

HARRIS & HARRIS GROUP INC /NY/

Form 40-17G

March 24, 2017

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March 24, 2017 United States Securities and Exchange Commission Division of Investment Management Q00 F Street,
NE Washington, D.C. 20549 Re: Harris & Harris Group, Inc. File Number 814-000176 Dear Sir or Madam: Filed herewith is the
fidelity bond for Harris & Harris Group, Inc. as required by Rule Q7g-1 under the Investment Company Act of 1940 (the "1940 Act") for the periods covering
March 4, 2017 through March 4, 2018. Enclosed is a copy of the executed bond endorsements and the resolutions approved by a majority of the board of
directors of the company who are not "interested persons" as defined by Section 2(a)(19) of the 1940 Act. The premiums of the bond (\$16,250) have been paid
for the entire period covered by the bond. Please contact the undersigned at 212-582-0900, ext. 14 with any questions. Sincerely, /s/ Daniel B.
Wolfe Daniel B. Wolfe Chief Compliance Officer DBW/jm Enclosures

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ALL-23445b (07/13) Page 1 of 1 Policyholder Notice Commercial Lines Deregulation New York NOTICE: THESE POLICY FORMS AND THE APPLICABLE RATES ARE EXEMP FROM THE FILING REQUIREMENTS OF THE NEW YORK INSURANCE LAW AND REGULATIONS. HOWEVER, THE FORMS AND RATES MUST MEET THE MINIMUM STANDARDS OF THE NEW YORK INSURANCE LAW AND REGULATIONS. CLASS CODE 2-14076

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MPDC002 (4-99) Page 1 of 2 ACE American Insurance Company Management Protection Insurance Policy This Policy is issued by the stock insurance company listed above (herein "Insurer"). THIS POLICY IS A CLAIMS MADE POLICY. EXCEPT AS OTHERWISE PROVIDED HEREIN, THIS POLICY COVERS ONLY CLAIMS FIRST MADE AGAINST THE INSUREDS DURING THE POLICY PERIOD. PLEASE READ THIS POLICY CAREFULLY. DEFENSE AND CLAIMS EXPENSES ARE WITHIN THE LIMITS OF LIABILITY OF THIS POLICY. DECLARATIONS Policy No. DON G24581378 008 Item 1. Company: Harris & Harris Group, Inc. Principal Address: 1450 Broadway, 24th Floor New York, NY 10018 Item 2. A. Policy Period: From 12:01 A.M. 03/04/2017 To 12:01 A.M. 03/04/2018 (Local time at the address shown in Item 1) B. Limit Period: 1. Same as Policy period Yes No R. One Year within Policy Period Yes No Item 3. Limit of Liability: A. Single Aggregate Limit of Liability for all Coverage Parts, combined Granted Amount Yes No \$6,000,000 B. Separate Limits of Liability Yes No \$6,000,000 Coverage Part(s) Limit of Liability Financial Institution Bond \$6,000,000 Item 4. Coverage Parts Purchased Financial Institution Bond \$6,000,000 Item 5. Policy Premium: \$16,250 Annual Premium: \$16,250 Discovery Period: A. Additional Premium: 0% of Annual Premium B. Additional Period: 0 months

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Item 6. Notice to Insurer: A. Notice of Claim, Wrongful Act or Loss: CHUBB P.O. Box 5105 Scranton, PA 18505-0518 Fax: 877-746-4641
Email address for submitting Claims, ACEClaimsFirstNotice@acegroup.com Email address for all other correspondence,
ApolloProRskACEIncoming@acegroup.com B. All other notices: ACE USA Attn: Chief Underwriting Officer Q133 Avenue of the Americas,
32ND Floor New York, NY 10036 Item 7. Endorsements to the General Conditions and Limitations Effective at Inception: CC-24180c (03/14) –
Signatures MPLA001aNY (01/09) – New York Amendatory MPLL001NY (10/91) – New York Changes-Transfer of Duties MPNR001NY (04/98) – New
York NonRenewal Amendatory MP-4Z66 (05/00) – New York Amendatory (Regulation 121 – Claims Made) MPP/ICBB (04/10) – SEC Cancellation
MPP/ICBB (04/10) – Amend Deductible MS-5577 (03/17) -Social Engineering PF-46422 (07/15) – Trade or Economic Sanctions Endorsement
PF-17914a (04/16) – U.S. Treasury Department’s Office of Foreign Assets Control (“OFAC”) Advisory Notice to Policyholders ALL-20887a (03/16) – ACE
Producer Compensation Practices & Policies Date: Authorized Representative MPDC002 (4-99) Page 2 of 2 P3/03/2017

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MPGT 001 (04/99) Page 1 of 9 ACE American Insurance Company Management Protection Insurance Policy In consideration of the payment of the premium and in reliance on all statements made and information furnished by the Company to the Insurer in the Application, which is hereby made a part hereof, and subject to the foregoing Declarations and to all other terms of this Policy, the Company, the Insureds, and the Insurer agree as follows:

GENERAL CONDITIONS AND LIMITATIONS Q. TERMS AND CONDITIONS Except for the General Conditions and Limitations or unless stated to the contrary in any Coverage Part, the terms and conditions of each Coverage Part of this Policy apply only to that Coverage Part and shall not apply to any other Coverage Part of this Policy. Any term referenced in the General Conditions and Limitations which is defined in a Coverage Part shall, for purposes of coverage under that Coverage Part, have the meaning set forth in that Coverage Part. If any provision in the General Conditions and Limitations is inconsistent or in conflict with the terms and conditions of any Coverage Part, the terms and conditions of such Coverage Part shall control for purposes of that Coverage Part.

2. DEFINITIONS When used in this Policy:

A. Annual Premium means the original annualized premium and the fully annualized amount of any additional premiums charged by the Insurer for or during the Policy Period.

B. Application means all signed applications, including attachments and materials submitted therewith, for this Policy or for any policy issued by the Insurer of which this Policy is a direct or indirect renewal or replacement. All such applications, attachments and materials are deemed attached to and incorporated into this Policy.

C. Company means, collectively, the Parent Company and the Subsidiaries, including any such organization as a debtor in possession under United States bankruptcy law or an equivalent status under the law of any other country.

D. Defense Costs means reasonable costs, charges, fees (including but not limited to attorneys' fees and experts' fees) and expenses (other than regular or overtime wages, salaries or fees of the directors, officers or employees of the Company) incurred by the Insureds in defending or investigating Claims and the premium for appeal, attachment or similar bonds.

E. Discovery Period means the period for the extension of coverage, if exercised, described in Subsection 4 or 10(b) of these General Conditions and Limitations.

F. ERISA means the Employee Retirement Income Security Act of 1974, as amended, any similar state or local common or statutory law and any rules and regulations promulgated thereunder.

Executive Officers, either in the singular or plural, means with respect to any Company its chairperson, president, chief executive officer, chief financial officer, in-house general counsel and, solely with respect to the Employment Practices Coverage Part if granted, the director of human resources or equivalent position.

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Financial Impairment means the status of the Company resulting from (1) the appointment by any state or federal official, agency or court of any receiver, conservator, liquidator, trustee, rehabilitator or similar official to take control of, supervise, manage or liquidate the Company, or (2) the Company becoming a debtor in possession.

I. Insureds means, with respect to any Coverage Part, all organizations, plans and natural persons defined as Insureds thereunder.

J. Interrelated Wrongful Acts means all Wrongful Acts that have as a common nexus any fact, circumstance, situation, event, transaction, cause or series of related facts, circumstances, situations, events, transactions or causes.

K. Liability Coverage Part(s) means any Coverage Part of this Policy other than any Commercial Crime or Bond Coverage Part, if purchased.

L. Limit Period means the period described in Item 2(B) of the Declarations, subject to prior termination in accordance with Subsection 12 of these General Conditions and Limitations.

M. Parent Company means the organization first named in Item 1 of the Declarations.

N. Policy means, collectively, the Declarations, the Application, this policy form (including all attached Coverage Parts) and any endorsements hereto.

O. Policy Period means the period of time specified in Item 2(A) of the Declarations, subject to prior termination in accordance with Subsection 12 of these General Conditions and Limitations.

P. Pollutants means any substance located anywhere in the world exhibiting any hazardous characteristics as defined by, or identified on a list of hazardous substances issued by the United States Environmental Protection Agency or any federal, state, county, municipality or locality counterpart thereof. Such substances shall include, without limitation, solids, liquids, gaseous or thermal irritants, contaminants or smoke, vapor, soot, fumes, acids, alkalis, chemicals or waste materials. Pollutants shall also mean any other air emission, odor, waste water, oil or oil products, infectious or medical waste, asbestos or asbestos products, noise, and electric or magnetic or electromagnetic field.

Q. Subsidiary, either in the singular or plural, means:

1. any company in which more than 50% of the outstanding voting securities representing the present right to vote for election of directors is owned, directly or indirectly, in any combination, by one or more Companies, and
2. any foundation, charitable trust or political action committee controlled by one or more Companies.
3. ESTATES, LEGAL REPRESENTATIVES AND SPOUSES

The estates, heirs, legal representatives, assigns and spouses of Insured Persons shall be considered an Insured under any Liability Coverage Part; but coverage is afforded to such estates, heirs, legal representatives, assigns and spouses only for a Claim arising solely out of their status as such and, in the case of a spouse, where such Claim seeks damages from marital community property, jointly held property or property transferred from the Insured Person to the spouse. No coverage is provided for any Wrongful Act of an estate, heir, legal representative, assign or spouse. All terms and conditions of this Policy, including without limitation the Retention, applicable to Loss incurred by the Insured Person shall also apply to loss incurred by such estates, heirs, legal representatives, assigns and spouses.

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4. DISCOVERY PERIOD If the Insurer or the Insureds do not renew any Liability Coverage Part or if the Parent Company terminates any Liability Coverage Part, the Insureds shall have the right, upon payment of the additional premium described below, to an extension of the coverage granted by such Liability Coverage Part for the Discovery Period set forth in Item 5(B) of the Declarations following the effective date of such nonrenewal or termination, but only with respect to a covered Wrongful Act taking place prior to the effective date of such nonrenewal or termination. This right of extension shall lapse unless written notice of such election, together with payment of the additional premium due, is given by the Insureds to the Insurer within thirty (30) days following the effective date of termination or nonrenewal. The premium due for such Discovery Period with respect to any Liability Coverage Part shall equal that percent set forth in Item 5(A) of the Declarations of the Annual Premium for such Liability Coverage Part. The entire premium for such Discovery Period shall be deemed fully earned and non-refundable upon payment. The Insureds shall not be entitled to elect the Discovery Period under this Subsection 4 with respect to any Liability Coverage Part if a Discovery Period for such Liability Coverage Part is elected pursuant to Subsection Q0(b) of these General Conditions and Limitations.

U. LIMIT OF LIABILITY AND RETENTION For the purposes of this Policy, all Claims arising out of the same Wrongful Act and all Interrelated Wrongful Acts of the Insureds shall be deemed one Claim, and such Claim shall be deemed to be first made on the date the earliest of such Claims is first made against them, regardless of whether such date is before or during the Policy Period. All Loss resulting from a single Claim shall be deemed a single Loss. If a single aggregate Limit of Liability for all Coverage Parts is granted as provided in Item 3(A) of the Declarations, the amount stated in Item 3(A) of the Declarations shall be the maximum aggregate liability of the Insurer under all Coverage Parts, combined, for each Limit Period, regardless of the number of Claims or losses or the time of payment by the Insurer. If separate Limits of Liability are granted as provided in Item 3(B) of the Declarations:

A. the maximum aggregate liability of the Insurer under each Liability Coverage Part for all covered Loss resulting from all Claims first made during each Limit Period shall be the respective Limit(s) of Liability for such Coverage Part as set forth in Item 3(B) of the Declarations, regardless of the time of payment by the Insurer; and

B. the maximum aggregate liability of the Insurer for all Loss during the Limit Period under all Insuring Clauses of the Commercial Crime or Bond Coverage Part shall be the aggregate Limit of Liability for such Coverage Part as set forth in the Declarations for such Coverage Part, regardless of the time of payment by the Insurer, provided:

i. the maximum liability of the Insurer for each Single Loss under any Insuring Clause of such Coverage Part shall be the respective Limit of Liability for such Insuring Clause as set forth in the Declarations for such Coverage Part; and

ii. if more than one Insuring Clause applies to a Single Loss, the maximum liability of the Insurer under all such Insuring Clauses, combined, with respect to such Single Loss shall be the largest of such applicable Limits of Liability. The Limits of Liability described in subparagraphs (i) and (ii) above are sublimits which further limit and do not increase the Insurer's maximum liability under such Coverage Part.

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MPGT 001 (04/99) Page 4 of 9 The Limit of Liability for the Discovery Period, if exercised, shall be part of and not in addition to the Limit of Liability for the Limit Period. The purchase of the Discovery Period shall not increase or reinstate the applicable Limit of Liability, which shall be the maximum liability of the Insurer for such Limit Period and Discovery Period, combined. Defense Costs shall be part of and not in addition to the applicable Limits of Liability set forth in the Declarations, and Defense Costs shall reduce such Limit of Liability. If the Limit of Liability with respect to the entire Policy or any Coverage Part is exhausted by payment of Loss, the Insurer's obligations under the entire Policy or such Coverage Part, respectively, shall be completely fulfilled and extinguished. The Insurer is entitled to pay Loss as it becomes due and payable by the Insureds, without consideration of other future payment obligations.

Except as otherwise provided in this Subsection 5, the Insurer's liability with respect to Loss arising from each Claim covered under one or more Liability Coverage Parts, and each Single Loss covered under the Commercial Crime or Bond Coverage Part, if purchased, shall apply only to that part of Loss which is excess of the applicable Retention Amount set forth in the Declarations for such Coverage Part(s), and such Retention Amount shall be borne by the Insureds uninsured and at their own risk. If different parts of a single Claim or Single Loss are subject to different Retentions, the applicable Retentions will be applied separately to each part of such Loss, but the sum of such Retentions shall not exceed the largest applicable Retention. Any Retention for Indemnified Loss under a Liability Coverage Part shall apply only to (i) Loss which is incurred by Insured Persons and is indemnified by the Company, and (ii) Loss which is incurred by all other Insureds. No Retention shall apply to Loss which is incurred by Insured Persons and is not indemnified by the Company. If the Company is permitted or required by common or statutory law to ultimately indemnify the Insured Persons for any Loss, or to advance Defense Costs on their behalf, under any Liability Coverage Part and does not in fact do so other than for reasons of Financial Impairment, then the Company shall reimburse and hold harmless the Insurer for the Insurer's payment or advancement of such Loss up to the amount of the Retention for Indemnified Loss under the applicable Liability Coverage Part.

V. NOTICE The Insureds shall, as a condition precedent to their rights under any Liability Coverage Part, give to the Insurer written notice of any Claim made against the Insureds as soon as practicable after any Executive Officer or the Company's risk manager first learns of such Claim, but in no event later than ninety (90) days after expiration of the Policy Period or, if exercised, during the Discovery Period. The Insureds shall, as a condition precedent to their rights under the Commercial Crime or Bond Coverage Part, give to the Insurer written notice of any Loss within 90 days after such Loss is first discovered by any Executive Officer or the Company's risk manager. If during the Policy Period or the Discovery Period, if exercised, the Insureds first become aware of a specific Wrongful Act which may reasonably give rise to a future Claim covered under a Liability Coverage Part and during such Policy Period or Discovery Period give written notice to the Insurer of:

- a. the names of the potential claimants and a description of the specific Wrongful Act which forms the basis of their potential claim,
- b. the identity of the specific Insureds allegedly responsible for such specific Wrongful Act,
- c. the consequences which have resulted or may result from such specific Wrongful Act,
- d. the nature of the potential monetary damages or non-monetary relief which may be sought in consequence of such specific Wrongful Act, and

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MPGT 001 (04/99) Page 5 of 9 e. the circumstances by which the Insureds first became aware of such specific Wrongful Act, then any Claim which arises out of such Wrongful Act shall be deemed to have been first made during the Limit Period or Discovery Period, if exercised, in which such written notice was received by the Insurer. No coverage is provided for fees and expenses incurred prior to the time such notice results in a Claim. All notices under any provision of this Policy shall be in writing and given by prepaid express courier, certified mail or fax properly addressed to the appropriate party. Notice to the Insureds may be given to the Parent Company at the address as shown in Item 1 of the Declarations. Notice to the Insurer of any Claim, Wrongful Act or Loss shall be given to the Insurer at the address set forth in Item 6(A) of the Declarations. All other notices to the Insurer under this Policy shall be given to the Insurer at the address set forth in Item 6(B) of the Declarations. Notice given as described above shall be deemed to be received and effective upon actual receipt thereof by the addressee or one day following the date such notice is sent, whichever is earlier. Any notice to the Insurer of any Claim, Wrongful Act or Loss shall designate the Coverage Part(s) under which the notice is being given and shall be treated as notice under only the Coverage Part(s) so designated.

W. DEFENSE AND SETTLEMENT Subject to this Subsection 7, it shall be the duty of the Insureds and not the duty of the Insurer to defend any Claim. The Insureds agree not to settle or offer to settle any Claim, incur any Defense Costs or otherwise assume any contractual obligation or admit any liability with respect to any Claim without the Insurer's written consent. The Insurer shall not be liable for any settlement, Defense Costs, assumed obligation or admission to which it has not consented. The Insureds shall promptly send to the Insurer all settlement demands or offers received by the Insureds from the claimant(s). However, if the Insureds are able to settle all Claims which are subject to a single Retention for an aggregate amount, including Defense Costs, not exceeding such Retention, the Insurer's consent shall not be required for the settlement of such Claims. With respect to any Claim submitted for coverage under this Policy, the Insurer shall have the right and shall be given the opportunity to effectively associate with, and shall be consulted in advance by, the Insureds regarding (1) the selection of appropriate defense counsel, (2) substantive defense strategies, including without limitation decisions regarding the filing and content of substantive motions, and (3) settlement negotiations. The Insureds agree to provide the Insurer with all information, assistance and cooperation which the Insurer reasonably requests and agree that in the event of a Claim or Loss the Insureds will do nothing that shall prejudice the Insurer's position or its potential or actual rights of recovery. The Insurer may make any investigation it deems necessary. Subject to Subsection 8 of these General Conditions and Limitations, the Insurer shall advance on behalf of the Insureds covered Defense Costs which the Insureds have incurred in connection with Claims made against them, prior to disposition of such Claims, provided that to the extent it is finally established that any such Defense Costs are not covered under this Policy, the Insureds, severally according to their interests, agree to repay the Insurer such Defense Costs. The Insurer and the Insureds shall not unreasonably withhold any consent referenced in this Subsection 7.

8. ALLOCATION If in any Claim under a Liability Coverage Part the Insureds who are afforded coverage for such Claim incur Loss jointly with others (including Insureds) who are not afforded coverage for such Claim, or incur an amount consisting of both Loss covered by this Policy and loss not covered by this Policy because such Claim includes both covered and uncovered matters, then the Insureds and the Insurer shall allocate such amount between covered Loss and uncovered loss based upon the relative legal exposures of the parties to covered and uncovered matters. If there can be an agreement on an allocation of Defense Costs, the Insurer shall advance on a current basis Defense Costs allocated to covered Loss. If there can be no agreement on an allocation of Defense Costs, the Insurer shall advance on a current basis Defense Costs which the Insurer believes to be covered under

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MPGT 001 (04/99) Page 6 of 9 this Policy until a different allocation is negotiated, arbitrated or judicially determined. Any advancement of Defense Costs shall be subject to, and conditioned upon receipt by the Insurer of, a written undertaking by the Insureds that such advanced amounts shall be repaid to the Insurer by the Insureds severally according to their respective interests if and to the extent the Insureds shall not be entitled under the terms and conditions of this Policy to coverage for such Defense Costs. Any negotiated, arbitrated or judicially determined allocation of Defense Costs on account of a Claim shall be applied retroactively to all Defense Costs on account of such Claim, notwithstanding any prior advancement to the contrary. Any allocation or advancement of Defense Costs on account of a Claim shall not apply to or create any presumption with respect to the allocation of other Loss on account of such Claim or any other Claim.

9. OTHER INSURANCE If any Loss under this Policy is insured under any other valid and collectible policy(ies), prior or current, then this Policy shall cover such Loss, subject to its limitations, conditions, provisions and other terms, only to the extent that the amount of such Loss is in excess of the amount of such other insurance whether such other insurance is stated to be primary, contributory, excess, contingent or otherwise, unless such other insurance is written only as specific excess insurance over the Limits of Liability provided in this Policy.

Q0. TRANSACTIONS CHANGING COVERAGE

a. Acquisition or Creation of Another Organization or Plan If, during the Policy Period, the Company:

- i. acquires voting securities in another organization or creates another organization, which as a result of such acquisition or creation becomes a Subsidiary;
- ii. acquires any organization by merger into or consolidation with the Company; or
- iii. with respect to the Fiduciary Liability Coverage Part if purchased, creates a Plan, then, subject to all terms and conditions of this Policy, such organization, Plan and its Insureds shall be covered under this Policy but only with respect to covered Wrongful Acts (under a Liability Coverage Part) taking place or covered Loss (under the Commercial Crime or Bond Coverage Part, if purchased) sustained after such acquisition or creation unless the Insurer agrees to provide coverage by endorsement for Wrongful Acts taking place or Loss sustained prior to such acquisition or creation. If the total assets of such acquired organization as reflected in the organization's then most recent consolidated financial statements exceeds twenty-five percent (25%) of the total assets of the Parent Company as reflected in the Parent Company's then most recent consolidated financial statements, the Parent Company, as a condition precedent to coverage with respect to such Insureds, shall give written notice of such acquisition or creation to the Insurer as soon as practicable and shall pay any reasonable additional premium required by the Insurer.

b. Acquisition of Parent Company If, during the Policy Period, any of the following events occurs:

- i. the acquisition of the Parent Company, or of all or substantially all of its assets, by another entity, or the merger or consolidation of the Parent Company into or with another entity such that the Parent Company is not the surviving entity; or
- ii. the obtaining by any person, entity or affiliated group of persons or entities of the right to elect, appoint or designate at least fifty percent (50%) of the directors of the Parent Company; then coverage under this Policy will continue in full force and effect until termination of this Policy, but only with respect to Claims for covered Wrongful Acts (under a Liability Coverage Part) taking place or covered Loss (under the Commercial Crime or Bond Coverage Part, if purchased) sustained before

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If such event occurs, the Insureds shall have the right, upon payment of the additional premium described below, to an extension of the coverage described in the preceding paragraph for either a 1 year, 3 year, or 6 year Discovery Period following the termination of the Policy Period; but the Insurer may, in its sole discretion and subject to any additional terms, conditions and premiums required by the Insurer, agree by written endorsement to this Policy to any other

Discovery Period requested by the Insureds. This extension of coverage shall apply to those Coverage Parts with respect to which the Insureds elect the coverage extension. This right of extension shall lapse unless written notice of such election, together with payment of the additional premium due, is given by the Insureds to the Insurer within forty-five (45) days following the effective date of such event. Upon request from any Insured, the Insurer shall notify such Insured of the additional premium amount for this extension of coverage. The Insureds shall not be entitled to elect this extension of coverage if a Discovery Period is elected pursuant to Subsection 4 of these General Conditions and Limitations.

c. Cessation of Subsidiaries If before or during the Policy Period an organization ceases to be a Subsidiary, coverage with respect to such Subsidiary and its Insureds shall continue until termination of this Policy. Such coverage continuation shall apply only with respect to Claims for covered Wrongful Acts (under a Liability Coverage Part) taking place and covered Loss (under the Commercial Crime or Bond Coverage Part, if purchased) sustained prior to the date such organization ceased to be a Subsidiary.

d. Termination of Plan If before or during the Policy Period a Plan is terminated, coverage with respect to such Plan and its Insureds under the Fiduciary Liability Coverage Part (if purchased) shall continue until termination of this Policy. Such coverage continuation shall apply with respect to Claims for Wrongful Acts taking place prior to or after the date the Plan was terminated.

11. REPRESENTATIONS AND SEVERABILITY The Insureds represent and acknowledge that the statements contained in the Application and any materials submitted or required to be submitted therewith (all of which shall be maintained on file by the Insurer and be deemed attached to and incorporated into this Policy as if physically attached), are true and: (i) are the basis of this Policy and are to be considered as incorporated into and constituting a part of this Policy; and (ii) shall be deemed material to the acceptance of this risk or the hazard assumed by the Insurer under this Policy. This Policy is issued in reliance upon the truth of such representations. In the event the Application, including materials

submitted or required to be submitted therewith, contains any misrepresentation or omission: a. made with the intent to deceive, or b. which materially affects either the acceptance of the risk or the hazard assumed by the Insurer under this Policy; this Policy shall be void ab initio as to (i) any Company and any Plan if any Executive Officer knew the facts that were not truthfully disclosed in the Applications, and (ii) any Insured Persons who knew the facts that

were not truthfully disclosed in the Application, whether or not such Executive Officer or Insured Person knew the Application contained such misrepresentation or omission. Such knowledge shall not be imputed to any other Insured Persons.

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12. TERMINATION OF POLICY This Policy shall terminate at the earliest of the following times: a. the effective date of termination specified in a prior written notice by the Parent Company to the Insurer, provided this Policy may not be terminated by the Parent Company (i) after the effective date of an event described in Subsection 10(b) of these General Conditions and Limitations, or (ii) if the Policy Period is longer than one (1) year; b. upon expiration of the Policy Period as set forth in Item 2(A) of the Declarations; c. twenty (20) days after receipt by the Parent Company of a written notice of termination from the Insurer for failure to pay a premium when due, unless the premium is paid within such twenty (20) days period; or d. at such other time as may be agreed upon by the Insurer and the Parent Company. The Insurer may not terminate this Policy prior to expiration of the Policy Period, except as provided above for non-payment of a premium. The Insurer shall refund the unearned premium computed pro rata. Payment or tender of any unearned premium by the Insurer shall not be a condition precedent to the effectiveness of such termination, but such payment shall be made as soon as practicable.

Q3. TERRITORY AND VALUATION All premiums, limits, retentions, Loss and other amounts under this Policy are expressed and payable in the currency of the United States of America. If judgment is rendered, settlement is denominated or another element of Loss under any Liability Coverage Part is stated in a currency other than United States of America dollars, payment under this Policy shall be made in United States dollars at the rate of exchange as of 12:01 A.M. on the date the final judgment is reached, the amount of the settlement is agreed upon or the other element of Loss is due, respectively. Coverage under this Policy shall extend to Wrongful Acts taking place or Claims made or Loss sustained anywhere in the world.

Q4. SUBROGATION In the event of any payment under this Policy, the Insurer shall be subrogated to the extent of such payment to all the Insureds' rights of recovery, including without limitation the Insured Persons' rights to indemnification or advancement from the Company. The Insureds shall execute all papers required and shall do everything necessary to secure and preserve such rights, including the execution of such documents necessary to enable the Insurer effectively to bring suit or otherwise pursue subrogation rights in the name of the Insureds.

Q5. ACTION AGAINST THE INSURER No action shall lie against the Insurer unless, as a condition precedent thereto, there shall have been full compliance with all the terms of this Policy. No person or organization shall have any right under this Policy to join the Insurer as a party to any action against Insureds to determine the Insured's liability nor shall the Insurer be impleaded by the Insureds or their legal representatives. Bankruptcy or insolvency of an Insured or of the estate of any Insured Person shall not relieve the Insurer of its obligations nor deprive the Insurer of its rights or defenses under this Policy.

Q6. AUTHORIZATION CLAUSE By acceptance of this Policy, the Parent Company agrees to act on behalf of the Insureds with respect to the giving and receiving of notice of Claim or Loss or termination, the payment of premiums and the receiving of any return premiums that may become due under this Policy, the agreement to and acceptance of endorsements, and the giving or receiving of any notice provided for in this Policy (except the giving of notice to apply for the Discovery Period), and the Insureds agree that the Parent Company shall act on their behalf.

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MPGT 001 (04/99) Page 9 of 9 17. ALTERATION, ASSIGNMENT AND HEADINGS No change in, modification of, or assignment of interest under this Policy shall be effective except when made by a written endorsement to this Policy which is signed by an authorized representative of the Insurer. The titles and headings to the various parts, sections, subsections and endorsements of the Policy are included solely for ease of reference and do not in any way limit, expand or otherwise affect the provisions of such parts, sections, subsections or endorsements. Q8. ARBITRATION Only if requested by the Insureds, the Insurer shall submit any dispute, controversy or claim arising out of or relating to this Policy or the breach, termination or invalidity thereof to final and binding arbitration pursuant to such rules and procedures as the parties may agree. If the parties cannot so agree, the arbitration shall be administered by the American Arbitration Association in accordance with its then prevailing commercial arbitration rules. The arbitration panel shall consist of one arbitrator selected by the Insureds, one arbitrator selected by the Insurer, and a third independent arbitrator selected by the first two arbitrators. In any such arbitration, each party will bear its own legal fees and expenses.

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ACE American Insurance Company DECLARATIONS Investment Company Bond Coverage Part Policy No. DON G24581378 008 Coverage
Item 1. Coverages Purchased and Single Loss Limits Liability Item 2. Single Loss Deductibles: A. Employee Dishonesty – Insured Indemnity
\$6,000,000 \$25,000 B. Employee Dishonesty – Employee Benefit Plan Indemnity \$6,000,000 \$0 C. Property \$6,000,000 \$25,000 D. Financial
Documents \$6,000,000 \$25,000 E. Defective Signatures \$6,000,000 \$25,000 F. Servicing Contractors \$6,000,000 \$25,000 G. Computer Fraud/Fraudulent
Transfer Instructions \$6,000,000 \$25,000 H. Claims Expense \$100,000 \$5,000 I. Stop Payment Order Liability \$100,000 \$5,000 J. Uncollectible
Items of Deposit \$100,000 \$5,000 K. Unauthorized Signature \$100,000 \$5,000 Item 3. Endorsements to this Coverage Part Effective at Inception:
CC-24180c (03/14) – Signatures MPLA001aNY (01/09) – New York Amendatory MPLL001NY (10/91) – New York Changes-Transfer of Duties
MPNR001NY (04/98) – New York NonRenewal Amendatory MP-4Z66 (05/00) – New York Amendatory (Regulation 121 – Claims Made) MPP/ICBB
(04/10) – SEC Cancellation MPP/ICBB (04/10) – Amend Deductible MS-5577 (03/17)- Social Engineering PF-46422 (07/15) – Trade or Economic
Sanctions Endorsement ALL-20887a (03/16) – ACE Producer Compensation Practices & Policies PF-17914a (04/16) – U.S. Treasury Department’s Office of
Foreign Assets Control (“OFAC”) Advisory Notice to Policyholders Item 4. Effective Date: 03/04/2017 Item 5. Aggregate Limit of Liability: \$6,000,000
for all Loss in Limit Period under all Insuring Clauses combined. Date: MPAB 002 (12/99) Authorized Representative P3/03/2017

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MPAB 001 (12/99) Page 1 of 17 Investment Company Bond Coverage Part I. INSURING CLAUSES The Insurer agrees with the Insured, that in accordance with the Insuring Clauses for which coverage is granted in Item 1 of the Declarations, and subject to all terms, Definitions, Exclusions and Conditions of this Investment Company Bond Coverage Part, to indemnify the Insured for:

A. Employee Dishonesty Loss resulting directly from dishonest or fraudulent acts by an Employee acting alone or in collusion with others, which acts were committed by the Employee with the intent to cause the Insured to sustain the loss or to obtain an Improper Personal Gain.

B. Employee Dishonesty - Employee Benefit Plan Loss of funds or other property intended to be used by an Employee Benefit Plan to pay benefits resulting directly from dishonest or fraudulent acts committed by an Employee or plan fiduciary (as defined in ERISA) while handling those funds or property.

C. Property Loss of Property resulting directly from Theft, False Pretense, misplacement, mysterious unexplainable disappearance, physical damage thereto or destruction thereof, wherever situated including in transit.

D. Financial Documents Loss resulting directly from the Insured having in good faith:

- a. relied on a Forgery or Alteration;
- b. relied on an Original Financial Document that was, at the time the Insured acted upon it, lost or stolen;
- c. relied on a Financial Document that was a Counterfeit; or
- d. guaranteed in writing or witnessed any endorsement or signature on an assignment, bill of sale, guarantee, or power of attorney which transferred a Financial Document or uncertificated security.

Actual physical possession, and continued actual physical possession if taken as collateral, of the Financial Document by: (1) the Insured or its authorized custodial agent, or (2) a financial institution, or its authorized custodial agent to which (a) the Insured sold, in whole or in part, a loan for which the Financial Document represents collateral, and (b) the Insured remains liable to repurchase the loan pursuant to a written contract. is a condition precedent to the Insured having relied on a Financial Document.

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MPAB 001 (12/99) Page 2 of 17 E. Defective Signatures Loss resulting directly from the Insured having in good faith, in connection with any loan, relied on any: a. deed conveying real property; b. mortgage, deed of trust, or like instrument, pertaining to real property; or c. assignment of such instruments which is defective because the signature of any person thereon was obtained through trick, artifice, fraud or false pretenses. F. Servicing Contractors Loss resulting directly from dishonest or fraudulent acts committed by any Servicing Contractor, if the acts: a. were committed with the intent to: (1) cause the Insured to sustain that loss; and (2) obtain an Improper Personal Gain for the Servicing Contractor, and b. resulted in an Improper Personal Gain for the Servicing Contractor. G. Computer Fraud/Fraudulent Funds Transfer Loss resulting directly from the Insured having in good faith transferred funds or Property or otherwise given value because of: a. the fraudulent modification or destruction of Electronic Data or Electronic Computer Instructions, including that caused by Computer Virus, (1) within a Computer System operated by the Insured; or (2) while being electronically transmitted through communication lines, including satellite links, from a Computer System operated by the Insured to a Computer System operated by a customer while the Insured is acting as a Service Bureau for that customer, if the fraudulent acts were committed by a person with the intent to obtain an improper financial benefit; b. the fraudulent preparation or modification of Electronic Computer Instructions by a person with the intent to cause the loss to the Insured and to obtain an improper financial benefit; c. The fraudulent entry of data into a Computer System or Communications Terminal operated by the Insured or an Electronic Communication Customer, but which data was not in fact sent by the Insured or the Electronic Communication Customer, or which data were fraudulently modified during transit (physical or electronic) between Computer Systems or Communications Terminals; d. a fraudulent voice initiated funds transfer instruction, directed to the Insured by telephone from or purportedly from an Electronic Communication Customer, if the instruction was not made by or at the direction of a person who is authorized to initiate a transfer according to the written agreement between Insured and the Electronic Communication Customer and the instruction was Tested; or e. a fraudulent communication by Fax or other Tested written communication sent or apparently sent between the Insured and an Electronic Communication Customer if the communication was either not sent by the Insured or the Electronic Communication Customer, or it was fraudulently modified during transit between the Insured and the Electronic Communication Customer.

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H. Claims Expense Necessary and reasonable professional fees and expenses incurred and paid by the Insured, with prior approval of the Insurer, to determine the existence, amount and extent of a loss in excess of the retention if the loss is in fact covered under any other Insuring Clause of this Investment Company Bond Coverage Part.

I. Stop Payment Order Liability Loss which the Insured is legally obligated to pay and pays to a customer resulting directly from: a. compliance with or failure to comply with the request of the customer, or an authorized agent of the customer, to stop payment on any draft made or drawn upon or against the Insured by the customer or by an authorized agent of the customer; or b. refusal to pay any draft made or drawn upon or against the Insured by the customer or by an authorized agent of the customer.

J. Uncollectible Items of Deposit Loss resulting from payments of dividends or fund shares, or withdrawals permitted from any customer's, shareholder's or subscriber's account based upon Uncollectible Items of Deposit of a customer, shareholder or subscriber credited by the Insured or the Insured's agent to such customer's shareholder's or subscriber's Mutual Fund Account; or Loss resulting from any Item of Deposit processed through an Automated Clearing House which is reversed by the customer, shareholder or subscriber and deemed uncollectible by the Insured. Loss includes dividends and interest accrued not to exceed 15% of the Uncollectible Items which are deposited. This Insuring Clause applies to all Mutual Funds with "exchange privileges" if all Funds in the exchange program are insured by the Insurer for Uncollectible Items of Deposit. Regardless of the number of transactions between Funds, the minimum number of days of deposit within the Funds before withdrawal as declared in the Funds prospectus shall begin from the date a deposit was first credited to any Insured Fund.

K. Unauthorized Signatures Loss resulting directly from the Insured having accepted, paid or cashed any check, withdrawal order or draft, made or drawn on a customer's account which bears the signature or endorsement of one other than a person whose name and signature is on the application on file with the Insured as a signatory of such account. It shall be a condition precedent to the Insured's right to recovery under this Insuring Clause that the Insured shall have on file signatures of all persons who are authorized signatories on such account.

II. DEFINITIONS For purposes of coverage under this Investment Company Bond Coverage Part:

A. Alteration means material modification of an Original Financial Document for a fraudulent purpose by a person other than the person who prepared the Original Financial Document.

B. Automated Clearing House means any corporation or association which operates an electronic clearing and transfer mechanism for the transfer of preauthorized recurring debits and credits between financial institutions on behalf of the financial institutions' customers.

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MPAB 001 (12/99) Page 4 of 17 C. Central Depository means any clearing corporation, including any Federal Reserve Bank of the United States, where as the direct result of an electronic clearing and transfer mechanism entries are made on the books reducing the account of the transferor, pledgor or pledgee and increasing the account of the transferee, pledgee or pledgor by the amount of the obligation or the number of shares or rights transferred, pledged or released.

D. Computer System means computers with related peripheral components, including storage components wherever located; systems and applications software; terminal devices; and related local or wide area communication networks, but not the Internet; by which data are electronically collected, transmitted, processed, stored and retrieved. E. Communications Terminal means any teletype, teleprinter or video display terminal or similar device capable of

sending or receiving information electronically and equipped with a keyboard. F. Computer Virus means a set of unauthorized instructions, programmatic or otherwise, that propagate themselves through a Computer System operated by the Insured and which were maliciously introduced into the system by a person other than by an identifiable Employee. G. Counterfeit means: a. with respect to certificated securities: an imitation which is intended to deceive, and resembles or apparently intends to resemble or to be taken as the original; or b. with respect to other Financial Documents: an imitation which is intended to deceive, and to be taken as the original. H. Electronic Communication means any communication initiated through a Computer System, a Fax, Telex,

TWX and any other electronically transmitted communication. I. Electronic Communication Customer means: a. a natural person or entity authorized by written agreement with the Insured to initiate funds transfer by Fax or other Electronic Communication or by telephone; b. an Automated Clearing House; c. an office of the Insured; d. a financial institution; and e. a Central Depository handling Electronic Securities. J. Electronic Communication System

means electronic communication operations by Fedwire, Clearing House Inter bank Payment System (CHIPS), Society for Worldwide Interbank Financial Telecommunication (SWIFT), Clearing House Automated Payment System (CHAPS), an Automated Clearing House Association which is a member of the National Automated Clearing House Association and similar automated communication systems in use by the Insured. K. Electronic Computer Instructions means computer programs, for example, facts or statements converted to a form usable in a Computer System to act upon Electronic Data. L. Electronic

Data means facts or information converted to a form usable in a Computer System and which are stored on Electronic Data Processing Media for use by computer programs. M. Electronic Data Processing Media means the punched cards, magnetic tapes, punched tapes or magnetic discs or other bulk media on which Electronic Data are recorded.

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N. Electronic Security means a share, participation or other interest in property of or an enterprise of the issuer or an obligation of the issuer which:

- a. is a type commonly dealt in upon securities exchanges or markets; and
- b. is either one of a class or series or by its terms is divisible into a class or series of shares, participation's, interests or obligations; and
- c. (1) is not represented a paper certificate, or (2) is part of a master or global paper certificate, or (3) represents a paper certificate that has been surrendered by a financial institution and has been combined into a master depository note with the paper certificates being immobilized and individually shown as an electronic entry on the account of the transferor, pledgor or pledgee on the books of a Central Depository.

O. Employee means

- a. any of the Insured's officers, partners, or employees; and
- b. any of the officers or employees of any predecessor of the Insured whose principal assets are acquired by the Insured by consolidation or merger with, or purchase of assets of capital stock of, such predecessor; and
- c. attorneys retained by the Insured to perform legal services for the Insured and the employees of such attorneys while such attorneys or the employees of such attorneys are performing such services for the Insured; and
- d. guest students pursuing their studies or duties in any of the Insured's offices; and
- e. directors or trustees of the Insured, the investment advisor, underwriter (distributor), transfer agent, or shareholder accounting record-keeper, or administrator authorized by written agreement to keep financial and/or other required records, but only while performing acts coming within the scope of the usual duties of an officer or employee or while acting as a member of any committee duly elected or appointed to examine or audit or have custody of or access to the Property of the Insured; and
- f. any individual or individuals assigned to perform the usual duties of an employee within the premises of the Insured by contract, or by an agency furnishing temporary personnel on a contingent or part-time basis; and
- g. each natural person, partnership or corporation authorized by written agreement with the Insured to perform services as electronic data processor of checks or other accounting records of the Insured, but excluding any such processor who acts as transfer agent or in any other agency capacity in issuing checks, drafts or securities for the Insured, unless included under sub-section (i) hereof; and
- h. those persons so designated in Condition N. Central Handling of Securities; and
- i. any officer, partner or Employee of

- a) an investment advisor,
- b) an underwriter (distributor),
- c) a transfer agent or shareholder accounting record-keeper, or
- d) an administrator authorized by written agreement to keep financial and/or other required records,

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MPAB 001 (12/99) Page 6 of 17 for an Investment Company named as Insured, while performing acts coming within the scope of the usual duties of an officer or Employee of any Investment Company named as Insured herein, or while acting as a member of any committee duly elected or appointed to examine or audit or have custody of or access to the Property of any such Investment Company, provided that only Employees or partners of a transfer agent, shareholder accounting record-keeper or administrator which is an affiliated person as defined in the Investment Company Act of 1940, of an Investment Company named as Insured or is an affiliated person of the advisor, underwriter or administrator of such Investment Company, and which is not a bank, shall be included within the definition of Employee. Each employer of temporary personnel or processors as set forth in sub-sections (f) and (g) of the definition of Employee and their partners, officers and employees shall collectively be deemed to be one person for all the purposes of this Investment Company Bond Coverage Part, excepting, however, Condition L. Brokers, or other agents under contract or representatives of the same general character shall not be considered Employees. P. Employee Benefit Plan means a benefit plan subject to the requirements of ERISA which is sponsored solely by the Insured for its Employees. Q. False Pretense means the transfer of Property as the direct result of a fraudulent representation made by a person to the Insured, which must be in possession of the Property at the time of the fraudulent representation and the transfer of the Property. R. Fax means a facsimile communication system or similar communication system utilizing teleprocessed imagery that produces a paper copy of a document, but does not mean an Electronic Communication sent by Telex, TWX or an Electronic Communication System. S. Financial Document means a physical document which: a. is a Negotiable Instrument; b. is a letter of credit; c. is a written instruction directed to the Insured from, or purportedly from, a customer, Employee or financial institution, of a type customarily prepared by a customer, Employee or financial institution, and upon which the Insured ordinarily acts to cause a deposit, withdrawal or transfer of funds; d. is considered as a matter of law to be primary evidence of: (1) the right to ownership or possession of property; or (2) a debt owed directly or contingently; e. creates or discharges a lien on property; f. ordinarily has value transferred by endorsement or assignment coupled with delivery; or g. is Money but does not include: (1) traveler's checks; (2) data which exists in a Computer System in electronic form, and (3) bills of lading, dock warrants, dock receipts, warehouse receipts or orders for the delivery of goods including without limitation, any document which evidences or purports to evidence that the holder is entitled to receive, hold and dispose of the document and the goods it covered.

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T. Forgery means the signing on an Original Financial Document of the name of another person or organization, including a facsimile signature, without authority with intent to deceive; it does not include a signature consisting in whole or in part of one's own name, signed with or without authority, in any capacity, for any purpose.

U. Improper Personal Gain means an unlawful financial benefit obtained by:

- a. an Employee or Servicing Contractor; or
- b. persons with whom the Employee was acting in collusion, provided that the Insured establishes that the Employee intended to participate in such benefit; and
- c. an innocent third party, provided that the Insured establish that the Employee transferred funds or Property to the benefit of such third party with the knowledge that such third party was not entitled to such funds or Property, and the funds or Property are not recoverable by the Insured.

The term does not include any type of benefits earned in the course of employment, including salary, salary increases, commissions, fees, bonuses, promotions, awards, profit sharing, pensions or other emoluments, nor any benefit which any officer or director of the Insured not in collusion with the Employee was aware that the Employee was receiving.

V. Insured means the Parent Company and the Subsidiaries. Insured as used in Insuring Clause B. includes any Employee Benefit Plan.

W. Items of Deposit means one or more checks or drafts.

X. Money means a medium of exchange in current use authorized or adopted by a domestic or foreign government as part of its currency.

Y. Negotiable Instrument means any document which

- a. is signed by the maker or drawer;
- b. contains an unconditional promise or order to pay a sum certain in money and no other promise, order, obligation or power given by the maker or drawer;
- c. is payable on demand or at a definite time; and
- d. is payable to order or bearer.

Z. Original Financial Document means a Financial Document which has been completed, with or without signature, by natural persons who were acting with authority in completing the document at the time it was completed.

AA. Property means Financial Documents, Electronic Data Processing Media, Electronic Data, gems, jewelry, precious metals in bars or ingots, and all other tangible items of personal property owned by the Insured, or for which the Insured is legally liable other than as lessee.

BB. Service Bureau means a person or entity authorized by written agreement to perform data processing services for others using Computer Systems.

CC. Servicing Contractor means any person or entity (other than an Employee) authorized by the Insured to act for the Insured in the capacity of:

- a. servicer of real estate mortgage or home improvement loans made, held by or assigned to the Insured; or

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MPAB 001 (12/99) Page 8 of 17 b. manager of real property owned by or under the supervision or control of the Insured as evidenced by a written contract customarily used by the Insured for that purpose, and only while the person or entity is acting within the general scope of those duties. The partners, officers, directors and employees of a Servicing Contractor shall collectively be deemed to be one person for all purposes of this Coverage Part. DD. Single Loss means all covered loss, including Claims Expense covered under Insuring Clause H., resulting from: a. any one act or series of related acts of Theft, False Pretense or attempt thereat, in which no Employee is implicated, or b. any one act or series of related unintentional or negligent acts or omissions on the part of any person (whether an Employee or not) resulting in damage to or destruction or misplacement of Property, or c. all acts or omissions other than those specified in (a) and (b) preceding, caused by any person (whether an Employee or not) or in which such person is implicated, or d. any one casualty or event not specified in (a), (b) or (c) preceding. EE. Tested means: a. As respects Fax, Telex, TWX or other means of written communication: a method of authenticating the contents of the written communication by affixing to it a valid test key that has been exchanged between the Insured and a customer, an office of the Insured or another financial institution; and b. as respects voice: a call-back prior to acting on the instruction to a person authorized by written agreement with the Insured to authenticate the instruction, other than a call to the person who purportedly initiated the instruction, provided the instruction and call-back are recorded. FF. Theft means robbery, burglary, and any other unlawful taking not accomplished by trick or false representation. III. EXCLUSIONS A. This Investment Company Bond Coverage Part does not apply to: 1. loss resulting directly or indirectly from dishonest or fraudulent acts by any Employee, except when covered under Insuring Clauses A. or B.; 2. loss resulting directly or indirectly from trading whether or not committed by an Employee and whether or not in the name of the Insured and whether or not in a genuine or fictitious account; 3. loss of trade secrets, confidential processing methods, customer lists, or other confidential or proprietary information of any kind; 4. loss to one or more of the Insureds which benefits another of the Insureds; 5. loss caused by a customer after discovery by a director or officer of the Insured of an actual or potential loss of the type covered hereunder caused by that customer; 6. a loss resulting directly or indirectly from:

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MPAB 001 (12/99) Page 9 of 17 (1) riot or civil commotion outside any country in which the Insured has an office which is permanently staffed by an Employee, or loss due to war or insurrection, except for loss of Property in transit, if when such transit was initiated, there was no knowledge of such riot, civil commotion, war or insurrection on the part of the Insured in initiating such transit; (2) the effect of nuclear fission or fusion or radioactivity; (3) any event with respect to which notice has been given prior to the Effective Date set forth in Item T. of the Declarations of this Investment Company Bond Coverage Part under any policy or bond providing the same or similar coverage to that afforded under this Investment Company Bond Coverage Part; (4) any event which is not discovered during the Policy Period, and not reported in the form and substance provided in Subsection 6. of the General Conditions and Limitations of this Policy; (5) circumstances or occurrences known to any Executive Officer or the Company's risk manager prior to the inception of this Investment Company Bond Coverage Part; W. loss which could have been recovered, but was not recovered, due to the failure of the Insured to pursue reasonable efforts to make recovery from persons responsible for causing it; 8. damages of any type for which the Insured is legally liable, except compensatory damages, but not multiples thereof, arising directly from a loss covered under this Investment Company Bond Coverage Part; 9. loss of use of funds or Property; 10. potential income, including but not limited to interest and dividends, not realized by the Insured; 11. the insolvency of another financial or depository institution. B. Exclusions Applicable to Insuring Clause A. Only a. Insuring Clause A. does not apply to loss resulting directly or indirectly from: (1) acts of any Employee which are committed after any director or officer of the Insured, not in collusion with the Employee, learns of any dishonest or fraudulent act committed by the Employee, whether in the employment of the Insured or otherwise, and whether or not of the type covered under this Insuring Clause, unless the acts occurred prior to the Employee's employment with the Insured and involved a loss of less than \$10,000; or (2) any transaction which is or purports to be a loan or other extension of credit to or from the Insured, including the acquisition of false or genuine accounts, invoices, notes or agreement; b. Insuring Clause A. does not apply to loss covered under Insuring Clause B. C. Exclusions Applicable to Insuring Clause B. Only Insuring Clause B. does not apply to loss resulting directly or indirectly from acts of any Employee which are committed after any director or officer of the Insured, not in collusion with the Employee, learns of any dishonest or fraudulent act committed by the Employee, whether in the employment of the Insured or otherwise, and whether or not of the type covered under this Insuring Clause, unless the acts occurred prior to the Employee's employment with the Insured and involved a loss of less than \$10,000.

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D. Exclusions Applicable to Insuring Clause C. Only Insuring Clause C. does not apply to loss: a. of Property while in customers' safe deposit boxes; b. of Property surrendered away from an office or premises of the Insured as a result of a threat: (1) to do bodily harm to any person, except loss of Property in transit in the custody of any person acting as messenger provided that when such transit was initiated there was no knowledge by the Insured of any such threat; or (2) to do damage to the offices, premises or property of the Insured. c. of Property lost while in the mail; d. of Electronic Data Processing Media or Electronic Data lost in transit other than by armored motor vehicle; e. of personal property not specifically enumerated in the definition of Property, for which the Insured is legally liable if the Insured has any other insurance, regardless of amount, under which the property is covered; and in all events after 60 days from the date the Insured became legally liable for the property; or f. resulting directly or indirectly from: (1) any forgery, alteration or counterfeiting; (2) erroneous credits to a depositor's account, unless payment or withdrawal is physically received by the depositor or representative of the depositor who is within the office of the Insured at the time of the payment or withdrawal; (3) items of deposit which are not finally paid for any reason, including but not limited to forgery or any other fraud; (4) Electronic Communications or telephonic communications; or (5) any transaction which is or purports to be a loan or other extension of credit to or from the Insured, including the acquisition of false or genuine accounts, invoices, notes or agreements;

E. Exclusions Applicable to Insuring Clause D. Only Insuring Clause D. does not apply to loss resulting directly or indirectly from: a. any document presented as a copy; b. items of deposit which are not finally paid, or for which provisional credit it is otherwise properly revoked, for any reason, including but not limited to forgery or any other fraud; or c. a fraudulent entry of Data into, or change, modification, or destruction of data elements or programs within a Computer System operated or used by the Insured. F. Exclusion Applicable to Insuring Clause E. Only Insuring Clause E. does not apply to loss resulting directly or indirectly from any document presented as a copy.

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G. Exclusions Applicable to Insuring Clause F. Only Insuring Clause F. does not apply to loss resulting directly or indirectly from: a. any transaction which is or purports to be a loan or other extension of credit to a Servicing Contractor, including "warehousing" of mortgage loans, whether procured in good faith or through fraud or false pretenses; b. the failure of any Servicing Contractor to collect or receive Money for the account of the Insured, notwithstanding any agreement between the Servicing Contractor and the Insured; or c. the failure to remit Money collected or received for the account of the Insured by any Servicing Contractor unless the Servicing Contractor is legally liable to the Insured for loss of the Money.

H. Exclusions Applicable to Insuring Clause G. Only Insuring Clause G. does not apply to loss resulting directly or indirectly from: a. liability assumed by the Insured under any contract unless such liability would have attached to the Insured in the absence of such agreement; b. a threat to do bodily harm to any person, or to do damage to the premises or property of the Insured; c. forged, altered or fraudulent Financial Documents used as source documentation in the preparation of Electronic Data or manually keyed in a Communication Terminal; d. Financial Documents except as converted to Electronic Data and then only in such converted form; e. resulting directly or indirectly from the accessing of any confidential information, including but not limited to trade secret information, computer programs or customer information; f. resulting from mechanical failure, faulty construction, error in design, latent defect, wear or tear, gradual deterioration, electrical disturbance, Electronic Data Processing Media failure or breakdown, any malfunction or error in programming, or errors or omissions in processing; g. the input of Electronic Data at an authorized terminal of an electronic funds transfer system or a customer communication system by a customer or other person who had authorized access to the customer's authentication mechanism; or h. fraudulent features contained in Electronic Computer Instructions developed for sale to, or that are sold to, multiple customers at the time of their acquisition from a vendor or consultant.

I. Exclusion Applicable to Insuring Clause J. Only Insuring Clause J. does not apply to loss resulting from Uncollectible Items of Deposit which are drawn from a financial institution outside the fifty states of the United States of America, District of Columbia, and territories and possessions of the United States of America, and Canada.

IV. OTHER CONDITIONS

A. DISCOVERY This Investment Company Bond Coverage Part applies to loss discovered by the Insured during the Policy Period. Discovery occurs when any Executive Officer or the Company's risk manager first becomes aware of facts which would cause a reasonable person to assume that a loss of a type covered by this Investment Company Bond Coverage Part has been or will be incurred, regardless of when the acts or acts causing or contributing to such loss occurred, even though the exact amount or details of loss may not then be known.

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MPAB 001 (12/99) Page 12 of 17 Discovery also occurs when any Executive Officer or the Company's risk manager receives notice of an actual or potential claim in which it is alleged that the Insured is liable to a third party under circumstances which, if true, would constitute a Loss under this Investment Company Bond Coverage Part.

B. LIMIT OF LIABILITY With respect to this Investment Company Bond Coverage Part only, and notwithstanding anything to the contrary in General Condition and Limitation No. 5 of this Policy, the payment of any loss under this Investment Company Bond Coverage Part shall not reduce the liability of the Insurer for other losses covered under this Investment Company Bond Coverage Part. If a single aggregate Limit of Liability for all Coverage Parts is granted as provided in Item 3(A) of the Declarations of this Policy, the payment of loss under this Investment Company Bond Coverage Part shall reduce the liability of the Insurer for losses covered under any Liability Coverage Parts. The most the Insurer will pay for loss resulting from any Single Loss is the applicable Limit of Liability shown in Item 3 of the Declarations; provided, however, that regardless of the number of years this Investment Company Bond Coverage Part remains in force or the number of premiums paid, no Limit of Liability cumulates from year to year or period to period.

C. SINGLE LOSS COVERED BY SINGLE INSURING CLAUSE The Insurer will pay for loss resulting from a Single Loss under only a single Insuring Clause. If two or more Insuring Clauses of this Investment Company Bond Coverage Part apply to a Single Loss, the Insured may elect the Insuring Clause under which it will seek coverage. In no event will the Insurer pay more than the applicable Limit of Liability under the applicable Insuring Clause in respect of such Single Loss.

D. DEDUCTIBLE The Insurer will not pay for loss resulting from a Single Loss unless the amount of such loss exceeds the applicable Single Loss deductible shown in Item 2 of the Declarations. The Insurer will then pay the amount in excess of such deductible, subject to the applicable Limit of Liability. There shall be no deductible applicable to any loss under Insuring Clause A. sustained by any Investment Company named as Insured herein.

E. NOTICE/PROOF-LEGAL PROCEEDINGS AGAINST THE INSURER (a) Within six (6) months after such discovery, the Insured shall furnish to the Insurer proof of loss, duly sworn to, with full particulars; (b) Lost Certificated Securities listed in a proof of loss shall be identified by certificate or bond numbers if such securities were issued therewith; (c) Legal proceedings for the recovery of any Loss hereunder shall not be brought prior to the expiration of sixty (60) days after the original proof of loss is filed with the Insurer or after the expiration of twenty-four (24) months from the discovery of such Loss; (d) If any limitation embodied in this Investment Company Bond Coverage Part is prohibited by any law controlling the construction hereof, such limitation shall be deemed to be amended so as to equal the minimum period of limitation provided by such law; (e) This Investment Company Bond Coverage Part affords coverage only in favor of the Insured. No suit, action or legal proceedings shall be brought hereunder by any one other than the named Insured.

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MPAB 001 (12/99) Page 13 of 17 F. VALUATION (1) Money Any loss of Money, or loss payable in Money, shall be paid, at the option of the Insured, in the Money of the country in which the loss was sustained or in the United States of America dollar equivalent thereof determined at the rate of exchange as of 12:01 a.m. on the date of discovery of the loss. (2) Electronic Data Processing Media In case of loss of, or damage to Electronic Data Processing Media used by the Insured in its business, the Insurer shall be liable only if such items are actually reproduced by other Electronic Data Processing Media of the same kind or quality and then for not more than the cost of the blank media plus the cost of labor for the actual transcription or copying of data which shall have been furnished by the Insured in order to reproduce such Electronic Data Processing Media, subject to the applicable Limit of Liability. (3) Books of Account and Other Records In case of loss of, or damage to, any books of account or other records used by the Insured in its business, the Insurer shall be liable only if such books or record are actually reproduced and then for not more than the cost of the blank books, blank pages or other materials plus the cost of labor for the actual transcription or copying of data which shall have been furnished by the Insured in order to reproduce such books and other records. (4) Property other than Money, Securities, Records, or Media In case of loss of, or damage to, any Property other than Money, securities, books of account or other records or Electronic Data Processing Media, the Insurer shall not be liable for more than the actual cash value, with proper deduction for depreciation, of such Property. The Insurer may, at its election, pay the actual cash value of, replace or repair such property. Disagreement between the Insurer and the Insured as to the cash value or as to the adequacy of repair or replacement shall be resolved by arbitration. (5) Electronic Data In case of loss of Electronic Data the Insurer shall be liable under Insuring Clause C. of this Investment Company Bond Coverage Part only if such data is actually reproduced by other Electronic Data of the same kind or quality and then for not more than the cost of labor for the actual transcription or copying of data which shall have been furnished by the Insured in order to reproduce such Electronic Data. However, if such Electronic Data cannot be reproduced and said Electronic Data represents securities, or financial instruments having a value, then the loss will be valued as indicated in paragraph 5 of this Condition. (6) Set-Off Any loss covered under this Investment Company Bond Coverage Part shall be reduced by all money and property received by the Insured from any source in connection with any matter from which a loss has arisen, including payment of principal, interest, dividends, commissions and the like, whenever and however paid. Any loss covered under this Investment Company Bond Coverage Part shall be reduced by a set-off consisting of any amount owed to the Employee (or to his or her assignee) causing the loss if such loss is covered under Insuring Clause A.

MPAB 001 (12/99) Page 14 of 17 G. SECURITIES SETTLEMENT AND VALUATION In the event of a loss of securities covered under Insuring Clause C. of this Investment Company Bond Coverage Part, the Insured shall, subject to the conditions stated below, first attempt to replace the lost securities by use of a letter of indemnity issued by it. In the event that it is unable to replace the lost securities by a letter of indemnity, the Insured shall, subject to the Insurer's prior consent, secure a lost instrument bond for the purpose of obtaining the issuance of duplicate securities. It is further agreed that the Insurer will indemnify the Insured for such sum, in excess of the applicable Deductible stated in the Declarations, not exceeding the amount of the Single Loss Limit of Liability stated in the Declarations, remaining available for the payment of any loss at the time of the execution by the Insured of a letter of indemnity or the securing of the lost instrument bond, which the Insured may be required to pay either during the Policy Period or any time thereafter by reason of any indemnifying agreement executed by the Insured or delivered by the Insured to the company issuing the lost instrument bond. It is further agreed that the Insured shall bear the cost of obtaining such letter of indemnity or lost instrument bond for that portion of the loss which falls within the applicable Deductible or which is in excess of the Single Loss Limit of Liability remaining available for the payment of said loss. The Insurer shall bear the cost of obtaining such letter of indemnity or lost instrument bond for that loss which would be covered under Insuring Clause C. of this Investment Company Bond Coverage Part and which exceeds the Deductible and is within the Single Loss Limit of Liability remaining available for the payment of any loss. In the event the Insured sustains a loss of securities covered under Insuring Clause C. of this Investment Company Bond Coverage Part but the securities are valued at an amount in excess of the Single Loss Limit of Liability, the Insured may apply any portion of the applicable Single Loss Limit of Liability, up to an amount not to exceed 50% of that limit, to the purchase of a lost instrument bond under its own indemnity to replace some or all of those securities. In the event the Insured elects to do so, the Single Loss Limit of Liability shall be reduced by the amount used to purchase the lost instrument bond and the remainder of the Single Loss Limit of Liability shall be applied to settlement of loss. Any lost instrument bond purchased pursuant to this section will be purchased from the Insurer, or its affiliates, unless the Insurer and its affiliates decline to issue it. Under this Insuring Clause only, loss includes the value of subscription, conversion, redemption or deposit privileges for Financial Documents unless they are lost while in the mail or with a carrier for hire other than an armored motor vehicle company for the purpose of transportation. The privileges shall be valued as of the date immediately preceding the expiration thereof, as determined by arbitration or agreement. The Insurer is not required to issue its indemnity for any portion of a loss of securities which is not covered by this Investment Company Bond Coverage Part. H. ASSIGNMENT - SUBROGATION - RECOVERY - COOPERATION (1) In the event of payment under this Investment Company Bond Coverage Part, the Insured shall deliver, if so requested by the Insurer, an assignment of such of the Insured's rights, title and interest and causes of action as it has against any person or entity to the extent of the loss payment. (2) In the event of payment under this Investment Company Bond Coverage Part, the Insurer shall be subrogated to all of the Insured's rights of recovery therefor against any person or entity to the extent of such payment.

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MPAB 001 (12/99) Page 15 of 17 (3) Recoveries, whether effected by the Insurer or by the Insured, shall be applied net of the expense of such recovery first to the satisfaction of the Insured's loss which would otherwise have been paid but for the fact that it is in excess of either the Single Loss Limit of Liability, secondly, to the Insurer as reimbursement of amounts paid in settlement of the Insured's claim, and thirdly, to the Insured in satisfaction of any Deductible Amount. Recovery on account of loss of securities as set forth in Subsection E. of the Conditions of this Investment Company Bond Coverage Part or recovery from reinsurance or indemnity of the Insurer shall not be deemed a recovery as used herein. (4) Upon the Insurer's request and at reasonable times and places designated by the Insurer the Insured shall: (a) submit to examination by the Insurer and subscribe to the same under oath; and (b) produce for the Insurer's examination all pertinent records; and (c) cooperate with the Insurer in all matters pertaining to the loss. (5) The Insured shall execute all papers and render assistance to secure the Insurer the rights and causes of action provided for herein. The Insured shall do nothing after discovery of loss to prejudice such rights or causes of action. I. OWNERSHIP This Investment Company Bond Coverage Part shall apply to loss of Property or Electronic Data Processing Media and Electronic Data (1) owned by the Insured, (2) held by the Insured in any capacity, or (3) for which the Insured is legally liable. J. TERMINATION OF THIS Investment Company Bond Coverage Part In addition to any termination pursuant to Subsection 12. of the General Conditions and Limitations of this Policy, this Investment Company Bond Coverage Part shall also terminate in its entirety: (1) upon the voluntary liquidation or dissolution of the Parent Company; (2) upon the appointment of (1) a receiver, trustee or other fiduciary of the property of the Parent Company, or (2) a committee for the dissolution thereof; or (3) as to any Insured other than the Parent Company upon the appointment of (1) a receiver, trustee or other or fiduciary of the property of said Insured or (2) a committee for the dissolution thereof. K. ACTION AGAINST SERVICING CONTRACTOR, SERVICE BUREAU OR CUSTOMER This Investment Company Bond Coverage Part does not afford coverage in favor of any Servicing Contractor, Service Bureau or customers of aforesaid, and upon payment to the Insured by the Insurer on account of any loss through fraudulent or dishonest acts committed by any of the partners, directors, officers or employees of such Servicing Contractor, Service Bureau or customers whether acting alone or in collusion with others, an assignment of such of the Insured's rights and causes of action as they may have against such Servicing Contractor, Service Bureau, or customers by reason of such acts so committed shall, to the extent of such payment, but given by the Insured to the Insurer, and the Insured shall execute all papers necessary to secure to the Insurer, the rights provided herein. L. TERMINATION OR CANCELLATION AS TO ANY EMPLOYEE, SERVICING CONTRACTOR OR SERVICE BUREAU

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This Investment Company Bond Coverage Part terminates as to any Employee or Servicing Contractor as soon as any Executive Officer or the Company's risk manager learns of any dishonest or fraudulent act committed by such person at any time, whether in the employment of the Insured or otherwise, whether or not of the type covered under the Insuring Clauses A. or B., against the Insured or any other person or entity, without prejudice to the Loss of any Property then in transit in the custody of such person. Termination of coverage as to any Insured terminates liability for any Loss sustained by such Insured which is discovered after the effective date of such termination. This Investment Company Bond Coverage Part terminates as to any Service Bureau as soon as any Executive Officer or the Company's risk manager, shall learn of any dishonest or fraudulent act committed by any partner, director, officer or employee of any such Service Bureau at any time against the Insured or any other person or entity, without prejudice to the Loss of any Property then in transit in the custody of such person.

M. ERISA WARRANTY The Insurer warrants that the coverage afforded by this Investment Company Bond Coverage Part will be equal to that required of the Insured by regulations properly promulgated under the ERISA with respect to losses caused by fraudulent or dishonest acts of Employees and sustained by Employment Benefit Plans.

N. CENTRAL HANDLING OF SECURITIES Securities included in the systems for the central handling of securities established and maintained by Depository Trust Company, Midwest Depository Trust Company, Pacific Securities Depository Trust Company, and Philadelphia Depository Trust Company, hereinafter called Corporations, to the extent of the Insured's interest therein as effective by the making of appropriate entries on the books and records of such Corporations shall be deemed to be Property. The words "Employee" and "Employees" shall be deemed to include the officers, partners, clerks and other employees of the New York Stock Exchange, Boston Stock Exchange, Midwest Stock Exchange, Pacific Stock Exchange and Philadelphia Stock Exchange, hereinafter called Exchanges, and of the above named Corporations, and of any nominee in whose name is registered any security included within the systems for the central handling of securities established and maintained by such Corporations, and any employee of any recognized service company, while such officers, partners, clerks and other employees and employees of service companies perform services for such Corporations in the operation of such systems. For the purpose of the above definition, a recognized service company shall be any company providing clerks or other personnel to said Exchanges or Corporations on a contract basis. The Insurer shall not be liable on account of any loss (es) in connection with the central handling of securities within the systems established and maintained by such Corporations, unless such loss (es) shall be in excess of the amount(s) recoverable or recovered under any bond or policy of insurance indemnifying such Corporations, against such loss (es), and then the Insurer shall be liable hereunder only for the Insured's share of such excess loss (es), but in no event for more than the Limit of Liability applicable hereunder. For the purpose of determining the Insured's share of excess loss (es) it shall be deemed that the Insured has an interest in any certificate representing any security included within such systems equivalent to the interest that the Insured then has in all certificates representing the same security included within such systems and that such Corporations shall use their best judgment in apportioning the amount(s) recoverable and recovered under any bond or policy of insurance indemnifying such Corporations against such loss(es) in connection with the central handling of securities within such systems among all those having an interest as recorded by appropriate entries in the books and records of such Corporations in Property involved in such loss(es) on the basis that each such interest shall share in the amount(s) so recoverable or recovered in the ratio that the value of each such interest bears to the total value of all such interests and that the Insured's share of such excess loss(es) shall be the amount of the Insured's interest in such Property in excess of the amount(s) so apportioned to the Insured by such Corporations.

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MPAB 001 (12/99) Page 17 of 17 This Investment Company Bond Coverage Part does not afford coverage in favor of such Corporations or Exchanges or any nominee in whose name is registered any security included within the systems for the central handling of securities established and maintained by such Corporations, and upon payment to the Insured by the Underwriter on account of any loss (es) within the systems, an assignment of such of the Insured's rights and causes of action as it may have against such Corporations or Exchanges shall to the extent of such payment, be given by the Insured to the Insurer, and the Insured shall execute all papers necessary to secure to the Insurer the rights provided for herein.

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SIGNATURES Named Insured Harris & Harris Group, Inc. Endorsement Number Q Policy Symbol DON Policy Number G24581378 008
Policy Period P3/04/2017 to 03/04/2018 Effective Date of Endorsement P3/04/2017 Issued By (Name of Insurance Company) ACE American
Insurance Company THE ONLY SIGNATURES APPLICABLE TO THIS POLICY ARE THOSE REPRESENTING THE COMPANY NAMED ON THE
FIRST PAGE OF THE DECLARATIONS. By signing and delivering the policy to you, we state that it is a valid contract. INDEMNITY INSURANCE
COMPANY OF NORTH AMERICA (A stock company) BANKERS STANDARD INSURANCE COMPANY (A stock company) ACE AMERICAN
INSURANCE COMPANY (A stock company) ACE PROPERTY AND CASUALTY INSURANCE COMPANY (A stock company) INSURANCE
COMPANY OF NORTH AMERICA (A stock company) PACIFIC EMPLOYERS INSURANCE COMPANY (A stock company) ACE FIRE
UNDERWRITERS INSURANCE COMPANY (A stock company) ACE AMERICAN INSURANCE COMPANY (A stock company) T36 Walnut Street,
P.O. Box 1000, Philadelphia, Pennsylvania 19106-3703 Authorized Representative CC24180c (03/14)

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THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY. Named Insured Harris & Harris Group, Inc. Endorsement Number R Policy Symbol DON Policy Number G24581378 008 Policy Period P3/04/2017 to 03/04/2018 Effective Date of Endorsement P3/04/2017 Issued By (Name of Insurance Company) ACE American Insurance Company NEW YORK AMENDATORY (INSURANCE LAW SEC. 3420 REQUIREMENTS) It is agreed that the General Conditions and Limitations are amended as follows: Q. Subsection 6, Notice, is amended by adding the following: Notice given by or on behalf of the Insured, or written notice by or on behalf of an injured person or any other claimant, to any licensed agent of the Insurer in the State of New York, with particulars sufficient to identify the Insured, shall be deemed notice to the Insurer. Failure to give any notice required to be given by this subsection within the time prescribed herein shall not invalidate any Claim made by the Insured, an injured person or any other claimant if it shall be shown not to have been reasonably possible to give such notice within the prescribed time and that notice was given as soon as was reasonably possible thereafter. Except as provided in the immediate paragraph above, failure to give any notice required to be given by this subsection within the time prescribed herein shall not invalidate any Claim made by the Insured, injured person or any other claimant, unless the failure to provide timely notice has prejudiced the Insurer. However, notice of such Claim must be first made during the Policy Period, any renewal thereof, or any Discovery Period. 2. The following subsection is added: LEGAL ACTION AGAINST US No person or organization has a right under this Policy: a. To join the Insurer as a party or otherwise bring the Insurer into a suit asking for damages from an Insured; or b. To sue the Insurer under this Policy unless all of its terms have been fully complied with. A person or organization may sue the Insurer to recover on an agreed settlement or on a final judgment against an Insured; but the Insurer will not be liable for damages that are not payable under the terms of this Policy or that are in excess of the applicable limit of insurance. An agreed settlement means a settlement and release of liability signed by the Insurer, the Insured and the claimant or the claimant's legal representative. Notwithstanding anything in this subsection to the contrary, in the event a judgment against an Insured or such Insured's personal representative in an action brought to recover damages for injury sustained or loss or damage occasioned during the life of the Policy shall remain unsatisfied at the expiration of thirty (30) days from the servicing of notice of entry of judgment upon the attorney for the Insured, or upon the Insured, and upon the Insurer, then an action may, except during a stay or limited stay of execution against the Insured on such judgment, be maintained against the Insurer under the terms of the Policy for the amount of such judgment not exceeding the amount of the applicable limit of coverage under the Policy. MPLA001a-NY (01/09) Printed in U.S.A.

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MPLA001a-NY (01/09) Printed in U.S.A. With respect to an otherwise covered Claim arising out of death or personal injury of any natural person, if the

Insurer disclaims liability or denies coverage based upon the failure to provide timely notice, then the injured person or other claimant may maintain an action directly against the Insurer, in which the sole question is the Insurer's disclaimer or denial based on the failure to provide timely notice, unless within sixty (60) days following such disclaimer or denial, the Insured or the Insurer: (a) initiates an action to declare the rights of the parties under this Policy; and (b) names the injured person or other claimant as a party to the action. All other terms and conditions of this Policy remain unchanged. Authorized Agent

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MPLL001-NY (10-91) Page 1 of 2 THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY Named Insured Harris & Harris Group, Inc. Endorsement Number S Policy Symbol DON Policy Number G24581378 008 Policy Period P3/04/2017 to 03/04/2018 Effective Date of Endorsement P3/04/2017 Issued By (Name of Insurance Company) ACE American Insurance Company NEW YORK CHANGES - TRANSFER OF DUTIES WHEN A LIMIT OF INSURANCE IS USED UP This endorsement is added to the policy and supercedes any provision to the contrary: The following Condition is added to General Conditions and Limitations, paragraph 5. Limit of Liability and Retention.

Transfer of Duties When a Limit of Insurance is Used up. a. If we conclude that, based on occurrences, offenses, claims or suits which have been reported to us and to which this insurance may apply, the: (1) Aggregate Limit; or (2) Each Separate Limit, is likely to be used up in the payment of judgments or settlements, we will notify the first Named Insured, in writing, to that effect. b. When a limit of insurance described in paragraph a. above has actually been used up in the payment of judgments or settlements: (1) We will notify the first Named Insured, in writing, as soon as practicable, that: (a) Such a limit has actually been used up; and (b) Our duty to defend suits seeking damages subject to that limit has also ended. (2) We will initiate, and cooperate in, the transfer of control, to any appropriate insured, of all claims and suits seeking damages which are subject to that limit and which are reported to us before that limit is used up. That insured must cooperate in the transfer of control of said claims and suits. We agree to take such steps, as we deem appropriate, to avoid a default in, or continue the defense of, such suits until such transfer is completed, provided the appropriate insured is cooperating in completing such transfer.

We will take no action whatsoever with respect to any claim or suit seeking damages that would have been subject to that limit, had it not been used up, if the claim or suit is reported to us after that limit of insurance has been used up. (3) The first Named Insured, and any other insured involved in a suit seeking damages subject to that limit, must arrange for the defense of such suit within such time period as agreed to between the appropriate insured and us. Absent any such agreement, arrangements for the defense of such suit must be made as soon as practicable. (c) The first Named Insured will reimburse us for expenses we incur in taking those steps we deem appropriate in accordance with paragraph b.(2) above.

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MPLL001-NY (10-91) Page 2 of 2 The duty of the first named Insured to reimburse us will begin on: (1) The date on which the applicable limit of insurance is used up, if we sent notice in accordance with paragraph a. above; or (2) The date on which we sent notice in accordance with paragraph b.(1) above, if we did not send notice in accordance with paragraph a. above. (d) The exhaustion of any limit of insurance by the payments of judgments or settlements, and the resulting end of our duty to defend, will not be affected by our failure to comply with any of the provisions of this Condition. Authorized Agent

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MPNR001-NY (4/98) Printed in U.S.A. Page 1 of 2 THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY Named Insured
Harris & Harris Group, Inc. Endorsement Number T Policy Symbol DON Policy Number G24581378 008 Policy Period P3/04/2017 to
03/04/2018 Effective Date of Endorsement P3/04/2017 Issued By (Name of Insurance Company) ACE American Insurance Company NEW YORK
- NONRENEWAL A. The following Conditions are added: Q. NONRENEWAL If we decide not to renew this policy we will send notice as provided in
paragraph A.3. below. 2. CONDITIONAL RENEWAL If we conditionally renew this policy subject to a: a. Change of limits; b. Change in type of
coverage; c. Reduction of coverage; d. Increased deductible; e. Addition of exclusion; or f. Increased premiums in excess of 10%, exclusive of any
premium increase due to and commensurate with insured value added or increased exposure units; or as a result of experience rating, loss rating, retrospective
rating or audit; we will send notice as provided in paragraph A.3. below S. NOTICES OF NONRENEWAL AND CONDITIONAL RENEWAL a. If
we decide not to renew this policy or to conditionally renew this policy as provided in paragraphs A.1. and A.2. above, we will mail or deliver written notice to
the first Named Insured shown in the Declarations at least 60 but not more than 120 days before: (1) The expiration date; or (2) The anniversary date if
this is a continuous policy. b. Notice will be mailed or delivered to the first Named Insured at the address shown in the policy and to the authorized agent or
broker. If notice is mailed, proof of mailing will be sufficient proof of notice. c. Notice will include the specific reason(s) for nonrenewal or conditional
renewal, including the amount of any premium increase for conditional renewal and description of any other changes. d. If we violate any of the provisions
of paragraphs A.3.a., b. or c. above by sending the first Named Insured an incomplete or late conditional renewal notice or a late nonrenewal notice: (1)
Coverage will remain in effect at the same terms and conditions of this policy at the lower of the current rates or the prior period's rates until 60 days after such
notice is mailed or delivered, unless the first Named Insured, during this 60 day period, has replaced the coverage or elects to cancel. (2) On or after the
expiration date of this policy, coverage will remain in effect at the same terms and conditions of this policy for another policy period, at the lower of the current
rates or the prior period's rates, unless the first Named Insured, during this additional policy period, has replaced the coverage or elects to cancel.

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MPNR001-NY (04/98) Printed in U.S.A. Page 2 of 2 e. We will not send you notice of nonrenewal or conditional renewal if you, your authorized agent or broker or another insurer of yours mails or delivers notice that the policy has been replaced or is no longer desired. Authorized Agent

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MP-4Z66 (5/2000) Printed in U.S.A. Page 1 of 2 THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY Named Insured Harris & Harris Group, Inc. Endorsement Number U Policy Symbol DON Policy Number G24581378 008 Policy Period P3/04/2017 to 03/04/2018 Effective Date of Endorsement P3/04/2017 Issued By (Name of Insurance Company) ACE American Insurance Company THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY. This endorsement modifies insurance provided under the following: MANAGEMENT PROTECTION POLICY It is agreed: Q. Except as otherwise provided in Subsection 6, Notice, and the first paragraph of Subsection 5, Limit of Liability and Retention, of the General Conditions and Limitations, a Prior Covered Claim under any Liability Coverage Part shall be deemed "first made" for purposes of this Policy when the Insurer first receives written notice of such Claim from an Insured or a third party. Accordingly, subject to the other terms and conditions of this Policy (including this Endorsement), this Policy shall apply to Claims for which notice is first received by the Insurer during the Policy Period or any applicable Discovery Period even if such Claim was filed against, sent or delivered to, or received by, the Insureds prior to the Policy Period. 2. For purposes of this Endorsement, a Prior Covered Claim means any Claim: a. filed against, sent or delivered to, or received by, the Insureds prior to the Policy Period; b. notice of which was first received by the Insurer during the Policy Period or any applicable Discovery Period; and c. which would have been covered in whole or in part under a valid and collectible Management Protection Insurance Policy issued to the Parent Company by the Insurer or its affiliate for the period in which such Claim was first filed against, sent or delivered to, or received by, the Insureds ("Prior Policy"). 3. Coverage afforded under this Policy for any Prior Covered Claim shall be no broader than the coverage which would have been afforded under the Prior Policy if written notice of such Claim had been received by the Insurer or its affiliate during the policy period of the Prior Policy. The foregoing sentence may result in (but not be limited to): (a) reducing the limit of liability available under this Policy for such Claim to the remaining available limit of liability applicable to the Prior Policy, (b) increasing the applicable Retention amount to that Retention amount applicable to the Prior Policy, or (c) reducing or eliminating coverage due to exclusions or other restrictions in the Prior Policy but not in this Policy. 4. No coverage shall be afforded under this Policy for a Prior Covered Claim if (i) there was no Prior Policy in effect at the time such Claim was first filed against, sent or delivered to, or received by the Insureds, or (ii) the Prior Policy affords coverage for such Claim or would afford coverage for such Claim but for the exhaustion of the Limit of Liability under the Prior Policy. 5. The Insurer's maximum liability under this Policy for any Prior Covered Claim shall be part of and not in addition to the Limit of Liability set forth in Item 3 of the Declarations for this Policy otherwise applicable to such Claim.

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6. If the Insureds are entitled to but fail or refuse to elect a Discovery Period as provided in Subsection 4 of the General Conditions and Limitations, then any Insured Person may elect the Discovery Period just for such Insured Person by giving written notice of such election, together with payment of the additional premium due, to the Insurer within 120 days following the effective date of the Policy's termination or non-renewal. The premium due for such Insured Person's Discovery Period with respect to any Liability Coverage Part shall equal that percent set forth in Item 5(A) of the Declarations for such Liability Coverage Part of the Annual Premium allocable to such Insured Person. Any coverage afforded under this Policy for such Insured Person during such Discovery Period shall be no broader than the coverage which would be applicable to such Insured Person under this Policy if all Insureds elected the Discovery Period. ALL OTHER TERMS AND CONDITIONS REMAIN UNCHANGED. Authorized Agent MP-4Z66 (5/2000) Page 2 of 2

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THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY. Named Insured Harris & Harris Group, Inc. Endorsement Number V Policy Symbol DON Policy Number G24581378 008 Policy Period P3/04/2017 to 03/04/2018 Effective Date of Endorsement P3/04/2017 Issued By (Name of Insurance Company) ACE American Insurance Company SEC CANCELLATION It is agreed that Section 12, Termination of Policy, is amended to add the following: In the event of any modification or cancellation of the attached policy, the Insurer will mark its record to indicate that the Securities Exchange Commission ("SEC") and the Parent Company shall be notified in writing 60 days prior to such modification or cancellation of the attached policy. All other terms and conditions of the policy remain unchanged. Authorized Representative MPP/ICBB (4/10)

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THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY Named Insured Harris & Harris Group, Inc. Endorsement
Number W Policy Symbol DON Policy Number G24581378 008 Policy Period P3/04/2017 to 03/04/2018 Effective Date of Endorsement
P3/04/2017 Issued By (Name of Insurance Company) ACE American Insurance Company AMEND DEDUCTIBLE In consideration of the
premium charged, it is hereby understood and agreed that Item 2 of the Declarations, is amended to add the following: No deductible shall apply to any loss
under Insuring Agreement A sustained by any Investment Company named as Insureds herein. All Other Terms, Conditions And Exclusions Of The Bond
Remain Unchanged Authorized Representative MPP/ICBB (4/10) © 2012 Page 1 of 1

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THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY. Named Insured Harris & Harris Group, Inc. Endorsement Number 8 Policy Symbol DON Policy Number G24581378 008 Policy Period P3/04/2017 to 03/04/2018 Effective Date of Endorsement P3/04/2017 Issued By (Name of Insurance Company) ACE American Insurance Company SOCIAL ENGINEERING FRAUD ENDORSEMENT It is agreed that this Bond is amended as follows: (1) By adding the following Insuring Clause: Social Engineering Fraud Loss resulting directly from the Insured having, transferred, paid or delivered Money or securities as the direct result of a Social Engineering Fraud Instruction. (2) Solely with respect to the coverage afforded by this endorsement, the following terms shall have the following meanings: Social Engineering Fraud Instruction means any instruction which intentionally misleads an Employee, through misrepresentation of a material fact which is relied upon by an Employee, believing it to be genuine, for the purpose of directing or transferring the Insured's Money or securities that were communicated by a natural person purporting to be: a. a director, officer, partner, member or sole proprietor of the Insured or other Employee who is authorized by the Insured to instruct another Employee to transfer funds, or an individual acting in collusion with such person purporting to be a director, officer, partner, member or sole proprietor or other Employee who is authorized by the Insured to instruct another Employee to transfer funds; or b. an employee of a Vendor who is authorized by the Insured to instruct an Employee to transfer funds or change bank account information of a Vendor; provided, however, Social Engineering Fraud Instruction shall not include any such instruction transmitted by an employee of a Vendor who was acting in collusion with any third party in submitting such instruction, but which instructions were not actually made by such director, officer, partner, member or sole proprietor, Employee, or employee of a Vendor. Vendor means any entity or natural person that has provided goods or services to the Insured under a legitimate pre-existing arrangement or written agreement. However, Vendor does not include any customer, automated clearing house, custodian, financial institution, administrator, counter party or any similar entity. (3) Solely with respect to the coverage afforded by this endorsement: A. This bond does not directly or indirectly cover loss occurring prior to <DATE>. B. This bond does not directly or indirectly cover loss due to any investment in securities, or ownership in any corporation, partnership, real property, commodity or similar instrument, whether or not such investment is genuine. MS-55777 (03/17) Page 1 of 2

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(4) The total liability of the Insurer under the Social Engineering Fraud insuring clause shall be <AMOUNT> for any Single Loss, subject to a Policy Period Aggregate Limit of Liability of \$<AMOUNT2>. (5) A Single Loss Deductible of \$<DEDAMT> shall apply with respect to coverage afforded under the Social Engineering Fraud Insuring Clause. All other terms and conditions of this Policy remain unchanged. MS-55777 (03/17) Page 2 of 2

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PF-46422 (07/15) Page 1 of 1 THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY Named Insured Harris & Harris Group, Inc. Endorsement Number 8 Policy Symbol DON Policy Number G24581378 008 Policy Period P3/04/2017 to 03/04/2018 Effective Date of Endorsement P3/04/2017 Issued By (Name of Insurance Company) ACE American Insurance Company TRADE OR ECONOMIC SANCTIONS ENDORSEMENT This insurance does not apply to the extent that trade or economic sanctions or similar laws or regulations prohibit us from providing insurance, including, but not limited to, the payment of claims. All other terms and conditions of policy remain unchanged. All other terms and conditions of the policy remain unchanged. Authorized Representative

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U.S. Treasury Department's Office Of Foreign Assets Control ("OFAC") Advisory Notice to Policyholders This Policyholder Notice shall not be construed as part of your policy and no coverage is provided by this Policyholder Notice nor can it be construed to replace any provisions of your policy. You should read your policy and review your Declarations page for complete information on the coverages you are provided. This Notice provides information concerning possible impact on your insurance coverage due to directives issued by OFAC. Please read this Notice carefully. The Office of Foreign Assets Control (OFAC) administers and enforces sanctions policy, based on Presidential declarations of "national emergency". OFAC has identified and listed numerous: Foreign agents; Front organizations; Terrorists; Terrorist organizations; and Narcotics traffickers; as "Specially Designated Nationals and Blocked Persons". This list can be located on the United States Treasury's web site – <http://www.treas.gov/ofac>. In accordance with OFAC regulations, if it is determined that you or any other insured, or any person or entity claiming the benefits of this insurance has violated U.S. sanctions law or is a Specially Designated National and Blocked Person, as identified by OFAC, this insurance will be considered a blocked or frozen contract and all provisions of this insurance are immediately subject to OFAC. When an insurance policy is considered to be such a blocked or frozen contract, no payments nor premium refunds may be made without authorization from OFAC. Other limitations on the premiums and payments also apply. PF-17914a (04/16) Reprinted, in part, with permission of Page 1 of 1 ISO Properties, Inc.

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ALL-20887a (03/16) Chubb Producer Compensation Practices & Policies Chubb believes that policyholders should have access to information about Chubb's practices and policies related to the payment of compensation to brokers and independent agents. You can obtain that information by accessing our website at <http://www.aceproducercompensation.com> or by calling the following toll-free telephone number: 1-866-512-2862.

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HARRIS & HARRIS GROUP, INC. Unanimous Written Consent by the Directors of the Board February 23, 2017 Pursuant to Section 708 (b) of the New York Business Corporation Law (the "NYBCL"), the undersigned, the members of the Board of Directors of Harris & Harris Group, Inc. (the "Company"), hereby adopt and consent to the adoption of the following resolutions and agree that said resolutions shall have the same force and effect as if adopted at a meeting of the Board of Directors duly called and held for such purpose. Fidelity Bond WHEREAS, Section 17(g) of the Investment Company Act of 1940 (the "1940 Act"), and Rule 17g-1(a) thereunder, requires a business development company (a "BDC"), such as the Company, to provide and maintain a bond which shall be issued by a reputable fidelity insurance company, authorized to do business in the place where the bond is issued, to protect the Company against larceny and embezzlement, covering each officer and employee of the BDC who may singly, or jointly with others, have access to the securities or funds of the BDC, either directly or through authority to draw upon such funds of, or to direct generally, the disposition of such securities, unless the officer or employee has such access solely through his position as an officer or employee of a bank (each, a "covered person"); WHEREAS, Rule 17g-1 specifies that the bond may be in the form of (i) an individual bond for each covered person, or a schedule or blanket bond covering such persons, (ii) a blanket bond which names the Company as the only insured (a "single insured bond"), or (iii) a bond which names the Company and one or more other parties as insureds (a "joint insured bond"), as permitted by Rule 17g-1; WHEREAS, the Rule requires that a majority of directors who are not "interested persons" of the BDC approve periodically (but not less than once every 12 months) the reasonableness of the form and amount of the bond, with due consideration to the value of the aggregate assets of the Company to which any covered person may have access, the type and terms of the arrangements made for the custody and safekeeping of such assets, and the nature of securities and other investments to be held by the Company; and WHEREAS, under the Rule, the Company is required to make certain filings with the SEC and give certain notices to each member of the Board of Directors in connection with the bond as specified in the accompanying memorandum attached hereto, and designate an officer who shall make such filings and give such notices. NOW, THEREFORE, BE IT RESOLVED, that having considered the expected aggregate value of the securities and funds of the Company to which officers or employees of the Company may have access (either directly or through authority to draw upon such funds or to direct generally the disposition of such securities), the type and terms of the arrangements made for the custody of such securities and funds, the nature of securities and other investments to be held by the Company, the accounting procedures and controls of the Company, the nature and method of conducting the operations of the Company, and the requirements of Section 17(g) of the 1940 Act and Rule 17g-1 thereunder, it is determined that the amount, type, form, premium and coverage of the bond, a copy of which is attached here to as Exhibit A, covering the officers and employees of the Company and insuring the Company against loss from fraudulent or dishonest acts, including larceny and embezzlement, issued by ACE American Insurance

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Company in the amount of \$6,000,000 and a premium of \$16,250, (the "Fidelity Bond") are hereby approved; FURTHER RESOLVED, that the officers of the Company be, and they hereby are, authorized to take all appropriate actions, with the advice of legal counsel to the Company, to provide and maintain the Fidelity Bond on behalf of the Company; and FURTHER RESOLVED, that the Secretary of the Company is hereby designated and directed to:

- (1) File with the SEC within 10 days after receipt of the executed Fidelity Bond, or any amendment thereof: (i) a copy of the Fidelity Bond; (ii) a copy of each resolution of the Board of Directors, including a majority of the directors who are not "interested persons" of the Company, approving the amount, type, form and coverage of the Fidelity Bond and the premium to be paid by the Company; (iii) a statement as to the period for which premiums have been paid; and (iv) a copy of any amendment to such agreement within 10 days after the execution of such amendment.
 - (2) File with the SEC, in writing, within five days after the making of a claim under the Fidelity Bond by the Company, a statement of the nature and amount thereof;
 - (3) File with the SEC, within five days after the receipt thereof, a copy of the terms of the settlement of any claim under the Fidelity Bond by the Company; and
 - (4) Notify by registered mail each member of the Board of Directors at his or her last known residence address of: (i) any cancellation, termination or modification of the Fidelity Bond, not less than 45 days prior to the effective date of the cancellation, termination or modification; (ii) the filing and the settlement of any claim under the Fidelity Bond by the Company, at the time the filings required by (2) and (3) above are made with the SEC; and (iii) the filing and proposed terms of settlement of any claim under the Fidelity Bond by any other named insured, within five days of the receipt of a notice from the issuer of the Fidelity Bond.
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These actions are taken this 23rd day February, 2017. This Unanimous Written Consent may be signed in two or more counterparts, which together shall constitute a single written consent.

/s/ Douglas W. Jamison /s/ W. Dillaway Ayres, Jr. Douglas W. Jamison (Chairman) W. Dillaway Ayres, Jr.
/s/ Phillip A. Bauman /s/ Stacy R. Brandom Phillip A. Bauman Stacy R. Brandom /s/ Charles E. Ramsey /s/ Kevin M. Rendino Charles E. Ramsey Kevin M. Rendino /s/ Richard P. Shanley Richard P. Shanley

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33,313

See accompanying notes.

46

Virco Mfg. Corporation
Consolidated Statements of Cash Flows

	Year Ended January 31,		
	2016	2015	2014
	(In thousands)		
Operating activities			
Net income (loss)	\$4,549	\$ 849	\$(1,730)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	4,757	4,408	4,209
Increase (decrease) in provision for doubtful accounts	141	115	(6)
Increase (decrease) in inventory reserve	350	(275)	(100)
Loss (gain) on sale of property, plant and equipment	9	(2)	(10)
Deferred income taxes	77	34	97
Stock-based compensation	493	502	523
Defined benefit plan, recognized net loss due to settlements	587	—	924
Amortization of net actuarial loss for pension plans	2,013	1,283	1,548
Changes in operating assets and liabilities:			
Trade accounts receivable	544	(2,261)	376
Other receivables	10	9	56
Inventories	(8,275)	1,376	(2,364)
Income taxes	(54)	(4)	(105)
Prepaid expenses and other current assets	(532)	915	(58)
Accounts payable and accrued liabilities	2,838	(5,290)	(3,603)
Net cash provided by (used in) operating activities	7,507	1,659	(243)
Investing activities			
Capital expenditures	(4,261)	(3,314)	(3,632)
Proceeds from sale of property, plant and equipment	8	2	19
Net proceeds from (investments in) life insurance	56	(70)	(25)
Net cash (used in) provided by investing activities	(4,197)	(3,382)	(3,638)
Financing activities			
Proceeds from long-term debt	31,960	33,750	28,851
Repayment of long-term debt	(34,719)	(32,479)	(24,656)
Common stock repurchased	(206)	(129)	(116)
Cash dividend paid	—	—	—
Net cash (used in) provided by financing activities	(2,965)	1,142	4,079
Net (decrease) increase in cash	345	(581)	198
Cash at beginning of year	470	1,051	853
Cash at end of year	\$815	\$470	\$1,051
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Interest	\$1,281	\$1,454	\$1,302
Income tax, net of refunds	72	46	74
See accompanying notes.			

VIRCO MFG. CORPORATION

Notes to Consolidated Financial Statements

January 31, 2016

1. Summary of Business and Significant Accounting Policies

Business

Virco Mfg. Corporation (the "Company"), which operates in one business segment, is engaged in the design, production and distribution of quality furniture for the commercial and education markets. Over 66 years of manufacturing operations have resulted in a wide product assortment. Major products include mobile tables, mobile storage equipment, desks, computer furniture, chairs, activity tables, folding chairs and folding tables. The Company manufactures its products in Torrance, California, and Conway, Arkansas, for sale primarily in the United States. The Company operates in a seasonal business, and requires significant amounts of working capital under its credit facility to fund acquisitions of inventory and finance receivables during the summer delivery season. Restrictions imposed by the terms of the Company's credit facility may limit the Company's operating and financial flexibility. However, management believes that its existing cash and available borrowings under its credit facility, and any cash generated from operations will be sufficient to fund its working capital requirements, capital expenditures and other obligations through the next 12 months.

Principles of Consolidation

The consolidated financial statements include the accounts of Virco Mfg. Corporation and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Reclassifications

Certain reclassifications have been made to the prior year financial information to conform with the current period presentation.

Management Use of Estimates

Preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities - and disclosure of contingent assets and liabilities - at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Significant estimates made by management include, but are not limited to, valuation of inventory; deferred tax assets and liabilities; useful lives of property, plant, and equipment; liabilities under pension, warranty, self-insurance, and environmental claims, revenue recognition; and the accounts receivable allowance for doubtful accounts. Actual results could differ from these estimates.

Fiscal Year End

Fiscal years 2016, 2015, and 2014 refer to the fiscal years ended January 31, 2016, 2015 and 2014, respectively.

Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of accounts receivable. The Company performs ongoing credit evaluations of its customers and maintains allowances for potential credit losses. Sales to the Company's recurring customers are generally made on open account with terms consistent with the industry. Credit is extended based on an evaluation of the customer's financial condition and payment history. Past due accounts are determined based on how recently payments have been made in relation to the terms granted. Amounts are written off against the allowance in the period that the Company determines that the receivable is not collectable. The Company purchases insurance on receivables from certain commercial customers to minimize the Company's credit risk. The Company does not typically obtain collateral to secure credit risk. Customers with inadequate credit are required to provide cash in advance or letters of credit. The Company does not assess interest on receivable balances. A substantial percentage of the Company's receivables come from low-risk government entities. No customer exceeded 10% of the Company's sales for each of the three years ended January 31, 2016. Foreign sales were approximately 6.7%, 7.7% and 7.5% of the Company's sales for fiscal years 2016, 2015 and 2014, respectively.

No single customer accounted for more than 10% of the Company's accounts receivable at January 31, 2016 or 2015. Because of the short time between shipment and collection, the net carrying value of receivables approximates the fair value for these assets.

Fair Values of Financial Instruments

The fair values of the Company's cash, accounts receivable, and accounts payable approximate their carrying amounts due to their short-term nature.

Financial assets and liabilities measured at fair value on a recurring basis are classified in one of the three following categories, which are described below:

Level 1 — Valuations based on unadjusted quoted prices for identical assets in an active market.

Level 2 — Valuations based on quoted prices in markets where trading occurs infrequently or whose values are based on quoted prices of instruments with similar attributes in active markets.

Level 3 — Valuations based on inputs that are unobservable and involve management judgment and our own assumptions about market participants and pricing.

Financial assets measured at fair value on a recurring basis include assets associated with the Virco Employees Retirement Plan.

Inventories

Inventory is valued at the lower of cost or Net Realizable Value (determined on a first-in, first-out basis) and includes material, labor, and factory overhead. The Company maintains allowances for estimated slow moving and obsolete inventory to reflect the difference between the cost of inventory and the estimated market value. Allowances for slow moving and obsolete inventory are determined through a physical inspection of the product in connection with a physical inventory, a review of slow-moving product, and consideration of active marketing programs. The market for education furniture is traditionally driven by value, not style, and the Company has not typically incurred significant obsolescence expenses. If market conditions are less favorable than those anticipated by management, additional allowances may be required. Due to reductions in sales volume in the past years, the Company's manufacturing facilities are operating at reduced levels of capacity. The Company records the cost of excess capacity as a period expense, not as a component of capitalized inventory valuation.

The following table presents an updated breakdown of the Company's net inventory (in thousands) as of January 31, 2016 and 2015:

	January 31,	
	2016	2015
Finished goods	10,233	7,821
WIP	13,443	10,181
Raw materials	10,927	8,676
Inventories, net	34,603	26,678

In connection with the preparation of the consolidated financial statements, the Company determined that its reserve for excess and obsolete inventory had previously been applied exclusively to the Finished goods portion of inventory, when it should have been applied against Finished goods, Work in process, and Raw materials and supplies, based on the identification of the specific parts determined to be held in excess or obsolete. The Company evaluated the impact of this error on prior year financial statements and concluded that it was immaterial for the year ended January 31, 2015, and for all interim periods within the year. While the amounts included in the prior year disclosure were considered to be immaterial, the Company elected to revise the disclosure of previously reported amounts to be consistent with the presentation for the year ended January 31, 2016. The changes resulted in no change to Inventories, net. The changes resulted in an increase to Finished goods of \$2,219,000, a decrease to Work in process of \$1,306,000, and a decrease to Raw materials and supplies of \$913,000 as of January 31, 2015.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, less accumulated depreciation. Depreciation and amortization are computed on the straight-line method for financial reporting purposes based upon the following estimated useful lives:

Land improvements	5 to 25 years
Buildings and building improvements	5 to 40 years
Machinery and equipment	3 to 10 years
Leasehold improvements	shorter of lease or useful life

The Company did not capitalize interest costs as part of the acquisition cost of property, plant and equipment for the years ended January 31, 2016, 2015 and 2014. The Company capitalizes the cost of significant repairs that extend the life of an asset. Repairs and maintenance that do not extend the life of an asset are expensed as incurred. Repair and maintenance expense was \$1,759,000, \$1,616,000 and \$1,691,000 for fiscal years ended January 31, 2016, 2015 and 2014, respectively.

The Company subleased space at one of its facilities on a month-to-month basis during 2016, 2015, and 2014. Rental income was \$51,000, \$40,000, \$40,000 for fiscal years ended January 31, 2016, 2015, and 2014 respectively.

The Company has established asset retirement obligations related to leased manufacturing facilities in accordance with Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) Topic 410, "Asset Retirement and Environmental Obligations." Accrued asset retirement obligations are recorded at net present value and discounted over the life of the lease. Asset retirement obligations, included in other non-current liabilities were \$581,000 and \$572,000 at January 31, 2016 and 2015, respectively.

	January 31,	
	2016	2015
Balance at beginning of period	\$572,000	\$563,000
Decrease in obligation	—	—
Accretion expense	9,000	9,000
Balance at end of period	\$581,000	\$572,000

Impairment of Long-Lived Assets

An impairment loss is recognized in the event facts and circumstances indicate the carrying amount of a long-lived asset may not be recoverable, and an estimate of future undiscounted cash flows is less than the carrying amount of the asset. Impairment is recorded based on the excess of the carrying amount of the impaired asset over the fair value. Generally, fair value represents the Company's expected future cash flows from the use of an asset or group of assets, discounted at a rate commensurate with the risks involved. There were no impairments in fiscal years 2016, 2015 and 2014.

Net Income (Loss) per Share

Basic net income (loss) per share is calculated by dividing net income (loss) by the weighted-average number of common shares outstanding. Diluted net income (loss) per share is calculated by dividing net income (loss) by the weighted-average number of common shares outstanding plus the dilution effect of stock grants. The following table sets forth the computation of basic and diluted income (loss) per share:

In thousands, except per share data	2016	2015	2014
Numerator			
Net income (loss)	\$4,549	\$ 849	\$(1,730)
Denominator			
Weighted-average shares — basic	14,914	14,756	14,620
Dilutive effect of equity incentive plans	204	231	—
Weighted-average shares — diluted (1)	15,118	14,987	14,620
Net income (loss) per common share			
Basic	\$0.31	\$ 0.06	\$(0.12)
Diluted	0.30	0.06	(0.12)

- (1) For fiscal year 2014, approximately 180,000 shares of common stock equivalents were excluded in the computation of diluted net income per share, as the effect would be anti-dilutive.

Environmental Costs

The Company is subject to numerous environmental laws and regulations in the various jurisdictions in which it operates that (a) govern operations that may have adverse environmental effects, such as the discharge of materials into the environment, as well as handling, storage, transportation and disposal practices for solid and hazardous wastes, and (b) impose liability for response costs and certain damages resulting from past and current spills, disposals or other releases of hazardous materials. Normal, recurring expenses related to operating the Company's factories in a manner that meets or exceeds environmental laws and regulations are matched to the cost of producing inventory. Despite our efforts to comply with existing laws and regulations, compliance with more stringent laws or regulations, or stricter interpretation of existing laws, may require additional expenditures by us, some of which may be material. We reserve amounts for such matters when expenditures are probable and reasonably estimable.

Costs incurred to investigate and remediate environmental waste are expensed, unless the remediation extends the useful life of the assets employed at the site. At January 31, 2016 and 2015, the Company had not capitalized any remediation costs and had not recorded any amortization expense in fiscal years 2016, 2015, and 2014 .

Advertising Costs

Advertising costs are expensed in the period during which the advertising space is run. Selling, general and administrative expenses include advertising costs of \$1,057,000 in 2016, \$1,277,000 in 2015, and \$1,246,000 in 2014. Prepaid advertising costs reported as an asset on the balance sheet at January 31, 2016 and 2015, were \$234,000 and \$244,000, respectively.

Product Warranty Expense

The Company provides a product warranty on most products. The standard warranty offered on products sold through January 31, 2005 is five years. Effective February 1, 2005, the standard warranty was increased to 10 years on products sold after February 1, 2005. Effective February 1, 2014 the Company modified its warranty to a limited lifetime warranty. The new warranty effective February 1, 2014 is not anticipated to have a significant effect on warranty expense. The Company generally provides that customers can return a defective product during the specified warranty period following purchase in exchange for a replacement product or that the Company can repair the product at no charge to the customer. The Company determines whether replacement or repair is appropriate in each circumstance. The Company uses historic data to estimate appropriate levels of warranty reserves. Because product mix, production methods, and raw material sources change over time, historic data may not always provide precise estimates for future warranty expense. The Company recorded warranty reserves of \$1,000,000 and \$950,000 as of January 31, 2016 and 2015, respectively. The current portion of the warranty reserve was 600,000 for both 2016 and 2015.

Self-Insurance

In 2016 and 2015, the Company was self-insured for product and general liability losses up to \$250,000 per occurrence, for workers' compensation losses up to \$250,000 per occurrence, and for auto liability up to \$50,000 per occurrence. Actuaries assist the Company in determining its liability for the self-insured component of claims, which have been discounted to their net present value utilizing a discount rate of 2.00% in 2016 and 0.50% in 2015.

Stock-Based Compensation Plans

The Company recognizes stock-based compensation cost for shares that are expected to vest, on a straight-line basis, over the requisite service period of the award.

Virco issued a 10% stock dividend or 3/2 stock split every year beginning in 1983 through 2003. Although the stock dividend had no cash consequences to the Company, the accounting methodology required for 10% dividends has affected the equity section of the balance sheet. When the Company records a 10% stock dividend, 10% of the market capitalization of the Company on the date of the declaration is reclassified from retained earnings to additional paid-in capital. During the period from 1983 through 2003, the cumulative effect of the stock dividends has been to reclassify over \$122 million from retained earnings to additional paid-in capital. The equity section of the balance sheet on January 31, 2016 reflects additional paid-in capital of approximately \$116 million and accumulated deficit of approximately \$69 million. Other than the losses incurred

during 2004-2006 and 2011-2014, the accumulated deficit is a result of the accounting reclassification, and is not the result of accumulated losses.

Accumulated Other Comprehensive Income (Loss), Net of Tax

The following table summarizes the changes in accumulated balances of other comprehensive income (loss) for the year ended January 31, 2016 and 2015:

(in thousands)	January 31,	
	2016	2015
Balance as of beginning of year	\$(20,234)	\$(13,980)
Other comprehensive income (loss) before reclassifications	3,891	(7,537)
Amounts reclassified from AOCI	2,013	1,283
Net current period other comprehensive (loss) income	5,904	(6,254)
Balance as of end of year	\$(14,330)	\$(20,234)

The reclassifications out of accumulated other comprehensive income (loss) of \$2,013,000 and \$1,283,000 for the years ended January 31, 2016 and 2015, respectively, related to amortization of actuarial losses.

Revenue Recognition

The Company recognizes revenue in accordance with FASB ASC Topic 605, "Revenue Recognition." Revenue is recognized when title passes under its various shipping terms, when installation services are complete, and when collectability is reasonably assured. The Company reports sales net of sales returns and allowances, sales taxes imposed by various government authorities, cash discounts and rebate to customers. In most instances, the Company sells furniture on bids and contracts, which may include multiple elements. For sales that include freight to the customer, many sales are delivered on the same day shipped, with an average delivery being in route for 1 to 3 days. Installation, which involves carrying the furniture to the classroom and setting the desks and chairs in place, typically occurs the day the furniture is delivered.

In accordance with ASC 605, 25, "Revenue Recognition - Multiple-Element Arrangements," revenue arrangements with multiple deliverables are generally accounted for by the Company on a combined unit of accounting as our customers control our ability to deliver and install the furniture, and as a result the furniture delivery and installation are generally provided at the same time. We recognize the consideration for the combined unit of accounting once the final item has been delivered and installed.

Delivery Costs

For the fiscal years ended January 31, 2016, 2015 and 2014, shipping and classroom delivery costs of approximately \$15,799,000, \$15,411,000 and \$14,576,000, respectively, were included in selling, general and administrative expenses.

Accounting for Income Taxes

The Company recognizes deferred income taxes under the asset and liability method of accounting for income taxes in accordance with the provisions of FASB ASC Topic 740, "Accounting for Income Taxes." Deferred income taxes are recognized for differences between the financial statement and tax basis of assets and liabilities at enacted statutory tax rates in effect for the years in which the differences are expected to reverse. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance against deferred tax assets is recorded when it is determined to be more likely than not that the asset will not be realized.

2. New Accounting Pronouncements

Table of Contents

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09") an updated standard on revenue recognition. This ASU will supersede the revenue recognition requirements in Accounting Standards Codification Topic 605, Revenue Recognition, and most industry-specific guidance. ASU 2014-09 provides enhancements to the quality and consistency of how revenue is reported while also improving comparability in the financial statements of companies reporting using US GAAP and International Financial Reporting Standards. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services. In doing so the Company may be required to use more judgment and make more estimates than under current authoritative guidance. ASU 2014-09 will be effective for the Company in the first quarter of fiscal 2018 and may be applied on a full retrospective or modified retrospective approach. The Company is currently evaluating the impact the adoption of this standard will have on its consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40), Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. This standard sets forth management's responsibility to evaluate, each reporting period, whether there is substantial doubt about our ability to continue as a going concern, and if so, to provide related footnote disclosures. The standard is effective for annual and interim reporting periods ending after December 15, 2016. We are currently evaluating this new standard and expect it to have no impact on our financial position and results of operations.

In April 2015, the FASB issued an Accounting Standards Update that requires reporting entities to present debt issuance costs as a direct deduction from the face amount of that note payable presented in the balance sheet. The Accounting Standards Update is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted. A reporting entity is required to apply the amendments in the Accounting Standards Update retrospectively to all prior periods. The adoption of the Accounting Standards will have no impact on our consolidated financial statements.

In July 2015, the FASB issued authoritative guidance to simplify the subsequent measurement of inventories by replacing the lower of cost or market test with a lower of cost and net realizable value test. This guidance is effective for fiscal years beginning after December 15, 2016, which will be the Company's first quarter of fiscal 2018, and requires prospective adoption, with early adoption permitted.

In November 2015, the FASB issued Accounting Standard Update No. 2015-17, "Balance Sheet Classification of Deferred Taxes", an update to ASC 740, Income Taxes. Current GAAP requires an entity to separate deferred income tax liabilities and assets into current and noncurrent amounts in a classified statement of financial position. To simplify the presentation of deferred income taxes, the amendments in this Update require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the amendments in this Update. For public business entities, the amendments in this update are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Board also decided to permit earlier application by all entities as of the beginning of any interim or annual reporting period. The Company has chosen to early adopt the Update for the year ended January 31, 2016. The Company chose to retrospectively adopt these provisions in Q4 2016, which resulted in reclassifications in our Consolidated Balance Sheet as of January 31, 2015, of \$156,000 from current Deferred income taxes to long-term Deferred income taxes .

In February 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2016-02, an updated to ASC 842, Leases. This update will require lease assets and lease liabilities to be recognized on the balance sheet and disclosure of key information about leasing arrangements. This guidance is effective for the Company commencing in the first quarter of fiscal year ending January 31, 2020 and must be adopted using a modified retrospective transition, and provides for certain practical expedients. Early adoption is permitted. The adoption of this guidance is expected to have a material impact on the Company's consolidated financial statements or related disclosures.

3. Debt

Outstanding balances (in thousands) for the Company's long-term debt were as follows:

	January 31,	
In thousands, except per share data	2016	2015
Revolving credit line	\$6,663	\$9,366
Other	97	153
Total debt	6,760	9,519
Less current portion	663	3,366
Non-current portion	\$6,097	\$6,153

On December 22, 2011 (the “Closing Date”), the Company and Virco Inc., a wholly owned subsidiary of the Company (“Virco” and, together with the Company, the “Borrowers”) entered into a Revolving Credit and Security Agreement (the “Credit Agreement”) with PNC Bank, National Association, as administrative agent and lender (“PNC”). The credit agreement has been amended twelve times subsequent to that date, which, among other things, extended the maturity date of the Credit Agreement for three years until December 22, 2019, reduced the maximum availability under the Credit Agreement by \$10,250,000 to \$49,750,000, modified, eliminated, or waived covenants, amended seasonal advances and established sub-lines for equipment financing.

On April 4, 2016 the Company entered into Amendment No. 12, which retroactively modified the capital expenditure covenant at January 31, 2016 and established quarterly covenants for the fiscal year ending January 31, 2017, and extended the maturity to December 2019.

The Credit Agreement provides the Borrowers with a secured revolving line of credit (the “Revolving Credit Facility”) of up to \$49,750,000, with seasonal adjustments to the credit limit and subject to borrowing base limitations, and includes a sub-limit of up to \$3,000,000 for issuances of letters of credit. The Revolving Credit Facility is an asset-based line of credit that is subject to a borrowing base limitation and generally provides for advances of up to 85% of eligible accounts receivable, plus a percentage equal to the lesser of 60% of the value of eligible inventory or 85% of the liquidation value of eligible inventory, plus an amount ranging from \$8,000,000 to \$14,000,000 from February 1 through July 31 of each year, minus undrawn amounts of letters of credit and reserves. The Revolving Credit Facility is secured by substantially all of the Borrowers' personal property and certain of the Borrowers' real property. The principal amount outstanding under the Credit Agreement and any accrued and unpaid interest is due no later than December 22, 2019, and the Revolving Credit Facility is subject to certain prepayment penalties upon earlier termination of the Revolving Credit Facility. Prior to the maturity date, principal amounts outstanding under the Credit Agreement may be repaid and reborrowed at the option of the Borrowers without premium or penalty, subject to borrowing base limitations, seasonal adjustments and certain other conditions.

The Revolving Credit Facility bears interest, at the Borrowers' option, at either the Alternate Base Rate (as defined in the Credit Agreement) or the Eurodollar Currency Rate (as defined in the Credit Agreement), in each case plus an applicable margin. The applicable margin for Alternate Base Rate loans is a percentage within a range of 0.50% to 1.50%, and the applicable margin for Eurodollar Currency Rate loans is a percentage within a range of 1.50% to 2.50%, in each case based on the EBITDA of the Borrowers at the end of each fiscal quarter, and may be increased at PNC's option by 2.0% during the continuance of an event of default. Accrued interest with respect to principal amounts outstanding under the Credit Agreement is payable in arrears on a monthly basis for Alternative Base Rate loans, and at the end of the applicable interest period but at most every three months for Eurodollar Currency Rate loans.

For the year ended January 31, 2016 the Credit Agreement contained a covenant that forbid the Company from issuing dividends or making payments with respect to the Company's capital stock. As discussed above, on April 4, 2016 the Company entered into Amendment No. 12 which allows the Company to pay up to \$1.3 million in cash dividends and stock repurchases. In addition, it contains numerous other covenants that limit under certain circumstances the ability of the Borrowers and their subsidiaries to, among other things, merge with or acquire other entities, incur new liens, incur additional indebtedness, sell assets outside of the ordinary course of business, enter into transactions with affiliates, or substantially change the general nature of the business of the Borrowers, taken as a whole. The Credit Agreement also requires the Company to maintain the following financial maintenance covenants: (1) a minimum tangible net worth amount, (2) a minimum fixed charge coverage ratio, and (3) a minimum EBITDA amount, in each case as of the end of the relevant monthly, quarterly or annual measurement period. As of January 31, 2016 the Credit Agreement required the Company to maintain: (1) a minimum tangible net worth of at least \$21,346,000 for the fiscal quarter ending January 31, 2016, (2) a minimum fixed charge coverage ratio of at least 1.00 to 1.00 for the four consecutive fiscal quarters ending January 31, 2016, and (3) a minimum EBITDA amount of \$6,137,000 for the twelve consecutive fiscal months ending January 31, 2016. The actual results of the Company with respect to the foregoing financial covenants for the period ending January 31, 2016 were as follows: (1) the Company maintained a tangible net worth of \$33,312,000 for the fiscal year ending January 31, 2016, (2) the Company maintained a fixed charge coverage ratio of greater than 5.28 to 1.00 for the four consecutive fiscal quarters ended January 31, 2016, and

(3) the Company achieved EBITDA of \$11,198,000 for the twelve consecutive fiscal months ending January 31, 2016.

In addition, the Credit Agreement contains a clean down provision that requires the Company to reduce borrowings under the line to less than \$6,000,000 for a period of 60 consecutive days each fiscal year. The Company believes that normal operating cash flow will allow it to meet the clean down requirement with no adverse impact on the Company's liquidity.

The Company was in violation of its capital expenditure covenant for the relevant period ended January 31, 2016. However, as noted above, on April 4, 2016 the Company entered into Amendment No. 12, which modified the capital expenditure covenant as of January 31, 2016. The Company was in compliance with the modified covenant.

Events of default (subject to certain cure periods and other limitations) under the Credit Agreement include, but are not limited to, (i) non-payment of principal, interest or other amounts due under the Credit Agreement, (ii) the violation of terms, covenants, representations or warranties in the Credit Agreement or related loan documents, (iii) any event of default under agreements governing certain indebtedness of the Borrowers and certain defaults by the Borrowers under other agreements that would materially adversely affect the Borrowers, (iv) certain events of bankruptcy, insolvency or liquidation involving the Borrowers, (v) judgments or judicial actions against the Borrowers in excess of \$250,000, subject to certain conditions, (vi) the failure of the Company to comply with Pension Benefit Plans (as defined in the Credit Agreement), (vii) the invalidity of loan documents pertaining to the Credit Agreement, (viii) a change of control of the Borrowers and (ix) the interruption of operations of any of the Borrowers' manufacturing facilities for five consecutive days during the peak season or fifteen consecutive days during any other time, subject to certain conditions.

Pursuant to the Credit Agreement, substantially all of the Borrowers' accounts receivable are automatically and promptly swept to repay amounts outstanding under the Revolving Credit Facility upon receipt by the Borrowers. Due to this automatic liquidating nature of the Revolving Credit Facility, if the Borrowers breach any covenant, violate any representation or warranty or suffer a deterioration in their ability to borrow pursuant to the borrowing base calculation, the Borrowers may not have access to cash liquidity unless provided by PNC at its discretion. In addition, certain of the covenants and representations and warranties set forth in the Credit Agreement contain limited or no materiality thresholds, and many of the representations and warranties must be true and correct in all material respects upon each borrowing, which the Borrowers expect to occur on an ongoing basis. There can be no assurance that the Borrowers will be able to comply with all such covenants and be able to continue to make such representations and warranties on an ongoing basis.

The Company's line of credit with PNC is structured to provide seasonal credit availability during the Company's peak summer season. The Company believes that the Revolving Credit Facility will provide sufficient liquidity to meet its capital requirements in the next 12 months. Approximately \$12,943,000 was available for borrowing as of January 31, 2016.

As of January 31, 2016, long-term debt repayments are approximately as follows (in thousands):

Year ending January 31,	
2017	\$ 663
2018	6,097
2019	—
2020	—
2021	—
Thereafter	—

Management believes that the carrying value of debt approximated fair value at January 31, 2016 and 2015, as all of the long-term debt bears interest at variable rates based on prevailing market conditions.

4. Retirement Plans Pension Plans

The Company maintains three defined benefit pension plans, the Virco Employees Retirement Plan (“Employee Plan”), the Virco Important Performers Retirement Plan (“VIP Plan”), and the Non-Employee Directors Retirement Plan (“Directors Plan”). The Company and its subsidiaries cover all employees hired prior to December 31, 2003 under the Employee Plan, which is a qualified noncontributory defined benefit retirement plan. Benefits under the Employee Plan are based on years of service and career average earnings. Benefit accruals under the Employee Plan were frozen effective December 31, 2003.

The Company also provides a supplementary retirement plan for certain key employees, the VIP Plan. The VIP Plan provides a benefit up to 50% of average compensation for the last five years in the VIP Plan, offset by benefits earned under the Employee Plan. Benefit accruals under the VIP Plan were frozen effective December 31, 2003. The VIP Plan benefits are secured by a life insurance program. Substantially all assets securing the VIP Plan are held in a rabbi trust. These cash surrender values are included in other assets in the consolidated balance sheets. The cash surrender values of the policies securing the VIP Plan were \$3,462,000 and \$3,311,000 at January 31, 2016 and 2015, respectively. Death benefits payable under life insurance policies held by the Plan were approximately \$9,391,000 and \$9,486,000 at January 31, 2016 and 2015, respectively. The Company maintains a rabbi trust to hold assets related to the VIP Retirement Plan and a Split Dollar Life Insurance Plan.

In April 2001, the Board of Directors established the Directors Plan, a non-qualified plan for non-employee directors of the Company. The Directors Plan provides a lifetime annual retirement benefit equal to the director’s annual retainer fee for the

fiscal year in which the director terminates his or her position with the board, subject to the director providing 10 years of service to the Company. Benefit accruals under the Directors Plan were frozen effective December 31, 2003. At January 31, 2016, the Directors Plan did not hold any assets.

The annual measurement date for all plans for the fiscal years ended January 31, 2016, 2015, and 2014 is January 31. Effective December 31, 2003, the Company froze all future benefit accruals under the plans. Employees can continue to vest under the benefits earned to date, but no covered participants will earn additional benefits under the plan freeze.

Accounting policy regarding pensions requires management to make complex and subjective estimates and assumptions relating to amounts which are inherently uncertain. Three primary economic assumptions influence the reported values of plan liabilities and pension costs. The Company takes the following factors into consideration: discount rate, assumed rate of return and rate of increase in compensation.

The discount rate represents an estimate of the rate of return on a portfolio of high-quality fixed-income securities that would provide cash flows that match the expected benefit payment stream from the plans. When setting the discount rate, the Company utilizes a spot-rate yield curve developed from high-quality bonds currently available which reflects changes in rates that have occurred over the past year. This assumption is sensitive to movements in market rates that have occurred since the preceding valuation date, and therefore, may change from year to year.

Because the Company froze future benefit accruals for all three defined benefit plans, the compensation increase assumption had no impact on pension expense, accumulated benefit obligation or projected benefit obligation for the period ended January 31, 2016 or 2015.

The assumed rate of return on plan assets represents an estimate of long-term returns available to investors who hold a mixture of stocks, bonds, and cash equivalent securities. When setting its expected return on plan asset assumptions, the Company considers long-term rates of return on various asset classes (both historical and forecasted, using data collected from various sources generally regarded as authoritative) in the context of expected long-term average asset allocations for its defined benefit pension plan. Two of the Company's defined benefit pension plans (the VIP Plan and the Directors Plan) are executive benefit plans that are not funded and are subject to the Company's creditors. Because these plans are not funded, the assumed rate of return has no impact on pension expense or the funded status of the plans.

The Company maintains a trust for and funds the pension obligations for the Employee Plan. The Board of Directors appoints a Retirement Plan Committee that establishes a policy for investment and funding strategies. Approximately

70% of the trust assets are managed by investment advisors and held in common trust funds with the balance managed by the Retirement Plan Committee. The Retirement Plan Committee has established target asset allocations for its investment advisors, who invest the trust assets in a variety of institutional collective trust funds. The long-term asset allocation target provided to the investment advisors is 80% stock and 20% bond, with maximum allocations of 80% large cap stocks, 30% small cap stocks, and 30% international stock. The Company has established a custom benchmark derived from a variety of stock and bond indices that are weighted to approximate the asset allocation provided to the investment advisors. The investment advisors' performance is compared to the custom index as part of the evaluation of the investment advisors' performance. The Retirement Plan

Committee receives monthly reports from the investment advisors and meets periodically with them to discuss investment performance.

At January 31, 2016 and 2015, the amount of the plan assets invested in bond or short-term investment funds was 23% and 14%, respectively, and the balance of the trust was held in equity funds or investments. The trust does not hold any Company stock.

During 2015, the pension plans were impacted by a material decrease in discount rates and by application of a new mortality table. A reduction in the discount rate caused pension obligations to increase by \$5.4 million, \$1.7 million, and \$0.02 million for the Employee Plan, VIP Plan, and Director Plan, respectively.

It is the Company's policy to contribute adequate funds to the trust accounts to cover benefit payments under the VIP Plan and Directors Plan and to maintain the funded status of the Employee Plan at a level which is adequate to avoid significant restrictions to the Employee Plan under the Pension Protection Act of 2006. The Company contributed \$1.6 million, \$2.4 million, and \$1.8 million, to the trust in 2016, 2015, and 2014, respectively. Contributions during fiscal year 2017 will depend upon actual investment results and benefit payments, but are anticipated to be approximately \$1.4 million. During 2016, 2015, and 2014, the Company paid approximately \$591,000, \$580,000 and \$564,000 respectively, in benefits per year under the non-qualified plans. It is anticipated that contributions to non-qualified plans will be approximately \$627,000 for 2017. At January 31, 2016, accumulated other comprehensive loss of approximately \$16.8 million (\$14.3 million net of tax) is attributable to the pension plans.

The following tables set forth (in thousands) the funded status of the Company's pension plans at January 31, 2016, and 2015:

	Employee Plan		VIP Plan		Directors Plan	
	1/31/2016	1/31/2015	1/31/2016	1/31/2015	1/31/2016	1/31/2015
Change in Benefit Obligation						
Benefit obligation at beg. of year	\$37,708	\$32,069	\$10,104	\$7,662	\$428	\$ 439
Service cost	—	—	—	—	—	—
Interest cost	1,147	1,260	343	350	13	17
Participant contributions		—		—	—	—
Amendments		—		—	—	—
Actuarial losses (gains)	(4,256)	5,962	(1,209)	2,636	(107)	8
Plan settlement	(1,380)	(1,071)		—		—
Benefits paid	(560)	(512)	(537)	(544)	(54)	(36)
Benefit obligation at end of year	\$32,659	\$37,708	\$8,701	\$10,104	\$280	\$ 428
Change in Plan Assets						
Fair value at beg. of year	\$21,187	\$18,168	\$—	\$—	\$—	\$ —
Actual return on plan assets	(974)	2,172	—	—	—	—
Company contributions	1,575	2,430	537	544	54	36
Settlements	(1,380)	(1,071)		—		—
Benefits paid	(560)	(512)	(537)	(544)	(54)	(36)
Fair value at end of year	\$19,848	\$21,187	\$—	\$—	\$—	\$ —
Funded Status						
Unfunded status of the plan	\$(12,811)	\$(16,521)	\$(8,701)	\$(10,104)	\$(280)	\$(428)
Amounts Recognized in Statement of Financial Position						
Current liabilities	—	—	(593)	(613)	(34)	—
Non-current liabilities	(12,811)	(16,521)	(8,108)	(9,491)	(246)	(428)
Accrued benefit cost	\$(12,811)	\$(16,521)	\$(8,701)	\$(10,104)	\$(280)	\$(428)
Amounts Recognized in Statement of Financial Position and Operations						
Accrued benefit liability	\$(12,811)	\$(16,521)	\$(8,701)	\$(10,104)	\$(280)	\$(428)
Accumulated other comp. loss (gain)	13,889	17,992	3,023	4,716	(144)	(37)
Net amount recognized	\$1,078	\$1,471	\$(5,678)	\$(5,388)	\$(424)	\$(465)
Items not yet Recognized as a Component of Net Periodic Pension Expense, Included in AOCI						
Unrecognized net actuarial loss (gain)	\$13,889	\$17,992	\$3,023	\$4,716	\$(144)	\$(37)
Unamortized prior service costs	—	—	—	—	—	—
Net initial asset recognition	—	—	—	—	—	—
	\$13,889	\$17,992	\$3,023	\$4,716	\$(144)	\$(37)

	Employee Plan		VIP Plan		Directors Plan		
	1/31/2016	1/31/2015	1/31/2016	1/31/2015	1/31/2016	1/31/2015	
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income							
Net loss (gain)	\$(1,986)	\$4,893	\$(1,209)	\$2,636	\$(107)	\$ 8	
Prior service cost		—				—	
Amortization of (loss) gain	(2,117)	(1,136)	(484)	(178)	—	31	
Amortization of prior service cost (credit)	—	—	—	—	—	—	
Amortization of initial asset	—	—	—	—	—	—	
Total recognized in other comprehensive (loss) income	\$(4,103)	\$3,757	\$(1,693)	\$2,458	\$(107)	\$ 39	
Items to be Recognized as a Component of Periodic Pension Cost for next fiscal year							
Prior service cost	\$—	\$—	\$—	\$—	\$—	\$—	
Net actuarial loss (gain)	1,162	1,529	310	484	(116)	—	
	\$1,162	\$1,529	\$310	\$484	\$(116)	\$—	
Supplemental Data							
Projected benefit obligation	\$32,659	\$37,708	\$8,701	\$10,104	\$280	\$ 428	
Accumulated benefit obligation	32,659	37,708	8,701	10,104	280	428	
Fair value of plan assets	19,848	21,187	—	—	—	—	
Components of Net Cost							
Service cost	\$—	\$—	\$—	\$—	\$—	\$—	
Interest cost	1,147	1,260	343	350	13	17	
Expected return on plan assets	(1,295)	(1,102)	—	—	—	—	
Amortization of transition amount	—	—	—	—	—	—	
Recognized (gain) loss due to settlement	587	—	—	—	—	—	
Amortization of prior service cost	—	—	—	—	—	—	
Recognized net actuarial loss	1,529	1,136	484	178	—	(31)	
Benefit cost	\$1,968	\$1,294	\$827	\$528	\$13	\$(14)	
Estimated Future Benefit Payments							
FYE 01-31-2017	\$6,194		\$593		\$34		
FYE 01-31-2018	1,503		294		32		
FYE 01-31-2019	1,797		321		31		
FYE 01-31-2020	1,597		341		29		
FYE 01-31-2021	1,601		328		27		
FYE 01-31-2022 to 2026	9,455		1,911		103		
Total	\$22,147		\$3,788		\$256		
Weighted Average Assumptions to Determine Benefit Obligations at Year-End							
Discount rate	4.00	% 3.25	% 4.25	% 3.50	% 3.25	% 3.25	%
Rate of compensation increase	N/A	N/A	N/A	N/A	N/A	N/A	
Weighted Average Assumptions to Determine Net Periodic Pension Cost							
Discount rate	3.25	% 4.25	% 3.50	% 4.75	% 3.25	% 4.25	%
Expected return on plan assets	6.50	% 6.50	% N/A	N/A	N/A	N/A	
Rate of compensation increase	N/A	N/A	N/A	N/A	N/A	N/A	

Fair Value Measurements of Plan Assets
Employee Plan

	1/31/2016	1/31/2015
Level 1 Measurement		
Cash & Cash Equivalents	\$ —	\$ 528
Common Stock	5,831	6,476
Total Level 1	\$ 5,831	\$ 7,004
Level 2 Measurement		
PNC Govt Money Fund	\$ 1,087	\$ —
Vanguard Total Bond	3,478	—
Ishares Russell 2000	1,276	—
Vanguard All World	1,668	—
Blackrock S&P Index	5,410	—
Bond Index Fund	—	427
Core Bond CIT Fund	—	1,457
US Aggregate Bond Index Fund	—	627
Large Cap Growth Index Fund	—	3,610
Large Cap Value Index Fund	—	3,561
Russell 2000 Index Fund	—	1,499
International Equity Index Fund	—	1,653
Managed Investment Fund	1,098	1,075
Vanguard MSCI Emerging Markets Fund	—	274
Total Level 2	\$ 14,017	\$ 14,183
Level 3 Measurement		
None	N/A	N/A
401(k) Retirement Plan		

The Company's retirement plan, which covers all U.S. employees, allows participants to defer from 1% to 50% of their eligible compensation through a 401(k) retirement program. Through December 31, 2001, the plan included an employee stock ownership component. The plan continues to include Virco stock as one of the investment options. At January 31, 2016 and 2015, the plan held 634,003 shares and 689,284 shares of Virco stock, respectively. For the fiscal years ended January 31, 2016, the Company made a small contribution to employees enrolled in the Plan in connection with an auto enrollment program. For the fiscal years ended January 31, 2016, 2015 and 2014 there was no employer match and therefore no compensation cost to the Company.

Life Insurance

The Company provided post-retirement life insurance to certain retired employees under the Dual Option Life Insurance Plan. Effective January 2004, the Company terminated this plan for active employees. The Company has purchased split-dollar life insurance on the lives of the covered participants. Death benefits due to participants are approximately \$2,650,000. Cash surrender values of these policies, which are included in other assets in the consolidated balance sheets, were \$2,555,000 and \$2,924,000 at January 31, 2016 and 2015, respectively. Death benefits payable under the policies were approximately \$4,951,000 and \$5,696,000 at January 31, 2016 and 2015, respectively. Death benefits received under the Plan in excess of the benefit obligation will be retained in the trust and used to secure and fund benefits payable under the VIP Pension Plan. The Company maintains a rabbi trust to hold assets related to the Dual Option Life Insurance Plan. All assets securing this plan are held in the rabbi trust. The following sets forth the Company's change in death benefits payable during the years ended January 31, 2016 and 2015:

	1/31/2016	1/31/2015
Liability beginning of year	\$2,388,000	\$2,401,000
Accretion expense	78,000	104,000
Death benefits paid	(300,000)	(117,000)
Liability end of year	\$2,166,000	\$2,388,000

5. Stock-Based Compensation and Stockholders' Rights

Stock Incentive Plans

The Company's two stock plans are the 2011 Employee Stock Incentive Plan (the "2011 Plan") and the 2007 Employee Incentive Stock Plan (the "2007 Plan"). Under the 2011 Plan, the Company may grant an aggregate of 1,000,000 shares to its employees and non-employee directors in the form of stock options or awards. Restricted stock or stock units awarded under the 2011 Plan are expensed ratably over the vesting period of the awards. The Company determines the fair value of its restricted stock unit awards and related compensation expense as the difference between the market value of the awards on the date of grant less the exercise price of the awards granted. The Company granted 75,174 awards during fiscal 2016. As of January 31, 2016, there were approximately 803,520 shares available for future issuance under the 2011 Plan.

Under the 2007 Plan, the Company may grant an aggregate of 1,000,000 shares to its employees and non-employee directors in the form of stock options or awards. Restricted stock or stock units awarded under the 2007 Plan are expensed ratably over the vesting period of the awards. The Company determines the fair value of its restricted stock unit awards and related compensation expense as the difference between the market value of the awards on the date of grant less the exercise price of the awards granted. The Company granted no awards during fiscal 2016. As of January 31, 2016, there were approximately 13,075 shares available for future issuance under the 2007 Plan.

Accounting for the Plans

Restricted Stock Unit Awards

The following table presents a summary of restricted stock and stock unit awards:

Date of Grants	Units Granted	Terms of Vesting	Expense for 12 months ended			Unrecognized
			1/31/2016	1/31/2015	1/31/2014	Compensation Cost at 1/31/2016
2011 Stock Incentive Plan						
06/22/2015	48,000	4 years	\$22,000	\$—	\$—	\$ 110,000
06/22/2015	27,174	1 year	50,000	—	—	25,000
06/24/2014	28,626	1 year	25,000	49,000	—	—
06/24/2014	490,000	5 years	246,000	171,000	—	801,000
12/03/2013	10,000	1 year	—	13,000	6,000	—
12/03/2013	18,000	5 years	—	—	1,000	—
06/25/2013	71,430	1 year	—	50,000	100,000	—
06/19/2012	31,250	1 year	—	—	17,000	—
06/19/2012	520,000	5 years	150,000	157,000	160,000	196,000
2007 Stock Incentive Plan						
06/19/2012	78,125	1 year	—	—	41,000	—
03/21/2012	40,000	Immediate	—	—	—	—
06/21/2011	68,960	1 year	—	—	—	—
06/16/2009	382,500	5 years	—	62,000	198,000	—
06/19/2007	262,500	5 years	—	—	—	—
Totals for the period			\$493,000	\$502,000	\$523,000	\$ 1,132,000

A summary of the Company's restricted stock unit awards activity, and related information for the following years ended January 31, is as follows:

2016	2015	2014
Restricted Weighted-	Restricted Weighted-	Restricted Weighted-

	stock units	average fair value of restricted stock units	stock units	average fair value of restricted stock units	stock units	average fair value of restricted stock units
Outstanding at beginning of year	812,626	\$ 2.24	544,430	\$ 1.87	743,375	\$ 1.89
Granted	75,174	2.76	518,626	2.61	99,430	2.07
Vested	(212,626)	2.79	(232,430)	2.38	(260,375)	2.01
Forfeited	(18,000)	2.74	(18,000)	2.61	(38,000)	2.00
Outstanding at end of year	657,174	2.34	812,626	2.24	544,430	1.87
Weighted-average fair value of restricted stock units granted during the year		\$ 2.76		\$ 2.61		\$ 2.07

The aggregate fair value of restricted stock unit awards vested during fiscal years 2016, 2015 and 2014 was \$593,000, \$553,000 and \$523,000, respectively.

6. Income Taxes

The income tax expense (benefit) for the last three years is reconciled to the statutory federal income tax rate using the liability method as follows (in thousands):

	Year ended January 31,		
	2016	2015	2014
Statutory	\$1,587	\$285	\$(929)
State taxes (net of federal tax)	303	144	(47)
Change in valuation allowance	(2,214)	(248)	(253)
State rate adjustment	168	(8)	82
Change in unrecognized tax benefits	(3)	(19)	(32)
Expirations of attributes	229	65	100
Other	48	(150)	76
Income tax expense (benefit)	\$118	\$69	\$(1,003)

Significant components of the expense (benefit) for income taxes (in thousands) attributed to continuing operations are as follows:

	Year ended January 31,		
	2016	2015	2014
Current			
Federal	\$1	\$—	\$1
State	40	35	(24)
	41	35	(23)
Deferred			
Federal	1,567	232	(753)
State	724	48	23
	2,291	280	(730)
Change in Valuation Allowance	(2,214)	(246)	(250)
	77	34	(980)
Income tax expense (benefit)	\$118	\$69	\$(1,003)

Deferred tax assets and liabilities (in thousands) are comprised of the following:

	Year ended	
	January 31,	
	2016	2015
Deferred tax assets		
Accrued vacation and sick leave	\$1,106	\$1,003
Retirement plans	8,837	10,887
Insurance reserves	791	830
Warranty	535	487
Net operating loss carryforwards	10,393	13,303
Intangibles	25	145
Inventory	1,582	1,472
Other	859	595
	\$24,128	\$28,722
Deferred tax liabilities		
Tax in excess of book depreciation	\$(1,432)	\$(1,458)
Other	(87)	(85)
	\$(1,519)	\$(1,543)
Valuation allowance	(21,906)	(26,399)
Net long term deferred tax asset	\$703	\$780

The following table summarizes the activity related to our gross unrecognized tax benefits from February 1, 2013 to January 31, 2016 (in thousands):

	January 31,	
	2016	2015
Balances as of February 1,	\$36	\$52
Increases related to prior year tax positions	—	3
Decreases related to prior year tax positions	(2)	—
Increases related to current year tax positions	5	6
Decreases relating to settlements with taxing authorities	—	—
Decreases related to lapsing of statute of limitations	(8)	(25)
Balance as of January 31,	\$31	\$36

At January 31, 2016, the Company's unrecognized tax benefits associated with uncertain tax positions were \$31,000, of which \$20,000 if recognized, would favorably affect the effective tax rate.

The Company recognizes interest and penalties related to unrecognized tax benefits as a component of income tax expense which is consistent with the recognition of the items in prior reporting. The Company had recorded a liability for interest and penalties related to unrecognized tax benefits of \$7,000 at January 31, 2016, and \$6,000 at January 31, 2015. In 2016, the Company closed its IRS examination for its tax return for the year ended January 31, 2013 with no changes. The years ended January 31, 2012, January 31, 2014 and forward remain open for examination by the IRS. The fiscal years ended January 31, 2012 and forward remain open for examination by state tax authorities. The Company is not currently under IRS or state examination.

During 2015, the Company completed Texas income tax examinations of the tax years ending January 31, 2010 and 2011. The examination did not materially impact the Consolidated Statements of Operations.

The specific timing of when the resolution of each tax position will be reached is uncertain. As of January 31, 2016, it is reasonably possible that unrecognized tax benefits will decrease by \$8,000 within the next 12 months due to the expiration of the statute of limitations.

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income or reversal of deferred tax liabilities during the periods in which those temporary

differences become deductible. The Company considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. A valuation allowance was recorded against the majority of the net deferred tax assets totaling \$21,906,000 and \$26,399,000 at January 31, 2016 and 2015, respectively. At January 31, 2016, the Company had net operating loss carryforwards for federal and state income tax purposes, expiring at various dates through 2035. At January 31, 2016, the Company had federal and state net operating loss carryforwards of approximately \$19,859,000 and \$45,390,000, respectively.

7. Commitments

The Company has operating leases on real property and equipment that expire at various dates. The Torrance, CA manufacturing and distribution facility is leased under a 5-year operating lease that expires on February 28, 2020. One of the Conway, AR manufacturing facilities is leased under a 10-year operating lease that expires on March 31, 2018. The Company leases machinery and equipment under a 5-year operating lease arrangement. The Company has the option of buying out the assets at the end of the lease period. The Company leases trucks, automobiles, and forklifts under operating leases that include certain fleet management and maintenance services. Certain of the leases contain renewal or purchase options and require payment for property taxes and insurance. The Company records rent expense on a straight-line basis based on contractual lease payments. Allowances from lessors for tenant improvements have been included in the straight-line rent expense for applicable locations. Tenant improvements are capitalized and depreciated over the remaining life of the applicable lease.

Minimum future lease payments (in thousands) for operating leases in effect as of January 31, 2016, are as follows:

Year ending January 31,	
2017	\$4,266
2018	4,548
2019	4,177
2020	4,157
2021	347
Thereafter	—
Total minimum lease payments	17,495
Less sublease revenues	—
	\$17,495

Rent expense relating to operating leases was as follows (in thousands):

Year ended January 31,	
2016	\$5,681
2015	6,025
2014	6,555

The Company has issued purchase commitments for raw materials at January 31, 2016, of approximately \$12,131,000. There were no commitments in excess of normal operating requirements.

8. Contingencies

The Company and other furniture manufacturers are subject to federal, state and local laws and regulations relating to the discharge of materials into the environment and the generation, handling, storage, transportation and disposal of waste and hazardous materials. The Company has expended, and expects to continue to spend, significant amounts in the future to comply with environmental laws. Normal recurring expenses relating to operating the Company factories in a manner that meets or exceeds environmental laws are matched to the cost of producing inventory. Despite the Company's significant dedication to operating in compliance with applicable laws, there is a risk that the Company could fail to comply with a regulation or that applicable laws and regulations change. On these occasions, the Company records liabilities for remediation costs when remediation costs are probable and can be reasonably estimated.

The Company is subject to contingencies pursuant to environmental laws and regulations that in the future may require the Company to take action to correct the effects on the environment of prior disposal practices or releases of chemical or petroleum substances by the Company or other parties.

The Company has a self-insured retention for product and general liability losses up to \$250,000 per occurrence, workers' compensation liability losses up to \$250,000 per occurrence, and for automobile liability losses up to \$50,000 per occurrence. The Company has purchased insurance to cover losses in excess of the retention up to a limit of \$30,000,000. The Company has obtained an actuarial estimate of its total expected future losses for liability claims and recorded a liability equal to the net present value of \$2,050,000 and \$2,130,000 at January 31, 2016 and 2015, respectively, based upon the Company's estimated payout period of five years using a 2.0% and 0.5% discount rate, respectively.

Workers' compensation, automobile, general and product liability claims may be asserted in the future for events not currently known by management. Management does not anticipate that any related settlement, after consideration of the existing reserve for claims incurred and potential insurance recovery, would have a material adverse effect on the Company's financial position, results of operations or cash flows. Estimated payments under the self-insurance programs are as follows (in thousands):

Year ending January 31,	
2017	\$400
2018	375
2019	375
2020	375
2021	375
Thereafter	170
Total	2,070
Discount to net present value (20)	
	\$2,050

The Company and its subsidiaries are defendants in various legal proceedings resulting from operations in the normal course of business. It is the opinion of management, in consultation with legal counsel, that the ultimate outcome of all such matters will not materially affect the Company's financial position, results of operations or cash flows.

9. Warranty

The Company provides a warranty against all substantial defects in material and workmanship. In 2005 the Company extended its standard warranty from five years to 10 years. Effective February 1, 2014 the Company modified its warranty to a limited lifetime warranty. The new warranty effective February 1, 2014 is not anticipated to have a significant effect on warranty expense. The Company's warranty is not a guarantee of service life, which depends upon events outside the Company's control and may be different from the warranty period. The Company accrues an estimate of its exposure to warranty claims based upon both product sales data and an analysis of actual warranty claims incurred. The following is a summary of the Company's warranty-claim activity during 2016 and 2015.

	January 31,	
(In thousands)	2016	2015
Beginning balance	\$950	\$1,000
Provision for current year	675	650
Provision for (benefits from) prior year	(250)	(258)
Costs incurred	(375)	(442)
Ending balance	\$1,000	\$950

10. Subsequent Events

The Company has evaluated events subsequent to January 31, 2016, to assess the need for potential recognition or disclosure in this report. Such events were evaluated through the date these financial statements were issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the financial statements except for Amendment No. 12, dated April 4, 2016 to the Revolving Credit and Security Agreement, dated as of December 22, 2011, which is disclosed in the notes to the consolidated financial

statements.

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11. Quarterly Results (Unaudited)

The Company's quarterly results for the years ended January 31, 2016 and 2015, as adjusted, are summarized as follows (in thousands, except per share data):

	Q1	Q2	Q3	Q4
Year ended January 31, 2016				
Net sales	\$23,048	\$61,072	\$64,981	\$19,494
Gross profit	8,194	23,996	23,210	4,210
Net (loss) income	(3,178)	7,450	6,003	(5,726)
Per common share				
Net (loss) income*				
Basic	\$(0.21)	\$0.50	\$0.40	\$(0.38)
Assuming dilution	(0.21)	0.49	0.39	(0.38)
Year ended January 31, 2015				
Net sales	\$23,383	\$53,042	\$62,273	\$25,354
Gross profit	8,030	20,696	20,672	6,000
Net (loss) income	(3,855)	5,203	4,632	(5,131)
Per common share				
Net (loss) income*				
Basic	\$(0.26)	\$0.35	\$0.31	\$(0.35)
Assuming dilution	(0.26)	0.35	0.31	(0.35)

* Net loss per share was calculated based on basic shares outstanding due to the anti-dilutive effect on the inclusion of common stock equivalent shares.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

Not applicable.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports filed with the Commission pursuant to the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including its President and Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Assessing the costs and benefits of such controls and procedures necessarily involves the exercise of judgment by management, and such controls and procedures, by their nature, can provide only reasonable assurance that management's objectives in establishing them will be achieved.

Virco carried out an evaluation, under the supervision and with the participation of the Company's management, including its President and Chief Executive Officer along with its Chief Financial Officer, of the effectiveness of the design and operation of disclosure controls and procedures as of the end of the period covered by this Annual Report pursuant to Exchange Act Rule 13a-15. Based upon the foregoing, the Company's President and Chief Executive Officer along with the Company's Chief Financial Officer concluded that Virco's disclosure controls and procedures are effective in ensuring that (i) information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and (ii) information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There was no change in the Company's internal control over financial reporting during the fourth fiscal quarter ending January 31, 2016 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. See "Management's Report on Internal Control over Financial Reporting."

Item 9B. Other Information

None.

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PART III

Item 10. Directors, Executive Officers of the Registrant and Corporate Governance

Except for the information disclosed in Part 1 under the heading “Executive Officers” of the Registrant, the information required by this Item regarding directors shall be incorporated by reference to information set forth in the Company’s definitive Proxy Statement to be filed within 120 days after the end of the Company’s fiscal year end of January 31, 2016.

Item 11. Executive Compensation

The information required by this Item is incorporated by reference to information set forth in the Company’s definitive Proxy Statement to be filed within 120 days after the end of the Company’s fiscal year end of January 31, 2016.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item is incorporated by reference to information set forth in the Company’s definitive Proxy Statement to be filed within 120 days after the end of the Company’s fiscal year end of January 31, 2016.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated by reference to information set forth in the Company’s definitive Proxy Statement to be filed within 120 days after the end of the Company’s fiscal year end of January 31, 2016.

Item 14. Principal Accounting Fees and Services

The information required by this Item is incorporated by reference to information set forth in the Company’s definitive Proxy Statement to be filed within 120 days after the end of the Company’s fiscal year end of January 31, 2016.

PART IV

Item 15. Exhibits, Financial Statement Schedules

1. The following consolidated financial statements of Virco Mfg. Corporation are set forth in Item 8 of this report.

	Page numbers
<u>Report of Independent Registered Public Accounting Firm</u>	<u>41</u>
Consolidated Balance Sheets - January 31, 2016 and 2015	<u>42</u>
Consolidated Statements of Operations - Years Ended January 31, 2016, 2015 and 2014	<u>44</u>
Consolidated Statements of Comprehensive Income (Loss) - Years Ended January 31, 2016, 2015 and 2014	<u>45</u>
Consolidated Statements of Stockholders' Equity - Years Ended January 31, 2016, 2015 and 2014	<u>46</u>
Consolidated Statements of Cash Flows - Years Ended January 31, 2016, 2015 and 2014	<u>47</u>
Notes to Consolidated Financial Statements - January 31, 2016	<u>48</u>

2. The following consolidated financial statement schedule of Virco Mfg. Corporation is included in Item 15:
VIRCO MFG. CORPORATION AND SUBSIDIARIES
SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
FOR THE YEARS ENDED JANUARY 31, 2016, 2015 AND 2014
(In Thousands)

Col. A	Col. B Beginning Balance	Col. C Charged to (Reduced from) Expenses	Col. E Deductions from Reserves	Col. F Ending Balance
Allowance for doubtful accounts for the period ended:				
January 31, 2016	\$ 200	\$ 141	\$ 141	\$ 200
January 31, 2015	\$ 200	\$ 115	\$ 115	\$ 200
January 31, 2014	\$ 275	\$ 3	\$ 78	\$ 200
Warranty reserve for the period ended:				
January 31, 2016	\$ 950	\$ 375	\$ 325	\$ 1,000
January 31, 2015	\$ 1,000	\$ 442	\$ 492	\$ 950
January 31, 2014	\$ 1,000	\$ 380	\$ 380	\$ 1,000
Product, general, workers' compensation and automobile liability reserves for the period ended:				
January 31, 2016	\$ 2,130	\$ 975	\$ 1,290	\$ 1,815
January 31, 2015	\$ 2,425	\$ 204	\$ 499	\$ 2,130
January 31, 2014	\$ 2,985	\$ 1,546	\$ 2,106	\$ 2,425
Deferred tax valuation allowance for the period ended:				
January 31, 2016	\$ 26,399	\$ —	\$ 4,493	\$ 21,906
January 31, 2015	\$ 24,210	\$ 2,189	\$ —	\$ 26,399
January 31, 2014	\$ 24,601	\$ —	\$ 391	\$ 24,210

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions, are inapplicable, or are included in the Financial Statements or Notes thereto, and therefore are not required to be presented under this Item.

3. Exhibits

See Index to Exhibits. The exhibits listed in the accompanying Index to Exhibits are filed as part of this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

VIRCO MFG. CORPORATION

Date: April 25, 2016 By: /s/ Robert A. Virtue
Robert A. Virtue
Chairman of the Board and Chief Executive Officer

By: /s/ Robert E. Dose
Robert E. Dose
Sr. Vice President, Finance, Secretary and Treasurer (Principal Financial Officer)

By: /s/ Bassey Yau
Bassey Yau
Vice President, Accounting, Corporate Controller, Assistant Secretary and Assistant Treasurer
(Principal Accounting Officer)

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Robert A. Virtue and Robert E. Dose his/her true and lawful attorney-in-fact and agent, with full power of substitution and, for him/her and in his/her name, place and stead, in any and all capacities to sign any and all amendments to this report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he/she might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his/her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ Robert A. Virtue Robert A. Virtue	Chairman of the Board, Chief Executive Officer, Director (Principal Executive Officer)	April 25, 2016
/s/ Douglas A. Virtue Douglas A. Virtue	President	April 25, 2016
/s/ Robert E. Dose Robert E. Dose	Sr. Vice President, Finance, Secretary and Treasurer (Principal Financial Officer)	April 25, 2016
/s/ Bassey Yau Bassey Yau	Vice President, Accounting, Corporate Controller, Assistant Secretary and Assistant Treasurer (Principal Accounting Officer)	April 25, 2016
/s/ Alexander L. Cappello Alexander L. Cappello	Director	April 25, 2016
/s/ Don Rudkin Don Rudkin	Director	April 25, 2016
/s/ Robert Lind Robert Lind	Director	April 25, 2016

VIRCO MFG. CORPORATION
 EXHIBITS TO FORM 10-K ANNUAL REPORT
 for the Year Ended January 31, 2016

Exhibit Number	Description
3.1	Certificate of Incorporation of the Company dated April 23, 1984, as amended (incorporated by reference to Exhibit 1 to the Company's Form 8-A12B (Commission File No. 001-08777), filed with the Commission on June 18, 2007).
3.2	Second Amended and Restated Bylaws of the Company dated September 10, 2001 (incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q (Commission File No. 001-08777), filed with the Commission on September 12, 2014).
10.1	Form of Virco Mfg. Corporation Employee Stock Ownership Plan (the "ESOP") (incorporated by reference to Exhibit 4.1 to the Company's Form S-8 Registration Statement (Commission File No. 33-65098), filed with the Commission on June 25, 1993).
10.2	Trust Agreement for the ESOP (incorporated by reference to Exhibit 4.2 to the Company's Form S-8 Registration Statement (Commission File No. 33-65098), filed with the Commission on June 25, 1993).
10.3	Form of Registration Rights Agreement for the ESOP (incorporated by reference to Exhibit 4.3 to the Company's Form S-8 Registration Statement (Commission File No. 33-65098), filed with the Commission on June 25, 1993).
10.4	Lease dated February 1, 2006, between FHL Group, a California Corporation, as landlord and Virco Mfg. Corporation, a Delaware Corporation, as tenant (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed with the Commission on February 3, 2006).
10.5	Design Agreement dated January 21, 2008, between the Company and Peter Glass Design, LLC, and Hedgehog Design, LLC. (incorporated by reference to Exhibit 10.1 and 10.2 to the Company's Current Report on Form 8-K filed with the Commission on January 25, 2008).
10.6	Lease amendment dated August 14, 2008, between AMB Property, L.P., a Delaware Limited Partnership, as landlord and Virco Mfg. Corporation, a Delaware Corporation, as tenant (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10Q filed with the Commission on September 9, 2008).
10.7	Third Amendment to Lease Agreement, entered into as of December 20, 2013, by and between Starboard Distribution Center, LLC, a Delaware limited liability company, successor in interest to AMB Property, L.P., a Delaware limited Partnership and Virco Mfg. Corporation (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on December 20, 2013).
10.8	Virco Mfg. Corporation 2011 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8K filed with the Commission on June 27, 2011).
10.9	

Revolving Credit and Security Agreement dated as of December 22, 2011 by and among Virco Mfg. Corporation and Virco Inc., as borrowers, and PNC Bank, National Association, as the lender and administrative agent (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8K filed with the Commission on December 22, 2011).

10.10 First Amendment to Revolving Credit and Securities Agreement, dated as of June 15, 2012, by and among Virco Mfg. Corporation and Virco, Inc., as borrowers, and PNC Bank, National Association, as the lender and administrative agent (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the Commission on September 14, 2012).

10.11 Second Amendment to Revolving Credit and Security Agreement, dated as of July 27, 2012, by and among Virco Mfg. Corporation and Virco, Inc., as borrowers, and PNC Bank, National Association, as the lender and administrative agent (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on July 31, 2012).

10.12 Third Amendment to Revolving Credit and Security Agreement, dated as of September 12, 2012, by and among Virco Mfg. Corporation and Virco, Inc., as borrowers, and PNC Bank, National Association, as the lender and administrative agent (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the Commission on September 14, 2012).

10.13 Fourth Amendment to Revolving Credit and Security Agreement, dated as of December 6, 2012, by and among Virco Mfg. Corporation and Virco, Inc., as borrowers, and PNC Bank, National Association, as the lender and administrative agent (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed with the Commission on December 7, 2012).

Exhibit Number	Description
10.14	Fifth Amendment to Revolving Credit and Security Agreement, dated as of March 1, 2013, by and among Virco Mfg. Corporation and Virco, Inc., as borrowers, and PNC Bank, National Association, as the lender and administrative agent (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on March 1, 2013).
10.15	Sixth Amendment to Revolving Credit and Security Agreement, dated as of January 9, 2014, by and among Virco Mfg. Corporation and Virco, Inc., as borrowers, and PNC Bank, National Association, as the lender and administrative agent.
10.16	Seventh Amendment to Revolving Credit and Security Agreement, dated as of April 15, 2014, by and among Virco Mfg. Corporation and Virco, Inc., as borrowers, and PNC Bank, National Association, as the lender and administrative agent. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on April 16, 2014).
10.17	Eighth Amendment to Revolving Credit and Security Agreement, dated as of August 18, 2014, by and among Virco Mfg. Corporation and Virco, Inc., as borrowers, and PNC Bank, National Association, as the lender and administrative agent.
10.18	First Amendment to the Virco Mfg. Corporation 2011 Stock Incentive Plan (incorporated by reference to the Company's Proxy Statement on Form DEF 14A filed with the Commission on May 23, 2014).
10.19	Form of Agreement with Resigning Directors (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on May 13, 2014).
10.20	Ninth Amendment to Revolving Credit and Security Agreement, dated as of March 31, 2015, by and among Virco Mfg. Corporation and Virco, Inc., as borrowers, and PNC Bank, National Association, as the lender and administrative agent (incorporated by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K filed with the Commission on April 24, 2015).
10.21	Tenth Amendment to Revolving Credit and Security Agreement, dated as of June 18, 2015, by and among Virco Mfg. Corporation and Virco, Inc., as borrowers, and PNC Bank, National Association, as the lender and administrative agent (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K filed with the Commission on September 11, 2015).
10.22	Eleventh Amendment to Revolving Credit and Security Agreement, dated as of December 2, 2015, by and among Virco Mfg. Corporation and Virco, Inc., as borrowers, and PNC Bank, National Association, as the lender and administrative agent (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K filed with the Commission on December 15, 2015).
10.23*	Twelfth Amendment to Revolving Credit and Security Agreement, dated as of April 4, 2016, by and among Virco Mfg. Corporation and Virco, Inc., as borrowers, and PNC Bank, National Association, as the lender and administrative agent.
21.1*	List of All Subsidiaries of Virco Mfg. Corporation.

- 23.1* Consent of Independent Registered Public Accounting Firm.
- 31.1* Certification of the Chief Executive Officer Pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2* Certification of the Chief Financial Officer Pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1* Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350.
- 101.INS* XBRL Instance Document.
- 101.SCH* XBRL Taxonomy Extension Schema Document.
- 101.CAL* XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.DEF* XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LAB* XBRL Taxonomy Extension Label Linkbase Document.

101.PRE* XBRL Taxonomy Extension Presentation Linkbase Document.

*Filed herewith.

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