

HARRIS & HARRIS GROUP INC /NY/
Form 10-Q
November 09, 2016

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, 2016

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)

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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 | Shares outstanding at November 8, 2016 |
|--|--|
| Common Stock, \$0.01 par value per share | 30,880,829 shares |

Harris & Harris Group, Inc.
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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, 2015.

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

| | September 30, 2016 | December 31, 2015 |
|--|-----------------------|----------------------|
| ASSETS | | |
| Investments, in portfolio securities at value: | | |
| Unaffiliated privately held companies (cost: \$10,878,510 and \$18,857,235, respectively) | \$4,715,016 | \$5,376,472 |
| Unaffiliated rights to milestone payments (adjusted cost basis: \$781,863 and \$781,863, respectively) | 3,442,745 | 3,362,051 |
| Unaffiliated publicly traded securities (cost: \$2,664,644 and \$1,623,029, respectively) | 922,605 | 957,544 |
| Non-controlled affiliated privately held companies (cost: \$51,750,473 and \$49,262,921, respectively) | 45,985,741 | 41,909,262 |
| Non-controlled affiliated publicly traded companies (cost: \$17,073,716 and \$23,165,788, respectively) | 5,431,815 | 18,371,105 |
| Controlled affiliated privately held companies (cost: \$24,382,537 and \$23,205,336, respectively) | 7,247,421 | 7,010,534 |
| Equity method privately held companies (adjusted cost basis: \$251,244 and \$165,936, respectively) | 251,244 | 165,936 |
| Total, investments in private portfolio companies, rights to milestone payments and public securities at value (cost: \$107,782,987 and \$117,062,108, respectively) | 67,996,587 | 77,152,904 |
| Cash | 13,384,820 | 17,922,630 |
| Funds held in escrow from sales of investments at value (Note 3) | 116,872 | 374,565 |
| Receivable from portfolio companies | 26,081 | 13,032 |
| Receivable from sale of investments (Note 3) | 53,162 | 0 |
| Interest receivable | 189,512 | 10,333 |
| Prepaid expenses | 274,586 | 563,699 |
| Other assets | 381,054 | 424,123 |
| Total assets | \$82,422,674 | \$96,461,286 |
| LIABILITIES & NET ASSETS | | |
| Term loan credit facility (Note 5) | \$5,000,000 | \$5,000,000 |
| Post retirement plan liabilities (Note 8) | 1,231,910 | 1,202,148 |
| Accounts payable and accrued liabilities | 632,715 | 1,268,355 |
| Deferred rent | 235,100 | 279,112 |
| Total liabilities | \$7,099,725 | \$7,749,615 |
| Commitments and contingencies (Note 11) | | |
| Net assets | \$75,322,949 | \$88,711,671 |
| 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 9/30/16 and 12/31/15; 33,218,651 and 33,183,576 issued at 9/30/16 and 12/31/15, respectively | 332,186 | 331,836 |
| Additional paid in capital (Note 9) | 215,787,335 | 215,762,973 |
| Accumulated net operating and realized loss | (96,757,129) | (83,377,629) |
| Accumulated unrealized depreciation of investments | (39,786,400) | (39,909,204) |
| Accumulated other comprehensive income (Note 8) | 352,482 | 509,220 |
| Treasury stock, at cost (2,337,822 shares at 9/30/16 and 12/31/15) (Note 12) | (4,605,525) | (4,605,525) |

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| | | |
|---------------------------------------|--------------|--------------|
| Net assets | \$75,322,949 | \$88,711,671 |
| Shares outstanding | 30,880,829 | 30,845,754 |
| Net asset value per outstanding share | \$2.44 | \$2.88 |

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

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

| | Three Months Ended | Nine Months Ended | | |
|---|--------------------|---|--------------------|---|
| | September 30, 2016 | September 30, 2015 | September 30, 2016 | September 30, 2015 |
| Investment income: | | | | |
| Interest from: | | | | |
| Unaffiliated companies | \$ 5,319 | \$ 6,785 | \$ 11,629 | \$ 27,561 |
| Non-controlled affiliated companies | 105,572 | 44,886 | 258,444 | 299,208 |
| Controlled affiliated companies | 103,558 | 72,759 | 289,700 | 164,392 |
| Cash and U.S. Treasury securities and other | 478 | 4,599 | 2,827 | 9,347 |
| Fees for providing managerial assistance to portfolio companies (Note 14) | 315,250 | 71,359 | 685,103 | 84,859 |
| Yield-enhancing fees on debt securities | 35,975 | 44,014 | 80,533 | 90,062 |
| | | | | An investment adviser in accordance with Rule 13d-1(b)(1)(ii)(E). |
| (f) | o | An employee benefit plan or endowment fund in accordance with Rule 13d-1(b)(1)(ii)(F). | | |
| (g) | o | A parent holding company or control person in accordance with Rule 13d-1(b)(1)(ii)(G). | | |
| (h) | o | A savings association as defined in Section 3(b) of the Federal Deposit Insurance Act. | | |
| (i) | o | A church plan that is excluded from the definition of an investment company under Section 3(c)(14) of the Investment Company Act; | | |
| (j) | o | Group, in accordance with Rule 13d-1(b)(1)(ii)(J). | | |

If this statement is filed pursuant to Rule 13d-1(c), check this box

ITEM 4. OWNERSHIP.

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Provide the following information regarding the aggregate number and percentage of the class of securities of the issuer identified in Item 1.

(a) Amount beneficially owned:

(i) The Onshore Fund beneficially owns 132,891 shares of Common Stock consisting of: (A) 128,646 shares of Common Stock and (B) preferred stock convertible into 4,245 shares of Common Stock.

(ii) The Institutional Fund beneficially owns 277,450 shares of Common Stock consisting of: (A) 268,747 shares of Common Stock and (B) preferred stock convertible into 8,703 shares of Common Stock.

(iii) The Offshore Fund beneficially owns 77,704 shares of Common Stock consisting of: (A) 75,222 shares of Common Stock and (B) preferred stock convertible into 2,482 shares of Common Stock.

(iv) MCM beneficially owns 520,006 shares of Common Stock

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consisting of: (A) the 488,045 shares of Common Stock beneficially owned the Funds and (B) 31,961 shares of Common Stock beneficially owned by the Separately Managed Account (which consists of 30,962 shares of Common Stock and preferred stock convertible into 999 shares of Common Stock).

(v) Mr. Mykytyn may be deemed to be the beneficial owner of 665,006 shares of Common Stock consisting of: (A) the 520,006 shares of Common Stock beneficially owned by MCM and (B) 145,000 shares of Common Stock held in retirement accounts for the benefit of himself and his wife and shares of Common Stock held in a joint account with his wife (in the aggregate, such shares consist of 135,000 shares of Common Stock and preferred stock convertible into 10,000 shares of Common Stock).

(vi) Collectively, the Reporting Persons beneficially own 665,006 shares of Common Stock.

(b) Percent of Class:

(i) The Onshore Fund's beneficial ownership of 132,646 shares of Common Stock represents 1.0% of all of the outstanding shares of Common Stock.

(ii) The Institutional Fund's beneficial ownership of 277,450 shares of Common Stock represents 2.1% of all of the outstanding shares of Common Stock.

(iii) The Offshore Fund's beneficial ownership of 77,704 shares of Common Stock represents 0.6% of all of the outstanding shares of Common Stock.

(iv) MCM's beneficial ownership of 520,006 shares of Common Stock represents 4.0% of all of the outstanding shares of Common Stock.

(v) Mr. Mykytyn's beneficial ownership of 665,006 shares of Common Stock represents 5.1% of all of the outstanding shares of Common Stock.

(vi) Collectively, the Reporting Persons' beneficial ownership of 665,006 shares of Common Stock represents 5.1% of all of the outstanding shares of Common Stock.

(c) Number of shares as to which such person has:

(i) Sole power to vote or to direct the vote

Not applicable.

(ii) Shared power to vote or to direct the vote of shares of Common Stock:

The Onshore Fund, MCM and Mr. Mykytyn have shared power to vote or direct the vote of the 132,891 shares of Common Stock held by the Onshore Fund.

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The Institutional Fund, MCM and Mr. Mykytyn have shared power to vote or direct the vote of the 277,450 shares of Common Stock held by the Institutional Fund.

The Offshore Fund, MCM and Mr. Mykytyn have shared power to vote or direct the vote of the 77,704 shares of Common Stock held by the Offshore Fund.

MCM and Mr. Mykytn have shared power to vote or direct the vote of the 31,961 shares of Common Stock held by the Separately Managed Account.

Mr. Mykytyn has shared power to vote or direct the vote of the 145,000 shares of Common Stock held in retirement accounts for the benefit of himself and his wife and the shares of Common Stock held in a joint account with his wife.

(iii) Sole power to dispose or to direct the disposition of shares of Common Stock:

Not applicable.

(iv) Shared power to dispose or to direct the disposition of shares of Common Stock:

The Onshore Fund, MCM and Mr. Mykytyn have shared power to dispose or direct the disposition of the 132,891 shares of Common Stock held by the Onshore Fund.

The Institutional Fund, MCM and Mr. Mykytyn have shared power to dispose or direct the disposition of the 277,450 shares of Common Stock held by the Institutional Fund.

The Offshore Fund, MCM and Mr. Mykytyn have shared power to dispose or direct the disposition of the 77,704 shares of Common Stock held by the Offshore Fund.

MCM and Mr. Mykytn have shared power to dispose or direct the disposition of the 31,961 shares of Common Stock held by the Offshore Fund.

Mr. Mykytn has shared power to dispose or direct the disposition of the 145,000 shares of Common Stock held in retirement accounts for the benefit of himself and his wife and the shares of Common Stock held in a joint account with his wife.

ITEM 5. OWNERSHIP OF FIVE PERCENT OR LESS OF A CLASS.

If this statement is being filed to report the fact that as of the date hereof the Reporting Persons have ceased to be the beneficial owner of more than five percent of the class of securities, check the following o.

ITEM 6. OWNERSHIP OF MORE THAN FIVE PERCENT ON BEHALF OF ANOTHER

PERSON.

Not applicable.

ITEM 7. IDENTIFICATION AND CLASSIFICATION OF THE SUBSIDIARY WHICH ACQUIRED THE SECURITY BEING REPORTED ON BY THE PARENT HOLDING COMPANY.

The 77,704 shares of Common Stock beneficially owned by the Offshore Fund are held by Modern Capital Master Fund Ltd., a Cayman Islands company and a wholly-owned subsidiary of the Offshore Fund.

ITEM 8. IDENTIFICATION AND CLASSIFICATION OF MEMBERS OF THE GROUP.

See Exhibit B.

ITEM 9. NOTICE OF DISSOLUTION OF GROUP.

Not applicable.

ITEM 10. CERTIFICATION.

By signing below the undersigned certifies that, to the best of its or his knowledge and belief, the securities referred to above were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

SIGNATURE

After reasonable inquiry and to the best of its knowledge and belief, each of the undersigned certifies that the information set forth in this statement is true, complete, and correct.

Dated: July 30, 2009

MODERN CAPITAL FUND, LLC

By: Modern Capital Management LLC, as Manager

By: /s/ Dennis J. Mykytyn
Dennis J. Mykytyn, Managing Member

MODERN CAPITAL INSTITUTIONAL FUND LLC

By: Modern Capital Management LLC, as Manager

By: /s/ Dennis J. Mykytyn
Dennis J. Mykytyn, Managing Member

MODERN CAPITAL FUND LTD.

By: /s/ Dennis J. Mykytyn
Dennis J. Mykytyn, Director

MODERN CAPITAL MANAGEMENT LLC

By: /s/ Dennis J. Mykytyn
Dennis J. Mykytyn, Managing Member

/s/ Dennis J. Mykytyn

Dennis J. Mykytyn

EXHIBIT A

JOINT FILING AGREEMENT

The undersigned hereby agree that the statement on Schedule 13G with respect to the Common Stock of Dynex Capital, Inc. dated as of July 30, 2009 is, and any further amendments thereto signed by each of the undersigned shall be, filed on behalf of each of the undersigned pursuant to and in accordance with the provisions of Rule 13d-1(k) under the Securities Exchange Act of 1934, as amended.

Dated: July 30, 2009

MODERN CAPITAL FUND, LLC

By: Modern Capital Management LLC, as Manager

By: /s/ Dennis J. Mykytyn
Dennis J. Mykytyn, Managing Member

MODERN CAPITAL INSTITUTIONAL FUND LLC

By: Modern Capital Management LLC, as Manager

By: /s/ Dennis J. Mykytyn
Dennis J. Mykytyn, Managing Member

MODERN CAPITAL FUND LTD.

By: /s/ Dennis J. Mykytyn
Dennis J. Mykytyn, Director

MODERN CAPITAL MANAGEMENT LLC

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By: /s/ Dennis J. Mykytyn

Dennis J. Mykytyn, Managing Member

/s/ Dennis J. Mykytyn

Dennis J. Mykytyn

EXHIBIT B

Modern Capital Fund, LLC

Modern Capital Institutional Fund LLC

Modern Capital Fund Ltd.

Modern Capital Management LLC

Dennis J. Mykytyn