933 and based on the average of the high and low prices as reported on National Market of the registrant's common stock on June 2, 2004.
- (2) \$6,189 previously paid.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THE REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8 OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATES AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8, MAY DETERMINE.

HARRIS & HARRIS GROUP, INC.
CROSS-REFERENCE SHEET

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PART A-PROSPECTUS

Items in Part A of Form N-2	Location in Prospectus
Item 1. Outside Front Cover	Front Cover Page
Item 2. Inside Front and Outside Back Cover Page	Front Cover Page; Inside Fro
Item 3. Fee Table and Synopsis	Prospectus Summary; Table of
Item 4. Financial Highlights	Financial Highlights
Item 5. Plan of Distribution	Prospectus Summary; Underwri
Item 6. Selling Shareholders	Not Applicable
Item 7. Use of Proceeds	Use of Proceeds
Item 8. General Description of the Registrant	Business; Risk Factors; Inve
Item 9. Management	Management of the Company
Item 10. Capital Stock, Long-Term Debt and Other Securities	Prospectus Summary; Capitali
Item 11. Defaults and Arrears on Senior Securities	Distributions; Taxation; Ris
Item 12. Legal Proceedings	Not Applicable
Item 13. Table of Contents of the Statement of Additional Information	Management of the Company
	Not Applicable

Items in Part B of Form N-2(1)	Location in Prospectus
Item 14. Cover Page	Not Applicable
Item 15. Table of Contents	Not Applicable
Item 16. General Information and History	Business; Our History
Item 17. Investment Objective and Policies	Business; Investment Policie
Item 18. Management of the Company	Management of the Company
Item 19. Control Persons and Principal Shareholders	Management of the Company
Item 20. Investment Advisory and Other Services	Not Applicable
Item 21. Brokerage, Allocation and Other Practices	Investment Policies; Underwr
Item 22. Tax Status	Taxation
Item 23. Financial Statements	Financial Statements

PART C-OTHER INFORMATION

Items 24-33 have been answered in Part C of this Registration Statement.

(1) Pursuant to General Instructions to Form N-2, all information required by Part B: Statement of Additional Information has been incorporated into Part A: The Prospectus of the Registration Statement.

[FLAG]

The information in this Prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This Prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

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SUBJECT TO COMPLETION
PRELIMINARY PROSPECTUS DATED JUNE 2, 2004

HARRIS & HARRIS GROUP, INC.

7,000,000 Shares

Common Stock

Harris & Harris Group, Inc. is a venture capital business development company that operates as a non-diversified business development company under the Investment Company Act of 1940. We may offer, from time to time, up to 7,000,000 shares of our common stock, \$0.01 par value per share ("Common Stock"), in one or more offerings. The Common Stock may be offered at prices and on terms to be set forth in one or more supplements to this Prospectus (each a "Prospectus Supplement"). The offering price per share of our Common Stock less any underwriting commissions or discounts will not be less than the net asset value per share of our Common Stock at the time we make the offering. You should read this Prospectus and the applicable Prospectus Supplement carefully before you invest in our Common Stock.

Our Common Stock may be offered directly to one or more purchasers through agents designated from time to time by us, or to or through underwriters or dealers. The Prospectus Supplement relating to the offering will identify any agents or underwriters involved in the sale of our Common Stock, and will set forth any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters, or among our underwriters or the basis upon which such amount may be calculated. We may not sell any of our Common Stock through agents, underwriters or dealers without delivery of a Prospectus Supplement describing the method and terms of the particular offering of our Common Stock. Our common stock is listed on the Nasdaq National Market under the symbol "TINY." On June 1, 2004, the last reported sale price of our Common Stock was \$14.65.

An Investment in the Securities Offered in this Prospectus Involves a High Degree of Risk. You Should Consider Investing in Us Only if You Are Capable of Sustaining the loss of Your Entire Investment. See "Risk Factors" beginning on page 7.

This Prospectus sets forth concisely the information about us that a prospective investor ought to know before investing. You should read this Prospectus before deciding whether to invest in our Common Stock and retain it for future reference. Material that has been incorporated by reference and other information about us can be obtained from the Securities and Exchange Commission's ("SEC") website (<http://www.sec.gov>).

Neither the SEC nor any state securities commission has approved or disapproved these securities or determined if this Prospectus is truthful or complete. Any representation to the contrary is a crime.

This Prospectus may not be used to consummate sales of Common Stock by us through agents, underwriters or dealers unless accompanied by a Prospectus Supplement.

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The date of the Prospectus is _____, 2004.

You should rely only on the information contained or incorporated by reference in this Prospectus. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell these securities in any jurisdiction in which the offer or sale is not permitted.

In this Prospectus, unless otherwise indicated, "Harris & Harris," "Company," "us," "our" and "we" refer to Harris & Harris Group, Inc. This Prospectus also includes trademarks owned by other persons.

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PROSPECTUS SUMMARY

This summary highlights information that is described more fully elsewhere in this Prospectus and in the documents to which we have referred. It may not contain all of the information that is important to you. To understand the offering fully, you should read the entire document carefully, including the risk factors beginning on page .

Our Business

Harris & Harris Group, Inc. is a venture capital company specializing in tiny technology that operates as a non-diversified business development company under the Investment Company Act of 1940, which we refer to as the 1940 Act. For tax purposes, we operate as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, which we refer to as the Code. Our investment objective is to achieve long-term capital appreciation, rather than current income, by making venture capital investments in early-stage companies. Our approach is comprised of a patient examination of available early stage opportunities, thorough due diligence and close involvement with management.

We make initial venture capital investments exclusively in "tiny technology," which we define as microsystems, microelectromechanical systems (which we refer to as MEMS) and nanotechnology. We consider a company to be a tiny technology company if the company employs intellectual property which we consider to be at the microscale or smaller and which is material to its business plan. Our portfolio includes non-tiny technology investments made prior to 2001, and we may make follow-on investments in either tiny or non-tiny technology companies. By making these investments, we seek to provide our shareholders with an increasingly specific focus on tiny technology through a portfolio of venture capital investments that address a variety of markets and products. We believe that we are the only publicly traded U.S. venture capital company specializing in tiny technology.

Tiny technology is multidisciplinary and widely applicable, and it incorporates technology that is significantly smaller than is currently in general use. Microsystems are measured in micrometers, which are units of measurement in millionths of a meter. Nanotechnology is measured in nanometers, which are units of measurement in billionths of a meter. Because it is a new field, tiny technology has significant scientific, engineering and commercialization risks. See "Business" and "Risk Factors."

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As a venture capital company, we make it possible for our investors to participate at an early stage in this emerging field while our portfolio companies are still private. By making investments in companies that control intellectual property relevant to tiny technology, we are building a portfolio that we believe will be difficult to replicate in the future, as we believe it will likely become increasingly difficult to create new intellectual property in tiny technology. To the investor, we offer:

- o a portfolio consisting of investments that are generally available only to a small, highly specialized group of investors;
- o a team of professionals including four full time members of management, each of whom are designated as Managing Directors and vote on all purchases and sales of private equity investments, Charles E. Harris, Mel P. Melsheimer, Daniel V. Leff and Douglas W. Jamison, and two directors who are also consultants, Dr. Kelly S. Kirkpatrick and Lori D. Pressman, who collectively have expertise in venture capital investing, intellectual property and nanotechnology to evaluate and monitor investments;
- o the opportunity to benefit from our experience in a new field expected to permeate a variety of industries; and
- o through the ownership of our publicly traded shares, a measure of liquidity not available in typical underlying venture capital portfolio investments.

The number of tiny technology investment opportunities available to us has increased over the past two years, through both new opportunities and opportunities for follow-on investments in our existing portfolio companies. We believe that our expertise and record of prior investments in tiny technology are likely to lead us to additional tiny technology investment opportunities in the future. We intend to use the net proceeds of this offering to:

- o increase our capital in order to take advantage of these investment opportunities;
- o increase the types of tiny technology companies in our portfolio;
- o increase the percentage of our total assets invested in tiny technology;
- o lower our expenses as a percentage of assets and otherwise achieve certain economies and advantages of scale in our operations since our costs are primarily fixed. Therefore, as our assets increase by the net proceeds of this offering, those fixed costs will represent a smaller percentage of our assets; and
- o pay operating expenses, including due diligence expenses on potential investments.

We identify investment opportunities primarily through four channels:

- o our involvement in the field of tiny technology;
- o research universities that seek to transfer their scientific discoveries to the private sector;

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- o other venture capital companies seeking co-investors; and
- o direct calls and business plan submissions by companies, business incubators and individuals seeking venture capital.

Since registering as an investment company in 1992, we have invested in a variety of industries. In 1994, we invested in our first tiny technology company, Nanophase Technologies Corporation. In 1995, we elected to be regulated as a business development company. Recognizing the potential of tiny technology, we continued to monitor developments in the field, and since 2001, we have made tiny technology our exclusive focus for initial investments. Since August 2001, all 15 of our initial investments have been in companies involved in the development of products and technologies based on tiny technology.

Our portfolio now includes a total of 19 companies, 14 of which we consider to be involved in tiny technology. We are an internally managed investment company; that is, our officers and employees, rather than an investment adviser, manage our operations under the general supervision of our board of directors.

As is usual in the venture capital industry, our venture capital investments are generally in convertible preferred stock, which is usually the most senior security in a portfolio company's equity capital structure until the company has substantial revenues, and which gives us seniority over the holders of common stock (usually the founders) while preserving fully our participation in the upside potential of the portfolio company through the conversion feature and, in many cases, a dividend right payable in kind (which increases our participation in the portfolio company) or potentially in cash. In-kind distributions are primarily made in additional shares of convertible preferred stock, and we would expect to continue to invest in convertible preferred shares even if a portfolio company were to issue debt securities.

Tiny Technology

Tiny technology is neither an industry nor a single technology, but a variety of enabling technologies with critical dimensions below 100 micrometers. Tiny technology manifests itself in tools, materials and devices that address broad markets, including instrumentation, electronics, photonics, computing, medical devices, pharmaceutical manufacturing, drug delivery and drug discovery. The development and commercialization of tiny technology often require the integration of multiple disciplines, including biology, physics, chemistry, material sciences, computer science and the engineering sciences.

Examples of tiny technology-enabled products currently on the market are quite diverse. They include accelerometers used in automobiles to sense impact and deploy airbags, cosmetics with ingredients that block ultraviolet light but that are invisible to the human eye, nanoclays used for strength in the running boards of minivans, textiles with liquid-stain repellent surfaces and fast acting painkillers.

Within tiny technology, microsystems and MEMS both refer to materials, devices and processes that are on a micrometer size scale. A micrometer, which is also referred to as a micron, is 0.000001 meter, or one millionth of a meter. In practice, any device from 100 microns down to 0.1 micron in size may be considered "micro." Nanotechnology refers to materials, devices and processes with critical dimensions below 0.1 micron, equal to 100 nanometers. A nanometer is 0.000000001 meter, or one billionth of a meter. It is at the scale below 100 nanometers, the nanoscale, that quantum effects begin to dominate classical macroscale physics. At the nanoscale, size- and shape-dependent properties of materials allow previously unattainable material

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and device performance.

Although the practical application of tiny technology requires great expertise to implement in manufacturing processes, we believe that tiny technology's broad applicability presents significant and diverse market opportunities.

Risk Factors

Set forth below is a summary of certain risks that you should carefully consider before investing in us through the offering. See "Risk Factors" below for a more detailed discussion of the risks in investing in our Common Stock.

- o Investing in small, private companies involves a high degree of risk and is highly speculative.
- o We may invest in companies working with technologies or intellectual property which currently has few or no proven commercial applications.
- o We invest in illiquid securities and may not be able to dispose of them when it is advantageous to do so, or ever.
- o Unfavorable economic conditions could impair our ability to engage in liquidity events.
- o Because there is generally no established market in which to value our investments, our valuation committee's value determinations may differ materially from the values that a ready market or third party would attribute to these investments.
- o Because we are a non-diversified company with a relatively concentrated portfolio, the value of our business is subject to greater volatility than the value of companies with more broadly diversified investments.
- o Approximately 32% of the net asset value attributable to our venture capital investment portfolio, or 16% of our net asset value, as of March 31, 2004, is concentrated in one company, NeuroMetrix, Inc., which is not a tiny technology company.
- o Approximately 36% of the net asset value attributable to our venture capital investment portfolio, or 19% of our net asset value, as of March 31, 2004, is invested in venture capital investments which are not tiny technology companies.
- o Bank borrowing or the issuance of debt securities or preferred stock by us to fund investments in portfolio companies or to fund our operating expenses would make our total return to common shareholders more volatile. The use of debt would leverage our available common equity capital, magnifying the impact of changes in the value of our investment portfolio on our net asset value. In addition, the cost of debt or preferred stock financing may exceed the return on the assets the proceeds are used to acquire, in which case the use of leverage will have an adverse impact on the holders of our common stock.

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- o Investing in our stock is highly speculative and an investor could lose some or all of the amount invested.
- o Our shares might trade at a discount from net asset value or at premiums that are unsustainable over the long term and currently trade at a substantial premium over net asset value that may not be sustainable over the long term.

Other Information

Our website is www.TinyTechVC.com and is not incorporated by reference into this Prospectus. We make available free of charge through our website the following materials (which are not incorporated by reference unless specifically stated in this Prospectus) as soon as reasonably practicable after filing or furnishing them to the SEC:

- o our annual report on Form 10-K;
- o our quarterly reports on Form 10-Q;
- o our current reports on Form 8-K; and
- o amendments to those reports.

The Offering

Common Stock offered.....

We may offer, from time to time, up to a total of our Common Stock on terms to be determined at offering. Our Common Stock may be offered at price to be set forth in one or more Prospectus Supplements. Offering price per share of our Common Stock before underwriting commissions or discounts will not be less than net asset value per share of our Common Stock.

Use of proceeds.....

Although we will make initial investments exclusively in technology, we can make follow-on investments in technology companies currently in our portfolio. Considering venture capital investments, we may invest proceeds in U.S. government and government agency securities which are likely to yield less than our operating income. We expect to invest or reserve for potential follow-on investments the net proceeds of any sale of shares under this offering within two years from the completion of such sale. We will use the proceeds of this offering for operating expenses, including due diligence expenses on potential investments. Reserves for follow-on investments referred to as "Reserves" for a particular portfolio holding may be no more than twice the investment to date in that portfolio holding. In the case of seed investments, the initial investment in the case of seed investments.

Nasdaq National Market
symbol.....

TINY

TABLE OF FEES AND EXPENSES

The following tables are intended to assist you in understanding the various costs and expenses directly or indirectly associated with investing in our Common Stock. Amounts are for the current fiscal year after giving effect to anticipated net proceeds of the offering, assuming that we incur the estimated offering expenses.

Shareholder Transaction Expenses	
Sales Load(1) (as a percentage of offering price)	0.00
Offering Expenses (as a percentage of offering price)	0.60
Annual Expenses (as a percentage of net assets attributable to Common Stock)	
Management Fees(2)	N/A
Other Expenses(3)	
Salaries and Benefits(4) (5) (6)	1.36
Administration and Operations(7)	.61
Professional Fees	.18
Total Annual Expenses (8)	2.15%

-
- (1) In the event that the shares of Common Stock to which this Prospectus relates are sold to or through underwriters, a corresponding Prospectus Supplement will disclose the sales load.
- (2) The Company has no external management fees because it is internally managed.
- (3) "Other Expenses" are based on estimated amounts for the current fiscal year.
- (4) We have an Employee Profit-Sharing Plan that provides for profit sharing equal to 20% of the net after-tax income we realize as reflected on our Consolidated Statement of Operations for each year, less non-qualifying gains, if any. Under the Employee Profit-Sharing Plan, the net income we realize includes investment income, gains and losses we realize and operating expenses (including taxes paid or payable by us), but does not include dividends paid or distributions made to shareholders, payments under the plan, gains and losses we have not realized and loss carryovers from other years. The portion of net after-tax realized gains attributable to asset values as of September 30, 1997 is considered non-qualifying gain. At December 31, 2003, we did not have realized net income for that year and accordingly the expense accrual associated with this liability for 2003 was \$0 or 0% of net assets. Under no circumstances may this expense exceed 20% of the net after-tax income we realize.
- (5) We established a Mandatory Retirement Plan on March 20, 2003. In conjunction with this plan, we are required to provide to one employee,

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our President, Chief Operating Officer and Chief Financial Officer, a retirement benefit that has an estimated present value of \$450,000. We are amortizing the expense of this benefit through December 31, 2004 in the amounts of \$225,000 in 2003 and \$225,000 in 2004.

- (6) Our President, Chief Operating Officer and Chief Financial Officer is scheduled to retire on December 31, 2004, pursuant to the Mandatory Retirement Plan. His salary and non-continuing benefits in 2004, including the amortization of his retirement benefit, will total approximately \$517,300, or 0.36% of net assets attributable to Common Stock.
- (7) "Administration and Operations" include expenses incurred for administration, operations, rent, directors' fees and expenses, depreciation and custodian fees.
- (8) Total annual expenses after December 31, 2004 will not include \$517,300 for our President, Chief Operating Officer and Chief Financial Officer, but will include a \$100,000 increase in annual salary for Douglas W. Jamison, a Vice President of the Company who has been designated by the Board of Directors to replace our current President, Chief Operating Officer and Chief Financial Officer as of January 1, 2005, and to receive an increase in annual salary of \$100,000 at that time.

Example

The following examples illustrate the dollar amount of cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our Common Stock. These amounts are based upon payment by us of expenses at levels set forth in the above table, which include \$517,300 of remuneration and non-continuing benefits for our President, Chief Operating Officer and Chief Financial Officer in the first year.

You would pay the following expenses on a \$10,000 investment, assuming a 5% annual return:

1 Year -----	3 Years -----	5 Years -----	10 Years -----
\$277	\$695	\$1,138	\$2,369

The foregoing table is to assist you in understanding the various costs and expenses that an investor in our Common Stock will bear directly or indirectly. The assumed 5% annual return is not a prediction of, and does not represent, the projected or actual performance of our Common Stock. The above example should not be considered a representation of future expenses, and actual expenses and annual rates of return may be more or less than those assumed for purposes of the example. The foregoing table does not include the expenses of our Employee Profit Sharing plan, which would increase the amounts shown in the table if we achieved returns in excess of our expenses.

INCORPORATION BY REFERENCE

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The financial statements for the fiscal years ended December 31, 2003, 2002 and 2001 and the fiscal periods ended March 31, 2004 and 2003 and the financial statements for each fiscal period ended thereafter have been incorporated by reference into the Prospectus from the Company's Annual Report on Form 10-K and Quarterly Report on Form 10-Q, each of which either accompanies this Prospectus or has previously been provided to the person to whom this Prospectus is being sent. We will furnish, without charge, a copy of such financial statements upon request by writing to 111 West 57th Street, Suite 1100, New York, New York 10019, Attention: Investor Relations, or calling 212-582-0900.

RISK FACTORS

Investing in our Common Stock involves a number of significant risks relating to our business and investment objective. You should carefully consider the risks and uncertainties described below before you purchase any of our Common Stock. These risks and uncertainties are not the only ones we face. Unknown additional risks and uncertainties, or ones that we currently consider immaterial, may also impair our business. If any of these risks or uncertainties materialize, our business, financial condition or results of operations could be materially adversely affected. In this event, the trading price of our common stock could decline, and you could lose all or part of your investment.

Risks related to the companies in our portfolio.

Investing in small, private companies involves a high degree of risk and is highly speculative.

We have invested a substantial portion of our assets in privately held development stage or start-up companies. These businesses tend to lack management depth, to have limited or no history of operations and to have not attained profitability. Tiny technology companies are especially risky, involving scientific, technological and commercialization risks. Because of the speculative nature of these investments, these securities have a significantly greater risk of loss than traditional investment securities. Some of our venture capital investments are likely to be complete losses or unprofitable, and some will never realize their potential. We have been and will continue to be risk seeking rather than risk averse in our approach to venture capital and other investments. Neither our investments nor an investment in our Common Stock is intended to constitute a balanced investment program.

We may invest in companies working with technologies or intellectual property that currently have few or no proven commercial applications.

Nanotechnology, in particular, is a developing area of technology, of which much of the future commercial value is unknown, difficult to estimate and subject to widely varying interpretations. There are as of yet relatively few nanotechnology products commercially available. The timing of additional future commercially available nanotechnology products is highly uncertain.

Our portfolio companies working with tiny technology may be particularly susceptible to intellectual property litigation.

Research and commercialization efforts in tiny technology are being undertaken by a wide variety of government, academic and private corporate entities. As additional commercially viable applications of tiny technology

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begin to emerge, ownership of intellectual property on which these products are based may be contested. Any litigation over the ownership of, or rights to, any of our portfolio companies' technologies or products would have a material adverse effect on those companies' values and may have a material adverse effect on the value of our common stock.

Our portfolio companies may not successfully market their products.

Even if our portfolio companies are able to develop commercially viable products, the market for new products and services is highly competitive, rapidly changing and especially sensitive to adverse general economic conditions. Commercial success is difficult to predict, and the marketing efforts of our portfolio companies may not be successful.

Unfavorable economic conditions could result in the inability of our portfolio companies to access additional capital, leading to financial losses in our portfolio.

Most of the companies in which we have made or will make investments are susceptible to economic slowdowns or recessions. An economic slowdown or adverse capital or credit market conditions may affect the ability of a company in our portfolio to raise additional capital from venture capital or other sources or to engage in a liquidity event such as an initial public offering or merger. These conditions may lead to financial losses in our portfolio, which could have a material adverse effect on the value of our common stock.

The value of our portfolio and the value of our common stock could be adversely affected if the technologies utilized by our portfolio companies are found to cause health or environmental risks.

Our portfolio companies work with new technologies, which could have potential environmental and health impacts. Tiny technology in general and nanotechnology in particular are currently the subject of health and environmental impact research. If health or environmental concerns about tiny technology or nanotechnology were to arise, our portfolio companies may incur additional research, legal and regulatory expenses, might have difficulty raising capital or could be forced out of business. Such adverse health and environmental effects would have an adverse effect on the value of our portfolio and on the value of our common stock.

Risks related to the illiquidity of our investments.

We invest in illiquid securities and may not be able to dispose of them when it is advantageous to do so, or ever.

Most of our investments are or will be equity or equity-linked securities acquired directly from small companies. These equity securities are generally subject to restrictions on resale or otherwise have no established trading market. The illiquidity of most of our portfolio of equity securities may adversely affect our ability to dispose of these securities at times when it may be advantageous for us to liquidate these investments. We may never be able to dispose of these securities.

Unfavorable economic conditions could impair our ability to engage in liquidity events.

Our business of making private equity investments and positioning our portfolio companies for liquidity events may be adversely affected by current and future capital markets and economic conditions. The public equity markets currently provide less opportunity for liquidity events than at times in the past when there was more robust demand for initial public offerings, even for

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more mature technology companies than those in which we typically invest. The potential for public market liquidity could further decrease and could lead to an inability to realize potential gains or could lead to financial losses in our portfolio and a decrease in our revenues, net income and assets. Recent government reforms affecting stock markets, investment banks and securities research practices may make it more difficult for privately held companies to complete successful initial public offerings of their equity securities. Slowdowns in initial public offerings also have an adverse effect on the frequency and valuations of acquisitions of privately held companies. The lack of opportunities to sell investments in privately held companies also has an adverse effect on the ability of these companies to raise capital from private sources.

Even if our portfolio companies complete initial public offerings, the returns on our investments may be uncertain.

When companies in which we have invested as private entities complete initial public offerings of their securities, these newly issued securities are by definition unseasoned issues. Unseasoned issues tend to be highly volatile and have uncertain liquidity, which may negatively affect their price. In addition, we are typically subject to lock-up provisions which prohibit us from selling our investments into the public market for specified periods of time after initial public offerings. The market price of securities that we hold may decline substantially before we are able to sell these securities. Most initial public offerings of technology companies are listed on the Nasdaq National Market. Recent government reforms of the Nasdaq National Market have made market making by broker-dealers less profitable, which has caused broker-dealers to reduce their market making activities, thereby making the market for unseasoned stocks less liquid.

Risks related to our company.

Because there is generally no established market in which to value our investments, our valuation committee's value determinations may differ materially from the values that a ready market or third party would attribute to these investments.

There is generally no public market for the equity securities in which we invest. Pursuant to the requirements of the Investment Company Act of 1940, which we refer to as the 1940 Act, we value substantially all of the equity securities in our portfolio at fair value as determined in good faith by the valuation committee of our board of directors within the guidelines established by the board of directors. As a result, determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment pursuant to specified valuation principles and processes. We are required by the 1940 Act to value specifically each individual investment on a quarterly basis and record unrealized depreciation for an investment that we believe has become impaired. Conversely, we must record unrealized appreciation if we believe that the underlying portfolio company has appreciated in value. Without a readily ascertainable market value and because of the inherent uncertainty of valuation, the fair value that we assign to our investments may differ from the values that would have been used had a ready market existed for the investments, and the difference could be material. Any changes in fair value are recorded in our consolidated statements of operations as a change in the "Net (decrease) increase in unrealized appreciation on investments."
See "Determination of Net Asset Value."

Because we are a non-diversified company with a relatively concentrated portfolio, the value of our business is subject to greater volatility than the value of companies with more broadly diversified investments.

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As a result of investing a greater portion of our assets in the securities of a smaller number of issuers, we are classified as a non-diversified company. We may be more vulnerable to events affecting a single issuer or industry and therefore subject to greater volatility than a company whose investments are more broadly diversified. Accordingly, an investment in our Common Stock may present greater risk to you than an investment in a diversified company.

We may be obligated to pay substantial amounts under our profit sharing plan.

Our employee profit-sharing plan requires us to distribute to our officers and employees 20% of any net after-tax realized income as reflected on our consolidated statements of operations for that year, less any non-qualifying gain. These distributions may have a significant effect on the amount of distributions made to our shareholders, if any.

Approximately 32% of the net asset value attributable to our venture capital investment portfolio, or 16% of our net asset value, as of March 31, 2004, is concentrated in one company, NeuroMetrix, Inc., which is not a tiny technology company.

At March 31, 2004, we valued our investment in NeuroMetrix, Inc., which is not a tiny technology company, at \$6,825,426, which represents 31.85% of the net asset value attributable to our venture capital investment portfolio, or 16.45% of our net asset value. Any downturn in the business outlook of NeuroMetrix, Inc., or any failure of the products of NeuroMetrix, Inc., to receive widespread acceptance in the marketplace, would have a significant effect on our specific investment in NeuroMetrix, Inc., and the overall value of our portfolio.

Approximately 36% of the net asset value attributable to our venture capital investment portfolio, or 19% of our net asset value, as of March 31, 2004, is invested in venture capital investments which are not tiny technology companies.

Although all 15 of our investments added since August 2001 have been in tiny technology companies, and although we consider 14 of the companies in our venture capital investment portfolio to be tiny technology companies, at March 31, 2004, only 63.56% of the net asset value attributable to our venture capital investment portfolio, or 32.82% of our net asset value, was invested in tiny technology companies, which may limit our ability to achieve our investment objective.

We are dependent upon key management personnel for future success.

We are dependent for the selection, structuring, closing and monitoring of our investments on the diligence and skill of our senior management and other key advisers. We utilize lawyers and outside consultants, including two of our directors, Dr. Kelly S. Kirkpatrick and Lori D. Pressman, to assist us in conducting due diligence when evaluating potential investments. There is generally no publicly available information about the companies in which we invest, and we rely significantly on the diligence of our employees and advisers to obtain information in connection with our investment decisions. Our future success to a significant extent depends on the continued service and coordination of our senior management team, and particularly depends on our Chairman and Chief Executive Officer, Charles E. Harris. The departure of any of our executive officers, key employees or advisers could materially adversely affect our ability to implement our

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business strategy. We do not maintain for our benefit any key man life insurance on any of our officers or employees. Our President, Chief Operating Officer and Chief Financial Officer, Mel P. Melsheimer, is scheduled to retire on December 31, 2004, pursuant to the Mandatory Retirement Plan. We could be adversely affected by his retirement.

We will need to hire additional employees as the size of our portfolio increases.

We anticipate that it will be necessary for us to add investment professionals with expertise in venture capital and/or tiny technology to accommodate the increasing size of our portfolio. We may need to provide additional scientific, business or investment training for our hires. There is competition for highly qualified personnel, and we may not be successful in our efforts to recruit and retain highly qualified personnel.

The market for venture capital investments, including tiny technology investments, is highly competitive.

We face substantial competition in our investing activities from many competitors, including but not limited to, private venture capital funds; investment affiliates of large industrial, technology, service and financial companies; small business investment companies; wealthy individuals; and foreign investors. Our most significant competitors typically have significantly greater financial resources than we do. Many sources of funding compete for a small number of attractive investment opportunities. Hence, we face substantial competition in sourcing good investment opportunities on terms of investment that are commercially attractive.

In addition to the difficulty of finding attractive investment opportunities, our status as a regulated business development company may hinder our ability to participate in investment opportunities or to protect the value of existing investments.

We are required to disclose on a quarterly basis the names and business descriptions of our portfolio companies and the value of any portfolio securities. Most of our competitors are not subject to these disclosure requirements. Our obligation to disclose this information could hinder our ability to invest in some portfolio companies. Additionally, other current and future regulations may make us less attractive as a potential investor than a competitor not subject to the same regulations.

Our failure to make follow-on investments in our portfolio companies could impair the value of our portfolio.

Following an initial investment in a portfolio company, we may make additional investments in that portfolio company as "follow-on" investments, in order to: (1) increase or maintain in whole or in part our ownership percentage; (2) exercise warrants, options or convertible securities that were acquired in the original or subsequent financing; or (3) attempt to preserve or enhance the value of our investment. Recently, "pay to play" provisions have become common in venture capital transactions. These provisions require proportionate investment in subsequent rounds of financing in order to preserve preferred rights such as anti-dilution protection or even to prevent preferred shares from being converted to common shares.

We may elect not to make follow-on investments or otherwise lack sufficient funds to make those investments. We have the discretion to make any follow-on investments, subject to the availability of capital resources. The failure to make follow-on investments may, in some circumstances, jeopardize the continued viability of a portfolio company and our initial investment, or may result in a missed opportunity for us to increase our participation in a

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successful operation, or may cause us to lose some or all preferred rights pursuant to "pay to play" provisions. Even if we have sufficient capital to make a desired follow-on investment, we may elect not to make a follow-on investment because we may not want to increase our concentration of risk, because we prefer other opportunities or because we are inhibited by compliance with business development company requirements or the desire to maintain our tax status.

Bank borrowing or the issuance of debt securities or preferred stock by us to fund investments in portfolio companies or to fund our operating expenses would make our total return to common shareholders more volatile.

Use of debt or preferred stock as a source of capital entails two primary risks. The first risk is that the use of debt leverages our available common equity capital, magnifying the impact on net asset value of changes in the value of our investment portfolio. For example, a business development company that uses 33% leverage (that is, \$50 of leverage per \$100 of common equity) will show a 1.5% increase or decline in net asset value for each 1% increase or decline in the value of its total assets. The second risk is that the cost of debt or preferred stock financing may exceed the return on the assets the proceeds are used to acquire, thereby diminishing rather than enhancing the return to common shareholders. To the extent that we utilize debt or preferred stock financing for any purpose, these two risks would likely make our total return to common shareholders more volatile. In addition, we might be required to sell investments, in order to meet dividend, interest or principal payments, when it may be disadvantageous for us to do so.

As provided in the 1940 Act and subject to some exceptions, we can issue debt or preferred stock so long as our total assets immediately after the issuance, less some ordinary course liabilities, exceed 200% of the sum of the debt and any preferred stock outstanding. The debt or preferred stock may be convertible in accordance with SEC guidelines, which may permit us to obtain leverage at more attractive rates. The requirement under the 1940 Act to pay, in full, dividends on preferred shares or interest on debt before any dividends may be paid on our common stock means that dividends on our common stock from earnings may be reduced or eliminated. An inability to pay dividends on our common stock could conceivably result in our ceasing to qualify as a regulated investment company, or RIC, under the Code, which would in most circumstances be materially adverse to the holders of our common stock.

We are authorized to issue preferred stock, which would convey special rights and privileges to its owners.

We are currently authorized to issue up to 2,000,000 shares of preferred stock, under terms and conditions determined by our board of directors. These shares would have a preference over our common stock with respect to dividends and liquidation. The statutory class voting rights of any preferred shares we would issue could make it more difficult for us to take some actions that may, in the future, be proposed by the board and/or holders of Common Stock, such as a merger, exchange of securities, liquidation or alteration of the rights of a class of our securities if these actions were perceived by the holders of the preferred shares as not in their best interests. The issuance of preferred shares convertible into shares of common stock might also reduce the net income and net asset value per share of our common stock upon conversion. These effects, among others, could have an adverse effect on your investment in our Common Stock.

Loss of status as a RIC would reduce our net asset value and distributable income.

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We currently intend to qualify as a RIC for 2003 under the tax Code. As a RIC, we do not have to pay federal income taxes on our income (including realized gains) that is distributed to our shareholders. Accordingly, we are not permitted under accounting rules to establish reserves for taxes on our unrealized capital gains. If we failed to qualify for RIC status, to the extent that we had unrealized gains, we would have to establish reserves for taxes, which would reduce our net asset value, net of a reduction in the reserve for employee profit sharing, accordingly. To the extent that we, as a RIC, were to decide to make a deemed distribution of net realized capital gains and retain the net realized capital gains, we would have to establish appropriate reserves for taxes upon making that decision. See "Taxation."

We operate in a regulated environment.

We are subject to substantive SEC regulations as a business development company. Securities and tax laws and regulations governing our activities may change in ways adverse to our and our shareholders' interests, and interpretations of these laws and regulations may change with unpredictable consequences. Any change in the laws or regulations that govern our business could have an adverse impact on us or on our operations. Also, as business and financial practices continue to evolve, they may render the regulations under which we operate less appropriate and more burdensome than they were when originally imposed. See "Certain Government Regulations."

Quarterly results fluctuate and are not indicative of future quarterly performance.

Our quarterly operating results 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 we and our portfolio companies encounter competition in our markets and general economic and capital markets conditions. As a result of these factors, results for any one quarter should not be relied upon as being indicative of performance in future quarters.

To the extent that we do not realize income or retain after-tax realized capital gains, we may have a greater need for additional capital to fund our investments and operating expenses.

As a RIC, we must annually distribute at least 90% of our investment company taxable income as a dividend and may either distribute or retain our realized net capital gains from investments. As a result, these earnings may not be available to fund investments. If we fail to generate net realized capital gains or to obtain funds from outside sources, it would have a material adverse effect on our financial condition and results of operations as well as our ability to make follow-on and new investments. Because of the structure and objectives of our business, we generally expect to experience net operating losses and rely on proceeds from sales of investments, rather than on investment income, to defray a significant portion of our operating expenses. These sales are unpredictable and may not occur. In addition, as a business development company, we are generally required to maintain a ratio of at least 200% of total assets to total borrowings, which may restrict our ability to borrow to fund these requirements.

Investment in foreign securities could result in additional risks.

The Company may invest in foreign securities, although we currently have no investments in foreign securities. If we invest in securities of foreign issuers, we may be subject to risks not usually associated with owning securities of U.S. issuers. These risks can include fluctuations in foreign currencies, foreign currency exchange controls, social, political and economic instability, differences in securities regulation and trading, expropriation

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or nationalization of assets, and foreign taxation issues. In addition, changes in government administrations or economic or monetary policies in the United States or abroad could result in appreciation or depreciation of our securities and could favorably or unfavorably affect our operations. It may also be more difficult to obtain and enforce a judgment against a foreign issuer. Any foreign investments made by us must be made in compliance with U.S. and foreign currency restrictions and tax laws restricting the amounts and types of foreign investments.

Risks related to this offering.

Investing in our stock is highly speculative and an investor could lose some or all of the amount invested.

Our investment objective and strategies result in a high degree of risk in our investments and may result in losses in the value of our investment portfolio. Our investments in portfolio companies are highly speculative and, therefore, an investor in our Common Stock may lose his or her entire investment. The value of our common stock may decline and may be affected by numerous market conditions, which could result in the loss of some or all of the amount invested in our Common Stock. The securities markets frequently experience extreme price and volume fluctuations which affect market prices for securities of companies generally, and technology and very small capitalization companies in particular. Because of our focus on the technology and very small capitalization sectors, and because we are a small capitalization company ourselves, our stock price is especially likely to be affected by these market conditions. General economic conditions, and general conditions in the Internet and information technology, life sciences, nanotechnology, tiny technology, materials sciences and other high technology industries, may also affect the price of our common stock.

We will have broad discretion over the use of proceeds of this offering.

We will have significant flexibility in applying the proceeds of this offering. We may also pay operating expenses, including due diligence expenses of potential new investments, from the net proceeds. Our ability to achieve our investment objective may be limited to the extent that the net proceeds of the offering, pending full investment, are used to pay operating expenses.

Our shares might trade at discounts from net asset value or at premiums that are unsustainable over the long term.

Shares of business development companies like us may, during some periods, trade at prices higher than their net asset value and during other periods, as frequently occurs with closed-end investment companies, trade at prices lower than their net asset value. The possibility that our shares will trade at discounts from net asset value or at premiums that are unsustainable over the long term are risks separate and distinct from the risk that our net asset value will decrease. The risk of purchasing shares of a business development company that might trade at a discount or unsustainable premium is more pronounced for investors who wish to sell their shares in a relatively short period of time because, for those investors, realization of a gain or loss on their investments is likely to be more dependent upon the existence of a premium or discount than upon portfolio performance. Our Common Stock may not trade at a price higher than or equal to net asset value. On June 1, 2004, our stock closed at \$14.65 per share, a premium of \$11.64 over our net asset value per share of \$3.01 as of March 31, 2004.

Our former independent public accountant, Arthur Andersen LLP, has

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been found guilty of a federal obstruction of justice charge, and you may be unable to exercise effective remedies against it in any legal action.

Our former independent public accountant, Arthur Andersen LLP, provided us with auditing services for prior fiscal periods through December 31, 2001, including issuing an audit report with respect to our audited consolidated financial statements as of and for the year ended December 31, 2001 incorporated by reference in this Prospectus. On June 15, 2002, a jury in Houston, Texas found Arthur Andersen LLP guilty of a federal obstruction of justice charge arising from the federal government's investigation of Enron Corp. On August 31, 2002, Arthur Andersen LLP ceased practicing before the SEC.

We were unable to obtain Arthur Andersen LLP's consent to incorporate by reference in this Prospectus its report with respect to our audited consolidated financial statements as of and for the year ended December 31, 2001. Rule 437(a) under the Securities Act of 1933, or the Securities Act, permits us to dispense with the requirement to file their consent. As a result, you may not have an effective remedy against Arthur Andersen LLP in connection with a material misstatement or omission with respect to our audited consolidated financial statements that are incorporated by reference in this Prospectus or any other filing we may make with the SEC, including, with respect to this offering or any other offering registered under the Securities Act, any claim under Section 11 of the Securities Act. In addition, even if you were able to assert a claim, as a result of its conviction and other lawsuits, Arthur Andersen LLP may fail or otherwise have insufficient assets to satisfy claims made by investors or by us that might arise under federal securities laws or otherwise relating to any alleged material misstatement or omission with respect to our audited consolidated financial statements.

You have no right to require us to repurchase your shares.

FORWARD-LOOKING INFORMATION

This Prospectus may contain "forward-looking statements" based on our current expectations, assumptions, and estimates about us and our industry. These forward-looking statements involve risks and uncertainties. Words such as "believe," "anticipate," "estimate," "expect," "intend," "plan," "will," "may," "continue" and other similar expressions identify forward-looking statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of several factors more fully described in "Risk Factors" and elsewhere in this Prospectus. The forward-looking statements made in this Prospectus relate only to events as of the date on which the statements are made. We undertake no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

USE OF PROCEEDS

We estimate the total net proceeds of the offering to be up to \$112,000,000.

We expect to invest or reserve for potential follow-on investment the net proceeds of any offering within two years from the completion of such offerings. Reserves for follow-on investments referred to above in any

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particular initial investment may be no more than the greater of twice the investment to date or five times the initial investment in the case of seed-stage investments. Although we intend to make our initial investments exclusively in companies that we believe are involved significantly in tiny technology, we may also make follow-on investments in existing portfolio companies involved in other technologies. Pending investment in portfolio companies, we intend to invest the net proceeds of any offering of our Common Stock in time deposits and/or income-producing securities that are issued or guaranteed by the federal government or an agency of the federal government or a government owned corporation, which are likely to yield less than our operating expense ratio. We may also use the proceeds of this offering for operating expenses, including due diligence expenses on potential investments. If we pay operating expenses from the proceeds, it will reduce the net proceeds of the offering that we will have available for investment.

PRICE RANGE OF COMMON STOCK

Our common stock is traded on the Nasdaq National Market under the symbol "TINY."

The following table sets forth for the quarters indicated the high and low sale prices on the Nasdaq National Market per share of our common stock and the net asset value and the premium or discount from net asset value per share at which the shares of common stock were trading, expressed as a percentage of net asset value, at each of the high and low sale prices provided.

Quarter Ended	Market Price -----		Net Asset Value ("NAV") Per Share at End of Period	Premium or D % of -----
	High	Low		High
March 31, 2000	35.75	9.00	5.08	603.7
June 30, 2000	18.50	5.13	3.88	376.8
September 30, 2000	10.75	5.50	4.64	131.7
December 31, 2000	7.13	2.25	3.51	103.1
March 31, 2001	4.25	2.06	3.09	37.5
June 30, 2001	3.29	2.01	3.29	0.0
September 30, 2001	2.86	1.60	2.92	(2.1)
December 31, 2001	2.33	1.55	2.75	(15.3)
March 31, 2002	5.50	1.80	2.63	109.1
June 30, 2002	5.10	2.74	2.68	90.3
September 30, 2002	2.99	2.00	2.61	14.6
December 31, 2002	2.50	1.85	2.37	5.5
March 31, 2003	3.99	2.36	2.26	76.5
June 30, 2003	7.95	2.71	2.22	258.1
September 30, 2003	9.49	4.47	2.11	349.8
December 31, 2003	12.29	6.18	2.95	316.6
March 31, 2004	20.70	11.47	3.01	587.7

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The last reported price for our common stock on June 1, 2004 was \$14.65 per share. As of May 12, 2004, we had approximately 130 shareholders of record.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information contained in this section should be read in conjunction with our 2003 Consolidated Financial Statements and the Notes thereto. In addition, this Prospectus contains certain forward-looking statements. These statements include the plans and objectives of management for future operations and financial objectives and can be identified by the use of forward-looking terminology such as "believe," "anticipate," "estimate," "expect," "intend," "plan," "will," "may" or "continue" or the negative thereof or other variations thereon or comparable terminology. These forward-looking statements are subject to the inherent uncertainties in predicting future results and conditions.

Information presented for portfolio companies has been obtained from the portfolio companies.

Background and Overview

We incorporated under the laws of the state of New York in August 1981. In 1983, we completed an initial public offering and invested \$406,936 in Otisville BioTech, Inc., which also completed an initial public offering later that year. In 1984, Charles E. Harris purchased a controlling interest in us, thereby also becoming the control person in Otisville. We then divested our other assets and became a financial services company, with the investment in Otisville as the initial focus of our business activity. We hired new management for Otisville, and Otisville acquired new technology targeting the development of a human blood substitute.

By 1988, we operated two insurance brokerages and a trust company as wholly-owned subsidiaries. In 1989, Otisville changed its name to Alliance Pharmaceutical Corporation, and by 1990, we had completed selling our \$406,936 investment in Alliance for total proceeds of \$3,923,559.

In 1992, we sold our insurance brokerage and trust company subsidiaries to their respective managements and registered as an investment company under the 1940 Act, commencing operations as a closed-end, non-diversified investment company. In 1995, we elected to become a business development company subject to the provisions of Sections 55 through 65 of the 1940 Act. We have made early stage venture capital investments in a variety of industries since 1983. In 1994, we made our first tiny technology investment. Since August 2001, we have made initial investments exclusively in tiny technology, including our last 15 initial investments.

Since our investment in Otisville in 1983, we have made a total of 57 venture capital investments, including four investments, via private placements, in securities of publicly traded companies. We have sold 38 of these 57 investments, realizing total proceeds of \$108,159,142 on our invested capital of \$40,094,851. Seventeen of these 38 investments were profitable. The average and median holding periods for these 38 investments were 3.5 years and 3.2 years, respectively. At March 31, 2004, we valued the 18 venture capital investments remaining in our portfolio at \$21,428,191, or 51.6%, of our net

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assets, net of unrealized depreciation of \$1,563,651. At March 31, 2004, the average and median holding periods for our 18 current venture capital investments were 2.9 years and 2.0 years, respectively. Because most of these investments entailed more than one round of financing, the average and median periods of time that our money was invested were shorter than the average and median holding periods as measured from first dollar invested to last dollar received.

We have invested a substantial portion of our assets in private, development stage or start-up companies. These private businesses tend to be thinly capitalized, unproven, small companies that lack management depth, have little or no history of operations and are developing unproven technologies. At March 31, 2004, \$21,428,191, or 51.6%, of our net assets consisted of venture capital investments at fair value, net of unrealized depreciation of \$1,563,651. At December 31, 2003, \$15,106,576, or 37.1%, of our net assets consisted of venture capital investments at fair value, of which net unrealized depreciation was \$2,375,303. At December 31, 2002, \$12,036,077, or 44.2%, of our net assets consisted of venture capital investments at fair value, of which net unrealized appreciation was \$2,718,389.

Because none of our current venture capital investments have readily available market values, we value our venture capital investments each quarter at fair value as determined in good faith by our valuation committee within guidelines established by our board of directors in accordance with the 1940 Act. See "Determination of Net Asset Value."

We have broad discretion in the investment of our capital. However, we invest primarily in illiquid equity securities of private companies. Generally, these investments take the form of preferred stock, are subject to restrictions on resale and have no established trading market. Our principal objective is to achieve long-term capital appreciation. Therefore, a significant portion of our investment portfolio provides little or no income in the form of dividends or interest. We do earn interest income from fixed-income securities, including U.S. government and government agency securities. The amount of interest income we earn varies with the average balance of our fixed-income portfolio and the average yield on this portfolio and is not expected to be material to our results of operations.

General business and capital markets conditions in 2002 and 2003 were adverse for the venture capital industry. There were few opportunities to take venture capital-backed companies public or sell them to established companies. During this period, it was also difficult to finance venture capital-backed companies privately and, in general, for venture capital funds themselves to raise capital.

We present the financial results of our operations utilizing accounting principles generally accepted in the United States for investment companies. On this basis, the principal measure of our financial performance during any period is the net increase/(decrease) in our net assets resulting from our operating activities, which is the sum of the following three elements:

Net Operating Income / (Loss) - the difference between our income from interest, dividends, and fees and our operating expenses.

Net Realized Gain / (Loss) on Investments - the difference between the net proceeds of sales of portfolio securities and their stated cost.

Net Increase / (Decrease) in Unrealized Appreciation on Investments - the net change in the fair value of our investment portfolio.

Because of the structure and objectives of our business, we generally

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expect to experience net operating losses and seek to generate increases in our net assets from operations through the long term appreciation of our venture capital investments. We have in the past relied, and continue to rely, on proceeds from sales of investments, rather than on investment income, to defray a significant portion of our operating expenses. Because sales of our investments are unpredictable, we attempt to maintain adequate working capital to provide for fiscal periods when we have no sales of investments.

SELECTED CONDENSED CONSOLIDATED FINANCIAL DATA

BALANCE SHEET DATA

Financial Position as of:

	2003	2002	December 31, 2001	2000	
	----	----	----	----	----
Total assets	\$ 44,115,128	\$ 35,951,969	\$ 39,682,367	\$ 43,343,423	\$ 65,115,128
Total liabilities	\$ 3,432,390	\$ 8,695,923	\$ 15,347,597	\$ 11,509,948	\$ 11,509,948
Net assets	\$ 40,682,738	\$ 27,256,046	\$ 24,334,770	\$ 31,833,475	\$ 53,605,180
Cash dividends paid	\$ 0	\$ 0	\$ 0	\$ 184,817	\$ 3,115,128
Net asset value per outstanding share	\$ 2.95	\$ 2.37	\$ 2.75	\$ 3.51	\$ 3.51
Cash dividends paid per outstanding share	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.02	\$ 0.02
Shares outstanding	\$ 13,798,845	\$ 11,498,845	\$ 8,864,231	\$ 9,064,231	\$ 9,064,231

OPERATING DATA

For the twelve months ended
December 31,

	2003	2002	2001	2000	
	----	----	----	----	----
Total investment income	\$ 167,785	\$ 253,461	\$ 510,661	\$ 687,050	\$ 687,050
Total expenses(1)	\$ 2,731,527	\$ 2,124,549	\$ 1,035,221	\$ (2,623,200)	\$ (2,623,200)
Net operating (loss) income	\$ (2,563,742)	\$ (1,871,088)	\$ (524,560)	\$ 3,310,250	\$ 3,310,250
Total tax expense (benefit)	\$ 13,761	\$ 199,309	\$ 27,951	\$ (51,869)	\$ (51,869)
Net realized gain (loss) on investments	\$ (984,925)	\$ 2,390,302	\$ 1,276,366	\$ 18,963,832	\$ 18,963,832
Net realized income (loss)	\$ (3,548,667)	\$ 519,214	\$ 751,806	\$ 22,274,082	\$ 22,274,082
Net increase (decrease) in unrealized appreciation on investments	\$ 343,397	\$ (3,241,408)	\$ (7,641,044)	\$ (37,781,289)	\$ (37,781,289)
Net increase (decrease) in net assets resulting from operations	\$ (3,205,270)	\$ (2,722,194)	\$ (6,889,238)	\$ (15,507,204)	\$ (15,507,204)
Increase (decrease) in net assets resulting from operations per outstanding share	\$ (0.28)	\$ (0.24)	\$ (0.78)	\$ (1.71)	\$ (1.71)

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(1) Included in total expenses are the following profit sharing (reversals)/accruals: \$(163,049) in 2002; \$(984,021) in 2001; \$(4,812,675) in 2000; and \$8,110,908 in 1999.

SELECTED QUARTERLY DATA (UNAUDITED)

	2004		2003	
	1st Quarter	1st Quarter	2nd Quarter	3rd Quarter
Total investment income	\$ 56,536	\$ 64,676	\$ 50,564	\$ 30,612
Net operating loss	\$ 749,865	\$ 584,460	\$ 726,989	\$ 572,346
Net increase (decrease) in net assets resulting from operations	\$ 820,515	\$ (1,215,127)	\$ (544,709)	\$ (1,270,298)
Net increase (decrease) in net assets resulting from operations per outstanding share	\$ 0.06	\$ (0.11)	\$ (0.05)	\$ (0.11)

	2002			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Total investment income	\$ 59,462	\$ 60,368	\$ 77,413	\$ 77,413
Net operating loss	\$ 556,233	\$ 654,718	\$ 479,433	\$ 479,433
Net Increase (decrease) increase in net assets resulting from operations	\$ (1,036,934)	\$ 434,289	\$ 660,988	\$ 660,988
Net Increase (decrease) increase in net assets resulting from operations per outstanding share	\$ (0.12)	\$ 0.05	\$ 0.06	\$ 0.06

Results of Operations

Three months ended March 31, 2004, as compared to the three months ended March 31, 2003

We had a net increase in net assets resulting from operations of \$820,515 in the three months ended March 31, 2004, as compared with a net decrease in net assets resulting from operations of \$1,215,127 in the three months ended March 31, 2003.

Investment Income and Expenses:

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We had net operating losses of \$749,865 and \$584,460 for the three months ended March 31, 2004, and March 31, 2003, respectively. In the three months ended March 31, 2004, our larger net operating loss reflected a net increase in expenses primarily related to increases in salaries and benefits and in expenses for administration and operations.

Operating expenses were \$806,401 and \$649,136 for the three months ended March 31, 2004, and March 31, 2003, respectively. In the three months ended March 31, 2004, as compared with the three months ended March 31, 2003, salaries and benefits increased by \$107,879 or 29.8%, primarily as a result of an additional employee; administration and operations increased by \$64,187, or 67.5%, primarily as a result of an increase in travel and entertainment expenses for due diligence work on potential portfolio companies and a shift in the timing of an annual contribution to the MIT Entrepreneurship Center that we made in the first quarter of 2004 and in the second quarter of 2003.

Realized Gains and Losses on Portfolio Securities:

During the three months ended March 31, 2004, and March 31, 2003, we realized gains of \$793,389 and \$432, respectively.

During the three months ended March 31, 2004, we realized net gains of \$793,389, consisting primarily of a realized gain of \$1,681,259 resulting from the sale of our investment in NanoGram Devices Corporation, offset by a realized loss of \$915,108 resulting from the sale of our shares of Series D Convertible Preferred Stock in NeoPhotonics Corporation.

Unrealized Appreciation and Depreciation of Portfolio Securities:

Net unrealized depreciation on investments decreased by \$783,787, or 33.0%, during the three months ended March 31, 2004, from \$2,376,716 at December 31, 2003, to \$1,592,929 at March 31, 2004.

During the three months ended March 31, 2004, we recorded a net decrease of \$811,652 in unrealized depreciation of our venture capital investments, primarily as a result of the realization of the loss of \$915,108 on the sale of our shares of Series D Convertible Preferred stock in NeoPhotonics Corporation.

Years Ended December 31, 2003, 2002, and 2001

During the three years ended December 31, 2003, 2002, and 2001, we had net decreases in net assets resulting from operations of \$3,205,270, \$2,722,194 and \$6,889,238, respectively.

Investment Income and Expenses:

During the three years ended December 31, 2003, 2002, and 2001, we had net operating losses of \$2,563,742, \$1,871,088 and \$524,560, respectively. The variation in these results is primarily owing to the changes in operating expenses. During the three years ended December 31, 2003, 2002, and 2001, operating expenses were \$2,731,527, \$2,124,549 and \$1,035,221, respectively. The increase during 2003 was primarily owing to increases in salary and benefits. During 2003, the full year effect of a new employee who started in September 2002 was realized. In addition, we recorded expense of \$225,000 owing to the establishment of a Mandatory Retirement Plan in 2003 to be amortized over the two-year period of 2003 and 2004 at the rate of \$225,000 per annum. The increase in expenses in 2002 was primarily owing to the \$163,049 reversal of the profit sharing accrual in 2002 versus the \$984,021 reversal of the profit sharing accrual in 2001, as well as an increase in salaries and benefits, primarily owing to an increase in the retirement

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medical benefit expense and the expense of a new employee who started in September 2002, and an increase in professional fees, primarily as a result of expenses associated with new investments and preparation of our proxy statement.

Realized Gains and Losses on Sales of Portfolio Securities:

During the three years ended December 31, 2003, 2002, and 2001, we realized net (losses) gains on sales of portfolio securities of (\$971,164), \$3,284,737 and \$1,394,781, respectively.

During 2003, we realized a loss of \$1,000,001 on the tax write-off of our investment in Kriton Medical, Inc., which had been previously written-off for book purposes. As a result of the loss realized in 2003 on the tax write-off of Kriton Medical, Inc., unrealized appreciation increased by \$1,000,001.

During 2002, we realized a gain of \$4,776,360 from the liquidation of our partnership interest in PHZ Capital Partners L.P., and losses of \$350,583 and \$1,248,825 from the liquidation of Informio, Inc., and the sale of our previously written-off investment in Schwoo, Inc., respectively.

During 2001, we realized gains on the sales of our investments in Nanophase Technologies Corporation of \$2,762,696 and Genomica Corporation of \$1,022,905. We realized losses on the sales of our investments in: Essential.com, Inc., in the amount of \$1,349,512; shares of SciQuest.com, Inc. purchased in the open market, in the amount of \$1,258,679; and MedLogic Global Corporation, in the amount of \$1,033,765. We also realized a gain of \$1,266,729 from our partnership interest in PHZ Capital Partners L.P. As a result of the gains and losses realized during 2001, unrealized appreciation decreased by \$3,948,271.

Unrealized Appreciation and Depreciation of Portfolio Securities:

During the year ended December 31, 2003, net unrealized depreciation on investments decreased by \$343,397. During the years ended December 31, 2002, and 2001, net unrealized appreciation decreased by \$3,936,534 and \$7,731,508, respectively. The decrease in net unrealized depreciation during 2003 was primarily owing to decreases in the valuations of our venture capital investments of \$1,421,220, including increases in unrealized depreciation of Agile Material and Technologies, Inc., of \$750,000, Experion Systems, Inc., of \$325,662 and NeoPhotonics Corporation of \$345,558, offset by a decrease in unrealized depreciation of Continuum Photonics, Inc., of \$226,046 and an increase in unrealized appreciation in Nanotechnologies, Inc., of \$357,963. In addition, unrealized appreciation increased by \$1,000,001 as a result of the loss realized in 2003 on the tax write-off of Kriton Medical, Inc., which had previously been written off for book purposes.

The decrease during 2002 was primarily owing to decreases in the valuations of our venture capital investments of \$3,933,834, including a decrease in unrealized appreciation of NeuroMetrix, Inc. of \$1,986,081.

Unrealized appreciation (depreciation) on investments was (\$2,720,113) and \$1,216,420 at December 31, 2002, and 2001, respectively.

The decrease in net unrealized appreciation during 2001 was primarily owing to decreases in the valuations of our venture capital investments, including decreases in the valuations of our holdings of Nanophase Technologies Corporation, Genomica Corporation and Schwoo, Inc. of \$5,499,664, \$1,540,375 and \$1,248,827, respectively, offset by increases in unrealized appreciation of \$1,528,082 and \$1,033,775 as a result of the realization of the losses on the sales of our investments in SciQuest.com, Inc. and MedLogic

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Global Corporation.

Financial Condition

Three Months ended March 31, 2004

Our total assets and net assets were \$55,105,581 and \$41,503,253, respectively, at March 31, 2004, compared with \$44,115,128 and \$40,682,738 at December 31, 2003.

Net asset value per share ("NAV") was \$3.01 at March 31, 2004, versus \$2.95 at December 31, 2003. Our shares outstanding remained unchanged during the three months ended March 31, 2004.

Significant developments in the three months ended March 31, 2004, were an increase in payable to broker for unsettled trade of \$10,583,080 and an increase in the value of our investment in U.S. government and government obligations of \$4,492,780.

The increase in the value of our venture capital investments, from \$15,106,576 at December 31, 2003, to \$21,428,191 at March 31, 2004, resulted primarily from two new venture capital investments and five follow-on investments, partially offset by a net decrease in the net value of our previous venture capital investments, reflecting the sale of NanoGram Devices.

The following table is a summary of additions to our portfolio of venture capital investments during the three months ended March 31, 2004:

New Investment -----	Amount -----
Molecular Imprints, Inc.	\$2,000,000
NeoPhotonics Corporation	\$1,925,000
Follow-on Investment -----	
Agile Materials & Technologies, Inc.	\$ 75,901
Continuum Photonics, Inc.	\$ 739,000
Experion Systems, Inc.	\$ 121,262
NanoOpto Corporation	\$ 612,500
NeuroMetrix, Inc.	\$1,749,999

Total	\$7,223,662 =====

The following tables summarize the fair values of our portfolios of venture capital investments and U.S. Government and agency Obligations, as compared with their cost, at March 31, 2004, December 31, 2003, and December 31, 2002:

	March 31, 2004 -----	2003 -----	December 31, 2002 -----
Venture capital investments, at cost	\$22,991,842	\$17,481,879	\$14,754,4
Unrealized depreciation(1)	1,563,651	2,375,303	2,718,3
--	-----	-----	-----
Venture capital investments,			

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at fair value	\$21,428,191 =====	\$15,106,576 =====	\$12,036,0 =====
	March 31, 2004 -----	2003 -----	December 31, 2 -----
U.S. Government and Agency Obligations, at cost	31,642,544	\$27,121,899	\$15,452,4
Unrealized depreciation(1)	29,278	1,413	1,7
--	-----	-----	-----
U.S. Government and Agency Obligations, at fair value	\$31,613,266 =====	\$27,120,486 =====	\$15,450,7 =====

(1) At March 31, 2004, December 31, 2003, and December 31, 2002, the accumulated unrealized depreciation on investments, including deferred taxes, was \$2,437,848, \$3,221,635 and \$3,565,032, respectively.

The following table summarizes the fair value composition of our venture capital investment portfolio at March 31, 2004, December 31, 2003, and December 31, 2002:

Category -----	March 31, 2004 ----	2003 ----	December 31, -----
Tiny Technology	63.6%	60.7%	
Other Venture Capital Investments	36.4%	39.3%	
	-----	-----	
Total Venture Capital Investments	100.0% =====	100.0% =====	

Year ended December 31, 2003

At December 31, 2003, our total assets and net assets were \$44,115,128 and \$40,682,738, respectively. Our NAV per share at that date was \$2.95, and our shares outstanding increased to 13,798,845 versus 11,498,845 at December 31, 2002.

During the 12 months ended December 31, 2003, significant financial developments included the receipt of net proceeds of \$16,631,962 pursuant to the issuance of 2,300,000 new shares of our common stock and a decrease in payable to broker for unsettled trade of \$5,696,725. In addition, the value of our venture capital investments increased by \$3,070,499, to \$15,106,576 at December 31, 2003, primarily owing to three new venture capital investments and five follow-on investments totaling \$3,727,718 and increases in the valuations of our venture capital investments of \$848,883, offset by write-downs in the valuations of our venture capital investments of \$1,506,102.

The following table is a summary of additions to our portfolio of venture capital investments during the year ended December 31, 2003:

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New Investment -----	Amount -----
Chlorogen, Inc.	\$ 525,900
NanoGram Devices Corporation	\$ 750,000
Nanosys, Inc.	\$ 1,500,000
Follow-on Investment -----	
Chlorogen, Inc.	\$ 259,100
NanoOpto Corporation	\$ 125,000
Nanotechnologies, Inc.	\$ 169,718
Nantero, Inc.	\$ 323,000
NeoPhotonics, Inc.	\$ 75,000

Total	\$ 3,727,718 =====

Year Ended December 31, 2002

At December 31, 2002, our total assets and net assets were \$35,951,969 and \$27,256,046, respectively. Our NAV at that date was \$2.37, and our shares outstanding increased to 11,498,845 versus 8,864,231 at December 31, 2001.

During the 12 months ended December 31, 2002, significant financial developments included: (1) the payment of \$271,467 in federal income taxes as a result of our deemed dividend distribution to shareholders; (2) a net decrease in the unrealized appreciation of our venture capital investments of \$3,933,834, including a decrease in the unrealized appreciation of NeuroMetrix, Inc., of \$1,986,081; (3) a decrease in bank loan payable of \$12,495,777; (4) the receipt of net proceeds of \$5,643,470 pursuant to the issuance and exercise of transferable rights for 2,634,614 new shares of our common stock; and (5) the receipt of \$5,700,000 in cash and a recorded receivable in the amount of \$786,492 related to the liquidation of our partnership interest in PHZ Capital Partners L.P.

In addition, the value of our venture capital investments decreased by \$1,084,901, to \$12,036,077 at December 31, 2002, primarily owing to seven new venture capital investments and two follow-on investments totaling \$7,195,988, partially offset by write-downs in the valuations of our venture capital investments of \$5,213,959 and the liquidations of Informio, Inc., and our partnership interest in PHZ Capital Partners L.P., which decreased the value of our venture capital investments by a total of \$3,072,382 from the value at December 31, 2001.

The following table is a summary of additions to our portfolio of venture capital investments for the year ended December 31, 2002:

New Investment -----	Amount -----
Agile Materials & Technologies, Inc.	\$1,000,000
Continuum Photonics, Inc.	\$1,000,000
Nanopharma Corp.	\$ 700,000
NanoOpto Corporation	\$ 625,000
Nanotechnologies, Inc.	\$ 750,000
Neo Photonics Corporation	\$1,000,000
Optiva, Inc.	\$1,250,000
Follow-on Investment	
Experion Systems, Inc.	\$ 517,706
NeuroMetrix, Inc.	\$ 353,282

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Total	----- \$7,195,988 =====
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The following tables summarize the fair value of our portfolios of venture capital investments and U.S. Government and Agency Obligations, as compared with their cost, at December 31, 2003, and December 31, 2002:

	December 31, 2003

Venture capital investments, at cost	\$17,481,879
Unrealized depreciation(1)	2,375,303
--	-----
Venture capital investments, at fair value	\$15,106,576 =====

	December 31, 2003

U.S. Government and Agency Obligations, at cost	\$27,121,899
Unrealized depreciation(1)	1,413
--	-----
U.S. Government and Agency Obligations, at fair value	\$27,120,486 =====

(1) At December 31, 2003, and December 31, 2002, the accumulated unrealized depreciation on investments, including deferred taxes, was \$3,221,635 and \$3,565,032, respectively.

The following table summarizes the fair value composition of our venture capital investment portfolio at December 31, 2003, and December 31, 2002:

Category	December 31,	
-----	2003	2002
	-----	-----
Tiny Technology	60.7%	49.0
Other Venture Capital Investments	39.3%	51.0
-----	-----	-----
Total Venture Capital Investments	100.0%	100.0
	=====	=====

Cash Flow

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Year Ended December 31, 2003

Cash flow used in operating activities for the year ended December 31, 2003, was \$6,592,321, reflecting the following changes from December 31, 2002, to December 31, 2003: an increase to restricted funds of \$455,134; a payment of a payable to a broker for an unsettled trade of \$5,696,725; and a decrease to current income tax liability of \$857,656. In addition, net realized and unrealized loss on investments was \$1,047,140, and the net decrease in net assets resulting from operations was \$3,624,643.

Cash used in investing activities for the year ended December 31, 2003, was \$15,582,923, primarily reflecting an increase in our investment in U.S. Treasury Bills of \$11,669,430 and investments in private placements of \$3,727,718.

Cash provided by financing activities for the year ended December 31, 2003, was \$16,633,462, primarily reflecting net proceeds of \$16,631,962 from the issuance of 2,300,000 new shares of our common stock. We expect to invest or earmark for investment the net proceeds of this issuance within approximately one year, depending on the available investment opportunities for the types of investments that we make. Although we intend to make our initial investments exclusively in companies that we believe are involved significantly in tiny technology, we may also make follow-on investments in existing portfolio companies involved in other technologies. Pending investment in portfolio companies, we intend to invest the net proceeds of any offering of shares of our common stock in time deposits and/or income-producing securities that are issued or guaranteed by the federal government or an agency of the federal government of a government owned corporation, which are likely to yield less than our operating expenses. We may also pay operating expenses, including due diligence expenses on potential investments, from the proceeds, which will reduce the net proceeds of any offering of shares of our common stock that we will have available for investment.

Year Ended December 31, 2002

Cash flow provided by operating activities for the year ended December 31, 2002, was \$1,923,048, reflecting the following changes from December 31, 2001, to December 31, 2002: a payable to a broker for an unsettled trade of \$5,969,725; an increase in funds held in escrow of \$750,000; and an increase in a receivable from a partnership liquidation of \$786,492. In addition, net realized and unrealized loss on investments was \$651,797, and the net decrease in net assets resulting from operations was \$2,722,194.

Cash provided by investing activities for the year ended December 31, 2002, was \$10,751,980, reflecting a decrease in our investment in U.S. Treasury Bills of \$10,358,006 and the proceeds from the liquidation of investments of \$7,631,100, offset by investments in private placements of \$7,195,988.

Cash used in financing activities for the year ended December 31, 2002, was \$6,842,807, reflecting the payment of the outstanding balance on the asset line of credit of \$12,495,777, offset by the net proceeds from a rights offering of \$5,643,470. We intended to invest in tiny technology, under normal circumstances, directly or indirectly, the net proceeds of the rights offering in accordance with our investment objectives and policies, within the 12 months following the receipt of the net proceeds of the rights offering, depending on the available investment opportunities.

Liquidity and Capital Resources

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Our primary sources of liquidity are cash, receivables and freely marketable securities, net of short-term indebtedness. Our secondary sources of liquidity are restricted securities of companies that are publicly traded. We currently have no restricted securities of companies that are publicly traded.

Three Months ended March 31, 2004

At March 31, 2004, and December 31, 2003, our total net primary liquidity was \$21,451,597 and \$27,563,886, respectively.

The decrease in our primary source of liquidity from December 31, 2003, to March 31, 2004, is primarily owing to the receipt of the proceeds from the sale of our investment in NanoGram Devices Corporation offset by our investments in Agile Materials & Technologies, Inc., Continuum Photonics, Inc., Experion Systems, Inc., Molecular Imprints, Inc., NanoOpto Corporation, NeoPhotonics Corporation and NeuroMetrix, Inc., and use of funds for net operating expenses.

Year Ended December 31, 2003

At December 31, 2003, 2002, and 2001, our net primary liquidity was \$27,563,886, \$16,508,057 and \$13,459,654, respectively. On each of those corresponding dates, our secondary liquidity was \$0, as we had no restricted securities of companies that are publicly traded.

Our net primary sources of liquidity are more than adequate to cover our gross cash operating expenses over the next 12 months. Our gross cash operating expenses totaled \$2,455,454, \$2,256,991 and \$1,992,341 in 2003, 2002 and 2001, respectively.

During the year ended December 31, 2003, the increase in our net primary liquidity was primarily owing to: (1) our payment of federal, state and local taxes; (2) our investments in Chlorogen, Inc., NanoGram Devices Corporation, NanoOpto Corporation, Nanosys, Inc., Nanotechnologies, Inc., Nantero, Inc., and NeoPhotonics, Inc.; and (3) our use of funds for operating expenses; offset by our receipt of \$16,631,962 of net proceeds from an offering of our common stock that closed on December 30, 2003.

On November 19, 2001, we established an asset account line of credit. The asset account line of credit is secured by our U.S. government and government agency securities with which we secure the line. Under the asset account line of credit, we may borrow up to 95% of the current value of our U.S. government and government agency securities. Our outstanding balance under the asset line of credit at both December 31, 2003, and December 31, 2002, was \$0. When utilized, the asset line of credit bears interest at a rate of the Broker Call Rate plus 50 basis points.

Year Ended December 31, 2002

At December 31, 2002, and 2001, our net primary liquidity was \$16,508,057 and \$13,459,654, respectively. On each of the corresponding dates, our secondary liquidity was \$0. Our tertiary source of liquidity was our partnership interest in PHZ Capital Partners L.P., from which we received cash distributions in 2002 and 2001 of \$6,588,661 and \$172,068, respectively. We liquidated our 20% partnership interest in PHZ for \$5,700,000 effective December 31, 2002, and we received a final distribution of \$786,492 on January 16, 2003. At December 31, 2002, this final distribution of \$786,492 was included in net primary liquidity as a receivable.

During the year ended December 31, 2002, the increase in our net primary liquidity was primarily owing to: (1) our payment of federal income

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taxes; (2) our investments in Nanopharma Corp., NanoOpto Corporation, NeoPhotonics Corporation, Experion Systems, Inc., Continuum Photonics, Inc., Nanotechnologies, Inc., Optiva, Inc., Agile Materials & Technologies, Inc., and NeuroMetrix, Inc.; (3) our funds held in escrow for a pending venture capital investment; and (4) our use of funds for operating expenses; offset by our receipt of \$5,643,470 of net proceeds from a rights offering of our common stock that closed July 31, 2002.

Critical Accounting Policies

Critical accounting policies are those that are both important to the presentation of our financial condition and results of operations and require management's most difficult, complex or subjective judgments. Our critical accounting policies are those applicable to the valuation of investments.

Valuation of Portfolio Investments

As a business development company, we invest primarily in illiquid securities including debt and equity securities of private companies. The investments are generally subject to restrictions on resale and generally have no established trading market. We value substantially all of our equity investments at fair value as determined in good faith by our valuation committee on a quarterly basis. The valuation committee, comprised of at least three or more non-interested board members, reviews and approves the valuation of our investments within the guidelines established by the board of directors. Fair value is generally defined as the amount that an investment could be sold for in an orderly disposition over a reasonable time. Generally, to increase objectivity in valuing our assets, external measures of value, such as public markets or third party transactions, are utilized whenever possible. Valuation is not based on long term work-out value, nor immediate liquidation value, nor incremental value for potential changes that may take place in the future.

Recent Developments

On April 13, 2004, we made a \$150,000 follow-on investment in the form of a Convertible Bridge Note of a privately held portfolio company.

On April 20, 2004, we made a \$75,901 follow-on investment in the form of a Convertible Bridge Note of a privately held portfolio company.

On May 7, 2004, we made a \$50,000 follow-on investment in a privately held portfolio company and a \$250,000 initial investment in a privately held portfolio company.

On May 10, 2004, we made a \$12,091 follow-on investment in a privately held portfolio company by purchasing shares from selling shareholders.

On May 27, 2004, we made a \$1,000,000 new investment in a privately held company.

BUSINESS

We are a venture capital company specializing in tiny technology. We operate as a business development company under the 1940 Act. Our investment objective is to achieve long-term capital appreciation, rather than current income, by making venture capital investments in early stage companies. While our portfolio includes non-tiny technology investments made prior to 2001, we now make our initial investments exclusively in tiny technology companies. By making these investments, we seek to provide our shareholders with an increasingly specific focus on tiny technology through a portfolio of venture capital investments that address a variety of markets and products. We believe that we are the only publicly traded U.S. venture capital company specializing in tiny technology.

As is usual in the venture capital industry, our venture capital investments are primarily in convertible preferred stock, which is usually the most senior security in a portfolio company's equity capital structure until the company has substantial revenues, and which gives us seniority over the holders of common stock (usually the founders) while preserving fully our participation in the upside potential of the portfolio company through the conversion feature and, in many cases, a dividend right payable in kind (which increases our participation in the portfolio company) or potentially in cash.

We have a long history of investing in venture capital and of business development. Our approach is traditional, in that we prefer a patient examination of available early stage opportunities, thorough due diligence and close involvement with management. Unlike most private equity and venture capital funds, we will not be subject to any requirement to return capital to investors. Such requirements typically stipulate that these funds can only be invested once and, together with any capital gains on such investment, must be returned to investors after a pre-agreed time period. These provisions often force private equity and venture capital funds to seek investments that are likely to be able to be sold relatively quickly or to seek returns on their investments through mergers, public equity offerings or other liquidity events more quickly than they otherwise might, potentially resulting in both a lower overall return to investors and an adverse impact on their portfolio companies.

In addition, to the investor, we offer:

- o a portfolio consisting of investments that are generally available only to a small, highly specialized group of investors;
- o a qualified team of professionals including four full time members of management, each of whom are designated as Managing Directors and vote on all purchases and sales of private equity investments, Charles E. Harris, Mel P. Melsheimer, Daniel V. Leff and Douglas W. Jamison, and two directors who are also consultants, Dr. Kelly S. Kirkpatrick and Lori D. Pressman, who collectively have expertise in venture capital, intellectual property and nanotechnology to evaluate and monitor investments;
- o the opportunity to benefit from our experience in a new field expected to permeate a variety of industries; and
- o through the ownership of our publicly traded shares, a measure of liquidity not available in typical underlying

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venture capital portfolio investments.

Microsystems, microelectromechanical systems, which we refer to as MEMS, and nanotechnology are often referred to collectively as "tiny technology," or "small technology," by scientists and others in this field. Tiny technology is multidisciplinary and widely applicable, and it incorporates technology that is significantly smaller than is currently in general use. Microsystems are measured in micrometers, which are units of measurement in millionths of a meter. Nanotechnology is measured in nanometers, which are units of measurement in billionths of a meter. Because it is a new field, tiny technology has significant scientific, engineering and commercialization risks.

Tiny technology, particularly nanotechnology, is distinguished by its applicability to a wide range of industries. As a venture capital company, we make it possible, through the ownership of our shares, for our shareholders to participate in this emerging field at an earlier stage than would typically be possible for them. By making investments in companies that control intellectual property relevant to tiny technology, we are building a portfolio that we believe will be difficult to replicate in the future, as we believe it will likely become increasingly difficult to create new intellectual property in tiny technology.

Since registering as an investment company in 1992, we have invested in a variety of industries. In 1994, we invested in our first nanotechnology company, Nanophase Technologies Corporation. In 1995, we elected to be regulated as a business development company. Recognizing the potential of tiny technology, we continued to monitor developments in the field, and since 2001 we have made tiny technology the exclusive focus of our initial investment activity. Since August 2001, all 15 of our initial investments have been in companies involved in the development of products and technologies based on tiny technology.

Our portfolio now includes a total of 19 companies, of which we consider 14 to be involved in tiny technology. While we intend to make initial investments exclusively in companies that we believe are involved significantly in tiny technology, we may also make follow-on investments in existing non-tiny technology portfolio companies. The balance of our funds is primarily invested in short-term U.S. government and government agency securities. We are an internally managed investment company because our officers and employees, under the general supervision of our board of directors, control our operations. We have no investment adviser.

Subject to our compliance with business development company and tax code requirements, there are no limitations on the types of securities or other assets, foreign or domestic, in which we may invest. Investments may include the following:

- o equity, equity-related securities (including warrants) and debt with equity features from either private or public issuers, whether in corporate, partnership or other form, including development stage or start-up entities;
- o debt obligations of all types having varying terms with respect to security or credit support, subordination, purchase price, interest payments and maturity; and
- o to a limited extent, intellectual property, including patents, research and development in technology or product development that may lead to patents or other marketable technology.

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Neither our investments nor an investment in our securities constitutes a balanced investment program. We have been and will continue to be risk seeking rather than risk averse in our investment approach. We reserve the fullest possible freedom of action regarding the types of investments we make and our relationship with our portfolio companies, subject to our certificate of incorporation, applicable law and regulations, and policy statements described herein. Our tiny technology investment policy is not a "fundamental policy" under the 1940 Act and, accordingly, may be changed without shareholder approval, although we will give shareholders at least 60 days prior written notice of any change.

Our business is subject to federal regulation under the 1940 Act, under which we have elected to operate as a business development company. As a business development company, we are subject to regulatory requirements, the most significant of which relate to our investments and borrowings. We are required to invest at least 70% of our assets in qualifying assets and, over time, at least 50% in "eligible portfolio companies." We must also maintain a coverage ratio of assets to senior securities (such as debt and preferred stock) of at least 200% immediately after giving effect to the issuance of any senior securities. We are also required to offer managerial assistance to our portfolio companies, in addition to our investment. For tax purposes, we are a RIC under the Internal Revenue Code of 1986. Because we do not have a diversification policy, both our status as a business development company and our status as a RIC allow us to commit all of our assets to relatively few investments in comparison to a company that is required to diversify its assets.

We believe that increasing our size should lower our expenses as a proportion of average net assets because some of our costs, such as administration and public company expenses, are fixed and can be spread over a larger asset base and will decline as a percentage of assets as our assets increase. In addition, with more assets, we expect the average size of our investments to increase. Each due diligence investigation entails expenses whether or not we complete the transaction, and the cost of due diligence, negotiation and documentation of our investments does not vary significantly with the size of the investment or intended investment.

Some expenses are expected to increase as new investments are made. We plan to add personnel to enable us to enlarge the scope of our activities and our expertise in tiny technology, and our hiring of new employees will increase with more assets under management. We also believe that a larger number of outstanding shares and a larger number of beneficial owners of shares could increase the level of our visibility and improve the trading liquidity of our shares on the Nasdaq National Market. We may not realize any of these benefits.

Tiny Technology

Tiny technology refers to microsystems, MEMS and nanotechnology, a variety of enabling technologies with critical dimensions below 100 micrometers, including both organic and inorganic processes. Tiny technology is neither an industry nor a single technology. Tiny technology manifests itself in tools, materials and devices that address broad markets, including instrumentation, electronics, photonics, computing, medical devices, pharmaceutical manufacturing, drug delivery and drug discovery. The development and commercialization of tiny technology often require the integration of multiple disciplines, including biology, physics, chemistry, materials sciences, computer science and the engineering sciences.

Examples of tiny technology-enabled products currently on the market are quite diverse. They include accelerometers used in automobiles to sense impact and deploy airbags, cosmetics with ingredients that block ultraviolet

light but that are invisible to the human eye, nanoclays used for strength in the running boards of minivans, textiles with liquid-stain repellent surfaces and fast acting painkillers.

Within tiny technology, microsystems and MEMS both refer to materials, devices and processes that are on a micrometer size scale. A micrometer, which is also referred to as a micron, is 0.000001 meter, or one millionth of a meter. In practice, any device from 100 microns down to 0.1 micron in size may be considered "micro." Nanotechnology refers to devices and processes with critical dimensions below 0.1 micron, equal to 100 nanometers. A nanometer is 0.000000001 meter, or one billionth of a meter. It is at the scale below 100 nanometers, the nanoscale, that quantum effects begin to dominate classical macroscale physics. At the nanoscale, size- and shape-dependent properties of materials allow previously unattainable material and device performance.

MEMS

MEMS often refer to three-dimensional devices with features between one and 100 microns that integrate electrical and mechanical structures. MEMS devices often contain a combination of sensors, actuators, mechanical structures and electronics that detect or respond to thermal, biological, chemical or optical information. To date, most commercial MEMS devices are batch fabricated out of silicon, using techniques based on standard semiconductor processes. Examples of devices incorpora