

HARRIS & HARRIS GROUP INC /NY/  
Form 10-Q  
May 10, 2011

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

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2011

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 0-11576

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

New York  
(State or Other Jurisdiction of  
Incorporation or Organization)

13-3119827  
(I.R.S. Employer Identification No.)

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

10018  
(Zip Code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer   
Non-accelerated filer

Accelerated filer   
Smaller reporting company

Edgar Filing: HARRIS & HARRIS GROUP INC /NY/ - Form 10-Q

(Do not check if a smaller reporting company)

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

Yes    "    No   

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

Class	Outstanding at May 10, 2011
Common Stock, \$0.01 par value per share	31,000,601 shares

---

Harris & Harris Group, Inc.  
Form 10-Q, March 31, 2011

	Page Number
<b>PART I. FINANCIAL INFORMATION</b>	
<b>Item 1. Consolidated Financial Statements</b>	<b>1</b>
Consolidated Statements of Assets and Liabilities	2
Consolidated Statements of Operations	3
Consolidated Statements of Cash Flows	4
Consolidated Statements of Changes in Net Assets	5
Consolidated Schedule of Investments	6
Notes to Consolidated Financial Statements	33
Financial Highlights	44
<b>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</b>	<b>45</b>
Background	45
Overview	45
Investment Strategy	47
Involvement with Portfolio Companies	47
Historical Investments and Current Investment Pace	48
Importance of Availability of Liquid Capital	49
Our Sources of Liquid Capital	49
Recent and Pending Potential Liquidity Events from our Portfolio as of March 31, 2011	50
Maturity of Current Equity-Focused Venture Capital Portfolio	50
Current Business Environment	52
Valuation of Investments	53
Assessment of Venture Capital Investment Portfolio as of March 31, 2011	56
Investment Objective	63
Results of Operations	64
Financial Condition	68
Liquidity	69
Borrowings	70
Contractual Obligations	71
Capital Resources	71
Critical Accounting Policies	71
Recent Developments – Portfolio Companies	74
Forward-Looking Statements	75
<b>Item 3. Quantitative and Qualitative Disclosures About Market Risk</b>	<b>75</b>
<b>Item 4. Controls and Procedures</b>	<b>77</b>
<b>PART II. OTHER INFORMATION</b>	
<b>Item 1A. Risk Factors</b>	<b>78</b>
<b>Item 5. Exhibits</b>	<b>78</b>

Signatures	79
Exhibit Index	80

---

## PART I. FINANCIAL INFORMATION

### Item 1. Consolidated Financial Statements

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

Harris & Harris Group, Inc.® (the "Company," "us," "our" and "we"), is an internally managed venture capital company that has elected to operate as a business development company ("BDC") under the Investment Company Act of 1940 (the "1940 Act"). Certain information and disclosures normally included in the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted as permitted by Regulation S-X and Regulation S-K. Accordingly, they do not include all information and disclosures necessary for a presentation of our financial position, results of operations and cash flows in conformity with GAAP. The results of operations for any interim period are not necessarily indicative of the results for the full year. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2010.

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

## ASSETS

	March 31, 2011 (Unaudited)	December 31, 2010
Investments in portfolio securities, at value:		
Unaffiliated privately held companies (cost: \$28,274,450 and \$37,480,266, respectively)	\$ 44,311,705	\$ 56,315,330
Unaffiliated publicly traded securities (cost: \$7,299,590 and \$0, respectively)	4,447,843	0
Non-controlled affiliated privately held companies (cost: \$51,752,650 and \$51,451,965, respectively)	42,541,213	42,775,415
Controlled affiliated privately held companies (cost: \$9,750,660 and \$9,715,153, respectively)	6,458,228	7,059,677
Total investments in private portfolio companies and public securities, at value (cost: \$97,077,350 and \$98,647,384, respectively)	\$ 97,758,989	\$ 106,150,422
Investments in U.S. Treasury obligations, at value (cost: \$39,196,567 and \$38,273,349, respectively)	39,196,328	38,274,617
Cash	7,054,254	3,756,919
Restricted funds (Note 3)	1,252,752	2,751
Milestone payments from sale of investment, at value (Note 3)	3,291,750	0
Funds held in escrow from sale of investment, at value (Note 3)	477,568	0
Receivable from unsettled trade	115,143	0
Receivable from portfolio company	14,500	10,000
Interest receivable	7,958	5,924
Prepaid expenses	322,071	379,705
Other assets	682,962	708,830
Total assets	\$ 150,174,275	\$ 149,289,168

## LIABILITIES &amp; NET ASSETS

Post retirement plan liabilities	\$ 1,536,315	\$ 1,506,906
Revolving loan (Note 5)	1,250,000	0
Accounts payable and accrued liabilities	418,770	589,592
Deferred rent	333,361	338,758
Debt interest and other payable	3,084	0
Total liabilities	3,541,530	2,435,256
Net assets	\$ 146,632,745	\$ 146,853,912
Net assets are comprised of:	\$ 0	\$ 0

Preferred stock, \$0.10 par value, 2,000,000 shares authorized; none issued		
Common stock, \$0.01 par value, 45,000,000 shares authorized at 03/31/11 and 12/31/10; 32,826,341 issued at 03/31/11 and 32,706,904 issued at 12/31/10	328,264	327,070
Additional paid in capital	208,989,533	208,085,735
Accumulated net operating and realized loss	(59,960,921 )	(65,657,668 )
Accumulated unrealized appreciation of investments	681,400	7,504,306
Treasury stock, at cost (1,828,740 shares at 03/31/11 and 12/31/10)	(3,405,531 )	(3,405,531 )
Net assets	\$ 146,632,745	\$ 146,853,912
Shares outstanding	30,997,601	30,878,164
Net asset value per outstanding share	\$ 4.73	\$ 4.76

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

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

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
<b>Investment income:</b>		
<b>Interest from:</b>		
Fixed-income securities and bridge notes (Note 3)	\$ 121,777	\$ 73,073
Miscellaneous income	15,047	6,000
<b>Total investment income</b>	<b>136,824</b>	<b>79,073</b>
<b>Expenses:</b>		
Salaries, benefits and stock-based compensation (Note 7)	1,239,098	1,389,277
Administration and operations	256,558	282,522
Professional fees	247,848	243,369
Rent (Note 3)	89,500	77,215
Directors' fees and expenses	98,781	95,361
Custody fees	24,000	24,000
Depreciation	12,564	11,969
Interest and other debt expenses	3,778	0
Lease termination costs (Note 3)	0	68,038
<b>Total expenses</b>	<b>1,972,127</b>	<b>2,191,751</b>
<b>Net operating loss</b>	<b>(1,835,303 )</b>	<b>(2,112,678 )</b>
<b>Net realized gain (loss):</b>		
<b>Realized gain (loss) from investments:</b>		
Unaffiliated companies	7,534,340	0
U.S. Treasury obligations/other	0	(11,523 )
<b>Realized gain (loss) from investments</b>	<b>7,534,340</b>	<b>(11,523 )</b>
<b>Income tax expense (Note 8)</b>	<b>2,290</b>	<b>2,632</b>
<b>Net realized gain (loss) from investments</b>	<b>7,532,050</b>	<b>(14,155 )</b>
<b>Net (decrease) increase in unrealized appreciation on investments:</b>		
Change as a result of investment sales	(7,467,614 )	0
Change on investments held	644,708	3,814,564
<b>Net (decrease) increase in unrealized appreciation on investments</b>	<b>(6,822,906 )</b>	<b>3,814,564</b>
<b>Net (decrease) increase in net assets resulting from operations:</b>		
<b>Total</b>	<b>\$ (1,126,159 )</b>	<b>\$ 1,687,731</b>
<b>Per average basic and diluted outstanding share</b>	<b>\$ (0.04 )</b>	<b>\$ 0.05</b>



Average outstanding shares	30,918,981	30,859,888
----------------------------	------------	------------

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

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

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Cash flows (used in) providedA by operating activities:		
Net (decrease) increase in net assets resulting from operations	\$ (1,126,159 )	\$ 1,687,731
Adjustments to reconcile net (decrease) increase in net assets resulting from operations to net cash used in operating activities:		
Net realized gain and unrealized appreciation on investments	(711,434 )	(3,803,041 )
Depreciation of fixed assets, amortization of premium or discount on securities, and bridge note interest	(69,815 )	(41,107 )
Stock-based compensation expense	427,314	553,272
Changes in assets and liabilities:		
Restricted funds	(1,250,001 )	0
Receivable from unsettled trade	(115,143 )	0
Receivable from portfolio company	(4,500 )	28,247
Interest receivable	17,198	12,589
Receivable from investments sold	0	(799,925 )
Prepaid expenses	57,634	(244,413 )
Other assets	13,067	(260,892 )
Post retirement plan liabilities	29,409	33,051
Accounts payable and accrued liabilities	(167,738 )	93,740
Deferred rent	(5,397 )	319,534
Net cash used in operating activities	(2,905,565 )	(2,421,214 )
Cash flows from investing activities:		
Purchase of U.S. government securities	(59,188,063 )	(2,399,293 )
Sale of U.S. government securities	58,245,613	5,199,533
Investment in affiliated portfolio companies	(272,369 )	(1,171,975 )
Investment in unaffiliated portfolio companies	(2,262,305 )	(503,083 )
Proceeds from conversion of bridge note	0	1,356
Purchase of fixed assets	0	(80,516 )
Principal payments received on debt investments	20,876	0
Proceeds from sale of investments	7,931,470	0
Net cash provided by investing activities	4,475,222	1,046,022
Cash flows from financing activities:		
Proceeds from stock option exercises	477,678	9,949
Payment of offering costs	0	(48,928 )
Proceeds from drawdown of credit facility	1,250,000	0
Net cash provided by (used in) financing activities	1,727,678	(38,979 )
Net increase (decrease) in cash:		
Cash at beginning of the period	3,756,919	1,611,465
Cash at end of the period	7,054,254	197,294

Net increase (decrease) in cash	\$	3,297,335	\$	(1,414,171 )
---------------------------------	----	-----------	----	--------------

Supplemental disclosures of cash flow information:

Income