

HARRIS & HARRIS GROUP INC /NY/
Form 10-Q
May 10, 2007

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 quarterly period ended March 31, 2007

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

(IRS Employer Identification No.)

111 West 57th Street, New York, New York

(Address of Principal Executive Offices)

10019

(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 is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

Yes No

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

| <u>Class</u> | <u>Outstanding at May 10, 2007</u> |
|--|------------------------------------|
| Common Stock, \$0.01 par value per share | 21,341,029 shares |

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

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

Harris & Harris Group, Inc.[®] (the "Company," "us," "our" and "we"), is an internally managed venture capital company that has operated as a business development company under the Investment Company Act of 1940 (the "1940 Act"). Certain information and disclosures normally included in the consolidated financial statements in accordance with Generally Accepted Accounting Principles have been condensed or omitted as permitted by Regulation S-X and Regulation S-K. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2006, contained in our Annual Report on Form 10-K for the year ended December 31, 2006.

On September 25, 1997, our Board of Directors approved a proposal to seek qualification as a regulated investment company ("RIC") under Subchapter M of the Internal Revenue Code (the "Code"). At that time, we were taxable under Subchapter C of the Code (a "C Corporation"). In order to qualify as a RIC, we must, in general (1) annually, derive at least 90 percent of our gross income from dividends, interest, gains from the sale of securities and similar sources; (2) quarterly, meet certain investment diversification requirements; and (3) annually, distribute at least 90 percent of our investment company taxable income as a dividend. In addition to the requirement that we must annually distribute at least 90 percent of our investment company taxable income, we may either distribute or retain our taxable net capital gains from investments, but any net capital gains not distributed could be subject to corporate level tax. Further, we could be subject to a four percent excise tax to the extent we fail to distribute at least 98 percent of our annual investment company taxable income and would be subject to income tax to the extent we fail to distribute 100 percent of our investment company taxable income.

Because of the specialized nature of our investment portfolio, we generally can satisfy the diversification requirements under Subchapter M of the Code if we receive a certification from the Securities and Exchange Commission ("SEC") that we are "principally engaged in the furnishing of capital to other corporations which are principally engaged in the development or exploitation of inventions, technological improvements, new processes, or products not previously generally available."

On June 16, 2006, we received SEC certification for 2005, permitting us to qualify for RIC treatment for 2005 (as we had for the years 1999 through 2004) pursuant to Section 851(e) of the Code. Although the SEC certification for 2005 was issued, there can be no assurance that we will qualify for or receive such certification for subsequent years (to the extent we need additional certification as a result of changes in our portfolio) or that we will actually qualify for Subchapter M treatment in subsequent years. In addition, under certain circumstances, even if we qualified for Subchapter M treatment in a given year, we might take action in a subsequent year to ensure that we would be taxed in that subsequent year as a C Corporation, rather than as a RIC. On March 29, 2007, we filed for RIC certification under Section 851(e) of the Code for 2006, although we qualified as a RIC in 2006 without such certification.

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

| | March 31, 2007 | December 31, |
|--|-----------------------|-----------------------|
| | (Unaudited) | 2006 |
| <u>ASSETS</u> | | |
| Investments, at value (Cost: \$125,055,760 at 3/31/07, \$121,331,398 at 12/31/06) | \$ 112,410,877 | \$ 112,323,978 |
| Cash and cash equivalents | 550,452 | 2,071,788 |
| Restricted funds | 2,258,665 | 2,149,785 |
| Receivable from broker | 0 | 819,905 |
| Interest receivable | 563,375 | 625,372 |
| Prepaid expenses | 427,580 | 10,945 |
| Other assets | 297,754 | 326,817 |
| Total assets | \$ 116,508,703 | \$ 118,328,590 |
| <u>LIABILITIES & NET ASSETS</u> | | |
| Accounts payable and accrued liabilities | \$ 3,906,008 | \$ 4,115,300 |
| Accrued profit sharing (Note 5) | 0 | 261,661 |
| Deferred rent | 19,626 | 21,326 |
| Current taxes payable | 56,767 | 0 |
| Total liabilities | 3,982,401 | 4,398,287 |
| Net assets | \$ 112,526,302 | \$ 113,930,303 |
| 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 3/31/07 and 12/31/06; 23,169,769 issued at 3/31/07 and 22,843,757 issued at 12/31/06 | 231,698 | 228,438 |
| Additional paid-in capital (Note 8) | 134,784,100 | 129,801,201 |
| Accumulated net realized loss | (6,500,609) | (3,747,912) |
| Accumulated unrealized depreciation of investments | (12,644,883) | (9,007,420) |
| Unrecognized net gain on retirement benefit plans | 61,527 | 61,527 |
| Treasury stock, at cost (1,828,740 shares at 3/31/07 and 1,828,740 shares at 12/31/06) | (3,405,531) | (3,405,531) |
| Net assets | \$ 112,526,302 | \$ 113,930,303 |
| Shares outstanding | 21,341,029 | 21,015,017 |
| Net asset value per outstanding share | \$ 5.27 | \$ 5.42 |

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, 2007 | Three Months Ended March 31, 2006 |
|--------------------------------|--|--|
| Investment income: | | |
| Interest from: | | |
| Fixed income securities | \$ 652,498 | \$ 802,362 |
| Miscellaneous income | 0 | 2,500 |
| Total investment income | 652,498 | 804,862 |