

HARRIS & HARRIS GROUP INC /NY/
Form 10-Q
November 08, 2010

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 September 30, 2010

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 Accelerated filer

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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 8, 2010
Common Stock, \$0.01 par value per share	30,872,858 shares

Harris & Harris Group, Inc.
Form 10-Q, September 30, 2010

	Page Number
PART I. FINANCIAL INFORMATION	
Item 1. Consolidated Financial Statements	1
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	32
Financial Highlights	43
Item 2. Management's Discussion and Analysis of Financial Condition	
and Results of Operations	44
Background and Overview	44
Investment Strategy	45
Historical Investments	45
Investment Pace	46
Importance of Availability of Liquid Capital	46
Involvement with Portfolio Companies	48
Commercialization of Nanotechnology by Our Portfolio Companies	48
Maturity of Current Venture Capital Portfolio	51
Current Business Environment	54
Valuation of Investments	55
Investment Objective	59
Results of Operations	60
Financial Condition	68
Liquidity	70
Capital Resources	71
Critical Accounting Policies	71
Recent Developments – Portfolio Companies	74

Forward-Looking Statements	74
Item 3. Quantitative and Qualitative Disclosures About Market Risk	75
Item 4. Controls and Procedures	77
PART II. OTHER INFORMATION	
Item 1A. Risk Factors	78
Item 5. Exhibits	79
Signatures	80
Exhibit Index	81

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, 2009.

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

ASSETS

	September 30, 2010 (Unaudited)	December 31, 2009
Investments, in portfolio securities at value:		
Unaffiliated privately held companies (cost: \$37,470,081 and \$26,977,200, respectively)	\$ 47,369,210	\$ 21,656,436
Unaffiliated publicly traded securities (cost: \$0 and \$298,827, respectively)	0	226,395
Non-controlled affiliated privately held companies (cost: \$51,536,674 and \$54,864,948, respectively)	40,978,655	50,297,220
Controlled affiliated privately held companies (cost: \$9,380,567 and \$10,248,932, respectively)	8,431,564	5,843,430
Total, investments in privately held and publicly traded securities at value (cost: \$98,387,322 and \$92,389,907, respectively)	\$ 96,779,429	\$ 78,023,481
Investments, in U.S. Treasury obligations at value (cost: \$43,861,592 and \$55,960,024, respectively)	43,860,344	55,947,581
Cash	256,103	1,611,465
Restricted funds	2,001	2,000
Receivable from portfolio company	10,000	28,247
Interest receivable	2,104	25,832
Prepaid expenses	97,996	94,129
Other assets	622,244	376,366
Total assets	\$ 141,630,221	\$ 136,109,101

LIABILITIES & NET ASSETS

Post retirement plan liabilities	\$ 1,471,159	\$ 1,369,843
Accounts payable and accrued liabilities	532,717	579,162
Deferred rent	345,835	1,838
Total liabilities	2,349,711	1,950,843
Net assets	\$ 139,280,510	\$ 134,158,258
Net assets are comprised of:		
Preferred stock, \$0.10 par value, 2,000,000 shares authorized; none issued	\$ 0	\$ 0

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Common stock, \$0.01 par value, 45,000,000 shares
authorized at

09/30/10 and 12/31/09; 32,698,945 issued at

09/30/10

and 32,688,333 issued at 12/31/09

	326,990	326,884
Additional paid in capital (Note 8)	207,714,612	205,977,117
Accumulated net operating and realized loss	(63,746,420)	(54,361,343)
Accumulated unrealized depreciation of investments	(1,609,141)	(14,378,869)
Treasury stock, at cost (1,828,740 shares at 09/30/10 and 12/31/09)	(3,405,531)	(3,405,531)
Net assets	\$ 139,280,510	\$ 134,158,258
Shares outstanding	30,870,205	30,859,593
Net asset value per outstanding share	\$ 4.51	\$ 4.35

The accompanying 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,	
	2010	2009	2010	2009
Investment income:				
Interest from:				
Fixed-income securities and bridge notes (Note 3)	\$ 134,097	\$ 99,677	\$ 330,378	\$ 138,862
Miscellaneous income	6,348	6,000	18,348	27,088
Total investment income	140,445	105,677	348,726	165,950
Expenses:				
Salaries, benefits and stock-based compensation (Note 6)	1,327,055	1,727,743	4,181,852	4,621,680
Administration and operations	201,222	225,044	711,990	746,640
Professional fees	136,643	190,942	556,878	558,483
Rent (Note 3)	136,879	79,617	303,239	236,678
Directors' fees and expenses	70,359	79,136	251,280	252,745
Custody fees	24,000	33,515	72,000	51,457
Depreciation	13,151	12,633	38,940	38,370
Lease termination costs (Note 3)	0	0	68,038	0
Total expenses	1,909,309	2,348,630	6,184,217	6,506,053
Net operating loss	(1,768,864)	(2,242,953)	(5,835,491)	(6,340,103)
Net realized gain (loss):				
Realized gain (loss) from investments:				
Unaffiliated companies	0	0	13,218	(1,514,330)
Non-Controlled affiliated companies	(3,136,552)	(3,176,125)	(3,393,559)	(3,176,125)
Publicly traded companies	0	0	(152,980)	0
U.S. Treasury obligations/other	(311)	0	(11,834)	(325)
Realized loss from investments	(3,136,863)	(3,176,125)	(3,545,155)	(4,690,780)
Income tax expense (benefit) (Note 7)	1,799	(2,862)	4,431	(753)
Net realized loss	(3,138,662)	(3,173,263)	(3,549,586)	(4,690,027)
Net decrease in unrealized depreciation on investments:				
Change as a result of investment sales	3,136,552	3,180,240	3,358,871	4,691,282
Change on investments held	1,316,942	1,939,657	9,410,857	5,512,472
Net decrease in unrealized depreciation on investments	4,453,494	5,119,897	12,769,728	10,203,754
Net (decrease) increase in net assets resulting from operations	\$ (454,032)	\$ (296,319)	\$ 3,384,651	\$ (826,376)

Per average basic outstanding share	\$	(0.01)	\$	(0.01)	\$	0.11	\$	(0.03)
Average outstanding shares		30,866,399		25,866,983		30,863,616		25,862,070

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

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

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Cash flows used in operating activities:		
Net increase (decrease) in net assets resulting from operations	\$ 3,384,651	\$ (826,376)
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash used in operating activities:		
Net realized and unrealized gain on investments	(9,224,573)	(5,512,974)
Depreciation of fixed assets, amortization of premiums or discounts and bridge note interest	(260,793)	39,784
Stock-based compensation expense	1,746,734	2,425,525
Changes in assets and liabilities:		
Restricted funds	(1)	189,970
Receivable from portfolio company	18,247	0
Other receivables	7,187	(217)
Return of security deposits on leased properties	44,376	0
Interest receivable	11,513	2,044
Income tax receivable	0	(3,353)
Prepaid expenses	(3,867)	335,914
Other assets	(227,512)	(186,116)
Post retirement plan liabilities	101,316	(60,403)
Accounts payable and accrued liabilities	(46,445)	(147,329)
Deferred rent	343,997	(4,727)
Net cash used in operating activities	(4,105,170)	(3,748,258)
Cash flows from investing activities:		
Purchase of U.S. government securities	(58,644,919)	(112,308,457)
Sale of U.S. government securities	70,746,244	123,988,254
Investments in affiliated portfolio companies	(7,489,948)	(6,561,959)
Investments in unaffiliated portfolio companies	(2,177,123)	(973,915)
Proceeds from conversion of bridge note	1,356	0
Proceeds from sale of investments	407,543	7,365
Purchase of fixed assets	(84,212)	(1,313)
Net cash provided by investing activities	2,758,941	4,149,975
Cash flows from financing activities:		
Proceeds from stock option exercises	39,795	401,944
Payment of offering costs	(48,928)	0
Net cash (used in) provided by financing activities	(9,133)	401,944

Net decrease in cash:			
Cash at beginning of the period		1,611,465	692,309
Cash at end of the period.		256,103	1,495,970
Net (decrease) increase in cash	\$	(1,355,362)	\$ 803,661
Supplemental disclosures of cash flow information:			
Income taxes paid	\$	4,431	\$ 2,179

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

	Nine Months Ended September 30, 2010 (Unaudited)	Year Ended December 31, 2009
Changes in net assets from operations:		
Net operating loss	\$ (5,835,491)	\$ (8,761,215)
Net realized loss on investments	(3,549,586)	(11,105,577)
Net decrease in unrealized depreciation on investments as a result of sales	3,358,871	11,090,579
Net decrease in unrealized depreciation on investments held	9,410,857	8,627,748
Net increase (decrease) in net assets resulting from operations	3,384,651	(148,465)
Changes in net assets from capital stock transactions:		
Issuance of common stock upon the exercise of stock options	106	1,125
Issuance of common stock on offering	0	48,875
Additional paid-in capital on common stock issued and options exercised	(9,239)	21,636,090
Stock-based compensation expense	1,746,734	3,089,520
Net increase in net assets resulting from capital stock transactions	1,737,601	24,775,610
Net increase in net assets	5,122,252	24,627,145
Net assets:		
Beginning of the period	134,158,258	109,531,113
End of the period	\$ 139,280,510	\$ 134,158,258

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF SEPTEMBER 30, 2010
(Unaudited)

	Method of Valuation (1)	Industry (2)	Shares/ Principal	Value
Investments in Unaffiliated Companies (3)(4) – 34.0% of net assets at value				
Private Placement Portfolio (Illiquid) – 34.0% of net assets at value				
BioVex Group, Inc. (5)(6)(7)(8) -- Developing novel biologics for treatment of cancer and infectious disease				
		Healthcare/ Biotech		
Series E Convertible Preferred Stock	(M)		2,799,552	\$ 1,303,583
Series G Convertible Preferred Stock	(M)		6,964,034	1,462,448
Warrants for Series G Convertible Preferred Stock expiring 11/5/16				