

HARRIS & HARRIS GROUP INC /NY/
Form 10-Q
November 10, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2014

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

For the transition period from _____ to _____

Commission file number: 0-11576

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

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

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

(212) 582-0900

(Registrant's Telephone Number, Including Area Code)

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

Yes No

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

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes No

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

Class	Outstanding at November 10, 2014
Common Stock, \$0.01 par value per share	31,245,664 shares

Harris & Harris Group, Inc.

Form 10-Q, September 30, 2014

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

In the opinion of management, these financial statements reflect all adjustments, consisting of valuation adjustments and normal recurring accruals, necessary for a fair statement of our financial position, results of operations and cash flows for such periods.

Harris & Harris Group, Inc.[®] (the "Company," "us," "our" and "we"), is an internally managed, non-diversified management investment company that has elected to operate as a business development company ("BDC") under the Investment Company Act of 1940 (the "1940 Act"). Certain information and disclosures normally included in the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted as permitted by Regulation S-X and Regulation S-K. Accordingly, they do not include all information and disclosures necessary for a fair presentation of our financial position, results of operations and cash flows in conformity with GAAP. The results of operations for any interim period are not necessarily indicative of the results for the full year. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2013.

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

	September 30, 2014	December 31, 2013
ASSETS		
Investments, in portfolio securities at value:		
Unaffiliated privately held companies (cost: \$22,530,919 and \$29,277,213, respectively)	\$ 12,986,116	\$ 29,199,564
Unaffiliated rights to milestone payments (adjusted cost basis: \$2,387,278 and \$3,291,750, respectively)	3,180,287	3,489,433
Unaffiliated publicly traded securities (cost: \$1,741,128 and \$2,451,410, respectively)	2,253,701	5,570,796
Non-controlled affiliated privately held companies (cost: \$68,332,012 and \$71,843,448, respectively)	64,927,112	54,287,040
Non-controlled affiliated publicly traded securities (cost: \$5,591,299 and \$0, respectively)	10,389,092	0
Controlled affiliated privately held companies (cost: \$10,078,252 and \$9,065,972, respectively)	2,935,127	1,352,626
Total, investments in private portfolio companies, rights to milestone payments and public securities at value (cost: \$110,660,888 and \$115,929,793, respectively)	\$ 96,671,435	\$ 93,899,459
Investments, in U.S. Treasury securities at value (cost: \$0 and \$18,999,765, respectively)	0	18,999,810
Cash	22,450,225	8,538,548
Receivable from rights to milestone payments (Note 3)	2,070,955	0
Receivable from sales of investments (Note 3)	21,420	448,886
Funds held in escrow from sales of investments at value (Note 3)	305,965	1,786,390
Receivable from portfolio company	0	54,160
Interest receivable	20,076	22,804
Prepaid expenses (Note 3)	622,767	991,409
Other assets	288,763	322,480
Total assets	\$ 122,451,606	\$ 125,063,946
LIABILITIES & NET ASSETS		
Post retirement plan liabilities (Note 8)	\$ 1,169,038	\$ 1,120,262
Accounts payable and accrued liabilities	781,364	785,608
Deferred rent	342,230	353,001
Written call options payable (premiums received: \$0 and \$112,382, respectively) (Note 7)	0	103,500
Total liabilities	2,292,632	2,362,371

Commitments and contingencies (Note 12)

Net assets	\$ 120,158,974	\$ 122,701,575
Net assets are comprised of:		
Preferred stock, \$0.10 par value, 2,000,000 shares authorized; none issued	\$ 0	\$ 0
Common stock, \$0.01 par value, 45,000,000 shares authorized at 9/30/14 and 12/31/13; 33,074,404 and 33,026,178 issued at 9/30/14 and 12/31/13, respectively	330,744	330,262
Additional paid in capital (Note 9)	214,992,370	214,320,241
Accumulated net operating and realized loss	(78,539,604) (67,449,176)
Accumulated unrealized depreciation of investments	(13,989,453) (22,021,407)
Accumulated other comprehensive income (Note 8)	770,448	927,186
Treasury stock, at cost (1,828,740 shares at 9/30/14 and 12/31/13)	(3,405,531) (3,405,531)
Net assets	\$ 120,158,974	\$ 122,701,575
Shares outstanding	31,245,664	31,197,438
Net asset value per outstanding share	\$ 3.85	\$ 3.93

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

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

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2014	2013	2014	2013
Investment income:				
Interest from:				
Unaffiliated companies	\$ 21,555	\$ 58,363	\$ 108,237	\$ 190,209
Non-controlled affiliated companies	(27,703)	9,187	55,668	111,957
Controlled affiliated companies	40,382	28,441	111,715	72,377
Cash and U.S. Treasury securities and other	1,796	3,115	8,274	12,148
Fees for providing managerial assistance to portfolio companies	37,500	0	37,500	0
Yield-enhancing fees on debt securities	19,843	15,919	52,105	43,387
Rental income from sublease	0	20,000	0	80,000
Total investment income	93,373	135,025	373,499	510,078
Expenses:				
Salaries, benefits and stock-based compensation (Note 9)	1,127,028	1,305,405	3,786,814	4,065,804
Administration and operations	108,908	125,003	446,348	429,045
Professional fees	365,557	311,428	962,780	974,296
Interest and other debt expense	94,831	9,885	282,827	21,590
Directors' fees and expenses	91,875	53,687	278,283	184,563
Rent	69,389	98,539	217,480	301,240
Insurance expense	84,006	96,179	251,946	268,482
Custody fees	16,200	13,919	45,219	41,693
Depreciation	13,182	13,774	39,632	41,670
Total expenses	1,970,976	2,027,819	6,311,329	6,328,383
Net operating loss	(1,877,603)	(1,892,794)	(5,937,830)	(5,818,305)
Net realized (loss) gain:				
Realized (loss) gain from investments:				
Unaffiliated companies	15,475	0	3,962,313	105,313
Unaffiliated rights to milestone payments	536,813	0	536,813	0
Non-Controlled affiliated companies	(4,488,575)	10,006,915	(11,199,638)	5,770,882
Publicly traded companies	0	2,845,191	1,333,497	11,389,252
Written call options	145,426	42,049	232,079	(84,713)
Purchased put options	0	0	0	(72,209)
Realized (loss) gain from investments	(3,790,861)	12,894,155	(5,134,936)	17,108,525
Income tax expense (Note 10)	1,676	3,343	17,662	25,514

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Net realized (loss) gain from investments	(3,792,537)	12,890,812	(5,152,598)	17,083,011
Net decrease (increase) in unrealized depreciation on investments:				
Investments	4,857,214	(13,424,568)	8,040,836	(11,371,863)
Written call options	(97,926)	330,388	(8,882)	55,564
Net decrease (increase) in unrealized depreciation on investments	4,759,288	(13,094,180)	8,031,954	(11,316,299)
Net realized and unrealized gain (loss) on investments	966,751	(203,368)	2,879,356	5,766,712
Net decrease in net assets resulting from operations:				
Total	\$ (910,852)	\$ (2,096,162)	\$ (3,058,474)	\$ (51,593)
Per average basic and diluted outstanding share	\$ (0.03)	\$ (0.07)	\$ (0.10)	\$ (0.00)
Average outstanding shares – basic and diluted	31,245,664	31,159,256	31,215,069	31,131,654

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

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

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2014	2013	2014	2013
Net decrease resulting from operations	\$ (910,852)	\$ (2,096,162)	\$ (3,058,474)	\$ (51,593)
Other comprehensive income (loss):				
Prior service cost (Note 8)	0	0	0	1,101,338
Amortization of prior service cost	(52,246)	(43,538)	(156,738)	(130,614)
Other comprehensive (loss) income	(52,246)	(43,538)	(156,738)	