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HARRIS & HARRIS GROUP INC /NY/
Form DEF 14A
April 05, 2005

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(A) of the
Securities Exchange Act of 1934

Filed by the Registrant
Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
 Confidential, for Use of the Commission Only (as permitted by
Rule 14a-6(e)(2))
 Definitive Proxy Statement
 Definitive Additional Materials
 Soliciting Material Pursuant to ss.240.14a-11(c) or ss.240.14a-12

HARRIS & HARRIS GROUP, INC.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD MAY 5, 2005

To the Shareholders of Harris & Harris Group, Inc.:

NOTICE IS HEREBY GIVEN that the 2005 Annual Meeting of the Shareholders of Harris & Harris Group, Inc. (the "Company") will be held on May 5, 2005, at 3:30 p.m., local time, on the Concourse Level at 780 Third Avenue (between 48th and 49th Street), New York, New York 10017. This meeting has been called by the Board of Directors of the Company, and this notice is being issued at its direction. It has called this meeting for the following purposes:

1. To elect 10 directors of the Company to hold office until the next annual meeting of shareholders or until their respective successors have been duly elected and qualified;
2. To approve a proposal to authorize the Company to offer long-term rights to purchase shares of the Company's common stock at an exercise price that, at the time such rights are issued, will not be less than the greater of the market value of the Company's common stock or the net asset value of the Company's common stock. Such rights may be part of or accompanied by other securities of the Company (such as convertible preferred stock or convertible debt);
3. To amend our Certificate of Incorporation to increase the number of authorized shares of common stock from 25,000,000 to 30,000,000;
4. To remove certain investment restrictions that date back to before we became a business development company that are not applicable to business development companies:
 - 4A. To eliminate the investment restriction regarding

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concentration;

- 4B. To eliminate the investment restriction regarding borrowing and the issuance of senior securities;
- 4C. To eliminate the investment restriction regarding lending;
- 4D. To eliminate the investment restriction regarding underwriting securities;
- 4E. To eliminate the investment restriction regarding the purchase or sale of real estate;
- 4F. To eliminate the investment restriction regarding the purchase or sale of commodities; and
- 4G. To eliminate the investment restriction regarding making short sales.

- 5. To transact such other business as may properly come before the meeting or any postponement or adjournments thereof.

We encourage you to contact us at (212) 582-0900, from 9:00 a.m. to 5:00 p.m. EST, if you have any questions.

Holder of common stock of record at the close of business on March 14, 2005, will be entitled to vote at the meeting.

Whether or not you expect to be present in person at the meeting, please sign and date the accompanying proxy and return it promptly in the enclosed business reply envelope, which requires no postage if mailed in the United States, so you will be represented at the Annual Meeting.

By Order of the Board of Directors

April 5, 2005
New York, New York

/s/ Susan T. Harris

Susan T. Harris
Secretary

IMPORTANT: PLEASE MAIL YOUR PROXY PROMPTLY IN THE ENCLOSED ENVELOPE.
THE MEETING DATE IS MAY 5, 2005

Harris & Harris Group, Inc.
111 West 57th Street
New York, New York 10019
(212) 582-0900

PROXY STATEMENT
FOR
ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON MAY 5, 2005

General Information

This proxy statement is being furnished in connection with the

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solicitation of proxies by the Board of Directors of Harris & Harris Group, Inc. (the "Company," "us," "our," and "we"), to be voted at the 2005 Annual Meeting of Shareholders (the "Annual Meeting"), to be held on May 5, 2005, and at any adjournment thereof. This document will give you the information you need to vote on the matters listed on the accompanying Notice of Annual Meeting of Shareholders. Much of the information in this proxy statement ("Proxy Statement") is required under rules of the Securities and Exchange Commission ("SEC"); some of it is technical. If there is anything you do not understand, please contact us at (212) 582-0900.

The Annual Meeting will be held on Thursday, May 5, 2005, at 3:30 p.m., local time, on the Concourse Level at 780 Third Avenue (between 48th Street and 49th Street), New York, New York. At the Annual Meeting, our shareholders will be asked to elect 10 directors to serve on the Board of Directors of the Company and to hold office until the next Annual Meeting and to vote on the other matters stated in the accompanying Notice and described in more detail in this proxy statement. If any other matters properly come before the Annual Meeting, the persons named on the proxies will, unless the shareholder otherwise specifies in the proxy, vote upon such matters in accordance with their best judgment. The enclosed proxy card and this proxy statement and annual report on Form 10-K are being first transmitted on or about April 5, 2005, to our shareholders.

The Board of Directors has fixed the close of business on March 14, 2005, as the record date for the determination of our shareholders entitled to receive notice of, and to vote at, the Annual Meeting. At the close of business on the record date, an aggregate of 17,248,845 shares of common stock were issued and outstanding. Each such share will be entitled to one vote on each matter to be voted upon at the Annual Meeting. The presence, in person or by proxy, of the holders of a majority of such outstanding shares is necessary to constitute a quorum for the transaction of business at the Annual Meeting.

Solicitation and Revocation; Vote Required

All properly executed proxies received prior to the Annual Meeting will be voted at the meeting in accordance with the instructions marked thereon or otherwise as provided therein. Unless instructions to the contrary are marked, shares represented by the proxies will be voted "for" all the proposals.

1

Any proxy given pursuant to this solicitation may be revoked by a shareholder at any time, before it is exercised, by written notification delivered to our Secretary, by voting in person at the Annual Meeting, or by executing another proxy bearing a later date. If your shares are held for your account by a broker, bank or other institution or nominee, you may vote such shares at the Annual Meeting only if you obtain proper written authority, from your institution or nominee, that you present at the Annual Meeting.

Approval of any of the matters submitted for stockholder approval requires that a quorum be present. The presence, in person or by proxy, of at least a majority of the total number of outstanding shares of common stock entitled to vote is necessary to constitute a quorum. Abstentions and broker non-votes will be counted as shares present at the Annual Meeting for purposes of determining the existence of a quorum. Broker non-votes are proxies received by us from brokers or nominees when the broker or nominee neither has received instructions from the beneficial owner or other persons entitled to vote nor has discretionary power to vote on the particular matter.

If a quorum is present (in person or by proxy), (i) for Proposal 1, the

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directors will be elected by a plurality of the votes cast (i.e., the highest number of votes cast for each of the 10 director slots); (ii) for Proposal 2, the financing proposal will be approved if a majority of the votes cast are cast in favor; (iii) for Proposal 3, the proposed amendment to the Certificate of Incorporation will be approved if a majority of the shares outstanding and entitled to vote are cast in favor; and (iv) for Proposals 4A, 4B, 4C, 4D, 4E, 4F and 4G, approval of the proposal with respect to the removal of each investment restriction will be approved if either (a) more than 50 percent of the shares outstanding on the record date are cast in favor or (b) 67 percent or more of the shares represented at the meeting are cast in favor. All other matters being submitted to shareholder vote pursuant to the Notice of Annual Meeting will be approved if a quorum is present in person or by proxy and a majority of the votes cast on a particular matter are cast in favor of that matter. For purposes of Proposals 1, 3 and unspecified matters that come before the meeting, votes withheld or abstentions will not be counted as votes cast on the matter and will have no affect on the result of the vote.

A broker "non-vote" occurs when a broker holding shares for a beneficial owner does not vote on a particular proposal because the broker does not have discretionary voting power for that particular item and has not received instructions from the beneficial owner. If your broker holds your shares in its "street" name, the broker may vote your shares on Proposal 1 (Election of Directors), Proposal 3 (Amend the Certificate of Incorporation) and unspecified matters that come before the meeting even if it does not receive instructions from you. For purposes of Proposal 2 (Financing), and Proposals 4A, 4B, 4C, 4D, 4E, 4F and 4G (Removal of Investment Restrictions), because abstentions and broker non-votes are treated as shares present but not voting, any abstentions and broker non-votes will have the effect of votes against these proposals.

Proxies are being solicited by Innisfree M&A Incorporated, pursuant to its standard contract as proxy solicitor, the cost of which will be borne by us and is estimated to be approximately \$7,500. Proxies will be solicited by telephone or by mail. All expenses of preparing, printing, mailing, and delivering proxies, and all materials used in the solicitation of proxies, will be borne by us. Proxies may also be solicited by officers and regular employees of the Company personally, by telephone or otherwise, but these persons will not be

2

specifically compensated for such services. Banks, brokers, nominees and other custodians and fiduciaries will be reimbursed for their reasonable out-of-pocket expenses in forwarding solicitation material to their principals, the beneficial owners of our common stock. It is estimated that those costs will be nominal.

3

ELECTION OF DIRECTORS

(Proposal No. 1)

The 10 nominees listed below, all of whom currently serve as directors, have been nominated to serve as our directors until the next Annual Meeting or until their respective successors are duly elected and qualified. Although it is not anticipated that any of the nominees will be unable or unwilling to serve, in the unexpected event that any such nominees should become unable or decline to serve, it is intended that votes will be cast for substitute nominees designated by our present Board of Directors.

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THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" ALL THE NOMINEES.

Nominees

Certain information, as of March 14, 2005, with respect to each of the 10 nominees for election at the Annual Meeting is set forth below, including their names, ages and a brief description of their recent business experience, including present occupations and employment, certain directorships held by each and the year in which each became a director of the Company. All the nominees have agreed to serve if elected and consent to being referred to in this proxy statement. The nominees for election as directors of the Company have been divided into two groups -- interested directors and independent directors. Interested directors are "interested persons" as defined in the 1940 Act or persons who may be considered an "interested person" because of consulting work done for us. All 10 nominees are currently directors of the Company. We do not have an advisory board.

Interested Directors

Charles E. Harris. Mr. Harris, age 62, has been a Director and Chairman of our Board of Directors since April 1984 and a Managing Director since January 2004. He also served as our Chief Compliance Officer from February 1997 to February 2001. Mr. Harris is a Director of Harris & Harris Enterprises, Inc., a wholly owned subsidiary of Harris & Harris Group, Inc., since 1998. He served as a member of the Advisory Panel for the Congressional Office of Technology Assessment. Prior to joining us, he was Chairman of Wood, Struthers and Winthrop Management Corporation, the investment advisory subsidiary of Donaldson, Lufkin and Jenrette. He is a member of the New York Society of Security Analysts. He has served as a control person, director and trustee of various public and private companies and not-for-profit institutions. Currently, he is Co-Chairman of the President's Council of Cold Spring Harbor Laboratory, a not-for-profit institution that conducts research and education programs in the fields of molecular biology and genetics. He also serves as a Trustee and head of the audit committee of the Nidus Center, a not-for-profit life sciences business incubator in St. Louis, Missouri, and he is a life-sustaining fellow of MIT and a shareholder of its Entrepreneurship Center. He was graduated from Princeton University (A.B., 1964) and Columbia University Graduate School of Business (M.B.A., 1967). He is an "interested person" as defined in Section 2(a)(19) of the 1940 Act, as a beneficial owner of more than five percent of our common stock, as a control person and as one of our officers. In addition, his wife serves as our corporate secretary.

4

Kelly S. Kirkpatrick. Ms. Kirkpatrick, age 38, has served as a member of our board of directors since March 2002. She has served as a consultant to us on nanotechnology and in our due diligence work on certain prospective investments. She is an independent business consultant assessing and advising on early stage, technology start-ups for venture capital companies. From 2000 to 2002, she served in the Office of the Executive Vice Provost of Columbia University as Director of the Columbia University Nanotechnology Initiative and as Director for Research and Technology Initiatives. From 1998 to 2000, she served in the White House Office of Science and Technology Policy as a Senior Policy Analyst involved in the National Nanotechnology Initiative. She was graduated from University of Richmond (B.S., Chemistry with a business option) and Northwestern University (Ph.D., Materials Science and Engineering). She may be considered to be an "interested person" of the Company because of the consulting work she does for us.

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Lori D. Pressman. Ms. Pressman, age 47, has served as a member of our board of directors since March 2002. She has served as a consultant to us on tiny technology, intellectual property and in our due diligence work on certain prospective investments. She also acts as an observer for us at board meetings of certain investee companies in the Boston area. She is a business consultant providing advisory services to start-ups and venture capital companies. She consults internationally on technology transfer practices and statistics, for non-profit and government organizations. From 1999 to 2001, she was Chair of the Survey Statistics and Metrics Committee of the Association of University Technology Managers. From September 1989 to July 2000, she was employed by MIT in its Technology Licensing Office, as a Technology Licensing Officer from 1989 to 1995 and as Assistant Director from 1996 to 2000. She was graduated from the Massachusetts Institute of Technology (S.B., Physics) and the Columbia School of Engineering (MSEE). She may be considered to be an "interested person" of the Company because of the consulting work she does for us.

Independent Directors

Dr. C. Wayne Bardin. Dr. Bardin, age 70, has served as a member of our board of directors since December 1994. Since 1996, he has served as the President of Bardin LLC, a consulting firm to pharmaceutical companies. From 1998 to 2003, he served as President of Thyreos Corp., a privately held, start-up, pharmaceutical company. His professional appointments have included: Professor of Medicine, Chief of the Division of Endocrinology, The Milton S. Hershey Medical Center of Pennsylvania State University, and Senior Investigator, Endocrinology Branch, National Cancer Institute. He has also served as a consultant to several pharmaceutical companies. He has been appointed to the editorial boards of 15 journals. He has also served on national and international committees and boards for the National Institutes of Health, World Health Organization, The Ford Foundation and numerous scientific societies. He was graduated from Rice University (B.A.), Baylor University (M.S., M.D.) and he received a Doctor Honoris Causa from the University of Caen, the University of Paris and the University of Helsinki.

5

Dr. Phillip A. Bauman. Dr. Bauman, age 49, has served as a member of our board of directors since February 1998. He is Senior Attending of Orthopedic Surgery at St. Luke's/Roosevelt Hospital Center in Manhattan and has served as an elected member of the executive committee of the Medical Board since 2000. He has been Assistant Professor of Orthopedic Surgery at Columbia University since 1998 and Vice President of Orthopedic Associates of New York since 1995. He was elected a Fellow of the American Academy of Orthopaedic Surgeons in 1991. He is a member of the American Academy of Orthopaedic Surgeons, American Orthopaedic Society for Sports Medicine, the New York State Society of Orthopaedic Surgeons and the American Medical Association. He was graduated from Harvard College (B.A.) Harvard University (M.S., biology) and the College of Physicians and Surgeons at Columbia University (M.D).

G. Morgan Browne. Mr. Browne, age 69, has served as a member of our board of directors since June 1992. He is President since 2004 and a Trustee since 2000 of Planting Fields Foundation, a historic estate arboretum. From 2001 to 2003, he served as Chief Financial Officer of Cold Spring Harbor Laboratory, a not-for-profit institution that conducts research and education programs in the fields of molecular biology and genetics. From 1985 to 2001, he was the Administrative Director of Cold Spring Harbor Laboratory. He serves as Chairman of the Audit Committee of Huntington Hospital Association since mid-2003 and as a director since 1987. He is a Trustee and Finance Commissioner of the Village of Mill Neck. In prior years, he was active in the management of numerous scientifically based companies as an officer, as an individual consultant and as

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an associate of Laurent Oppenheim Associates, Industrial Management Consultants. He is a Director of OSI Pharmaceuticals, Inc. ("OSI"), a publicly held company principally engaged in drug discovery based on gene transcription. He was a founding director of the New York Biotechnology Association. He was graduated from Yale University.

Several shareholder class action lawsuits were filed in the United States District Court for the Eastern District of New York against OSI, the Board of Directors of OSI (including Mr. Browne) and certain members of senior management of OSI. The complaints allege violations of various sections of the Securities Act of 1933 and the Securities Act of 1934 and the rules promulgated thereunder.

Dugald A. Fletcher. Mr. Fletcher, age 75, has served as a member of our board of directors since 1996. He has served as President of Fletcher & Company, Inc., a management consulting firm, since 1984. Until the end of 1997, he was Chairman of Binnings Building Products Company, Inc. His previous business appointments include: adviser to Gabelli/Rosenthal LP, a leveraged buyout fund; Chairman of Keller Industries, building and consumer products; Senior Vice President of Booz-Allen & Hamilton; President of Booz-Allen Acquisition Services; Executive Vice President and a Director of Paine Webber, Inc.; and President of Baker, Weeks and Co., Inc., a New York Stock Exchange member firm. He is currently a Trustee of the Gabelli Growth Fund and a Director of the Gabelli Convertible and Income Securities Fund, Inc. He was graduated from Harvard College and Harvard Business School (M.B.A.).

Mark A. Parsells. Mr. Parsells, age 45, has served as a member of our board of directors since November 2003. Since February 2004, he is the Chairman, President and Chief Executive Officer of Montpelier Ventures, a management consulting firm. From 2001 to 2004, he was the Chairman, President and Chief Executive Officer of Fusura LLC, a start-up insurance company backed by AIG company that is an Internet-based, direct-to-consumer, auto insurance business. From 2000 to 2001, he was President and Chief Operating Officer of Citibank Online. Previously, he worked in executive positions for Bank One and American Express and acted as Special Assistant to U.S. Senator John Heinz. He was graduated from Emory University (B.A.), Cornell University (M.B.A) and Vlerick LeuvenGent Business School (M.B.A.).

6

Charles E. Ramsey. Mr. Ramsey, age 62, has served as a member of our board of directors since October 2002. He has been a consultant since 1997. He is a retired founder and principal of Ramsey/Beirne Associates, Inc., an executive search firm that specialized in recruiting top officers for high technology companies, many of which were backed by venture capital. An active investor, he is a director of one privately held company. He works on construction projects in Nicaragua as a member of the Nicaraguan Initiative Committee for the Presbyterian Churches of the Hudson River and as Chair of Bridges to Community, a non-governmental organization dedicated to construction projects in Nicaragua. He was graduated from Wittenberg University (B.A.).

James E. Roberts. Mr. Roberts, age 59, has served as a member of our board of directors since 1995. Since 2002, he has been Executive Vice President and Chief Underwriting Officer of the Reinsurance Division of Alea North America Company. From October 1999 to November 2002, he was Chairman and Chief Executive Officer of the Insurance Corporation of New York, Dakota Specialty Insurance Company, and Recor Insurance Company Inc., all members of the Trenwick Group, Ltd. From October 1999 to March 2000, he served as Vice Chairman of Chartwell Reinsurance Company. Prior to assuming those positions, he was Vice Chairman of Trenwick America Reinsurance Corporation from May 1995 to March 2000. He was graduated from Cornell University (A.B.).

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Set forth below is the dollar range of equity securities beneficially owned by each director or nominee as of March 14, 2005.

Name of Director or Nominee	Dollar Range of Equity Securities Beneficially Owned (1) (2) (3)
Independent Directors	
Dr. C. Wayne Bardin	Over \$100,000
Dr. Phillip A Bauman	Over \$100,000
G. Morgan Browne	Over \$100,000
Dugald A. Fletcher	Over \$100,000
Mark A. Parsells	\$10,001-\$50,000
Charles E. Ramsey	Over \$100,000
James E. Roberts	Over \$100,000
Interested Directors	
Charles E. Harris (4)	Over \$100,000
Kelly S. Kirkpatrick (5)	\$50,001 - \$100,000
Lori D. Pressman (5)	\$50,001 - \$100,000

- (1) Beneficial ownership has been determined in accordance with Rule 16a-1(a)(2) of the 1934 Act.
- (2) The dollar ranges are: none, \$1-\$10,000, \$10,001-\$50,000, \$50,001-\$100,000 and over \$100,000.
- (3) The dollar ranges are based on the price of the equity securities as of March 14, 2005.
- (4) Denotes an individual who is an "interested person" as defined in the 1940 Act.
- (5) Denotes an individual who may be considered an "interested person" because of consulting work performed for us.

7

Board of Directors and Committees

In 2004, there were 10 meetings of the Board of Directors of the Company, and the full Board acted 11 times by unanimous written consent. No director attended fewer than 75 percent of the aggregate of Board of Directors' and applicable committee meetings on which each director served (during the periods that they so served).

It is a policy of the Company that a portion of our directors are encouraged to attend annual meetings of shareholders. In 2004, six directors attended the annual meeting.

Shareholders and other interested parties may contact the Board or any member of the Board by mail. To communicate with the Board or any member of the Board, correspondence should be addressed to the Board or the Board members with whom you wish to communicate by either name or title. All such correspondence should be sent c/o Harris & Harris Group, Inc., 111 West 57th Street, Suite

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1100, New York, New York 10019. Such correspondence will be forwarded to the appropriate board member or members after screening to eliminate marketing and junk mail.

The Company's Board of Directors currently has six committees comprised of the following members, all of whom except Mr. Harris are independent both under the rules of the NASD and for the purposes of the 1940 Act:

Board Committees

Executive	Audit	Compensation
Charles E. Harris (1) Dr. C. Wayne Bardin G. Morgan Browne James E. Roberts	Dugald A. Fletcher (1) Dr. Phillip A. Bauman G. Morgan Browne James E. Roberts	James E. Roberts (1) Dr. Phillip A. Bauman Mark A. Parsells Charles E. Ramsey
Nominating	Valuation	Independent Directors
Dr. C. Wayne Bardin (1) Dr. Phillip A. Bauman Mark A. Parsells Charles E. Ramsey	Dugald A. Fletcher (1) Dr. C. Wayne Bardin G. Morgan Browne Mark A. Parsells James E. Roberts	G. Morgan Browne (1) Dr. C. Wayne Bardin Dr. Phillip A. Bauman Dugald A. Fletcher Mark A. Parsells Charles E. Ramsey James E. Roberts

(1) Denotes the Chairman of the Committee.

8

Executive Committee

The Executive Committee meets from time to time between regular meetings of the Board of Directors and exercises the authority of the Board to the extent provided by law. The Executive Committee did not meet as a separate committee and did not act by unanimous written consent in 2004.

Audit Committee

The Audit Committee (i) oversees all material aspects of our accounting and financial reporting processes, internal control and audit functions, (ii) monitors the independence and performance of our independent accountants, (iii) provides a means for open communication among our independent accountants, financial and senior management and the Board, and (iv) oversees compliance by us with legal and regulatory requirements.

The Audit Committee operates pursuant to a written charter approved by our Board of Directors, which was attached to our proxy statement for fiscal year ending December 31, 2003, as Appendix A. The Audit Committee Charter sets out the responsibilities, authority and duties of the Audit Committee. The Audit Committee met four times and acted by unanimous written consent three times in 2004.

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Compensation Committee

The Compensation Committee has the full power and authority of the Board with respect to all matters pertaining to the remuneration of our employees. The Compensation Committee met one time and acted by unanimous written consent one time in 2004.

Nominating Committee

The Nominating Committee acts as an advisory committee to the Board by identifying individuals qualified to serve on the Board as directors and on committees of the Board, and to recommend that the Board select the Board nominees for the next annual meeting of shareholders. The Nominating Committee met one time in 2004.

The Nominating Committee will consider director candidates recommended by shareholders. In considering candidates submitted by shareholders, the Nominating Committee will take into consideration the needs of the Board and the qualifications of the candidate. The Nominating Committee may also take into consideration the number of shares held by the recommending shareholder and the length of time that such shares have been held. To have a candidate considered by the Nominating Committee, a shareholder must submit the recommendation in writing and must include:

- o The name of the shareholder and evidence of the person's ownership of shares of the Company, including the number of shares owned and the length of time of ownership;
- o The name of the candidate, the candidate's resume or a listing of his or her qualifications to be a Director of the Company and the person's consent to be named as a Director if selected by the Nominating Committee and nominated by the Board; and
- o If requested by the Nominating committee, a completed and signed director's questionnaire.

9

The shareholder recommendation and information described above must be sent to the Company's Corporate Secretary, c/o Harris & Harris Group, Inc., 111 West 57th Street, Suite 1100, New York, New York 10019, and must be received by the Corporate Secretary not less than 120 days prior to the anniversary date of the Company's most recent annual meeting of shareholders or, if the meeting has moved by more than 30 days, a reasonable amount of time before the meeting.

The Nominating Committee believes that the minimum qualifications for serving as a director of the Company are that a nominee demonstrate, by significant accomplishment in his or her field, an ability to make a meaningful contribution to the Board's oversight of the business and affairs of the Company and have a reputation for honest and ethical conduct. In addition, the Nominating Committee examines a candidate's specific experiences and skills, time availability in light of other commitments, potential conflicts of interest and independence from management and the Company. The Nominating Committee also seeks to have the Board represent a diversity of experience. We do not pay any third party a fee to assist in the process of identifying and evaluating candidates. The Nominating Committee evaluates all candidates for the Board based on the above qualifications regardless of whether the candidate was nominated by an officer, Board member or shareholder.

The Nominating Committee operates pursuant to a written charter approved

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by our Board of Directors. The Nominating Committee Charter sets out the responsibilities, authority and duties of the Nominating Committee. The Nominating Committee Charter of the Company was attached to our proxy statement for fiscal year ending December 31, 2003, as Appendix B.

Valuation Committee

The Valuation Committee has the full power and authority of the Board in reviewing and approving the valuation of our securities for reporting purposes pursuant to our Valuation Procedures that were established and approved by the Board of Directors. The Valuation Committee met five times in 2004.

Independent Directors Committee

The Board of Directors approved the appointment of an Independent Directors Committee on March 10, 2004, which has the responsibility of proposing corporate governance and long term planning matters to the Board of Directors, and making the required determinations pursuant to the 1940 Act. The Independent Directors Committee met three times in 2004.

10

Audit Committee Report

Our Audit Committee presents the following report:

The Audit Committee of the Company has performed the following functions: (i) the Audit Committee reviewed and discussed the audited financial statements of the Company with management, (ii) the Audit Committee discussed with the independent auditors the matters required to be discussed by the Statements on Auditing Standards No. 61, as amended, (iii) the Audit Committee received the written disclosures and the letter from the independent auditors required by ISB Standard No. 1, as amended, and has discussed with the auditors the auditors' independence and (iv) the Audit Committee recommended to the Board of Directors of the Company that the audited financial statements be included in the Company's Annual Report on Form 10-K for the past fiscal year.

Dugald A. Fletcher (Chair)
Dr. Phillip A. Bauman
G. Morgan Browne
James E. Roberts

Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLC ("PwC") has been selected as the independent registered public accounting firm by our Audit Committee and ratified by a majority of our Board, including a majority of the Independent Directors by vote cast in person, to audit the accounts of the Company for and during the Company's fiscal year ending December 31, 2005. We do not know of any direct or indirect financial interest of PwC in the Company.

Representatives of PwC will not attend the Annual Meeting in person but will be available to respond to appropriate questions by telephone.

11

Audit Committee's Pre-Approval Policies

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Since March 2003, the Audit Committee of the Company has pre-approved all audit and non-audit services provide by PwC to us. On November 11, 2003, the Audit Committee adopted Pre-Approval Policies and Procedures which provide that requests or applications to provide services that require approval by the Audit Committee (or the Chairman pursuant to delegated authority) must be submitted to the Audit Committee or the Chairman, as the case may be, by both the independent auditor and the Chief Financial Officer.

Audit Fees

The aggregate fees for professional services rendered by PwC, in connection with their annual audit of the Company's consolidated financial statements, reviews of the consolidated financial statements included in the Company's quarterly reports on Form 10-Q for the fiscal year ended December 31, 2004, and the review of documents and matters associated with our 2004 public offering, were approximately \$268,500; and for the fiscal year ended December 31, 2003, the aggregate audit fees were approximately \$98,800.

Tax Fees

The aggregate fees for professional services rendered by PwC for tax services for the fiscal year ended December 31, 2004, were approximately \$18,000; and for the fiscal year ended December 31, 2003, they were approximately \$14,500. The nature of the services was tax return preparation.

All Other Fees

There were no fees for professional services rendered by PwC during the last two fiscal years other than the audit and tax fees described above. The Audit Committee has determined that the provision of non-audit services that were provided during 2004 is compatible with maintaining PwC's independence in performing audit services for the Company.

Principal Shareholders and Ownership by Directors and Executive Officers

Set forth below is information, as of March 14, 2005, with respect to the beneficial ownership of our common stock by (i) each person who is known by us to be the beneficial owner of more than five percent of the outstanding shares of the common stock, (ii) each of our directors and (iii) all of our directors and executive officers as a group. Except as otherwise indicated, to our knowledge, all shares are beneficially owned and investment and voting power is held by the persons named as owners. The information in the table below is from publicly available information that may be as of dates earlier than March 14, 2005. At this time, we are unaware of any shareholder owning five percent or more of the outstanding shares of common stock other than as noted below. Unless otherwise provided, the address of each holder is c/o Harris & Harris Group, Inc., 111 West 57th Street, Suite 1100, New York, New York 10019.

Name and Address of Beneficial Owner -----	Amount and Nature of Beneficial Ownership -----	Percentage of Common Shares -----
Independent Directors:		
Dr. C. Wayne Bardin.....	22,317 (1)	
Dr. Phillip A. Bauman.....	23,483 (2)	

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G. Morgan Browne.....	34,172
Dugald A. Fletcher.....	15,537
Mark A. Parsells.....	1,028 (3)
Charles E. Ramsey.....	28,830
James E. Roberts.....	17,265
 Interested Directors:	
Charles E. and Susan T. Harris.....	1,050,893 (4)
Kelly S. Kirkpatrick.....	4,210
Lori D. Pressman.....	4,769
 Executive Officers:	
Alexei A. Andreev.....	0
Sandra M. Forman.....	0
Douglas W. Jamison.....	625
Daniel V. Leff.....	300
Mel P. Melsheimer.....	80,210 (5)
Helene B. Shavin.....	3,000
Daniel B. Wolfe.....	0
 All directors and executive officers as a group (18 persons).....	
	1,286,639
 5% Shareholders:	
Essex Investment Management Co., LLC 125 High Street, 29th Floor Boston, MA 02110.....	950,411 (6)

* Less than 1%.

- (1) Includes 3,786 shares owned by Bardin LLC for the Bardin LLC Profit-Sharing Keogh.
- (2) Includes 5,637 shares owned by Ms. Milbry C. Polk, Dr. Bauman's wife; 100 shares owned by Adelaide Polk-Bauman, Dr. Bauman's daughter; 100 shares owned by Milbry Polk-Bauman, Dr. Bauman's daughter; and 100 shares owned by Mary Polk-Bauman, Dr. Bauman's daughter. Ms. Milbry C. Polk is the custodian for the accounts of the three children.
- (3) All shares are owned jointly with Mr. Parsells's wife.
- (4) Includes 1,039,559 shares owned by Mrs. Harris, our Corporate Secretary, and 11,334 shares owned by Mr. Harris.
- (5) Includes 13,334 shares which are owned jointly by Mr. Melsheimer and his wife. Mr. Melsheimer retired, pursuant to our Executive Mandatory Retirement Plan, on December 31, 2004.
- (6) As of February 28, 2005.

Executive Officers

Our executive officers who are not directors are set forth below. Information relating to our executive officers who are directors is set forth under "Election of Directors - Nominees." Our executive officers are elected to serve until they resign or are removed, or are otherwise disqualified to serve, or until their successors are elected and qualified.

Douglas W. Jamison. Mr. Jamison, age 35, has served as President, Chief Financial Officer and Chief Operating Officer since January 1, 2005, and as a Managing Director since January 2004. He is also a Director of Harris & Harris Enterprises, Inc., a wholly owned subsidiary of Harris & Harris Group, Inc.,

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since January 2005. He served as a Vice President from September 2002 through December 2004. He is a director of NanoOpto Corporation and Nextreme Thermal Solutions, privately held nanotechnology-enabled companies in which we have an investment. Prior to joining us, he worked for five years as a senior technology manager at the University of Utah Technology Transfer Office, where he managed intellectual property in physics, chemistry and the engineering sciences. He was graduated from Dartmouth College (B.A.) and the University of Utah (M.S.).

Mel P. Melsheimer. Mr. Melsheimer, age 65, retired pursuant to our Executive Mandatory Retirement Plan on December 31, 2004. He served as President, Chief Operating Officer and Chief Financial Officer from February 1997 through December 2004, as a Managing Director from January 2004 through December 2004, as Chief Compliance Officer from February 2001 through July 2004, and as Treasurer from July 2001 through December 2004. From March 1994 to February 1997, he served as a nearly full-time consultant to us or as an officer to one of our portfolio companies. From November 1992 to February 1994, he served as Executive Vice President, Chief Operating Officer and Secretary of Dairy Holdings, Inc. He was graduated from Occidental College (B.A.) and the University of Southern California (M.B.A.).

Daniel V. Leff. Mr. Leff, age 36, has served as an Executive Vice President and a Managing Director since January 2004. Prior to joining us, he was a senior associate with Sevin Rosen Funds in the firm's Dallas, Texas, office where he focused on early-stage investment opportunities in semiconductors, components and various emerging technology areas. He previously worked for Redpoint Ventures in the firm's Los Angeles office. In addition, he previously held engineering, marketing and strategic investment positions with Intel Corporation. He is a director of Nanomix, Inc., and Solazyme, Inc., privately held nanotechnology-enabled companies in which we have an investment. He was graduated from the University of California, Berkeley (B.S., Chemistry), The Anderson School at UCLA (M.B.A.), where he was an Anderson Venture Fellow and UCLA's Department of Chemistry and Biochemistry (Ph.D., Physical Chemistry), where his thesis advisor was Professor James Heath.

14

Alexei A. Andreev. Mr. Andreev, age 32, joined us in March 2005, as an Executive Vice President and as a Managing Director. Prior to joining us, he was an associate with Draper Fisher Jurvetson, a venture capital firm, from 2002 to March 9, 2005. In 2001, he was a summer associate with TLcom Capital Partners, a London-based venture capital fund backed by Morgan Stanley. From 1997 to 2000, he was employed by Renaissance Capital Group/Sputnik Funds, a venture capital fund in Moscow, Russia. Previously, he was a researcher at the Centre of Nanotechnology, Isan, in Troitsk, Russia. He is a director of privately held EoPlex Technologies, Inc., a tiny technology-enabled company, and of the American Business Association of Russian Expatriates. He was graduated with a B.S. with honors in Engineering/Material Sciences and a Ph.D. in Solid State Physics from Moscow Steel and Alloys Institute and with an M.B.A. from Stanford Graduate School of Business.

Sandra Matrick Forman. Ms. Forman, age 38, has served as General Counsel, Chief Compliance Officer and Head of Human Resources since August 2004. Prior to joining us, she was an associate at Skadden, Arps, Slate, Meagher & Flom LLP, in the Investment Management Group, from 2001 to 2004. From May to August 2000, she was a summer associate with Latham & Watkins LLP in its London office. She was graduated from New York University (B.A.), where her honors included National Journalism Honor Society, and the University of California Los Angeles (J.D.), where her honors included Order of the Coif, and she was a member of the Law Review.

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Daniel B. Wolfe. Mr. Wolfe, age 28, has served as a Vice President since July 2004. Prior to joining us, he was a consultant to Nanosys, Inc., CW Group and Bioscale, Inc. From February 2000 to January 2002, he was the Co-founder and President of Scientific Venture Assessments, Inc., a provider of scientific analysis of prospective investments for venture capital placements and of scientific expertise to high-technology companies. Mr. Wolfe was graduated from Rice University (B.A., Chemistry), where he worked with Professor Naomi Halas and from Harvard University (Ph.D., Chemistry) in June 2004, where his thesis advisor was Professor George Whitesides.

Helene B. Shavin. Ms. Shavin, age 51, has served as a Vice President and Controller since November 2001. Prior to joining us, she was a Vice President with Citicorp Venture Capital, from 1986 to 2000. She was graduated from Queens College (B.A.) and Baruch College (M.B.A.), and she is a certified public accountant.

15

Remuneration of Chief Executive Officer and Other Executive Officers

The following table sets forth a summary for each of the last three years of the cash and non-cash compensation awarded to, earned by, or paid to our Chief Executive Officer and our other executive officers.

Name and Principal Position	Year	Annual Compensation		
		Salary	Bonus	Other Annual Compensation
		(\$)	(\$) (1)	(\$) (2)
Charles E. Harris Chairman of the Board, Chief Executive Officer (4) (5)	2004	229,778	0	42,193
	2003	224,567	0	43,006
	2002	221,217	10,503	46,570
Mel P. Melsheimer Former President, Chief Operating Officer, Chief Financial Officer, Treasurer & Chief Compliance Officer	2004	260,001	0	0
	2003	254,106	0	0
	2002	250,327	3,224	0
Douglas W. Jamison (6) President, Chief Operating Officer & Chief Financial Officer, Former Vice President	2004	153,183	0	0
	2003	137,182	0	0
	2002	35,936	0	0
Daniel V. Leff Executive Vice President	2004	228,667	0	0
Sandra Matrick Forman (7) General Counsel & Chief Compliance Officer	2004	66,667	16,500	0

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- (1) For 2002, these amounts represent the actual amounts earned as a result of realized gains during the year ended December 31, 2002, and paid out in 2003, under the Harris & Harris Group Employee Profit-Sharing Plan. You may find more information on our Employee Profit-Sharing Plan under Incentive Compensation Plans. For 2004, the amount shown for Ms. Forman represents a signing bonus.
- (2) Other than Mr. Harris, amounts of "Other Annual Compensation" earned by the named executive officers for the periods presented did not meet the threshold reporting requirements. The amounts reported for Mr. Harris represent benefits including personal use of an automobile and garage, membership in a private club, membership in a health club and use of a trainer, medical care reimbursement, consultation with a financial planner, long-term disability insurance, group term life insurance and long-term care insurance for him and his wife.
- (3) Except for Mr. Harris, amounts reported represent our contributions on behalf of the named executive to the Harris & Harris Group, Inc. 401(k) Plan. For 2004, Mr. Harris's "All Other Compensation" consists of: \$16,000 401(k) Plan employer contribution and \$229,778 for his 2004 SERP contribution. With respect to 2002 and 2003, an additional \$73,739 was accrued for Mr. Harris's SERP account in 2002, but not paid until 2003.
- (4) Mr. Harris has an employment agreement with us.
- (5) Mr. Harris's wife was employed by a subsidiary in 2002 and 2003 and earned salary and all other compensation of \$15,035 and \$9,522, in 2002 and 2003, respectively. In 2004, she received compensation of \$17,000 for serving as our Secretary.
- (6) Commenced employment September 9, 2002.
- (7) Commenced employment August 1, 2004.

16

Incentive Compensation Plans

As of January 1, 2003, we implemented the Amended and Restated Harris & Harris Group, Inc. Employee Profit-Sharing Plan, which we refer to as the 2002 Plan.

The 2002 Plan (and its predecessor) provides for profit sharing for our officers and employees equal to 20 percent of our "qualifying income" for that plan year (the "Payout Amount"). For the purposes of the 2002 Plan, qualifying income is defined as net realized income as reflected on our consolidated statements of operations for that year, less nonqualifying gains, if any.

For purposes of the 2002 Plan, our net realized income includes investment income, realized gains and losses, and operating expenses (including taxes paid or payable by us), but is calculated without including dividends paid or distributions made to shareholders, payments under the Plan, unrealized gains and losses, and loss carry-overs from other years, which net realized income we refer to as qualifying income. The proportion of net after-tax realized gains attributable to asset values as of September 30, 1997, is considered nonqualifying gain, which reduces qualifying income. As soon as practicable following the year-end audit, the Audit Committee will determine whether, and if so how much, qualifying income exists for a plan year. Once determined, 90 percent of the Payout Amount will be paid out to Plan participants pursuant to the distribution percentages set forth in the Plan. The remaining 10 percent

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will be paid out after we have filed our federal tax return for that plan year.

On October 15, 2002, our shareholders approved the performance goals under the 2002 Plan in accordance with Section 162(m) of the Code, effective as of January 1, 2003. The Code generally provides that a public company such as we are may not deduct compensation paid to its chief executive officer or to any of its four most highly compensated officers to the extent that the compensation paid to the officer/employee exceeds \$1,000,000 in any tax year, unless payment is made upon the attainment of objective performance goals that are approved by our shareholders.

Under the 2002 Plan, awards previously granted to the four current Participants (Messrs. Harris and Melsheimer and Ms. Shavin and Matthews, herein referred to as the "grandfathered participants") have been reduced by 10 percent with respect to "Non-Tiny Technology Investments" (as defined in the 2002 Plan) and by 25 percent with respect to "Tiny Technology Investments" (as defined in the 2002 Plan), and these reduced awards became permanent. These reduced awards are herein referred to as "grandfathered participations." The amount by which the awards are reduced will be allocable and reallocable each year by the Compensation Committee among current and new participants as awards under the 2002 Plan. The grandfathered participations will be honored by us whether or not the grandfathered participant is still employed by us or is still alive (in the event of death, the grandfathered participations will be paid to the grandfathered participant's estate), unless the grandfathered participant is dismissed for cause, in which case all awards, including the grandfathered participations, will be immediately cancelled and forfeited. With regard to new investments and follow-on investments made after the date on which the first new employee begins participating in the 2002 Plan, both current and new participants will be required to be employed by us at the end of a plan year in order to participate in profit-sharing on our investments with respect to that year.

17

Notwithstanding any provisions of the 2002 Plan, in no event may the aggregate amount of all awards payable for any Plan Year during which we remain a "business development company" within the meaning of the 1940 Act be greater than 20 percent of our "net income after taxes" within the meaning of Section 57(n) (1) (B) of the 1940 Act. In the event the awards as calculated exceed that amount, the awards will be reduced pro rata.

The 2002 Plan may be modified, amended or terminated by the Compensation Committee at any time. Notwithstanding the foregoing, the grandfathered participations may not be further modified. Nothing in the 2002 Plan will preclude the Compensation Committee from naming additional participants in the 2002 Plan or, except for grandfathered participations, changing the Award Percentage of any Participant (subject to the overall percentage limitations contained in the 2002 Plan). Currently, under the 2002 Plan, the distribution amounts for non-grandfathered investments for each officer and employee currently are as follows: Charles E. Harris, 7.790 percent; Douglas W. Jamison, 3.75 percent; Daniel V. Leff, 3.483 percent; Helene B. Shavin, 1.524 percent; Sandra M. Forman, 1.50 percent; Daniel B. Wolfe, 1.5 percent; and Jacqueline M. Matthews, 0.453 percent, which together equal 20 percent. In one case, for a former employee who left other than due to termination for cause, any amount earned will be accrued and may subsequently be paid to the participant.

The grandfathered participations are set forth below:

Grandfathered Participations

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Name of Officer/Employee -----	Non-Tiny Technology (%) -----	Tiny Technology (%) -----
Charles E. Harris	12.41100	10.34250
Mel P. Melsheimer	3.80970	3.17475
Helene B. Shavin	1.37160	1.14300
Jacqueline M. Matthews	0.40770	0.33975
TOTAL	18.00000	15.00000

Accordingly, an additional two percent of qualifying income with respect to grandfathered Non-Tiny Technology Investments, five percent of qualifying income with respect to grandfathered Tiny Technology Investments and the full 20 percent of qualifying income with respect to non-grandfathered investments are available for allocation and reallocation from year to year. Currently, Douglas W. Jamison, Daniel V. Leff, Sandra M. Forman and Daniel B. Wolfe are allocated 0.7329229 percent, 0.6807388 percent, 0.2931692 percent and 0.2931692 percent, respectively, of the Non-Tiny Technology Grandfathered Participations and 1.8323072 percent, 1.701847 percent, 0.7329229 percent and 0.7329229 percent, respectively, of the Tiny Technology Grandfathered Participations.

We perform a calculation to determine the accrual for profit-sharing. We calculate 20 percent of qualifying income pursuant to the terms of the plan and estimate the effect on qualifying income of selling all the portfolio investments that are valued above cost (i.e., that are in an unrealized appreciation position). Although the accrual will fluctuate as a result of changes in qualifying income and changes in unrealized appreciation, payments are only made to the extent that qualifying income exists. During 2003, we made no accrual for profit sharing. At December 31, 2004, we have \$ 311,594 accrued for profit sharing.

18

401(k) Plan

As of January 1, 1989, we adopted an employee benefits program covering substantially all employees under a 401(k) Plan and Trust Agreement. As of January 1, 1999, we adopted the Harris & Harris Pension Plan and Trust, a money purchase plan that would allow us to stay compliant with the 401(k) top-heavy regulations and deduction limitation regulations. In 2001, Congress enacted the Economic Growth and Tax Relief Reconciliation Act of 2001 which has increased the deduction limits for plans such as the 401(k) Plan. This Act eliminated the need for us to maintain two separate plans. Effective December 31, 2001, the Pension Plan merged into the 401(k) Plan, with the 401(k) Plan being the surviving plan. Contributions to the plan are at our discretion. During 2004, contributions to the plan charged to operations were approximately \$99,249.

Medical Benefits

On June 30, 1994, we adopted a plan to provide medical and health insurance for retirees, their spouses and dependents who, at the time of their retirement, have 10 years of service with us and have attained 50 years of age or have attained 45 years of age and have 15 years of service with us. On February 10, 1997, we amended this plan to include employees who "have seven full years of service and have attained 58 years of age." The coverage is secondary to any government or subsequent employer provided health insurance plans. Based upon actuarial estimates, we provided an original reserve of \$176,520 that was charged to operations for the period ending June 30, 1994. As of December 31, 2004, we had a reserve of \$613,447 for the plan.

Mandatory Retirement Plan

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On March 20, 2003, in order to begin planning for eventual management succession, the Board of Directors voted to establish the Executive Mandatory Retirement Benefit Plan for individuals who are employed by us in a bona fide executive or high policy making position. There are currently three such individuals, Charles E. Harris, the Chairman and Chief Executive Officer, Douglas W. Jamison, the President, Chief Operating Officer and Chief Financial Officer and Mel P. Melsheimer, the former President, Chief Operating Officer and Chief Financial Officer. Under this plan, mandatory retirement will take place effective December 31 of the year in which the eligible individuals attain the age of 65. On an annual basis beginning in the year in which the designated individual attains the age of 65, a committee of the Board consisting of non-interested directors may determine to postpone the mandatory retirement date for that individual for one additional year for our benefit.

Under applicable law prohibiting discrimination in employment on the basis of age, we can impose a mandatory retirement age of 65 for our executives or employees in high policy-making positions only if each employee subject to the mandatory retirement age is entitled to an immediate retirement benefit at retirement age of at least \$44,000 per year. The benefits payable at retirement to Mr. Harris and Mr. Melsheimer under our existing retirement plans do not equal this threshold. A plan was established to provide the difference between the benefit required under the age discrimination laws and that provided under our existing plans. The expense to us of providing the benefit under this new plan as it relates to Mr. Harris and Mr. Melsheimer is currently estimated to be \$267,426. Currently, there is no accrual for Mr. Jamison. On December 31, 2004, Mr. Melsheimer retired pursuant to the mandatory retirement plan. Under the mandatory retirement plan, he will receive an annual benefit of \$22,915, the difference between the benefit required under the age discrimination laws and that provided under our existing plans.

19

Employment Agreement

On October 19, 1999, Charles E. Harris signed an Employment Agreement with us (the "Employment Agreement"), which superseded an employment agreement that was about to expire on December 31, 1999. The Employment Agreement expires on December 31, 2004 ("Term"); provided, on January 1, 2000 and on each day thereafter, the Term extends automatically by one day, unless at any time we decide or Mr. Harris decides, by written notice, not to extend the Term, in which case the Term will expire five years from the date of the written notice. Accordingly, if we or Mr. Harris were to provide notice on June 30, 2003, the Term would expire on June 30, 2008. On October 14, 2004, Mr. Harris entered into an Amended and Restated Employment Agreement for the purpose of changing the termination date to be consistent with the date in the Executive Mandatory Retirement Benefit Plan. The revised employment agreement provides that the Term of Mr. Harris's employment may not be extended beyond December 31, 2008, the mandatory retirement date pursuant to the Executive Mandatory Retirement Benefit Plan, unless a committee of the Board consisting of non-interested directors extends the date by one year pursuant to the plan, and Mr. Harris agrees to serve beyond December 31, 2008.

During the period of employment, Mr. Harris shall serve as our Chairman and Chief Executive Officer; be responsible for our general management of the affairs and all subsidiaries, reporting directly to our Board of Directors; serve as a member of the Board for the period of which he is and shall from time to time be elected or reelected; and serve, if elected, as our President and as an officer and director of any subsidiary or affiliate of the Company.

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Mr. Harris receives compensation under his Employment Agreement in the form of base salary, with automatic yearly adjustments to reflect inflation, which amounts to \$235,609 for 2005. In addition, the Board may increase such salary, and consequently decrease it, but not below the level provided for by the automatic adjustments described above. Mr. Harris is also entitled to participate in our Profit-Sharing Plan as well as in all compensation or employee benefit plans or programs, and to receive all benefits, perquisites, and emoluments for which salaried employees are eligible. Under the Employment Agreement, we furnish Mr. Harris with certain perquisites which include a company car, membership in certain clubs and up to a \$5,000 annual reimbursement for personal, financial or tax advice.

The Employment Agreement provides Mr. Harris with life insurance for the benefit of his designated beneficiaries in the amount of \$2,000,000; provides reimbursement for uninsured medical expenses, not to exceed \$10,000 per annum, adjusted for inflation, over the period of the contract; and provides Mr. Harris and spouse with long-term care insurance and with disability insurance in the amount of 100 percent of his base salary. These benefits are for the term of the contract.

20

The Employment Agreement provides severance pay in the event of termination without cause or by constructive discharge and also provides for certain death benefits payable to the surviving spouse equal to the executive's base salary for a period of two years.

In addition, Mr. Harris is entitled to receive severance pay pursuant to the severance compensation agreement that he entered into with us, effective August 15, 1990. The severance compensation agreement provides that if, following a change in our control, as defined in the agreement, such individual's employment is terminated by us without cause or by the executive within one year of such change in control, the individual shall be entitled to receive compensation in a lump sum payment equal to 2.99 times the individual's average annualized compensation and payment of other welfare benefits. If Mr. Harris's termination is without cause or is a constructive discharge, the amount payable under the Employment Agreement will be reduced by the amounts paid pursuant to the severance compensation agreement.

SERP

The Employment Agreement provides that we adopt a supplemental executive retirement plan (the "SERP") for the benefit of Mr. Harris. Under the SERP, we will cause an amount equal to one-twelfth of Mr. Harris's current base salary to be credited each month (a "Monthly Credit") to a special account maintained for this purpose on our books for the benefit of Mr. Harris (the "SERP Account"). The amounts credited to the SERP Account will be deemed invested or reinvested in such mutual funds or U.S. Government securities as determined by Mr. Harris. The SERP Account will be credited and debited to reflect the deemed investment returns, losses and expenses attributed to such deemed investments and reinvestments. Mr. Harris's benefit under the SERP will equal the balance in the SERP Account and such benefit will always be 100 percent vested (i.e., not forfeitable). Mr. Harris will determine the form and timing of the distribution of the balance in the SERP Account; provided, however, in the event of the termination of Mr. Harris's employment, the balance in the SERP Account will be distributed to Mr. Harris or his beneficiary, as the case may be, in a lump-sum payment within 30 days of such termination. We contributed \$229,778 during 2004 to a rabbi trust established for the purpose of accumulating funds to satisfy the obligations incurred by the Company under the SERP. The restricted funds for the SERP Plan total \$1,591,971 at December 31, 2004. Mr. Harris's rights to

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benefits pursuant to this SERP will be no greater than those of a general creditor of the Company.

Remuneration of Directors

The following table sets forth the compensation paid by us for the fiscal year ended December 31, 2004, to our directors. During the fiscal year ended December 31, 2004, we did not pay any pension or retirement benefits to directors.

21

Name of Director -----	Aggregate Compensation (\$) -----	Total Compensation Directors -----
Independent Directors:		
Dr. C. Wayne Bardin	27,000	27
Dr. Phillip A. Bauman	25,000	25
G. Morgan Browne	28,000	28
Dugald A. Fletcher	31,000	31
Mark A. Parsells(1)	25,163	25
Charles E. Ramsey	21,000	21
James E. Roberts(2)	24,097	24
Interested Directors:		
Kelly S. Kirkpatrick(3)	26,620	26
Lori D. Pressman(4)	123,861	123
Charles E. Harris(5)	0	

- (1) Includes \$2,163 for reimbursement for travel expenses to attend board meetings.
- (2) Includes \$1,097 for reimbursement for travel expenses to attend board meetings.
- (3) Includes \$2,032 for reimbursement for travel expenses to attend board meetings and \$3,588 for consulting services. Ms. Kirkpatrick may be considered an "interested person" because of consulting work performed for us.
- (4) Includes \$2,486 for reimbursement for travel expenses to attend board meetings and \$99,375 for consulting services. Ms. Pressman may be considered an "interested person" because of consulting work performed for us.
- (5) Mr. Harris is an "interested person" as defined in the 1940 Act.

In 2005, the directors who are not officers will receive \$1,500 for each meeting of the Board of Directors and \$1,500 for each committee meeting they attend, in addition to a monthly retainer of \$750. From June 18, 1998, through December 2004, directors who were not officers received \$1,000 for each meeting of the Board of Directors and \$1,000 for each committee meeting they attended, in addition to a monthly retainer of \$500. Prior to June 18, 1998, the directors were paid \$500 for committee meetings and no monthly retainer. We also reimburse our directors for travel, lodging and related expenses they incur in attending board and committee meetings. The total compensation and reimbursement for expenses paid to all directors in 2004 was \$237,971.

In 1998, the Board of Directors approved that effective January 1, 1998,

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50 percent of all director fees be used to purchase our common stock from us. However, effective March 1, 1999, the Board of Directors approved that directors purchase our common stock in the open market, rather than from us. During 2000 and 2001, the outside directors (i.e., all directors except Mr. Harris) bought a total of 15,818 and 7,944 shares, respectively, in the open market. In 2002, the outside directors bought 9,524 shares in the open market and 43,426 shares through exercise of rights in a public offering of our common stock. In 2003 and 2004, the directors bought 7,860 and 9,543 shares, respectively, in the open market.

22

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our officers and directors, and persons who own more than 10 percent of our common stock, to file reports (including a year-end report) of ownership and changes in ownership with the Securities and Exchange Commission (the "SEC") and to furnish the Company with copies of all reports filed.

Based solely on a review of the forms furnished to us, or written representations from certain reporting persons, we believe that all persons who were subject to Section 16(a) in 2004 complied with the filing requirements.

23

SALE OF RIGHTS TO PURCHASE COMMON STOCK AT NOT
LESS THAN THE GREATER OF THE MARKET VALUE OR THE
NET ASSET VALUE PER SHARE AT THE TIME OF ISSUANCE

(Proposal No. 2)

Proposal

During the coming year, the Board of Directors believes it would be in our best interest to have the ability to offer long-term rights (which may be accompanied by or be part of other securities -- e.g., convertible debt, convertible preferred securities, warrants and debt securities or warrants and preferred securities) to purchase common stock at an exercise price that will not be less than the greater of the market value or the net asset value per share at the time of issuance of such long-term rights. For example, if the securities are priced for issuance on June 30 and at that time the net asset value per share is \$3.00 and the market price is \$7.00, the exercise price will not be less than \$7.00, subject to anti-dilution adjustments. Section 61(a) of the 1940 Act permits a business development company such as us to sell such securities on such terms (and to issue shares of common stock upon their exercise) only if several conditions are satisfied. Specifically, such proposal must be approved by a majority of the independent directors and shareholders of the issuer within 12 months prior to sale. In addition, a majority of the issuer's independent directors must determine in good faith that the issuance of such securities is in the best interests of the Company and our shareholders and that the price at which such rights or other securities are to be sold (which refers to the exercise or conversion price in the case of rights such as warrants, options or conversion rights) is not less than a price which closely approximates the market value for the underlying shares of common stock at the time of issuance of such rights or other securities. Finally, the long-term rights or other securities outstanding at any particular time may not be exercisable or convertible for more than 25% of the common stock outstanding at

that time. The subsequent issuance of shares upon exercise of properly authorized rights is permitted without regard to net asset value or market value at the time of exercise. As our Board of Directors has done each year since 2002, it has approved and recommends to the shareholders for their approval a proposal authorizing us, over the next year, to issue long-term rights to purchase common stock (subject to the 25% limitation stated above) at exercise prices that will not be less than the greater of the market value or the net asset value per share at the time of issuance of such rights. Upon obtaining the requisite shareholder approval, we will comply with the foregoing requirements in connection with any financing undertaken pursuant to this proposal. See below for a discussion of the risks of dilution and leverage.

We may determine to issue such rights and/or other securities in a registered public offering or may issue them in a private placement either with or without an obligation to seek to register their resale at the request of the holders. We may also determine to use an underwriter or placement agent to assist in selling such securities if we conclude that doing so would assist in marketing such securities on favorable terms.

24

Reasons for the Proposal

Management and the Board of Directors have determined that it would be advantageous to us to have the ability to sell, either alone or as part of another security, warrants, options or rights to purchase common stock in connection with our financing and capital raising activities. This ability may give us a cost-effective way to raise capital. Our Board of Directors has determined that it would be in the best interest of the Company and our shareholders to be in a position to increase our assets so that we may be in a better position to be a lead investor more often, to make follow-on investments and take advantage of attractive new investment opportunities in tiny technology, including nanotechnology, microsystems and microelectromechanical systems (MEMS), augment working capital, increase the diversification of our portfolio and achieve other net benefits to us. We believe that our prior investment and expertise in the tiny technology sector are likely to lead to several attractive investment opportunities in the tiny technology sector becoming available to us over the next one to two years. We do not have any current plans to issue rights or other securities and would determine to do so only after reviewing the pace at which we are investing the proceeds of our recent stock offerings and the level and attractiveness of investment opportunities becoming available.

The Board also believes that increasing our assets will lower our expense ratio by spreading our fixed costs over a larger asset base. The issuance of additional common stock resulting from the exercise might also enhance the liquidity of our common stock on the Nasdaq National Market.

Although we are permitted without shareholder approval to engage in rights offerings to our existing shareholders of short-term rights to purchase common stock at less than net asset value per share, these offerings must either be non-transferable, in which case shareholders who decide not to participate will have no means of capturing any portion of the value of the right to acquire shares at a discount, or, if they involve transferable rights, must be limited in frequency and size in such a manner that we can increase our capital base in any particular year by only approximately 25 percent less the effect of the discount. In addition, offerings of transferable rights for which the exercise price is at a discount to net asset value may be made only once per year. In 2002, we made such a transferable rights offering and believe that the investment opportunities in tiny technology over the coming year are likely to

be sufficient to justify raising capital should we choose to do so. Any such decision to raise capital would take into account likely investment opportunities and liquid assets on hand, including possible sale of freely marketable corporate securities. Inasmuch as the Board of Directors believes that it would not be in the best interests of shareholders for us to engage in large scale nontransferable rights offerings at a discount, it believes that the proposal is an attractive way to give us additional flexibility over and above the limited amount that can be raised in any year without shareholder approval through short-term transferable rights offerings to take advantage of investment opportunities that may arise over the next one or two years.

The Board of Directors has approved and is seeking shareholder approval of the proposal described above to sell, either alone or as part of another security, warrants, options or rights to purchase common stock. The final terms of any such sale, including price, term, and vesting requirements, would be determined by the Board of Directors at the time of issuance of the rights. Also, the nature and amount of consideration that would be received by us at the time of issuance and the use of any such consideration would be considered and approved by the Board of Directors at the time of issuance. Any such issuance may be made pursuant to either a registered or non-registered offering, as determined by the Board of Directors in an appropriate manner prior to the time of issuance. Any such sale would be anticipated to result in a potential increase in the number of outstanding shares of common stock. The long-term rights or other securities outstanding at any particular time may not be exercisable or convertible for more than 25% of the common stock outstanding at that time.

25

Dilution

Any such sale, other than to existing shareholders, would be potentially dilutive to the voting power of existing shareholders and could be dilutive with regard to dividends and other economic aspects of the common stock. Because the number of shares of common stock that could be so issued and the timing of any issuance is not currently known, the actual dilutive effect cannot be predicted. In addition, because the exercise price per share at the time of exercise could well be less than the net asset value per share at the time of exercise and because we could well incur expenses in connection with any such sale, such exercise could result in a dilution of net asset value per share at the time of exercise for all shareholders. Such dilution would disproportionately affect shareholders who own less than their proportional share of such rights.

Leverage

Any long-term rights issued may be accompanied by or be part of other securities, including convertible debt or convertible preferred securities. If we issue convertible debt or convertible preferred securities or debt or preferred securities accompanied by long-term rights, such issuance would result in the use of leverage by us and would require us to make periodic interest or dividend payments. The use of leverage results in additional risks and can magnify the effect of any losses. If the income and gains earned on securities purchased with the proceeds of such convertible securities are greater than the cost of leverage, our return on the shares will be greater than if leverage had not been used. Conversely, if the income or gains from the securities purchased with such proceeds does not cover the cost of leverage, the return to us will be less than if leverage had not been used. There is no assurance that a leveraging strategy will be successful. Also, the cost of interest or dividend payments on any debt or preferred securities issued will be borne by the common shareholders.

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THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" THIS PROPOSAL.

26

AMENDMENT OF THE CERTIFICATE OF INCORPORATION TO INCREASE
THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK FROM 25,000,000 TO 30,000,000

(Proposal No. 3)

Proposal

We propose to amend paragraph 4 of the Certificate of Incorporation to increase the number of authorized shares of common stock from 25,000,000 to 30,000,000.

Of the 25,000,000 shares authorized for issuance under our Certificate of Incorporation, there are only approximately 5,922,415 shares unissued, 3,550,000 of which are registered pursuant to our shelf registration statement on file with the Securities and Exchange Commission. Our proposed amendment would increase the number of authorized shares of common stock by 5,000,000 shares.

The rights of additional authorized shares would be identical to the rights of the shares you now hold. The authorization will not, in itself, have any effect on your rights as a stockholder. If the Board were to issue additional shares for other than a stock split or dividend, however, it could have a dilutive effect on your voting power. This proposal is not in response to any effort we know of to accumulate our common stock or to obtain control of the Company. The Board of Directors has no present plans, agreements, commitments or understandings for the issuance or use of these proposed additional shares.

Reason for the Proposal

We believe that the proposed increase is in the best interests of the Company and our shareholders. It is important for the Board of Directors to have the flexibility to act promptly to meet future business needs as they arise. Sufficient shares should be readily available to maintain our financing and capital raising flexibility. By having additional shares readily available for issuance, the Board of Directors will be able to act expeditiously without spending the time and incurring the expense of soliciting proxies and holding special meetings of shareholders.

We do not have any current plans to issue any newly authorized additional shares of common stock and would determine to do so only after reviewing the pace at which we are investing the proceeds of our recent stock offerings and our other liquid assets, including our holdings of freely marketable corporate securities, and the level and attractiveness of investment opportunities becoming available and likely to become available.

27

Dilution

Issuance of new shares of common stock, other than to existing shareholders, would be potentially dilutive to the voting power of existing shareholders and could be dilutive with regard to dividends and other economic aspects of the common stock. Because the number of shares of common stock that could be so issued and the timing of any issuance is not currently known, the

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actual dilutive effect cannot be predicted. In addition, we could well incur expenses in connection with any such sale of additional shares, which could result in a dilution of net asset value per share at the time of sale for all shareholders.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" THIS PROPOSAL.

28

REMOVAL OF CERTAIN INVESTMENT RESTRICTIONS

(Proposals No. 4A-4G)

Proposals

The Board of Directors, including the independent directors, has proposed that shareholders approve the elimination of certain fundamental investment restrictions we adopted years ago, prior to our becoming a business development company, when we were an investment company. We are proposing this change because we are concerned that these investment restrictions are outdated and could inappropriately limit our operations going forward. The Board recently reviewed each of our investment restrictions and determined that it would be in the best interests of shareholders to eliminate certain investment restrictions that are not required under applicable law.

Under the 1940 Act, a registered investment company is required to recite its policy with respect to certain investment activities. Under the 1940 Act, an investment policy that is classified as "fundamental" may not be changed without the approval of a company's shareholders. When we were a registered investment company, we adopted certain fundamental investment restrictions as required by the 1940 Act. The provisions of the 1940 Act regarding fundamental investment restrictions and objectives are not applicable to business development companies. When we elected to be treated as a business development company, we did not formally remove these investment restrictions. Although we believe that we were not required to take any action to remove these restrictions, because their removal is inherent in becoming a business development company, the 1940 Act does not expressly provide this result and our Board of Directors is recommending that the shareholders approve these proposals to ensure there is no doubt that they are not applicable. We reserve the right to take the position that none of the restrictions are in effect even if shareholders do not approve their removal.

Although the proposed elimination of the investment restrictions generally would give us broader authority to make certain investments or engage in certain investment practices, we do not currently intend to change in any way our investment strategy or operations. In addition, many of the investment restrictions are no longer relevant to our business strategy. The proposal was approved by the Board of Directors, subject to shareholder approval, at a meeting held on March 10, 2005.

At the Annual Meeting, shareholders will vote on the proposal to remove the investment restrictions listed below. If approved, the removal of these investment restrictions will become effective immediately. If these proposals are not approved, the current restrictions will remain in effect unless we are correct in our assessment that they do not apply. If these restrictions do remain in effect, we will be limited in our future ability to implement certain techniques, while other business development companies will be able to implement those techniques because they do not have these restrictions.

PROPOSAL 4A

ELIMINATION OF THE INVESTMENT
RESTRICTION REGARDING CONCENTRATION

The fundamental investment restriction regarding concentration currently reads as follows:

"[We may not] invest more than 25% of the value of our total assets in any one industry."

We now make new venture capital investments exclusively in tiny technology. Tiny technology is not an industry, and tiny technologies permeate a variety of industries. Accordingly, the Company has no present intention to concentrate in any one industry, although it desires the freedom to do so to the extent its investment opportunities develop in that manner. If we become focused in an industry, shareholders may have more risk of loss than if we were more broadly diversified over numerous industries.

The Board of Directors proposes that shareholders remove the above-referenced investment restriction regarding industry concentration, because such an investment restriction is not required for a business development company, although the Company has no present intention to concentrate in any one industry.

PROPOSAL 4B

ELIMINATION OF THE INVESTMENT RESTRICTION REGARDING
THE BORROWING AND THE ISSUANCE OF SENIOR SECURITIES

The fundamental investment restriction regarding issuing senior securities currently reads as follows:

"[The Company may not] issue senior securities other than:

- (a) preferred stock not in excess of the excess of 50% of our total assets over any senior securities described in clause (b) below that are outstanding,
- (b) senior securities other than preferred stock (including borrowing money, including on margin if margin securities are owned and through entering into reverse repurchase agreements, and providing guaranties) not in excess of 33 1/3% of our total assets, and
- (c) borrowings of up to 5% of our total assets for temporary purposes without regard to the amount of senior securities outstanding under clauses (a) and (b) above; provided, however, that our obligations under interest rate swaps, when issued and forward commitment transactions and similar transactions are not treated as senior securities if covering assets are appropriately segregated; or pledge our assets other than to secure the issuances or in connection with hedging transactions, short sales, when-issued and forward commitment transactions and similar investment strategies.

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For purposes of clauses (a), (b) and (c) above, "total assets" shall be calculated after giving effect to the net proceeds of any issuance and net of any liabilities and indebtedness that do not constitute senior securities except for liabilities and indebtedness as are excluded from treatment as senior securities by the proviso to this item"

Use of debt or preferred stock as a source of capital entails two primary risks. The first risk is that the use of debt leverages our available common equity capital, magnifying the impact on net asset value of changes in the value of our investment portfolio. For example, a business development company that uses 33% leverage (that is, \$50 of leverage per \$100 of common equity) will show a 1.5% increase or decline in net asset value for each 1% increase or decline in the value of its total assets. The second risk is that the cost of debt or preferred stock financing may exceed the return on the assets the proceeds are used to acquire, thereby diminishing rather than enhancing the return to shareholders. To the extent that we utilize debt or preferred stock financing for any purpose, these two risks would likely make our total return to shareholders more volatile. In addition, we might be required to sell investments, in order to meet dividend, interest or principal payments, when it may be disadvantageous for us to do so.

The Board of Directors proposes that shareholders remove the above-referenced investment restriction regarding the issuance of senior securities because such an investment restriction is not required for a business development company, although the Company has no present intention to issue senior securities. In fact, this restriction is inconsistent with the capital structure authorized by the 1940 Act for business development companies such as us. These provisions would permit us, subject to some exceptions, to issue debt or preferred stock, so long as our total assets immediately after the issuance, less some ordinary course liabilities, exceed 200% of the sum of the debt and any preferred stock outstanding. Business development companies may also issue senior debt securities accompanied by warrants, options and rights to subscribe or convert to voting securities under certain conditions.

PROPOSAL 4C

INVESTMENT RESTRICTION REGARDING LENDING

The fundamental investment restriction regarding making loans currently reads as follows:

"[The Company may not] make loans of money or property to any person, except through loans and guaranties to entities, loans of portfolio securities, the acquisition of fixed income obligations consistent with our investment objective and policies or the acquisition of securities subject to repurchase agreements."

31

Although we have no present intention to make loans of money or property to any person, except through loans and guaranties to entities, if we were to do so, we could be subject to a default on the loan resulting in a loss of such assets.

The Board of Directors proposes that shareholders remove the above-referenced investment restriction regarding making loans, because such an investment restriction is not relevant to the Company, which does not have an investment objective and is not required to have any policy regarding loans.

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PROPOSAL 4D

INVESTMENT RESTRICTION REGARDING UNDERWRITING SECURITIES

The fundamental investment restriction regarding underwriting securities currently reads as follows:

"[The Company may not] underwrite the securities of other issuers, except to the extent that in connection with the disposition of portfolio securities or the sale of its own securities we may be deemed to be an underwriter."

Although the modern structure of underwriting securities entails little risk to the underwriters, who rarely enter into an underwriting agreement covering more shares than they have sold, it is possible that engaging in underwriting would impose on us a risk of loss on unsold securities. The Board of Directors proposes that shareholders remove the above-referenced investment restriction regarding underwriting securities, because such an investment restriction is not required for a business development company, although we have no present intention to underwrite securities.

PROPOSAL 4E

INVESTMENT RESTRICTION REGARDING THE PURCHASE OR SALE OF REAL ESTATE

The fundamental investment restriction regarding the purchase or sale of real estate currently reads as follows:

"[The Company may not] purchase or sell real estate or interests therein in excess of its total assets or interests therein in excess of its total assets."

If we were to purchase real estate, we would be subject to the risk that the value in such real estate could decline because of adverse developments affecting the real estate that we had purchased and/or the real estate industry and real property values. In addition, real estate can be less liquid and be difficult to value.

32

The Board of Directors proposes that shareholders remove the above-referenced investment restriction regarding the sale of real estate, because such an investment restriction is not required for a business development company, although we have no present intention to purchase or sell real estate.

PROPOSAL 4F

INVESTMENT RESTRICTION REGARDING THE PURCHASE OR SALE OF COMMODITIES

The fundamental investment restriction regarding the purchase or sale of commodities currently reads as follows:

"[The Company may not] purchase or sell commodities or purchase or sell commodity contracts except for hedging purposes or in connection with business operations and except for precious metals and coins."

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The prices of the commodities, currencies and other instruments are volatile and market movements are difficult to predict. Therefore, there could be a risk that our ability to dispose of a commodities contract or enter into an offsetting contract may be limited.

The Board of Directors proposes that shareholders remove the above-referenced investment restriction regarding the purchase or sale of commodities, because such an investment restriction is not required for a business development company, although the Company has no present intention to purchase or sell commodities.

PROPOSAL 4G

INVESTMENT RESTRICTION REGARDING MAKING SHORT SALES

The fundamental investment restriction regarding making short sales currently reads as follows:

"[The Company may not] make any short sale of securities except in conformity with applicable laws, rules and regulations and unless, in giving effect to the sale, the market value of all securities sold short does not exceed 25%, except short sales "against the box" which are not subject to the limitation, of the value of our total assets and our aggregate short sales of a particular class of securities does not exceed 25% of the then-outstanding securities of that class."

If Proposal 4G is adopted, the Company would have the authority to effect short sales. A short sale is a transaction in which a company sells a security it does not own by borrowing it from a broker, and consequently becomes obligated to replace that security. Making short sales would increase our risk of loss if the price of the security sold short increases between the time of the short sale and the time we replace the borrowed security. The amount of loss is theoretically unlimited. In addition, we would be obligated to replace the borrowed security at any time upon demand and might not be able to reborrow the security from other sources, in which case we would have to purchase the security in order to return the borrowed security at a time that might cause us to realize a loss.

33

The Board of Directors proposes that shareholders remove the above-referenced investment restriction regarding short sales, because such an investment restriction is not required for a business development company, although we have no present intention to make short sales.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" THIS PROPOSAL.

Other Business

The Board of Directors does not intend to bring any other matters before the Annual Meeting and, at the date of mailing of this proxy statement, has not been informed of any matter that others may bring before the Annual Meeting. However, if any other matters properly come before the Annual Meeting, it is the intention of the persons named in the accompanying proxy to vote such proxy in accordance with their judgment on such matters.

Annual Reports on Form 10-K

Our Annual Report on Form 10-K, as filed with the SEC, is being delivered

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with this proxy statement.

We undertake to provide, without charge, to each shareholder as of March 14, 2005, upon the written request of such shareholder, a copy of our Annual Report on Form 10-K, including the financial statements and the financial statement schedules, required to be filed with the SEC for our most recent fiscal year. Any shareholder who would like to request a copy of our most recent Annual Report on Form 10-K may do so by submitting a written request, which shall contain a representation in good faith that such shareholder was a beneficial owner as of March 14, 2005, of our securities entitled to vote, to the following address:

Investor Relations
Harris & Harris Group, Inc.
111 West 57th Street, Suite 1100
New York, NY 10019

Submission of Shareholder Proposals

Any shareholder proposals intended to be presented for inclusion in our proxy statement and form of proxy for the next annual meeting of shareholders to be held in 2006 must be received in writing by the Secretary of the Company at Harris & Harris Group, Inc., 111 West 57th Street, New York, New York 10019, no later than November 30, 2005, in order for such proposals to be considered for inclusion in the proxy statement and proxy relating to the 2006 annual meeting of shareholders. Submission of a proposal does not guarantee inclusion in the proxy statement, as the requirements of certain federal laws and regulations must be met by such proposals.

34

Under our Bylaws, nominations for director may be made only by the Board or the Nominating Committee, or by a shareholder entitled to vote who has delivered written notice to our Secretary (containing certain information specified in the Bylaws) not less than 90 days nor more than 120 days prior to the anniversary of the date of the immediately preceding annual meeting of shareholders; provided, however, that in the event that the annual meeting is called for a date that is not within 30 days before or after such anniversary date, notice by the shareholder in order to be timely must be so received not later than the close of business on the 10th day following the day on which notice of the date of the annual meeting was mailed or such public disclosure of the date of the annual meeting was made, whichever first occurs. The Bylaws also provide that no business may be brought before an annual meeting of the shareholders except as specified in the notice of the meeting or as otherwise properly brought before the meeting by or at the direction of the Board or by a shareholder entitled to vote who has delivered written notice to our Secretary (containing certain information specified in the Bylaws) not less than 90 days nor more than 120 days prior to the anniversary of the date of the immediately preceding annual meeting of shareholders; provided, however, that in the event that the annual meeting is called for a date that is not within 30 days before or after such anniversary date, notice by the shareholder in order to be timely must be so received not later than the close of business on the 10th day following the day on which notice of the date of the annual meeting was mailed or such public disclosure of the date of the annual meeting was made, whichever first occurs.

Rule 14a-4 of the Securities and Exchange Commission's proxy rules allows us to use discretionary voting authority to vote on matters coming before an annual meeting of shareholders, if we do not have notice of the matter at least 45 days before the anniversary of the date on which we first mailed our proxy

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materials for the prior year's annual meeting of shareholders or the date specified by the advance notice provision in our Bylaws. Our Bylaws contain such an advance notice provision as described above. For our Annual Meeting of Shareholders expected to be held on May 5, 2005, shareholders must submit such written notice to our Secretary in accordance with our advance notice provision, as described above.

A copy of the full text of the Bylaw provisions discussed above may be obtained by writing to our Secretary.

New York, New York

April 5, 2005

By Order of the Board of Directors

/s/ Susan T. Harris

Susan T. Harris
Secretary

35

DETACH PROXY CARD HERE

Sign, Date and Return the Proxy Card Promptly Using the Enclosed Envelope.

[X]
Votes must be indicated (x) in Black or Blue ink.

1. Election of Directors

FOR all nominees [] WITHHOLD AUTHORITY to vote [] *EXCEPTIONS []
listed below for all nominees listed below

Nominees: DR. C. WAYNE BARDIN, DR. PHILLIP A. BAUMAN, G. MORGAN BROWNE, DUGALD A.
CHARLES E. HARRIS, DR. KELLY S. KIRKPATRICK, MARK A. PARSELLS, LORI D. PR
CHARLES E. RAMSEY, JAMES E. ROBERTS.

(INSTRUCTIONS: To withhold authority to vote for any individual nominee, mark the "Exceptions" box and write that nominee's name in the space provided below.)

*Exceptions _____

	FOR	AGAINST	ABSTAIN
2	[]	[]	[]
3	[]	[]	[]
4A	[]	[]	[]
4B	[]	[]	[]
4C	[]	[]	[]
4D	[]	[]	[]

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4E [] [] []
 4F [] [] []
 4G [] [] []

SCAN LINE (FPO)

Please sign exactly as name appears to the left. When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporation name by President or other authorized officer. If a partnership, please sign in partnership name by authorized person.

 Date Share Owner sign here Co-Owner sign here

2. To approve a proposal to authorize the Company to offer long-term rights to purchase shares of the Company's common stock at an exercise price that, at the time such rights are issued, will not be less than the greater of the market value of the Company's common stock or the net asset value of the Company's common stock. Such rights may be part of or accompanied by other securities of the Company (such as convertible preferred stock or convertible debt);
3. To amend our Certificate of Incorporation to increase the number of authorized shares of common stock from 25,000,000 to 30,000,000;
4. To remove certain investment restrictions that date back to before we became a business development company that are not applicable to business development companies:
 - 4A. To eliminate the investment restriction regarding concentration;
 - 4B. To eliminate the investment restriction regarding borrowing and the issuance of senior securities;
 - 4C. To eliminate the investment restriction regarding lending;
 - 4D. To eliminate the investment restriction regarding underwriting securities;
 - 4E. To eliminate the investment restriction regarding the purchase or sale of real estate;
 - 4F. To eliminate the investment restriction regarding the purchase or sale of commodities;and
 - 4G. To eliminate the investment restriction regarding making short sales.
5. To transact such other business as may properly come before the meeting or any postponement or adjournments thereof.

 HARRIS & HARRIS GROUP, INC.
 111 West 57th Street
 New York, NY 10019

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THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned hereby appoints CHARLES E.HARRIS and HELENE B.SHAVIN and each of them, with full power of substitution, proxies to vote at the annual meeting of shareholders to be held on May 5, 2005 or an adjournment thereof, to represent and to vote all the shares of common stock of Harris & Harris Group, Inc. that the undersigned is entitled to vote with all powers the undersigned would have if personally present, on the following matters as designated on the reverse side and in their discretion with respect to such other business as may properly come before the meeting or any adjournment thereof.

The Board of Directors recommends a vote "FOR" all the nominees listed in item 1 and "FOR" items 2, 3, 4A, 4B, 4C, 4D, 4E, 4F and 4G.

When properly executed, this proxy will be voted as specified and in accordance with the accompanying proxy statement. If no instruction is indicated, this proxy will be voted "FOR" items 1, 2, 3, 4A, 4B, 4C, 4D, 4E, 4F and 4G.

To change your address, please mark this box. []

(Continued and to be dated and signed on t

To include any comments, please mark this box. []

HARRIS & HARRIS GROUP, INC.
P.O. BOX 11469
NEW YORK, N.Y. 10203-0469

/FONT>

Operating revenues

ADESA

\$844.3 \$791.4 \$1,053.5 \$1,017.4 \$1,075.9

IAA

623.2 534.1 716.1 700.1 610.4

AFC

165.2 144.2 193.8 168.8 136.3

Total operating revenues

1,632.7 1,469.7 1,963.4 1,886.3 1,822.6

Operating expenses (exclusive of depreciation and amortization)

1,259.8 1,116.6 1,506.2 1,424.6 1,382.5

Operating profit

227.0 209.7 267.0 281.9 268.8

Interest expense

79.3 89.8 119.4 143.1 141.4

Income from continuing operations

85.3 69.1 92.0 72.2 69.6

Net income

85.3 69.1 92.0 72.2 69.6

Net income per share

Basic

0.62 0.51 0.67 0.53 0.52

Diluted

0.61 0.50 0.66 0.52 0.51

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Weighted average shares outstanding

Basic

137.5 136.4 136.5 136.0 134.9

Diluted

140.4 138.8 139.0 137.8 135.9

Cash dividends declared per common share

0.57 0.19 As of September 30, As of December 31, 2013 2012 2012 2011 2010

Financial Position:

Working capital(1)

\$363.1 \$319.4 \$294.5 \$177.0 \$287.9

Total assets

5,122.0 4,926.0 4,922.3 4,779.1 4,525.0

Total debt, net of unamortized debt discount

1,770.3 1,822.2 1,818.3 1,902.8 1,875.7

Total stockholders equity

1,483.9 1,445.4 1,443.7 1,343.2 1,244.6 **Nine Months Ended**
September 30, Years Ended December 31, 2013 2012 2012 2011 2010

Other Financial Data:

EBITDA(2)

\$369.7 \$354.6 \$460.9 \$412.6 \$409.4

Adjusted EBITDA(2)

407.0 380.3 500.2 487.2 475.2

Net cash provided by operating activities

318.4 238.0 290.2 305.8 467.6

Capital expenditures

75.3 60.8 102.0 85.8 78.9

Depreciation and amortization

145.9 143.4 190.2 179.8 171.3

(1) Working capital is defined as current assets less current liabilities.

S-9

Table of Contents

- (2) EBITDA and Adjusted EBITDA, as presented herein, are supplemental measures of our performance that are not required by, or presented in accordance with, generally accepted accounting principles in the United States, or GAAP. They are not measurements of our financial performance under GAAP and should not be considered substitutes for net income (loss) or any other performance measures derived in accordance with GAAP.

EBITDA is defined as net income (loss), plus interest expense net of interest income, income tax provision (benefit), depreciation and amortization. Adjusted EBITDA (as defined in the Credit Agreement) is EBITDA adjusted for the items of income and expense and expected incremental revenue and cost savings as follows (a) gains and losses from asset sales; (b) unrealized foreign currency translation gains and losses in respect of indebtedness; (c) certain non-recurring gains and losses; (d) stock option expense; (e) certain other noncash amounts included in the determination of net income; (f) charges and revenue reductions resulting from purchase accounting; (g) minority interest expense; (h) expenses associated with the consolidation of salvage operations; (i) consulting expenses incurred for cost reduction, operating restructuring and business improvement efforts; (j) expenses realized upon the termination of employees and the termination or cancellation of leases, software licenses or other contracts in connection with the operational restructuring and business improvement efforts; (k) expenses incurred in connection with permitted acquisitions; (l) any impairment charges or write-offs of intangibles; and (m) any extraordinary, unusual or non-recurring charges, expenses or losses.

Management believes that the inclusion of supplementary adjustments to EBITDA applied in presenting Adjusted EBITDA is appropriate to provide additional information to investors about one of the principal measures of performance used by our creditors. In addition, management uses Adjusted EBITDA to evaluate our performance and to evaluate results relative to incentive compensation targets. EBITDA and Adjusted EBITDA have limitations as analytical tools, and should not be considered in isolation or as a substitute for analysis of the results as reported under GAAP. These measures may not be comparable to similarly titled measures reported by other companies.

The following table reconciles EBITDA and Adjusted EBITDA to net income for the periods presented:

(Dollars in millions)	Nine Months Ended		Years Ended December 31,		
	September 30, 2013	2012	2012	2011	2010
Net income	\$ 85.3	\$ 69.1	\$ 92.0	\$ 72.2	\$ 69.6
Add back:					
Income taxes	59.5	52.4	59.6	17.8	27.2
Interest expense, net of interest income	79.0	89.7	119.1	142.8	141.3
Depreciation and amortization	145.9	143.4	190.2	179.8	171.3
EBITDA	369.7	354.6	460.9	412.6	409.4
Adjustments per the Credit Agreement	23.8	25.7	30.2	74.6	65.8
Superstorm Sandy	13.5		9.1		
Adjusted EBITDA	\$ 407.0	\$ 380.3	\$ 500.2	\$ 487.2	\$ 475.2

Table of Contents

RISK FACTORS

An investment in our securities involves a high degree of risk. You should carefully consider the following risk factors before making an investment decision. If any of these risks actually materializes, our business, financial condition, results of operations and prospects could be materially adversely affected. As a result, the value of our securities could decline and you could lose part or all of your investment. These risks are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also materially affect our business, financial condition, results of operations and prospects. See the section entitled "Where You Can Find More Information" beginning on page S-34 of this prospectus supplement.

Risks Related to Our Business

Decreases in the supply of used vehicles coming to auction have impacted and may continue to impact auction sales volumes, which may adversely affect our revenues and profitability.

The number of new and used vehicles that are leased by consumers affects the supply of vehicles coming to auction in future periods as the leases mature. If manufacturers and other lenders decrease the number of new vehicle lease originations and extend the terms of some of the existing leases, the number of off-lease vehicles available at auction for the industry would decline. Based on our estimates, off-lease vehicles available at auction for the industry declined slightly in 2010 and declined by over 40% in 2011, reflecting declines in lease origination volume and new vehicle sales approximately three years earlier during the global economic downturn and credit crisis. If the supply of off-lease vehicles coming to auction declines, our revenues and profitability may be adversely affected. Our expectation is that the decline in off-lease vehicles will continue to impact Canada, where we have a significant auction market presence.

Volumes of off-lease vehicles in subsequent periods will be affected by total new vehicle sales and the future leasing behavior of manufacturers and lenders; therefore, we may not be able to accurately predict the volume of vehicles coming to auction. The supply of off-lease vehicles coming to auction is also affected by the market value of used vehicles compared to the residual value of those vehicles per the lease terms. In most cases, the lessee and the dealer have the ability to purchase the vehicle at the residual price at the end of the lease term. Generally, as market values of used vehicles rise, the number of vehicles purchased at residual value by the lessees and dealers increases, thus decreasing the number of off-lease vehicles available at auction.

In 2009, the auction industry sales volume was over 9 million units. However, auction sales volumes declined to approximately 7.7 million units in 2011 and 7.9 million units in 2012 (excluding approximately 0.3 million units sold by OPENLANE in 2011 and 2012). We believe that auction sales volumes will recover over the next several years, and we estimate volumes to reach approximately 8.5 million units in 2013 and over 9 million units by 2015, including OPENLANE volumes. We believe that an increase in the volume of off-lease and repossessed vehicles, among others, that are remarketed through whole car auctions are a significant contributor to this growth, and our performance could be adversely impacted if volumes do not increase and we are not able to reduce our costs permanently to compensate for the lower industry auction volumes.

Adverse economic conditions may negatively affect our business and results of operations.

Future adverse economic conditions could increase our exposure to several risks, including:

Fluctuations in the supply of used vehicles. We are dependent on the supply of used vehicles coming to auction, and our financial performance depends, in part, on conditions in the automotive industry. During the past global economic downturn and credit crisis, there was an erosion of retail demand for new and used vehicles that led many lenders to cut back on originations of new loans and leases and led to significant manufacturing capacity reductions by automakers selling vehicles in the United States and

Table of Contents

Canada. Capacity reductions could depress the number of vehicles received at auction in the future and could lead to reduced program vehicles and rental fleet sales, negatively impacting auction volumes. In addition, weak growth in or declining new vehicle sales negatively impacts used vehicle trade-ins to dealers and auction volumes. These factors could adversely affect our revenues and profitability.

Decline in the demand for used vehicles. We may experience a decrease in demand for used vehicles from buyers due to factors including the lack of availability of consumer credit and declines in consumer spending and consumer confidence. Adverse credit conditions also affect the ability of dealers to secure financing to purchase used vehicles at auction, which further negatively affects buyer demand. In addition, a reduction in the number of franchised and independent used car dealers negatively affects our ability to collect receivables and may reduce dealer demand for used vehicles.

Decrease in the supply and demand of salvage vehicles. If the number of miles driven decreases, the number of salvage vehicles received at auction may also decrease. In addition, decreases in commodity prices, such as steel and platinum, may negatively affect vehicle values and demand at salvage auctions. In addition, if consumers eliminate their automotive collision coverage, this could result in fewer vehicles being declared a total loss.

Decrease in consumer spending. Consumer purchases of new and used vehicles may be adversely affected by economic conditions such as employment levels, wage and salary levels, trends in consumer confidence and spending, reductions in consumer net worth, interest rates, inflation, the availability of consumer credit and taxation policies. Consumer purchases in general may decline during recessions, periods of prolonged declines in the equity markets or housing markets and periods when disposable income and perceptions of consumer wealth are lower. Changes to U.S. federal tax policy may negatively affect consumer spending. To the extent retail demand for new and used vehicles decreases, negatively impacting our auction volumes, our results of operations and financial position could be materially and adversely affected.

Volatility in the asset-backed securities market. Volatility and disruption in the asset-backed commercial paper market could lead to a narrowing of interest rate spreads at AFC in certain periods. In addition, any volatility and disruption has affected, and could affect, AFC's cost of financing related to its securitization facility.

Increased counterparty credit risk. Any market deterioration could increase the risk of the failure of financial institutions party to our Credit Agreement and other counterparties with which we do business to honor their obligations to us. Our ability to replace any such obligations on the same or similar terms may be limited if challenging credit and general economic conditions exist.

Ability to service and refinance indebtedness. Uncertainty in the financial markets may negatively affect our ability to service our existing debt, access additional financing or to refinance our existing indebtedness on favorable terms or at all. If economic weakness exists, it may affect our cash flow from operations and results of operations, which may affect our ability to service payment obligations on our debt or to comply with our debt covenants.

Our business is dependent on information and technology systems. Failure to effectively maintain or update these systems could result in us losing customers and materially adversely affect our operating results and financial condition.

Robust information systems are critical to our operating environment and competitive position, including with respect to our online auctions. We may not be successful in structuring our information system infrastructure or developing, acquiring or implementing information systems which are competitive and responsive to the needs of our customers and we might lack sufficient resources to continue to make the significant necessary investments in information systems to compete with our competitors. Certain information systems initiatives that management considers important to our long-term success will require capital investment, have significant risks associated with their execution, and could take several years to implement. We may not be able to develop/implement these initiatives in a cost-effective, timely manner or at all.

Table of Contents

Our information and technology systems are vulnerable to damage or interruption from computer viruses, network failures, computer and telecommunications failures, infiltration by unauthorized persons and security breaches, usage errors by our employees, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. If these systems were compromised, not operable for extended periods of time or ceased to function properly, we may have to make a significant investment to fix or replace them and our ability to provide many of our electronic and online solutions to our customers may be impaired. If that were to occur, it could have a material adverse effect on our operating results and financial condition.

Aspects of our operations and business are subject to privacy regulation in the United States and elsewhere. Many U.S. states have enacted data breach regulations and laws requiring varying levels of consumer notification in the event of a security breach. Increased regulation and enforcement activity throughout the world in the areas of data privacy and data security/breach may materially increase our costs, which could have a material adverse effect on our operating results. Our failure to comply with the privacy and data security/breach laws to which we are subject could also result in fines, sanctions and damage to our reputation and trade names.

Used vehicle prices have a significant effect on fee revenue per unit at IAA and loan losses at AFC and may impact the supply of used vehicles at ADESA.

The volume of new vehicle production, accuracy of lease residual estimates, interest rates, customer demand and changes in regulations, among other things, all potentially affect the pricing of used vehicles. Used vehicle prices may affect the volume of vehicles entered for sale at our used vehicle auctions and the demand for those used vehicles, the fee revenue per unit at our salvage auctions, loan losses for our dealer financing business and our ability to retain customers. Throughout 2011 and 2012, used vehicle prices remained high, which led many used vehicle dealers to retail more of their trade-in vehicles on their own rather than selling them at auction. The high used vehicle prices in 2011 and 2012 also contributed to strong proceeds in the salvage auction industry. In contrast, a sustained reduction in used vehicle pricing could result in lower proceeds from the sale of salvage vehicles and a related reduction in revenue per vehicle, a potential loss of consignors, an increase in loan losses at AFC and decreased profitability.

We face significant competition and may not successfully adapt to industry changes, which may adversely affect our business and results of operations.

We face significant competition for the supply of used and salvage vehicles, the buyers of those vehicles and the floorplan financing of these vehicles. Our principal sources of competition historically have come from: (1) direct competitors (e.g., Manheim, Copart and NextGear Capital), (2) new entrants, including new vehicle remarketing venues and dealer financing services, and (3) existing alternative vehicle remarketing venues. Due to the increasing use of the Internet and other technology as marketing and distribution channels, we also face increasing competition from online wholesale and retail vehicle selling platforms (generally without any meaningful physical presence) and from our own customers when they sell directly to end users through such platforms rather than remarket vehicles through our auctions and other channels. Increased competition could result in price reductions, reduced margins or loss of market share.

Our future success also depends on our ability to respond to evolving industry trends, changes in customer requirements and new technologies. One potentially adverse trend would be a market shift towards the simultaneous listing of vehicles on multiple online sales platforms. Were such trend to take hold, the vehicle remarketing industry's economics could change. For example, we might need to incur additional costs or otherwise alter our business model to adapt to these changes. In such case, the volume of vehicles supplied to us and our overall revenues and fees per vehicle sold could decrease. We are discussing with one or more other auction houses and industry participants the development of a multiple platform listing system. Any such collaboration may be unsuccessful.

Some of our competitors may have greater financial and marketing resources than we do, may be able to respond more quickly to evolving industry dynamics and changes in customer requirements, or may be able to

Table of Contents

devote greater resources to the development, promotion and sale of new or emerging services and technologies. If we are unable to compete successfully or to successfully adapt to industry changes, our business, revenues and profitability could be materially adversely affected.

ADESA currently competes with online wholesale and retail vehicle selling platforms, including OVE.com (affiliated with Manheim), SmartAuction, eBay Motors and others. With the exception of OVE.com, these online selling platforms generally do not have any meaningful physical presence and may cause the volume of vehicles sold through our online and physical auctions to decrease. If the number of vehicles sold at our auctions decreases due to these competitors or other industry changes such as the use of a multiple platform listing system, our revenue and profitability may be negatively impacted.

In our salvage auction business, potential competitors include used vehicle auctions, providers of claims software to insurance companies and certain salvage buyer groups and automobile insurance companies, some of which currently supply salvage vehicles to us. Insurance companies may in the future decide to dispose of their salvage vehicles directly to end users, which would negatively affect our volumes, revenue and profitability.

ADESA and IAA's agreements with its largest institutional suppliers of used and salvage vehicles are generally subject to cancellation by either party upon 30 to 90 days' notice. In addition, it is common that institutional suppliers regularly review their relationships with whole car and salvage auctions through written requests for proposals. Such suppliers may from time to time require us to make changes to the way we do business as part of the request for proposal process. There can be no assurance that our existing agreements will not be canceled or that we will be able to enter into future agreements with these or other suppliers on similar terms, or at all, and our ability to grow and sustain profitability could be impaired.

Fluctuations in the supply of and demand for salvage vehicles impact auction sales volumes, which may adversely affect our revenues and profitability.

We are dependent upon receiving a sufficient number of total loss vehicles as well as recovered theft vehicles to sustain profit margins in our salvage auction business. Factors that can adversely affect the number of vehicles received include, but are not limited to, a decrease in the number of vehicles in operation or miles driven, mild weather conditions that cause fewer traffic accidents, reduction of policy writing by insurance providers that would affect the number of claims over a period of time, a decrease in the percentage of claims resulting in a total loss, delays or changes in state title processing, and changes in direct repair procedures that would reduce the number of newer, less damaged total loss vehicles, which tend to have higher salvage values. In addition, our salvage auction business depends on a limited number of key insurance companies to supply the salvage vehicles we sell at auction. Our agreements with these insurance company suppliers are generally subject to cancellation by either party upon 30 to 90 days' notice. There can be no assurance that our existing agreements will not be canceled or that we will be able to enter into future agreements with these suppliers. Future decreases in the quality and quantity of vehicle inventory, and in particular the availability of newer and less damaged vehicles, could have a material adverse effect on our operating results and financial condition. If the supply of salvage vehicles coming to auction declines significantly, our revenues and profitability may be adversely affected.

An increase in the number of used and salvage vehicles purchased on virtual auction platforms could adversely affect our operating results and financial condition.

We acquired OPENLANE in recognition of the increasing use of the internet as a means to purchase wholesale vehicles. In connection with online auctions, ADESA and IAA offer physical auctions, which allow buyers to physically inspect and compare vehicles. If sellers and buyers increase the number of vehicles transacted on virtual auction platforms, our revenue per vehicle will likely decline. In addition, our cost structure includes a significant fixed cost component, including occupancy costs, that cannot be readily reduced if revenue per vehicle declines. If a shift in the percentage of used and salvage vehicles sold online as compared with used and salvage vehicles sold at physical auctions occurs, and we are unable to generate new sources of revenue, our operating results and financial condition could be adversely affected.

Table of Contents

If we are unable to successfully acquire and integrate other businesses, our growth prospects could be adversely affected.

Acquisitions have been a part of our historical growth and have enabled us to further broaden and diversify our service offerings. Our strategy generally involves the acquisition and integration of additional physical auction sites, technologies and personnel. Acquisition of businesses requires substantial time and attention of management personnel and may also require additional equity or debt financings. Further, integration of newly established or acquired businesses is often disruptive. Since we have acquired or in the future may acquire one or more businesses, there can be no assurance that we will identify appropriate targets, will acquire such businesses on favorable terms, or will be able to successfully integrate such organizations into our business. Failure to do so could materially adversely affect our business, financial condition and results of operations. In addition, we expect to compete against other auction groups or new industry consolidators for suitable acquisitions. If we are able to consummate acquisitions, such acquisitions could be dilutive to earnings, and we could overpay for such acquisitions.

In pursuing a strategy of acquiring other businesses, we face other risks including, but not limited to:

incurring significantly higher capital expenditures and operating expenses;

entering new markets with which we are unfamiliar;

incurring potential undiscovered liabilities at acquired businesses;

failing to maintain uniform standards, controls and policies;

impairing relationships with employees and customers as a result of management changes; and

increasing expenses for accounting and computer systems, as well as integration difficulties.

We may not successfully implement our business strategies or maintain gross profit margins.

We are pursuing strategic initiatives that management considers critical to our long-term success, including but not limited to growing market share and volume, increasing revenue per vehicle and improving customer experiences through internet initiatives, using excess cash flow to reduce debt, leveraging AFC's products and services at ADESA and IAA and continuing to improve operating efficiency. There are significant risks involved with the execution of these initiatives, including significant business, economic and competitive uncertainties, many of which are outside of our control. Accordingly, we cannot predict whether we will succeed in implementing these strategic initiatives. For example, if we are unsuccessful in continuing to generate significant cash flows from operations (we generated \$290.2 million and \$305.8 million of cash flow from operations for the years ended December 31, 2012 and 2011, respectively), we may be unable to reduce our outstanding indebtedness, which could negatively affect our financial position and results of operations and our ability to execute our other strategies. It could take several years to realize any direct financial benefits from these initiatives if any direct financial benefits from these initiatives are achieved at all. Additionally, our business strategy may change from time to time, which could delay our ability to implement initiatives that we believe are important to our business.

Changes in interest rates or market conditions could adversely impact the profitability and business of AFC.

Rising interest rates may have the effect of depressing the sales of used vehicles because many consumers finance their vehicle purchases. In addition, AFC securitizes a majority of its finance receivables on a revolving basis. Volatility and/or market disruption in the asset-backed securities market in the United States or Canada can impact AFC's cost of financing related to, or its ability to arrange financing on acceptable terms through, its securitization facility, which could negatively affect AFC's business and our financial condition and operations.

In addition, AFC typically assesses its U.S. dealer customers with an interest rate comprised of a minimum prime rate of 5% plus an interest spread. The U.S. prime rate was 3.25% at September 30, 2013. Any increase above 3.25% up to 5% will likely compress AFC's margins as the

variable borrowing cost of securitizing receivables will rise without a corresponding increase in the financing rate AFC charges to its U.S. dealer customers.

S-15

Table of Contents

Increases in the value of the U.S. dollar relative to certain foreign currencies may negatively impact foreign buyer participation at our auctions.

We have a significant number of non-U.S. based buyers who participate in our auctions. Increases in the value of the U.S. dollar relative to these buyers' local currencies may reduce the prices they are willing to pay at auction, which may negatively affect our revenues.

Weather-related and other events beyond our control may adversely impact operations.

Extreme weather or other events, such as hurricanes, tornadoes, earthquakes, forest fires, floods, terrorist attacks or war, may adversely affect the overall economic environment, the markets in which we compete, our operations and profitability. These events may impact our physical auction facilities, causing a material increase in costs, or delays or cancellation of auction sales, which could have a material adverse impact on our revenues and profitability. In some instances, for example with the severe storm in October 2012, known as Superstorm Sandy, these events may result in a sharp influx in the available supply of salvage vehicles and there can be no assurance that our salvage auction business will have sufficient resources to handle such extreme increases in supply. Our failure to meet our customers' demands in such situations could negatively affect our relationships with such customers and result in a loss of future business, which would adversely affect our operating results and financial condition. In addition, salvage revenues generated as a result of the total loss of vehicles associated with such a catastrophe are typically recognized subsequent to the incurrence of incremental costs and such revenues may not be sufficient to offset the costs incurred.

Mild weather conditions tend to result in a decrease in the available supply of salvage vehicles because traffic accidents decrease and fewer vehicles are damaged. Accordingly, mild weather can have an adverse effect on our salvage vehicle inventories, which would be expected to have an adverse effect on our revenue and operating results and related growth rates.

High fuel prices could lead to a reduction in miles driven and may have an adverse effect on our revenues and operating results, as well as our earnings growth rates.

High fuel prices could lead to a reduction in the miles driven per vehicle, which may reduce accident rates. High fuel prices may also disproportionately affect the demand for sports cars, luxury vehicles, sport utility and full-sized vehicles which are generally not as fuel-efficient as smaller vehicles. Retail sales and accident rates are factors that affect the number of used and salvage vehicles sold at auction, wholesale prices of those vehicles and the conversion rates at used vehicle auctions. Additionally, high fuel costs increase the cost of transportation and towing of vehicles and we may not be able to pass on such higher costs to our customers.

A portion of our net income is derived from our international operations, primarily Canada, which exposes us to foreign exchange risks that may impact our financial statements.

Fluctuations between U.S. and foreign currency values may adversely affect our results of operations and financial position, particularly fluctuations with Canadian currency values. In addition, there may be tax inefficiencies in repatriating cash from Canada. Approximately 15% and 16% of our revenues were attributable to our Canadian operations for the nine months ended September 30, 2013 and the year ended December 31, 2012, respectively. A decrease in the value of the Canadian currency relative to the U.S. dollar would reduce our profits from Canadian operations and the value of the net assets of our Canadian operations when reported in U.S. dollars in our financial statements. This could have a material adverse effect on our business, financial condition or results of operations as reported in U.S. dollars.

In addition, fluctuations in exchange rates may make it more difficult to perform period-to-period comparisons of our reported results of operations. For purposes of accounting, the assets and liabilities of our Canadian operations are translated using period-end exchange rates; such translation gains and losses are reported in Accumulated other comprehensive income/loss as a component of stockholders' equity. The revenues and expenses of our Canadian operations are translated using average exchange rates during each period.

Table of Contents

Environmental, health and safety risks could adversely affect our operating results and financial condition.

Our operations are subject to various foreign, federal, state and local environmental, health and safety laws and regulations, including those governing the emission or discharge of pollutants into the air or water, the generation, treatment, storage and release of hazardous materials and wastes and the investigation and remediation of contamination. Our failure to comply with current or future environmental, health or safety laws or to obtain and comply with permits required under such laws, could subject us to significant liability or require costly investigative, remedial or corrective actions.

In the used vehicle remarketing industry, large numbers of vehicles, including wrecked vehicles at salvage auctions, are stored and/or refurbished at auction facilities and during that time minor releases of fuel, motor oil and other materials may occur. We have investigated or remediated, or are currently investigating or remediating, contamination resulting from various sources, including gasoline, fuel additives (such as methyl tertiary butyl ether, or MTBE), motor oil, petroleum products and other hazardous materials released from aboveground or underground storage tanks or in connection with current or former operations conducted at our facilities. We have incurred and may in the future incur expenditures relating to releases of hazardous materials, investigative, remedial or corrective actions, claims by third parties and other environmental issues, and such expenditures, individually or in the aggregate, could be significant.

Federal and state environmental authorities are currently investigating IAA's role in contributing to contamination at the Lower Duwamish Waterway Superfund Site in Seattle, Washington. IAA's potential liability at this site cannot be estimated at this time.

We have a substantial amount of debt, which could impair our financial condition and adversely affect our ability to react to changes in our business.

As of September 30, 2013, our total debt was approximately \$1.8 billion, exclusive of liabilities related to our securitization facilities, and we had \$250.0 million of borrowing capacity under our senior secured credit facilities. In addition, we had related outstanding letters of credit in the aggregate amount of \$23.6 million at September 30, 2013, which reduce the amount available for borrowings under the credit facilities.

Our substantial indebtedness could have important consequences including:

limiting our ability to borrow additional amounts to fund working capital, capital expenditures, debt service requirements, execution of our business strategy, acquisitions and other purposes;

requiring us to dedicate a substantial portion of our cash flow from operations to pay principal and interest on debt, which would reduce the funds available for other purposes, including funding future expansion;

making us more vulnerable to adverse changes in general economic, industry and competitive conditions, in government regulation and in our business by limiting our flexibility in planning for, and making it more difficult to react quickly to, changing conditions; and

exposing us to risks inherent in interest rate fluctuations because the majority of our indebtedness is at variable rates of interest, which could result in higher interest expenses in the event of increases in interest rates.

In addition, if we are unable to generate sufficient cash from operations to service our debt and meet other cash needs, we may be forced to reduce or delay capital expenditures, suspend or eliminate dividends, sell assets or operations, seek additional capital or restructure or refinance our indebtedness. We may not be able to refinance our debt or sell additional debt or equity securities or our assets on favorable terms, if at all, particularly because of our high levels of debt and the restrictions imposed by the agreement governing our Credit Facility on our ability to incur additional debt and use the proceeds from asset sales. If we must sell certain of our assets, it may negatively affect our ability to generate revenue. The inability to obtain additional financing could have a material adverse effect on our financial condition.

Table of Contents

If we cannot make scheduled payments on our debt, we would be in default and, as a result:

our debt holders could declare all outstanding principal and interest to be due and payable;

the lenders under our senior secured credit facilities could terminate their commitments to lend us money and foreclose against the assets securing their borrowings; and

we could be forced into bankruptcy or liquidation.

Restrictive covenants in agreements governing our debt may adversely affect our ability to operate our business.

The agreement governing our Credit Facility contains, and future debt instruments may contain, various provisions that limit our ability and the ability of our subsidiaries, including ADESA and IAA, to, among other things:

incur additional debt;

provide guarantees in respect of obligations of other persons;

issue redeemable stock and preferred stock;

pay dividends or distributions or redeem or repurchase capital stock;

prepay, redeem or repurchase certain debt;

make loans, investments and capital expenditures;

incur liens;

pay dividends or make other payments by our restricted subsidiaries;

enter into certain transactions with affiliates;

sell assets and capital stock of our subsidiaries; and

consolidate or merge with or into, or sell substantially all of our assets to, another person.

We assume the settlement risk for all vehicles sold through our auctions.

We do not have recourse against sellers for any buyer's failure to satisfy its payment obligations. Since revenue for most vehicles does not include the gross sales proceeds, failure to collect the receivables in full may result in a net loss up to the gross sales proceeds on a per vehicle basis in addition to any expenses incurred to collect the receivables and to provide the services associated with the vehicle. If we are unable to collect payments on a large number of vehicles, the resulting payment obligations to the seller and decreased fee revenues may have a material adverse effect on our results of operations and financial condition.

Changes in laws affecting the importation of salvage vehicles may have an adverse effect on our business and financial condition.

Our internet-based auction services have allowed us to offer our products and services to international markets and has increased our international buyer base. As a result, foreign importers of salvage vehicles now represent a significant part of our total buyer base. Changes in laws and regulations that restrict the importation of salvage vehicles into foreign countries may reduce the demand for salvage vehicles and impact our ability to maintain or increase our international buyer base. For example, in March 2008, a decree issued by the president of Mexico became effective that placed restrictions on the types of vehicles that can be imported into Mexico from the United States. The adoption of similar laws or regulations in other jurisdictions that have the effect of reducing or curtailing our activities abroad could have a material adverse effect on our results of operations and financial condition by reducing the demand for our products and services.

Table of Contents

We are partially self-insured for certain losses.

We self-insure a portion of employee medical benefits under the terms of our employee health insurance program, as well as a portion of our automobile, general liability and workers' compensation claims. We record an accrual for the claims expense related to our employee medical benefits, automobile, general liability and workers' compensation claims based upon the expected amount of all such claims. If actual trends, including the severity of claims and medical cost inflation above expectations were to occur, our self-insured costs would increase, which could have an adverse impact on the operating results in that period.

If we fail to attract and retain key personnel, we may not be able to execute our business strategy and our financial results could be negatively affected.

Our success depends in large part on the performance of our executive management team and other key employees, including key field personnel. If we lose the services of one or more of our executive officers or key employees, or if one or more of them decides to join a competitor or otherwise compete with us, we may not be able to effectively implement our business strategies, our business could suffer and the value of our common stock could be materially adversely affected. Our auction business is directly impacted by the business relationships our employees have established with customers and suppliers and, as a result, if we lose key personnel, we may have difficulty in retaining and attracting customers, developing new services, negotiating favorable agreements with customers and providing acceptable levels of customer service. Leadership changes will occur from time to time and we cannot predict whether significant resignations will occur or whether we will be able to recruit additional qualified personnel. We do not have nor do we currently expect to obtain key person insurance on any of our executive officers.

We are subject to extensive governmental regulations, including vehicle brokerage and auction laws and currency reporting obligations. Our business is subject to risks related to litigation and regulatory actions.

Our operations are subject to regulation, supervision and licensing under various U.S., Canadian and Mexican federal, state, provincial and local authorities, agencies, statutes and ordinances, which, among other things, require us to obtain and maintain certain licenses, permits and qualifications, provide certain disclosures and notices and limit interest rates, fees and other charges. The regulations and laws that impact our company include, without limitation, the following:

The acquisition and sale of used, leased, totaled and recovered theft vehicles are regulated by state or other local motor vehicle departments in each of the locations in which we operate.

Some of the transport vehicles used at our auctions are regulated by the U.S. Department of Transportation or similar regulatory agencies in Canada and Mexico.

In many states and provinces, regulations require that a salvage vehicle be forever branded with a salvage notice in order to notify prospective purchasers of the vehicle's previous salvage status.

Some state, provincial and local regulations limit who can purchase salvage vehicles, as well as determine whether a salvage vehicle can be sold as rebuildable or must be sold for parts or scrap only.

AFC is subject to laws in certain states and in Canada which regulate commercial lending activities and interest rates and, in certain jurisdictions, require AFC or one of its subsidiaries to be licensed.

We are subject to various local zoning requirements with regard to the location of our auction and storage facilities, which requirements vary from location to location.

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Changes in law or governmental regulations or interpretations of existing law or regulations could result in increased costs, reduced vehicle prices and decreased profitability for us. In addition, failure to comply with present or future laws and regulations or changes in existing laws or regulations or in their interpretation could have a material adverse effect on our operating results and financial condition.

S-19

Table of Contents

We are also subject from time to time to a variety of legal actions relating to our current and past business operations, including litigation relating to employment-related issues, the environment and insurance claims. There is no guarantee that we will be successful in defending ourselves in legal and administrative actions or in asserting our rights under various laws. In addition, we could incur substantial costs in defending ourselves or in asserting our rights in such actions. The costs and other effects of pending litigation and administrative actions against us cannot be determined with certainty. Although we currently believe that no such proceedings will have a material adverse effect, there can be no assurance that the outcome of such proceedings will be as expected.

If we are unable to protect our intellectual property, the value of our brand and other intangible assets may be diminished, and our business may be adversely affected.

We rely and expect to continue to rely on a combination of confidentiality and license agreements with our employees, consultants and third parties with whom we have relationships, as well as trademark, copyright, patent, trade secret, and domain name protection laws, to protect our proprietary rights. In the United States and internationally, we have filed various applications for protection of certain aspects of our intellectual property, and we currently hold issued patents in the United States. However, third parties may knowingly or unknowingly infringe our proprietary rights, third parties may challenge proprietary rights held by us, and pending and future trademark and patent applications may not be approved. In addition, effective intellectual property protection may not be available in every country in which we operate or intend to operate our business. In any or all of these cases, we may be required to expend significant time and expense in order to prevent infringement or to enforce our rights. Although we have taken measures to protect our proprietary rights, there can be no assurance that others will not offer products or concepts that are substantially similar to ours and compete with our business. If the protection of our proprietary rights is inadequate to prevent unauthorized use or appropriation by third parties, the value of our brand and other intangible assets may be diminished and competitors may be able to more effectively mimic our service and methods of operations. Any of these events could have an adverse effect on our business and financial results.

We may be subject to patent or other intellectual property infringement claims, which could have an impact on our business or operating results due to a disruption in our business operations, the incurrence of significant costs and other factors.

From time to time, we may receive notices from others claiming that we infringed or otherwise violated their patent or intellectual property rights, and the number of these claims could increase in the future. Claims of intellectual property infringement or other intellectual property violations could require us to enter into licensing agreements on unfavorable terms, incur substantial monetary liability or be enjoined preliminarily or permanently from further use of the intellectual property in question, which could require us to change business practices and limit our ability to compete effectively. Even if we believe that the claims are without merit, the claims can be time-consuming and costly to defend and may divert management's attention and resources away from our businesses. If we are required to take any of these actions, it could have an adverse impact on our business and operating results.

We are dependent on the continued and uninterrupted service from our workforce.

Currently, none of our employees participate in collective bargaining agreements. If we negotiate a first-time collective bargaining agreement, we could be subject to a substantial increase in labor and benefits expenses that we may be unable to pass through to customers for some period of time, if at all. The U.S. Congress could pass labor legislation, such as the proposed Employee Free Choice Act, or the EFCA, (also called card-check legislation) that could adversely affect our operations. The EFCA would make it significantly easier for union organizing drives to be successful-for example, by eliminating employees' absolute right to a secret ballot vote in union elections-and could give third-party arbitrators the ability to impose terms of collective bargaining agreements upon us and a labor union if we and such union are unable to agree to the terms of a collective bargaining agreement. Such an arbitrated initial contract could include pay, benefit and work rules that could adversely affect our profitability and operational flexibility.

Table of Contents

We have a material amount of goodwill which, if it becomes impaired, would result in a reduction in our net income.

Goodwill represents the amount by which the cost of an acquisition accounted for using the purchase method exceeds the fair value of the net assets acquired. Current accounting standards require that goodwill no longer be amortized but instead be periodically evaluated for impairment based on the fair value of the reporting unit. A significant percentage of our total assets represents goodwill primarily associated with the 2007 Transactions. Declines in our profitability or the value of comparable companies may impact the fair value of our reporting units, which could result in a write-down of goodwill and a reduction in net income.

New accounting pronouncements or new interpretations of existing standards could require us to make adjustments to accounting policies that could adversely affect the financial statements.

The Financial Accounting Standards Board, or the FASB, the Public Company Accounting Oversight Board, the SEC, and other accounting organizations or governmental entities from time to time issue new pronouncements or new interpretations of existing accounting and auditing standards that require changes to our accounting policies and procedures and could cause us to incur additional costs. To date, we do not believe any new pronouncements or interpretations have had a material adverse effect on our financial condition or results of operations, but future pronouncements or interpretations could require the change of policies or procedures.

Risks Related to Ownership of Our Common Stock

The market price and trading volume of our common stock may be volatile, which could result in rapid and substantial losses for our stockholders.

You should consider an investment in our common stock to be risky, and you should invest in our common stock only if you can withstand a significant loss and wide fluctuations in the market value of your investment. Many factors could cause the market price of our common stock to rise and fall, including the following:

our announcements or our competitors' announcements regarding new products or services, enhancements, significant contracts, acquisitions or strategic investments;

changes in earnings estimates or recommendations by securities analysts, if any, who cover our common stock;

results of operations that are below our announced guidance or below securities analysts' or consensus estimates or expectations;

fluctuations in our quarterly financial results or the quarterly financial results of companies perceived to be similar to us;

changes in our capital structure, such as future issuances of securities, sales of large blocks of common stock by our stockholders or our incurrence of additional debt;

investors' general perception of us and our industry;

changes in general economic and market conditions in North America;

changes in industry conditions; and

changes in regulatory and other dynamics.

In addition, if the market for stocks in our industry, or the stock market in general, experiences a loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, financial condition or results of operations. If any of the foregoing occurs, it could cause our stock price to fall and may expose us to lawsuits that, even if successfully defended, could be costly to defend and a distraction to management.

S-21

Table of Contents

Future offerings of debt or equity securities, which would rank senior to our common stock, may adversely affect the market price of our common stock.

If, in the future, we decide to issue debt or equity securities that rank senior to our common stock, it is likely that such securities will be governed by an indenture or other instrument containing covenants restricting our operating flexibility. Additionally, any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our common stock and may result in dilution to owners of our common stock. We and, indirectly, our stockholders, will bear the cost of issuing and servicing such securities. Because our decision to issue debt or equity securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, holders of our common stock will bear the risk of our future offerings reducing the market price of our common stock and diluting the value of their stock holdings in us.

The market price of our common stock could be negatively affected by sales of substantial amounts of our common stock in the public market.

Future sales by us or by our existing stockholders of substantial amounts of our common stock in the public market, or the perception that these sales may occur, could cause the market price of our common stock to decline. These sales also could impede our ability to raise future capital. Under our amended and restated certificate of incorporation, we are authorized to issue up to 400,000,000 shares of common stock, of which 138,830,992 shares of common stock are outstanding as of October 31, 2013. In addition, pursuant to a registration statement under the Securities Act, we have registered shares of common stock reserved for issuance in respect of stock options and other incentive awards granted to our officers and certain of our employees. If any of these holders cause a large number of securities to be sold in the public market, the sales could reduce the trading price of our common stock. We cannot predict the size of future sales of shares of our common stock or the effect, if any, that future sales, or the perception that such sales may occur, would have on the market price of our common stock.

Provisions in our amended and restated certificate of incorporation and by-laws, and of Delaware law, may prevent or delay an acquisition of us, which could decrease the trading price of our common stock.

Our amended and restated certificate of incorporation and by-laws contain provisions that may be considered to have an anti-takeover effect and may delay or prevent a tender offer or other corporate transaction that a stockholder might consider to be in its best interest, including those transactions that might result in a premium over the market price for our shares.

These provisions include:

limiting the right of stockholders to call special meetings of stockholders to holders of at least 35% of our outstanding common stock;

rules regarding how our stockholders may present proposals or nominate directors for election at stockholder meetings;

permitting our board of directors to issue preferred stock without stockholder approval;

granting to the board of directors, and not the stockholders, the sole power to set the number of directors;

authorizing vacancies on our board of directors to be filled only by a vote of the majority of the directors then in office and specifically denying our stockholders the right to fill vacancies in the board;

authorizing the removal of directors only for cause and only upon the affirmative vote of holders of a majority of the outstanding shares of our common stock entitled to vote for the election of directors; and

prohibiting stockholder action by written consent.
These provisions apply even if an offer may be considered beneficial by some stockholders.

S-22

Table of Contents

Under our amended and restated certificate of incorporation, the Equity Sponsors and, in some circumstances, any of our directors and officers who is also a director, officer, manager, member or employee of any of our Equity Sponsors, have no obligation to offer us corporate opportunities.

Our amended and restated certificate of incorporation provides that the Equity Sponsors and their respective subsidiaries and affiliates have the right to engage or invest in, and do not have a duty to abstain from engaging or investing in, the same or similar businesses as us, do business with any of our clients, customers or vendors or employ or otherwise engage any of our officers, directors or employees. If any Equity Sponsor or any of its officers, directors, managers, members, partners or employees acquires knowledge of a potential transaction that could be a corporate opportunity for us, such person has no duty to offer that opportunity to us, our stockholders or our affiliates, even if it is one that we might reasonably have pursued. Neither the Equity Sponsors nor their officers, directors, managers, members, partners or employees will generally be liable to us or our stockholders for breach of any duty by reason of engaging in such activities. In addition, any of our directors and officers who is also a director, officer, manager, member, partner or employee of any of our Equity Sponsors and is offered or acquires knowledge of a corporate opportunity, other than solely in such person's capacity as our director or officer, will not have any liability to us if any of the Equity Sponsors pursues or acquires such corporate opportunity.

You may not receive any future dividends on our common stock.

On November 30, 2012, we announced that our board of directors approved the initiation of a quarterly cash dividend on our common stock. Holders of our common stock are only entitled to receive such dividends as our board of directors may declare out of funds legally available for such payments. We are not required to declare cash dividends on our common stock. Future dividend decisions will be based on and affected by a variety of factors, including our financial condition and results of operations, contractual restrictions, including restrictive covenants contained in our Credit Agreement and AFC's securitization facilities, capital requirements and other factors that our board of directors deems relevant. Therefore, no assurance can be given as to whether any future dividends may be declared by our board of directors or the amount thereof.

Table of Contents

USE OF PROCEEDS

All shares of common stock sold pursuant to this prospectus supplement will be sold by the selling stockholder and we will not receive any of the proceeds from such sales.

S-24

Table of Contents**PRICE RANGE OF OUR COMMON STOCK**

Our common stock is listed on the New York Stock Exchange, or the NYSE, under the symbol **KAR** and has been traded on the NYSE since December 11, 2009. Prior to that time, there was no public market for our common stock.

The following table sets forth the range of high and low intraday sales prices per share of common stock for the periods indicated as reported on the NYSE:

	2013	
	High	Low
4th Quarter (October 1 - November 5)	\$ 30.32	\$ 27.41
3rd Quarter (July 1 - September 30)	\$ 28.67	\$ 22.96
2nd Quarter (April 1 - June 30)	\$ 24.37	\$ 19.27
1st Quarter (January 1 - March 31)	\$ 22.32	\$ 19.06

	2012	
	High	Low
4th Quarter (October 1 - December 31)	\$ 20.49	\$ 17.00
3rd Quarter (July 1 - September 30)	\$ 20.85	\$ 14.10
2nd Quarter (April 1 - June 30)	\$ 18.57	\$ 14.39
1st Quarter (January 1 - March 31)	\$ 16.85	\$ 13.46

	2011	
	High	Low
4th Quarter (October 1 - December 31)	\$ 14.53	\$ 10.92
3rd Quarter (July 1 - September 30)	\$ 19.64	\$ 11.92
2nd Quarter (April 1 - June 30)	\$ 21.00	\$ 15.30
1st Quarter (January 1 - March 31)	\$ 15.74	\$ 13.75

	2010	
	High	Low
4th Quarter (October 1 - December 31)	\$ 14.37	\$ 11.74
3rd Quarter (July 1 - September 30)	\$ 13.73	\$ 11.03
2nd Quarter (April 1 - June 30)	\$ 15.84	\$ 11.52
1st Quarter (January 1 - March 31)	\$ 15.56	\$ 13.10

On November 5, 2013, the closing sale price of our common stock as reported on the NYSE was \$28.95 per share.

Table of Contents

DIVIDEND POLICY

On November 30, 2012, we announced that our board of directors approved the initiation of a quarterly cash dividend on our common stock. On April 4, 2013, July 3, 2013 and October 3, 2013, we paid a cash dividend of \$0.19 per share to stockholders of record at the close of business on March 25, 2013, June 24, 2013 and September 24, 2013, respectively. On November 5, 2013, we announced that our board of directors declared a cash dividend of \$0.25 per share payable on January 3, 2014 to stockholders of record at the close of business on December 20, 2013, representing an annualized dividend of \$1.00 per share. Future dividend decisions will be based on and affected by a variety of factors, including our financial condition and results of operations, contractual restrictions, including restrictive covenants contained in our credit agreement and AFC s securitization facilities, capital requirements and other factors that our board of directors deems relevant. No assurance can be given as to whether any future dividends may be declared by our board of directors or the amount thereof.

S-26

Table of Contents**CAPITALIZATION**

The following table sets forth our consolidated capitalization as of September 30, 2013.

You should read the data set forth in the table below in conjunction with Risk Factors, Selected Financial Data, our audited consolidated financial statements and related notes, and other financial information incorporated by reference in this prospectus supplement.

(Dollars in millions)	As of September 30, 2013
Debt:	
Revolving credit facility	\$
Term Loan B	1,775.3
Unamortized debt discount	(5.0)
Total debt	1,770.3
Stockholders equity:	
Common stock, par value \$0.01 per share, 400,000,000 shares authorized, 138,625,706 shares issued and outstanding, actual	1.4
Preferred stock, par value \$0.01 per share, 100,000,000 shares authorized, no shares issued and outstanding	
Additional paid-in capital	1,476.8
Accumulated deficit	(19.9)
Accumulated other comprehensive income	25.6
Total stockholders equity	1,483.9
Total capitalization	\$ 3,254.2

S-27

Table of Contents**SELLING STOCKHOLDER**

KAR LLC is the sole selling stockholder under this prospectus supplement.

On April 20, 2007, KAR LLC acquired the shares that may be offered for resale pursuant to this prospectus supplement in connection with a merger and related transactions pursuant to which ADESA, Inc. and Insurance Auto Auctions, Inc. became subsidiaries of KAR Auction Services, the issuer of the shares offered hereby. At the time of the merger and until its initial public offering of common stock in December 2009, KAR Auction Services was a wholly-owned subsidiary of KAR LLC. In connection with the merger, KAR LLC contributed to KAR Auction Services approximately \$1.1 billion of consideration, consisting of a combination of cash, stock of ADESA, Inc. and stock of Axle Holdings, Inc. (the then-owner of IAA), in exchange for the 106,853,660 shares offered for resale pursuant to the accompanying prospectus (after giving effect to certain capitalization transactions and a 10-for-1 stock split in December 2009). The per share purchase price was approximately \$10 (after giving effect to a 10-for-1 stock split in December 2009).

See the **Certain Related Party Relationships** section of the proxy statement for our annual meeting of stockholders held on June 12, 2013, which is incorporated by reference into this prospectus supplement, for a description of material relationships between us and the selling stockholder.

The following table sets forth the name of the selling stockholder, the number of shares and percentage of our common stock beneficially owned by the selling stockholder as of October 31, 2013, the number of shares of common stock being sold in this offering and the number of shares to be beneficially owned by the selling stockholder after the completion of this offering. The applicable percentage of ownership for the selling stockholder is based on 138,830,992 shares of common stock outstanding as of October 31, 2013.

Name of Beneficial Owner	Shares Beneficially Owned Prior to This Offering		Number of Shares Offered	Shares Beneficially Owned After This Offering	
	Number	Percent of Class		Number	Percent of Class
KAR Holdings II, LLC	28,078,660	20.2%	23,896,583	3,584,487	2.6%

The Equity Sponsors acquired common units in KAR LLC in connection with the above-mentioned merger and related transactions that occurred on April 20, 2007. In connection with the merger, the Equity Sponsors and the Company's management contributed to the selling stockholder approximately \$1.1 billion of consideration, consisting of a combination of cash, stock of ADESA, Inc. and stock of Axle Holdings, Inc., in exchange for common units in KAR LLC.

The selling stockholder may be deemed to be an affiliate of Goldman, Sachs & Co., a registered broker-dealer. The selling stockholder acquired the shares offered pursuant to this prospectus supplement and that may be offered for resale pursuant to the accompanying prospectus with investment intent in the ordinary course of business (such business being the investment in and development of companies) in connection with the merger transaction described above. At the time of the purchase of these shares, neither the selling stockholder nor Goldman, Sachs & Co. had any agreements or understandings, directly or indirectly, with any person to distribute the securities.

KAR LLC is the only holder of shares of our common stock being offered pursuant to this prospectus supplement. The Equity Sponsors and other investors in KAR LLC (including certain current or former members of management) hold common units in KAR LLC and thereby hold an indirect interest in the shares of our common stock held by KAR LLC being offered pursuant to this prospectus supplement. Prior to this offering, in accordance with resolutions adopted by the Board of Managers of KAR LLC, KAR LLC effected an in-kind distribution of a total of 597,590 shares of the Company's common stock (334,763 of which were distributed to affiliates of Kelso & Company, L.P.; and 262,827 of which were distributed to Axle Holdings II, LLC (Axle

Table of Contents

LLC). In connection with such in-kind distribution, a certain number of common units in KAR LLC held by the recipients of such in-kind distribution were redeemed. In addition, prior to this offering, in accordance with resolutions adopted by the Board of Managers of Axle LLC, Axle LLC effected an in-kind distribution of the shares of our common stock it received from the in-kind distribution by KAR LLC described above (196,182 of which were distributed to affiliates of Kelso & Company, L.P.; 4,750 of which were distributed to affiliates of Parthenon Capital and 61,895 of which were distributed to Brian Clingen). In connection with such in-kind distribution, a certain number of common units in Axle LLC held by the recipients of such in-kind distribution were redeemed.

In connection with this offering and in accordance with the Fourth Amendment to the Second Amended and Restated Limited Liability Company Agreement of KAR LLC, dated as of November 6, 2013 and the Second Amendment to the Amended and Restated Limited Liability Company Agreement of Axle LLC, dated as of November 6, 2013 (collectively, the Amendments), the cash proceeds received by KAR LLC from this offering will be distributed (including through Axle LLC) to the Equity Sponsors, other investors in KAR LLC and certain current or former members of management (in respect of both their common units in KAR LLC and Axle LLC and their profit interests in KAR LLC and Axle LLC), in each case, in accordance with the applicable Amendment. After giving effect to the in-kind distributions and the redemptions made in connection therewith, in each case as described above, our current or former members of management hold approximately 1.23% and less than 1.0%, respectively, of the common units in KAR LLC and Axle LLC, respectively. If KAR LLC owns any shares of the Company's common stock after giving effect to the in-kind distribution described above and the consummation of this offering, the Board of Managers of KAR LLC may thereafter determine to distribute such shares of common stock to the members of KAR LLC (and Axle LLC may further distribute such shares received by KAR LLC) in accordance with the applicable Amendment such that, after the consummation of this offering and the distribution, if any, of such shares as described above, neither KAR LLC nor Axle LLC will hold any shares of the Company's common stock.

The following table presents information on what the beneficial ownership of the shares of our common stock would be if beneficial ownership of these shares were attributed to the Equity Sponsors and certain members of management based solely on their proportionate holdings of common units in KAR LLC as of October 31, 2013. In addition, (i) the information presented in the footnotes to this table are based on shares beneficially owned prior to this offering; (ii) other than for KAR LLC, the number of shares deemed sold by each holder reflects a pro rata portion of the shares sold by KAR LLC in this offering based on such holder's approximate percentage ownership of common equity interests in KAR LLC; and (iii) the information presented in this table does not give effect to the in-kind distribution of 597,590 shares of the Company's common stock described above. KAR LLC will distribute the net proceeds of its sale of common stock in this offering to its members in accordance with its limited liability company agreement.

Name of Beneficial Owner	Shares Beneficially Owned Prior to This Offering		Number of Shares Offered	Shares Beneficially Owned After This Offering	
	Number(1)	Percent of Class(2)		Number(1)	Percent of Class(2)
KAR Holdings II, LLC	28,078,660	20.2%	23,896,583	3,584,487	2.6%
KELSO GROUP:					
Kelso Investment Associates VII, L.P.(3)(4)	11,909,895	8.6%	10,136,018	1,773,877	1.3%
KEP VI, LLC(3)(4)	11,909,895	8.6%	10,136,018	1,773,877	1.3%
Frank T. Nickell(3)(4)(5)	11,909,895	8.6%	10,136,018	1,773,877	1.3%
Thomas R. Wall, IV(3)(4)(5)	11,909,895	8.6%	10,136,018	1,773,877	1.3%
George E. Matelich(3)(4)(5)	11,909,895	8.6%	10,136,018	1,773,877	1.3%
Michael B. Goldberg(3)(4)(5)(6)	11,909,895	8.6%	10,136,018	1,773,877	1.3%

Table of Contents

Name of Beneficial Owner	Shares Beneficially Owned Prior to This Offering		Number of Shares Offered	Shares Beneficially Owned After This Offering	
	Number(1)	Percent of Class(2)		Number(1)	Percent of Class(2)
David I. Wahrhaftig(3)(4)(5)	11,909,895	8.6%	10,136,018	1,773,877	1.3%
Frank K. Bynum, Jr.(3)(4)(5)	11,909,895	8.6%	10,136,018	1,773,877	1.3%
Philip E. Berney(3)(4)(5)	11,909,895	8.6%	10,136,018	1,773,877	1.3%
Frank J. Loverro(3)(4)(5)	11,909,895	8.6%	10,136,018	1,773,877	1.3%
James J. Connors, II(3)(4)(5)	11,909,895	8.6%	10,136,018	1,773,877	1.3%
Church M. Moore(3)(4)(5)(6)	11,909,895	8.6%	10,136,018	1,773,877	1.3%
Stanley de J. Osborne(3)(4)(5)	11,909,895	8.6%	10,136,018	1,773,877	1.3%
Christopher L. Collins(3)(4)(5)	11,909,895	8.6%	10,136,018	1,773,877	1.3%
Howard A. Matlin(3)(4)(5)	11,909,895	8.6%	10,136,018	1,773,877	1.3%
PARTHENON GROUP:					
Parthenon Investors II, L.P. and related funds(7)	2,329,654	1.7%	1,982,672	346,982	*
GOLDMAN GROUP:					
GS Capital Partners VI Fund, L.P. and related funds(8)(9)	7,116,476	5.1%	6,056,538	1,059,938	*
VALUEACT GROUP:					
ValueAct Capital Master Fund, L.P.(10)(11)(24)(26)	6,734,023	4.9%	5,047,113	1,686,910	1.2%
AXLE HOLDINGS II, LLC(3)(25)	7,180,661	5.2%	6,111,163	1,069,498	*
EXECUTIVE OFFICERS AND DIRECTORS					
David J. Ament(6)(28)					
Ryan M. Birtwell(6)					
Warren W. Byrd(14)	53,017	*	1,123	51,894	*
Thomas J. Carella(6)(9)(22)(23)	7,116,476	5.1%	6,056,538	1,059,938	*
Thomas J. Caruso(15)	256,249	*	1,123	255,126	*
Brian T. Clingen(6)(12)	363,337	*	309,221	54,116	*
Robert M. Finlayson(6)	17,076	*		17,076	*
Peter R. Formanek(6)	24,880	*		24,880	*
Michael B. Goldberg(3)(4)(5)(6)(23)	11,909,895	8.6%	10,136,018	1,773,877	1.3%
Donald S. Gottwald(16)	117,575	*		117,575	*
James P. Hallett(6)(13)	110,731	*	22,430	88,301	*
Peter J. Kelly(27)	175,000	*		175,000	*
Eric M. Loughmiller(17)	13,691	*	673	13,018	*
Sanjeev K. Mehra(6)(8)(22)(23)	7,116,476	5.1%	6,056,538	1,059,938	*
Church M. Moore(3)(4)(5)(6)(23)	11,909,895	8.6%	10,136,018	1,773,877	1.3%
Thomas C. O'Brien(6)(18)	7,338	*	6,245	1,093	*
Rebecca C. Polak(19)	112,426	*	1,682	110,744	*
Lisa A. Price(29)	8,427	*		8,427	*
Benjamin Skuy(20)	199,292	*	5,608	193,684	*
Gregory P. Spivy(6)					
David J. Vignes(21)	135,334	*	785	134,549	*
Jonathan P. Ward(6)	17,423	*		17,423	*
Executive officers and directors as a group (22 persons)(22)	20,638,167	14.9%	16,541,446	4,096,721	3.0%

* Less than one percent.

(1) The number of shares includes shares of common stock subject to options exercisable within 60 days of October 31, 2013.

Table of Contents

- (2) Shares subject to options exercisable within 60 days of October 31, 2013 are considered outstanding for the purpose of determining the percent of the class held by the holder of such option, but not for the purpose of computing the percentage held by others. Percentages for KAR LLC, Axle LLC, the members of the Kelso Group, the members of the Goldman Group, ValueAct Capital and the members of the Parthenon Group are reflective of beneficial ownership of KAR LLC common interests (which, in certain cases, includes beneficial ownership of KAR LLC common interests held by Axle LLC). Except as indicated, percentages for executive officers and directors are reflective of beneficial ownership of outstanding shares of KAR Auction Services (including shares that may be deemed to be owned by virtue of common ownership interests in KAR LLC or Axle LLC, as applicable).
- (3) The business address for these persons is c/o Kelso & Company, 320 Park Avenue, 24th Floor, New York, NY 10022.
- (4) Includes (i) 4,856,106 shares of common stock held of record by KAR LLC (which are attributable to Axle LLC), by virtue of Kelso Investment Associates VII, L.P., a Delaware limited partnership, or KIA VII, ownership interest in Axle LLC, (ii) 1,202,465 shares of common stock held of record by KAR LLC (which are attributable to Axle LLC), by virtue of KEP VI, LLC, a Delaware limited liability company, or KEP VI, ownership interest in Axle LLC, (iii) 4,689,993 of common stock held of record by KAR LLC, by virtue of KIA VII's ownership interest in KAR LLC and (iv) 1,161,331 shares of common stock held of record by KAR LLC, by virtue of KEP VI's ownership interest in KAR LLC. Kelso GP VII, LLC, a Delaware limited liability company, or GP VII, LLC, is the general partner of Kelso GP VII, L.P., a Delaware limited partnership, or GP VII, L.P. GP VII, L.P. is the general partner of KIA VII. KIA VII is the majority owner of KAR LLC. Each of GP VII, LLC, GP VII, L.P., and KIA VII disclaims beneficial ownership of the shares owned of record by KAR LLC, except to the extent of their respective pecuniary interests therein. Each of GP VII, LLC, GP VII, L.P., and KIA VII, due to their common control, could be deemed to beneficially own each other's securities. GP VII, LLC disclaims beneficial ownership of all of the shares owned of record, or deemed beneficially owned, by each of GP VII L.P. and KIA VII except to the extent of its pecuniary interest therein. GP VII, L.P. disclaims beneficial ownership of all of the shares owned of record, or deemed beneficially owned, by each of GP VII, LLC and KIA VII, except, in the case of KIA VII, to the extent of its pecuniary interest therein. KIA VII disclaims beneficial ownership of all of the shares owned of record, or deemed beneficially owned, by each of GP VII, LLC and GP VII, L.P., except to the extent of its pecuniary interest therein, if any. KIA VII and KEP VI, due to their common control, could be deemed to beneficially own each of the other's shares. KEP VI disclaims beneficial ownership of all of the shares owned of record, or deemed beneficially owned, by each of GP VII, LLC, GP VII L.P. and KIA VII. Each of GP VII, LLC, GP VII L.P. and KIA VII disclaims beneficial ownership of all of the shares owned of record, or deemed beneficially owned, by KEP VI. KEP VI disclaims beneficial ownership of the shares owned of record by KAR Holdings, LLC, except to the extent of its pecuniary interest therein.
- (5) Messrs. Berney, Bynum, Goldberg, Loverro, Matelich, Nickell, Wahrhaftig, Wall, Connors, Osborne, Moore, Collins and Matlin may be deemed to share beneficial ownership of securities owned of record by KAR LLC or indirectly by KIA VII, by virtue of their status as managing members of GP VII, LLC, but disclaim beneficial ownership of such securities. Messrs. Berney, Bynum, Goldberg, Loverro, Matelich, Nickell, Wahrhaftig, Wall, Connors, Osborne, Moore, Collins and Matlin may also be deemed to share beneficial ownership of securities owned of record by KAR LLC or indirectly by KEP VI, by virtue of their status as managing members of KEP VI, but disclaim beneficial ownership of such interests.
- (6) Members of our Board of Directors.
- (7) Represents shares beneficially owned through KAR LLC. The business address for Parthenon Investors II, L.P. and related funds is c/o Parthenon Capital Partners, One Federal Street, 21st Floor, Boston, MA 02110.
- (8) Shares reported are held of record by KAR LLC but are beneficially owned directly by GS Capital Partners VI Fund, L.P., GS Capital Partners VI Parallel, L.P., GS Capital Partners VI GmbH & Co. KG, GS Capital Partners VI Offshore Fund, L.P. GSCP VI Advisors, L.L.C., GSCP VI Offshore Advisors, L.L.C., Goldman, Sachs Management GP GMBH and GS Advisors VI, L.L.C., together, the GSCP Entities. Affiliates of The Goldman Sachs Group, Inc. and Goldman, Sachs & Co. are the general partner, managing limited partner or the managing partner of each of the GSCP Entities. Goldman, Sachs & Co. is the investment manager for

Table of Contents

- certain of the GSCP Entities. Goldman, Sachs & Co. is a direct and indirect, wholly-owned subsidiary of The Goldman Sachs Group, Inc. The Goldman Sachs Group, Inc. is a public entity and its common stock is publicly traded on the NYSE. The Goldman Sachs Group, Inc., Goldman, Sachs & Co. and the GSCP Entities share voting and investment power with certain of their respective affiliates. Each of The Goldman Sachs Group Inc. and Goldman, Sachs & Co. disclaims beneficial ownership of the common shares owned directly or indirectly by the GSCP Entities, except to the extent of its pecuniary interest therein, if any.
- (9) The business address for these persons is c/o Goldman, Sachs & Co., 200 West Street, New York, NY 10282.
 - (10) The 5,930,395 shares of common stock are held of record by KAR LLC but is beneficially owned directly by ValueAct Capital Master Fund, L.P. by virtue of ValueAct Capital Master Fund, L.P.'s ownership interest in KAR LLC and may be deemed to be beneficially owned by (i) VA Partners I, LLC as General Partner of ValueAct Capital Master Fund, L.P., (ii) ValueAct Capital Management, L.P. as the manager of ValueAct Capital Master Fund, L.P., (iii) ValueAct Capital Management, LLC as General Partner of ValueAct Capital Management, L.P., (iv) ValueAct Holdings, L.P. as the sole owner of the limited partnership interests of ValueAct Capital Management, L.P. and the membership interests of ValueAct Capital Management, LLC, and as the majority owner of the membership interests of VA Partners I, LLC, and (v) ValueAct Holdings GP, LLC as General Partner of ValueAct Holdings, L.P. Each of the foregoing reporting persons disclaims beneficial ownership of the reported stock except to the extent of their pecuniary interest therein.
 - (11) The business address for these persons is c/o ValueAct Capital, 435 Pacific Avenue, 4th Floor, San Francisco, CA 94133.
 - (12) Includes (i) 99,764 shares of common stock held of record by KAR LLC (which are attributable to Axle LLC), by virtue of Mr. Clingen's common ownership interest in Axle LLC, and (ii) 263,573 shares of common stock held of record by KAR LLC, by virtue of Mr. Clingen's common ownership interest in KAR LLC.
 - (13) Includes (i) 84,375 shares of common stock issuable pursuant to options that are exercisable within 60 days of October 31, 2013, and (ii) 26,356 shares of common stock held of record by KAR LLC, by virtue of Mr. Hallett's common ownership interest in KAR LLC.
 - (14) Includes (i) 51,698 shares of common stock issuable pursuant to options that are exercisable within 60 days of October 31, 2013, and (ii) 1,319 shares of common stock held of record by KAR LLC, by virtue of Mr. Byrd's common ownership interest in KAR LLC.
 - (15) Includes (i) 254,930 shares of common stock issuable pursuant to options that are exercisable within 60 days of October 31, 2013, and (ii) 1,319 shares of common stock held of record by KAR LLC, by virtue of Mr. Caruso's common ownership interest in KAR LLC.
 - (16) Includes 117,575 shares of common stock issuable pursuant to options that are exercisable within 60 days of October 31, 2013.
 - (17) Includes (i) 791 shares of common stock held of record by KAR LLC, by virtue of Mr. Loughmiller's common ownership interest in KAR LLC, and (ii) 12,900 shares of common stock owned by Mr. Loughmiller.
 - (18) Includes (i) 6,810 shares of common stock held of record by KAR LLC (which are attributable to Axle LLC), by virtue of Mr. O'Brien's common ownership interest in Axle LLC, and (ii) 528 shares of common stock held of record by KAR LLC, by virtue of Mr. O'Brien's common ownership interest in KAR LLC.
 - (19) Includes (i) 1,976 shares of common stock held of record by KAR LLC, by virtue of Ms. Polak's common ownership interest in KAR LLC, and (ii) 110,450 shares of common stock issuable pursuant to options that are exercisable within 60 days of October 31, 2013.
 - (20) Includes (i) 187,702 shares of common stock issuable pursuant to options that are exercisable within 60 days of October 31, 2013, (ii) 6,590 shares of common stock held of record by KAR LLC, by virtue of Mr. Skuy's common ownership interest in KAR LLC, and (iii) 5,000 shares of common stock owned by Mr. Skuy.
 - (21) Includes (i) 129,412 shares of common stock issuable pursuant to options that are exercisable within 60 days of October 31, 2013, (ii) 922 shares of common stock held of record by KAR LLC, by virtue of Mr. Vignes's common ownership interest in KAR LLC, and (iii) 5,000 shares of common stock owned by Mr. Vignes.

Table of Contents

- (22) Messrs. Mehra and Carella are managing directors of Goldman, Sachs & Co. Mr. Mehra, Mr. Carella and The Goldman Sachs Group, Inc. each disclaims beneficial ownership of the common stock owned directly or indirectly by the GSCP Entities and Goldman, Sachs & Co., except to the extent of his or its pecuniary interest therein, if any. Each of The Goldman Sachs Group, Inc. and Goldman, Sachs & Co. disclaims beneficial ownership of the common shares owned directly or indirectly by the GSCP Entities, except to the extent of its pecuniary interest therein, if any.
- (23) Includes shares of common stock the beneficial ownership of which (i) Mr. Goldberg may be deemed to share, as described in footnote 5 above, (ii) Mr. Moore may be deemed to share, as described in footnote 5 above, (iii) Mr. Mehra may be deemed to share, as described in footnote 22 above, and (vi) Mr. Carella may be deemed to share, as described in footnote 22 above.
- (24) The 803,628 shares of common stock are directly beneficially owned by ValueAct Capital Master Fund, L.P. and may be deemed to be indirectly beneficially owned by (i) VA Partners I, LLC as General Partner of ValueAct Capital Master Fund, L.P., (ii) ValueAct Capital Management, L.P. as the manager of ValueAct Capital Master Fund, L.P., (iii) ValueAct Capital Management, LLC as General Partner of ValueAct Capital Management, L.P., (iv) ValueAct Holdings, L.P. as the sole owner of the limited partnership interests of ValueAct Capital Management, L.P. and the membership interests of ValueAct Capital Management, LLC and as the majority owner of the membership interests of VA Partners I, LLC, and (v) ValueAct Holdings GP, LLC as General Partner of ValueAct Holdings, L.P. Each of the foregoing reporting persons disclaims beneficial ownership of the reported stock, except to the extent of their pecuniary interest therein.
- (25) Axle may be deemed to share beneficial ownership of shares of common stock owned of record by KAR LLC by virtue of its status as a member of KAR LLC. Axle shares investment and voting power along with the other members of KAR LLC with respect to the securities owned by KAR LLC, but disclaims beneficial ownership of such securities. KIA VII, KEP VI, Parthenon Investors II, L.P., PCIP Investors and J&R Founders Fund II, L.P., due to their ownership interest in Axle, could be deemed to share beneficial ownership of securities owned of record by Axle. KIA VII, KEP VI, Parthenon Investors II, L.P., PCIP Investors and J&R Founders Fund II, L.P. share investment and voting power along with the other members of Axle with respect to securities owned by Axle, but disclaim beneficial ownership of such common shares except to the extent of their pecuniary interest therein.
- (26) Messrs. Jeffrey W. Ubben, G. Mason Morfit and George F. Hamel may be deemed to share beneficial ownership of securities owned of record by KAR LLC or indirectly by ValueAct Holdings GP, LLC, by virtue of serving on the management board of ValueAct Holdings GP, LLC, but disclaim beneficial ownership of such common shares.
- (27) Includes 175,000 shares of common stock issuable pursuant to options that are exercisable within 60 days of October 31, 2013.
- (28) Certain entities affiliated with Mr. Ament are members of KAR LLC. None of such entities have voting or dispositive power with respect to the common stock owned by KAR LLC.
- (29) Includes 8,427 shares of common stock issuable pursuant to options that are exercisable within 60 days of October 31, 2013.

Table of Contents

CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES TO NON-U.S. HOLDERS OF COMMON STOCK

The following is a general discussion of certain U.S. federal income tax consequences relating to the ownership and disposition of our common stock by non-U.S. holders (as defined below) who purchase our common stock in this offering and hold such common stock as capital assets for U.S. federal income tax purposes (generally for investment). This discussion is based on currently existing provisions of the Internal Revenue Code of 1986, as amended, applicable U.S. Treasury regulations promulgated thereunder, judicial decisions, and rulings and pronouncements of the U.S. Internal Revenue Service, or the IRS, all as in effect on the date hereof and all of which are subject to change, possibly with retroactive effect, or subject to different interpretation.

This discussion does not address all aspects of U.S. federal income taxation that may be relevant to specific non-U.S. holders in light of their particular circumstances or to non-U.S. holders subject to special treatment under U.S. federal income tax laws (such as banks or other financial institutions, insurance companies, tax-exempt organizations, foreign governments, controlled foreign corporations, passive foreign investment companies, retirement plans, entities that are treated as partnerships for U.S. federal income tax purposes, dealers in securities or currencies, brokers, U.S. expatriates, non-U.S. holders who have acquired our common stock as compensation or otherwise in connection with the performance of services, or non-U.S. holders who have acquired our common stock as part of a straddle, hedge, conversion transaction or other integrated investment).

This discussion does not address the state, local, non-U.S. tax or U.S. federal unearned income Medicare contribution or alternative minimum tax consequences relating to the ownership and disposition of our common stock. You should consult your tax advisor regarding the U.S. federal tax consequences of owning and disposing of our common stock, as well as the applicability and effect of any state, local or foreign tax laws.

As used in this discussion, the term non-U.S. holder refers to a beneficial owner of our common stock that for U.S. federal income tax purposes is not:

- (i) an individual who is a citizen or resident of the United States;
- (ii) a corporation (or other entity subject to tax as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States or any state thereof, or the District of Columbia;
- (iii) an estate the income of which is subject to U.S. federal income tax regardless of the source thereof; or
- (iv) a trust (a) if a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions, or (b) that has in effect a valid election under applicable Treasury Regulations to be treated as a U.S. person.

If an entity or arrangement classified as a partnership for U.S. federal income tax purposes holds our common stock, the tax treatment of the partnership and its partners generally depends on the status of the partner and the activities of the partnership. If you are an entity or arrangement treated as partnership for U.S. federal income tax purposes holding our common stock, or a partner in such entity, you should consult your tax adviser as to the particular U.S. federal income tax consequences applicable to you.

EACH NON-U.S. HOLDER SHOULD CONSULT ITS TAX ADVISER REGARDING THE U.S. FEDERAL, STATE, LOCAL, AND NON-U.S. INCOME AND OTHER TAX CONSEQUENCES OF ACQUIRING, HOLDING AND DISPOSING OF OUR COMMON STOCK.

Distributions on Common Stock

If we make a distribution of cash or other property (other than certain distributions of our stock) in respect of our common stock, the distribution generally will be treated as a dividend to the extent of our current or

Table of Contents

accumulated earnings and profits (as determined under U.S. federal income tax principles). If the amount of a distribution exceeds our current and accumulated earnings and profits (as determined under U.S. federal income tax principles), the excess amount generally will be treated first as a tax-free return of capital, on a share by share basis, to the extent of the non-U.S. holder's tax basis in our common stock, and then as capital gain.

Distributions treated as dividends paid by us to a non-U.S. holder generally will be subject to U.S. federal withholding tax at a 30% rate, unless (i) an applicable income tax treaty reduces or eliminates such tax, or (ii) the dividends are effectively connected with such non-U.S. holder's conduct of a trade or business in the United States and, in each case, the non-U.S. holder provides us with proper IRS documentation. In the latter case, a non-U.S. holder generally will be subject to U.S. federal income tax with respect to such dividends in the same manner as a U.S. person, unless otherwise provided in an applicable income tax treaty. Additionally, a non-U.S. holder that is a corporation may be subject to a branch profits tax on its after-tax effectively connected dividend income at a rate of 30% (or at a reduced rate under an applicable income tax treaty). If a non-U.S. holder is eligible for a reduced rate of U.S. federal withholding tax pursuant to an income tax treaty, such non-U.S. holder may obtain a refund or credit of any excess amount withheld by filing an appropriate claim for refund with the IRS. Non-U.S. holders should consult their tax advisors regarding their entitlement to benefits under an applicable income tax treaty and the manner of claiming the benefits of such treaty.

Sale, Exchange or Other Disposition of Common Stock

Generally, a non-U.S. holder will not be subject to U.S. federal income tax on gain realized upon the sale, exchange or other disposition of our common stock unless (i) such non-U.S. holder is an individual present in the United States for 183 days or more in the taxable year of the sale, exchange or other disposition and certain other conditions are met, (ii) the gain is effectively connected with such non-U.S. holder's conduct of a trade or business in the United States and, where a tax treaty so provides, the gain is attributable to such non-U.S. holder's permanent establishment or fixed base in the United States, or (iii) we are or have been a United States real property holding corporation at any time within the shorter of the five-year period ending on the date of such sale, exchange or other disposition or the period that such non-U.S. holder held our common stock and either (a) our common stock was not regularly traded on an established securities market at any time during the calendar year in which the sale, exchange or other disposition occurs, or (b) such non-U.S. holder owns or owned (actually or constructively) more than five percent of our common stock at any time during the preceding five years. We have determined that we are not, and we believe we will not become, a United States real property holding corporation.

An individual non-U.S. holder described in (i) above is subject to U.S. federal income tax on such non-U.S. holder's gains (including gain from the sale of common stock, net of applicable U.S.-source losses incurred on sales or exchanges of other capital assets during the year) at a flat rate of 30% (or at a reduced rate under an applicable income tax treaty). Other non-U.S. holders who may be subject to U.S. federal income tax on the disposition of our common stock will be subject to U.S. federal income tax on the disposition of our common stock in the same manner in which citizens or residents of the United States would be subject to U.S. federal income tax.

Information Reporting and Backup Withholding Tax

The amount of dividends on our common stock paid to a non-U.S. holder and the amount of any tax withheld from such dividends must generally be reported annually to the IRS and to the non-U.S. holder. The IRS may make this information available to the tax authorities of the country in which the non-U.S. holder is a resident under the provisions of an applicable tax treaty or agreement. Backup withholding tax (at the then applicable rate) may apply to dividends on our common stock paid to a non-U.S. holder, unless the non-U.S. holder certifies as to its status as a non-U.S. holder under penalties of perjury or otherwise establishes an exemption and certain other conditions are satisfied. Information reporting and backup withholding tax (at the

Table of Contents

then applicable rate) may apply to payments treated as the proceeds of a sale of our common stock made to a non-U.S. holder, unless the non-U.S. holder certifies as to its status as a non-U.S. holder under penalties of perjury or otherwise establishes an exemption and certain other conditions are satisfied.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a non-U.S. holder will be allowed as a refund or a credit against such non-U.S. holder's U.S. federal income tax liability, provided that the required information is timely furnished to the IRS. Non-U.S. holders should consult their tax advisors regarding the application of the information reporting and backup withholding rules to them.

Foreign Account Tax Compliance Act

After June 30, 2014, withholding at a rate of 30% will be required on dividends in respect of, and, after December 31, 2016, gross proceeds from the sale or other disposition of, our common stock held by or through certain foreign financial institutions (including investment funds), unless such institution enters into an agreement with the Treasury to report, on an annual basis, information with respect to shares in, and accounts maintained by, the institution held by certain U.S. persons and by certain non-U.S. entities that are wholly or partially owned by U.S. persons and to withhold on certain payments. An intergovernmental agreement between the United States and an applicable foreign country, or future Treasury regulations, may modify these requirements. Accordingly, the entity through which our common stock is held will affect the determination of whether such withholding is required. Similarly, dividends in respect of, and gross proceeds from the sale of, our common stock held by an investor that is a non-financial non-U.S. entity that does not qualify under certain exemptions will be subject to withholding at a rate of 30%, unless such entity either (i) certifies to us that such entity does not have any substantial United States owners or (ii) provides certain information regarding the entity's substantial United States owners, which we will in turn provide to the Secretary of the Treasury. We will not pay any additional amounts to stockholders in respect of any amounts withheld. Non-U.S. holders are encouraged to consult their tax advisers regarding the possible implications of the legislation on their investment in our common stock.

Table of Contents**UNDERWRITING**

Under the terms and subject to the conditions contained in an underwriting agreement, dated November 6, 2013, the selling stockholder has agreed to sell to Credit Suisse Securities (USA) LLC and Goldman, Sachs & Co. the following respective numbers of shares of common stock:

Underwriter	Number of Shares
Credit Suisse Securities (USA) LLC Goldman, Sachs & Co.	
Total	23,896,583

The underwriting agreement provides that the underwriters are obligated to purchase all the shares of common stock in the offering if any are purchased, other than those shares covered by the underwriters' option described below. The underwriting agreement also provides that if an underwriter defaults, the purchase commitment of the non-defaulting underwriter may be increased or the offering may be terminated. The offering of the shares by the underwriters is subject to receipt and acceptance and subject to the underwriters' right to reject any order in whole or in part.

The selling stockholder has granted to the underwriters a 30-day option to purchase on a pro rata basis up to 3,584,487 additional outstanding shares from the selling stockholder at the public offering price set forth on the cover page of this prospectus supplement less the underwriting discounts and commissions.

The underwriters propose to offer the shares of common stock initially at the public offering price set forth on the cover page of this prospectus supplement. After the initial public offering, the representatives may change the public offering price.

The following table summarizes the compensation the selling stockholder will pay, assuming both no exercise and full exercise of the underwriters' option to purchase 3,584,487 additional shares of common stock:

	Per Share		Total	
	No Exercise	Full Exercise	No Exercise	Full Exercise
Underwriting Discounts and Commissions paid by the selling stockholder	\$	\$	\$	\$

We estimate that the out of pocket expenses for this offering which will be paid by us will be approximately \$0.3 million.

We, our executive officers, our directors, the selling stockholder and the Equity Sponsors have agreed with the underwriters, subject to certain exceptions, not to dispose of or hedge any of our common stock or securities

convertible into or exchangeable for shares of common stock during the period from the date of this prospectus supplement continuing through the date 45 days after the date of this prospectus supplement, except with the prior written consent of Credit Suisse Securities (USA) LLC and Goldman, Sachs & Co. This agreement does not apply to any of our existing employee benefit plans.

We and the selling stockholder have agreed to indemnify the underwriters against liabilities under the Securities Act, or contribute to payments that the underwriters may be required to make in that respect.

Our common stock is listed on The New York Stock Exchange, under the symbol KAR.

In connection with the offering, the underwriters may engage in stabilizing transactions, over-allotment transactions and syndicate covering transactions in accordance with Regulation M under the Exchange Act of 1934.

Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

S-38

Table of Contents

Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase by exercising their option to purchase additional shares. In a naked short position, the number of shares involved is greater than the number of shares subject to the underwriters' option to purchase additional shares. The underwriters may close out any covered short position by either exercising their option to purchase additional shares and/or purchasing shares in the open market.

Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the option to purchase additional shares. If the underwriters sell more shares than could be covered by the option to purchase additional shares, a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.

These stabilizing transactions and syndicate covering transactions may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of the common stock. As a result the price of our common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on The New York Stock Exchange and, if commenced, may be discontinued at any time.

A prospectus in electronic format may be made available on the web sites maintained by one or both of the underwriters participating in this offering and one or both of the underwriters participating in this offering may distribute prospectuses electronically.

The underwriters and their respective affiliates are full service institutions engaged in various activities which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities and services. Certain of the underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking, commercial banking and other services for the Company and its affiliates, for which they received or will receive customary fees and expenses.

Affiliates of Goldman, Sachs & Co. beneficially own through their investment in KAR LLC 5.1% of the Company's common stock. Pursuant to the director designation agreement of KAR LLC, such affiliates have the right to designate a specified number of individuals to serve on the Board of Directors of KAR LLC. See the "Certain Related Party Relationships" section of the proxy statement for our annual meeting of stockholders held on June 12, 2013, which is incorporated by reference in the accompanying prospectus, for a description of this agreement and other material relationships between us and the selling stockholder, including the affiliates of Goldman, Sachs & Co. Sanjeev Mehra and Thomas J. Carella, each a Managing Director of Goldman, Sachs & Co., are directors of the Company. An affiliate of Credit Suisse Securities (USA) LLC holds class A common units in KAR LLC, which total less than 1% of all outstanding units in KAR LLC as of the date of this prospectus supplement.

An affiliate of Goldman, Sachs & Co. is a syndication agent and a lender under the Credit Agreement, dated as of May 19, 2011, as amended from time to time, or the Credit Agreement. An affiliate of Credit Suisse Securities (USA) LLC is also a lender under the Credit Agreement.

Table of Contents

Conflict of Interest

KAR LLC, the selling stockholder and an affiliate of Goldman, Sachs & Co., will receive all of the net proceeds of this offering. Accordingly, this offering will be made in compliance with the applicable provisions of Rule 5121 of the Financial Industry Regulatory Authority, or Rule 5121, as required by Rule 5121. Because there is a bona fide public market (as defined in Rule 5121) for our common stock, the Rule 5121 requirement for the participation of a qualified independent underwriter does not apply to this offering.

Offering Restrictions

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive, each, a Relevant Member State, each underwriter has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State it has not made and will not make an offer of the shares of common stock which are the subject of the offering contemplated by this prospectus supplement to the public in that Relevant Member State other than:

to any legal entity which is a qualified investor as defined in the Prospectus Directive;

to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the representatives for any such offer; or

in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of shares shall require us or any underwriter to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of the above, (i) the expression an offer of shares of common stock to the public in relation to any shares of common stock in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the shares of common stock to be offered so as to enable an investor to decide to purchase or subscribe the shares of common stock, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, (ii) the expression Prospectus Directive means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and (iii) the expression 2010 PD Amending Directive means Directive 2010/73/EU.

In the case of any common stock being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, acknowledged and agreed that the common stock acquired by it in the offering have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to persons in circumstances which may give rise to an offer of any securities to the public other than their offer or resale in a Relevant Member State to qualified investors as so defined or in circumstances in which the prior consent of the underwriters has been obtained to each such proposed offer or resale. KAR Auction Services, Inc. and the underwriters and their affiliates, and others will rely on the truth and accuracy of the foregoing representation, acknowledgment and agreement. Notwithstanding the above, a person who is not a qualified investor and who has notified the underwriters of such fact in writing may, with the consent of the underwriters, be permitted to subscribe for or purchase the common stock in the offering.

United Kingdom

Each underwriter has represented and agreed that it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment

Table of Contents

activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of the shares of common stock in circumstances in which Section 21(1) of such Act does not apply to KAR Auction Services, Inc. and that it has complied and will comply with all applicable provisions of such Act with respect to anything done by it in relation to any shares of common stock in, from or otherwise involving the United Kingdom.

Hong Kong

The shares may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (ii) to professional investors within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a prospectus within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation or document relating to the shares may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Singapore

This prospectus supplement and the accompanying prospectus have not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus supplement and the accompanying prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the shares may not be circulated or distributed, nor may the shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore, or the SFA, (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the shares are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the shares under Section 275 except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (2) where no consideration is given for the transfer; or (3) by operation of law.

Japan

The shares have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the Financial Instruments and Exchange Law) and each underwriter has agreed that it will not offer or sell any shares, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

Table of Contents

LEGAL MATTERS

Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York is representing us in connection with this offering. Debevoise & Plimpton LLP, New York, New York is acting as counsel to the underwriters. Debevoise & Plimpton LLP has in the past provided, and continues to provide, legal services to Kelso & Company and certain of its affiliates other than us.

EXPERTS

The consolidated financial statements of KAR Auction Services, Inc. and subsidiaries as of December 31, 2012 and 2011 and for each of the years in the three-year period ended December 31, 2012 and management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2012 have been incorporated by reference herein in reliance upon the report of KPMG LLP, independent registered public accounting firm, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

S-42

Table of Contents

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC under the Exchange Act. You may inspect without charge any documents filed by us at the SEC's Public Reference Room at 100 F Street, N.E., Room 1580, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site, www.sec.gov, that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including us.

The SEC allows us to incorporate by reference information into this prospectus supplement and the accompanying prospectus, which means that we can disclose important information to you by referring you to other documents filed separately with the SEC. The information incorporated by reference is considered part of this prospectus supplement, and information filed with the SEC subsequent to this prospectus supplement and prior to the termination of the particular offering referred to in this prospectus supplement will automatically be deemed to update and supersede this information. We incorporate by reference into this prospectus supplement the documents listed below (excluding any portions of such documents that have been furnished but not filed for purposes of the Exchange Act):

our Annual Report on Form 10-K for the year ended December 31, 2012, filed on February 22, 2013;

our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, filed on May 2, 2013;

our Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, filed on August 6, 2013;

our Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, filed on November 5, 2013;

portions of our Definitive Proxy Statement on Schedule 14A filed on April 30, 2013, that are incorporated by reference into Part III of our Annual Report on Form 10-K for the year ended December 31, 2012;

our Current Reports on Form 8-K filed on February 28, 2013, March 8, 2013, March 13, 2013, June 11, 2013, June 13, 2013, June 24, 2013, June 28, 2013, August 13, 2013 and September 24, 2013; and

the description of our common stock contained in our Form 8-A filed on December 2, 2009, and any amendment or report filed for the purpose of updating such description.

We also incorporate by reference any future filings made by us with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act between the date of this prospectus supplement and the date all of the securities offered hereby are sold or the offering is otherwise terminated, with the exception of any information furnished under Item 2.02 and Item 7.01 of Form 8-K (and exhibits filed under Item 9.01 of Form 8-K relating to such information), which is not deemed filed and which is not incorporated by reference herein. Any such filings shall be deemed to be incorporated by reference and to be a part of this prospectus supplement from the respective dates of filing of those documents.

We will provide without charge upon written or oral request to each person, including any beneficial owner, to whom a prospectus supplement is delivered, a copy of any and all of the documents which are incorporated by reference into this prospectus supplement but not delivered with this prospectus supplement (other than exhibits unless such exhibits are specifically incorporated by reference in such documents).

You may request a copy of these documents by writing or telephoning us at:

KAR Auction Services, Inc.

13085 Hamilton Crossing Blvd.

Edgar Filing: HARRIS & HARRIS GROUP INC /NY/ - Form DEF 14A

Carmel, IN 46032

Attention: Investor Relations

(800) 923-3725

S-43

Table of Contents

You may also access the documents incorporated by reference into this prospectus supplement through our website at www.karauctionservices.com. Except for these specific incorporated documents, the contents of our website are not part of this prospectus supplement, and you should not consider the contents of our website in making an investment decision with respect to our securities.

S-44

Table of Contents

PROSPECTUS

KAR AUCTION SERVICES, INC.

106,853,660 Shares of Common Stock

This prospectus relates to up to 106,853,660 shares of our common stock, par value \$0.01 per share, which may be offered for sale from time to time by the selling stockholder named in this prospectus. The selling stockholder may elect to sell the shares of common stock described in this prospectus in a number of different ways and at varying prices. We provide more information about how the selling stockholder may elect to sell its shares of common stock in the section titled "Plan of Distribution" on page 12 of this prospectus. We will not receive any proceeds from the sale of shares of common stock by the selling stockholder. We will bear all expenses of the offering of common stock, except that the selling stockholder will pay any applicable underwriting fees, discounts or commissions and certain transfer taxes.

Our common stock is listed on the New York Stock Exchange (the "NYSE") under the trading symbol "KAR." On June 3, 2011, the last reported sale price for our common stock on the New York Stock Exchange was \$18.97 per share.

Investing in our securities involves a high degree of risk. See the section entitled "Risk Factors" beginning on page 2 of this prospectus before you make your investment decision.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus or the accompanying prospectus supplement is truthful or complete. Any representation to the contrary is a criminal offense.

June 22, 2011

Table of Contents

TABLE OF CONTENTS

	Page
<u>About This Prospectus</u>	ii
<u>Summary</u>	1
<u>Risk Factors</u>	2
<u>Use of Proceeds</u>	2
<u>Description of Capital Stock</u>	3
<u>Selling Stockholder</u>	6
<u>Plan of Distribution</u>	12
<u>Legal Matters</u>	16
<u>Experts</u>	16
<u>Cautionary Statement Regarding Forward-Looking Statements</u>	16
<u>Where You Can Find More Information</u>	17

Table of Contents

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement on Form S-3 that we filed with the Securities and Exchange Commission (the SEC) using a shelf registration process. Under the shelf process, certain of our stockholders may offer from time to time, in one or more offerings, up to 106,853,660 shares of our common stock.

This prospectus only provides you with a general description of the securities the selling stockholder may offer. If required by applicable law, each time the selling stockholder sells securities described in the prospectus we will provide a supplement to this prospectus that will contain specific information about the terms of that offering, including the specific amounts, prices and terms of the securities offered. The prospectus supplement may also add, update or change information contained in this prospectus. You should read in their entirety both this prospectus and any accompanying prospectus supplement or other offering materials, together with the additional information described under the section entitled "Where You Can Find More Information" beginning on page 17 of this prospectus.

You should rely only on the information contained in or incorporated by reference into this prospectus. Neither we nor the selling stockholder have authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. The selling stockholder is not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted.

This prospectus and any accompanying prospectus supplement or other offering materials do not contain all of the information included in the registration statement as permitted by the rules and regulations of the SEC. For further information, we refer you to the registration statement on Form S-3, including its exhibits. We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), and, therefore, file reports and other information with the SEC. Statements contained in this prospectus and any accompanying prospectus supplement or other offering materials about the provisions or contents of any agreement or other document are only summaries. If SEC rules require that any agreement or document be filed as an exhibit to the registration statement, you should refer to that agreement or document for its complete contents.

You should not assume that the information in this prospectus, any accompanying prospectus supplement or any other offering material is accurate as of any date other than the date on the front of each document, regardless of the time of delivery of this prospectus, any accompanying prospectus supplement or any sale of securities. Our business, financial condition, results of operations and prospects may have changed since then.

In this prospectus, unless otherwise specified or the context otherwise requires, we use the terms "KAR Auction Services," "the Company," "we," "us" and "our" to refer to KAR Auction Services, Inc., a Delaware corporation, and its consolidated subsidiaries.

Table of Contents

SUMMARY

This summary description about us and our business highlights selected information contained elsewhere in this prospectus or incorporated by reference into this prospectus. It does not contain all the information you should consider before purchasing our securities. You should read in their entirety this prospectus, any accompanying prospectus supplement and any other offering materials, together with the additional information described under the section entitled "Where You Can Find More Information" beginning on page 17 of this prospectus.

Our Company

We are a leading provider of vehicle auction services in North America. We facilitate an efficient marketplace providing auction services for sellers of used, or whole car, vehicles and salvage vehicles through our 229 physical auction locations at March 31, 2011, and multiple proprietary Internet venues. In 2010, we facilitated the sale of over 3.1 million used and salvage vehicles. Our revenues are generated through auction fees from both vehicle buyers and sellers as well as by providing value-added ancillary services, including inspections, storage, transportation, reconditioning, salvage recovery, titling, and floorplan financing. We facilitate the transfer of ownership directly from seller to buyer and we do not take title or ownership to substantially all vehicles sold at our auctions.

Our principal executive offices are located at 13085 Hamilton Crossing Boulevard, Carmel, Indiana 46032, and our telephone number is (800) 923-3725. Our website is located at www.karauctionservices.com. The information on, or accessible through, the website is not a part of, or incorporated by reference into, this prospectus. This reference to our website is an inactive textual reference only and is not a hyperlink. You should not consider the contents of our website in making an investment decision with respect to our securities.

Table of Contents

RISK FACTORS

An investment in our securities involves a high degree of risk. You should carefully consider the specific risks described in our Annual Report on Form 10-K for the year ended December 31, 2010 (the 2010 Annual Report), which is incorporated by reference into this prospectus, our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, which is incorporated by reference into this prospectus, the risk factors described under the section entitled Risk Factors in any applicable prospectus supplement and any risk factors set forth in our other filings with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act before making an investment decision. If any of the foregoing risks actually materializes, our business, financial condition, results of operations and prospects could be materially adversely affected. As a result, the value of our securities could decline and you could lose part or all of your investment. The foregoing risks are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also materially affect our business, financial condition, results of operations and prospects. See the section entitled Where You Can Find More Information beginning on page 17 of this prospectus.

USE OF PROCEEDS

All shares of common stock sold pursuant to this prospectus will be sold by the selling stockholder and we will not receive any of the proceeds from such sales.

Table of Contents

DESCRIPTION OF CAPITAL STOCK

The following information describes our common stock and preferred stock, as well as certain provisions of our amended and restated certificate of incorporation and amended and restated by-laws and relevant sections of the Delaware General Corporation Law (the "DGCL"), and is only a summary. You should refer to our amended and restated certificate of incorporation and amended and restated by-laws, which are filed as exhibits to the registration statement of which this prospectus forms a part, and to the applicable provisions of the DGCL.

General

Our authorized capital stock consists of 400,000,000 shares of common stock, par value \$0.01 per share, and 100,000,000 shares of preferred stock, par value \$0.01 per share. As of May 31, 2011, we had 136,167,393 shares of common stock outstanding and no shares of preferred stock outstanding.

Common Stock

We have one class of common stock. All holders of our common stock are entitled to the same rights and privileges, as described below.

Voting Rights. Each holder of our common stock is entitled to one vote for each share on all matters submitted to a vote of the holders of our common stock, voting together as a single class, including the election of directors. Our stockholders do not have cumulative voting rights in the election of directors. Directors standing for election at an annual meeting of stockholders will be elected by a plurality of the votes cast in the election of directors at the annual meeting, either in person or represented by properly authorized proxy.

Dividends. Subject to the prior rights of holders of preferred stock, holders of our common stock are entitled to receive dividends, if any, as may be declared from time to time by our board of directors.

Liquidation and Dissolution. Subject to the prior rights of our creditors and the satisfaction of any liquidation preference granted to the holders of any then outstanding shares of preferred stock, in the event of our liquidation, dissolution or winding up, holders of our common stock will be entitled to share ratably in the net assets legally available for distribution to stockholders.

Other Rights. Holders of our common stock have no preemptive, subscription, redemption or conversion rights. All of our outstanding shares of common stock are, and the shares of common stock to be issued pursuant to this offering will be, fully paid and non-assessable.

Preferred Stock

Under our amended and restated certificate of incorporation we are authorized to issue up to 100,000,000 shares of preferred stock, par value \$0.01 per share, in one or more series, none of which was issued and outstanding as of May 31, 2011. Our board of directors has the authority, without action by our stockholders, to issue preferred stock and to fix voting powers for each class or series of preferred stock, and to provide that any class or series may be subject to redemption, entitled to receive dividends, entitled to rights upon dissolution, or convertible or exchangeable for shares of any other class or classes of capital stock. The rights with respect to a series or class of preferred stock may be greater than the rights attached to our common stock. It is not possible to state the actual effect of the issuance of any shares of our preferred stock on the rights of holders of our common stock until our board of directors determines the specific rights attached to that preferred stock. The effect of issuing preferred stock could include, among other things, one or more of the following:

restricting dividends in respect of our common stock;

diluting the voting power of our common stock or providing that holders of preferred stock have the right to vote on matters as a class;

Table of Contents

impairing the liquidation rights of our common stock; or

delaying or preventing a change of control of us.

Anti-Takeover Effects of Delaware Law, Our Amended and Restated Certificate of Incorporation and Amended and Restated By-laws

We elected in our amended and restated certificate of incorporation not to be subject to Section 203 of the DGCL, an anti-takeover law. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a business combination, such as a merger, with a person or group owning 15% or more of the corporation's voting stock for a period of three years following the date the person became an interested stockholder, unless (with certain exceptions) the business combination or the transaction in which the person became an interested stockholder is approved in a prescribed manner. Accordingly, we will not be subject to any anti-takeover effects of Section 203.

Certain other provisions of our amended and restated certificate of incorporation and amended and restated by-laws may be considered to have an anti-takeover effect and may delay or prevent a tender offer or other corporate transaction that a stockholder might consider to be in its best interest, including those transactions that might result in payment of a premium over the market price for our shares. These provisions are designed to discourage certain types of transactions that may involve an actual or threatened change of control of us without prior approval of our board of directors. These provisions are meant to encourage persons interested in acquiring control of us to first consult with our board of directors to negotiate terms of a potential business combination or offer. We believe that these provisions protect against an unsolicited proposal for a takeover of us that might affect the long term value of our stock or that may be otherwise unfair to our stockholders. For example, these provisions include:

limiting the right of stockholders to call special meetings of stockholders to holders of at least 35% of our outstanding common stock;

rules regarding how our stockholders may present proposals or nominate directors for election at stockholder meetings;

permitting our board of directors to issue preferred stock without stockholder approval;

granting to the board of directors, and not to the stockholders, the sole power to set the number of directors; and

authorizing vacancies on our board of directors to be filled only by a vote of the majority of the directors then in office and specifically denying our stockholders the right to fill vacancies in the board.

From and after the time that KAR Holdings II, LLC ("KAR LLC") no longer has beneficial ownership of 35% or more of our outstanding common stock, these provisions will also include:

authorizing the removal of directors only for cause and only upon the affirmative vote of holders of a majority of the outstanding shares of our common stock entitled to vote for the election of directors; and

prohibiting stockholder action by written consent.

Limitations on Liability and Indemnification of Directors and Officers

Our amended and restated certificate of incorporation and amended and restated by-laws provide that our directors will not be personally liable to us or our stockholders for monetary damages for breach of a fiduciary duty as a director, except for:

any breach of the director's duty of loyalty to us or our stockholders;

intentional misconduct or a knowing violation of law;

Table of Contents

liability under Delaware corporate law for an unlawful payment of dividends or an unlawful stock purchase or redemption of stock;
or

any transaction from which the director derives an improper personal benefit.

Our amended and restated certificate of incorporation provides that we must indemnify our directors and officers to the fullest extent permitted by Delaware law. We are also expressly authorized to advance certain expenses (including attorneys' fees and disbursements and court costs) to our directors and officers and carry directors' and officers' insurance providing indemnification for our directors and officers for some liabilities. We believe that these indemnification provisions and insurance are useful to attract and retain qualified directors and executive officers.

Corporate Opportunities

Under our amended and restated certificate of incorporation, Kelso Investment Associates VII, L.P., GS Capital Partners VI, L.P., ValueAct Capital Master Fund, L.P. and Parthenon Investors II, L.P. (the "Equity Sponsors") and their respective subsidiaries and affiliates have the right to, and have no duty to abstain from, exercising such right to, engage or invest in the same or similar business as us, do business with any of our clients, customers or vendors or employ or otherwise engage any of our officers, directors or employees. If any Equity Sponsor or any of their officers, directors, managers, members, partners or employees acquire knowledge of a potential transaction that could be a corporate opportunity, they have no duty to offer such corporate opportunity to us, our stockholders or affiliates. We have renounced any interest or expectancy in, or in being offered an opportunity to participate in, such corporate opportunities in accordance with Section 122(17) of the DGCL.

In the event that any of our directors and officers who is also a director, officer, manager, member, partner or employee of any of our Equity Sponsors acquires knowledge of a corporate opportunity or is offered a corporate opportunity, provided that this knowledge was not acquired solely in such person's capacity as our director or officer, then such person is deemed to have fully satisfied such person's fiduciary duty and is not liable to us if any of the Equity Sponsors pursues or acquires such corporate opportunity or if such person did not present the corporate opportunity to us.

Transfer Agent

The registrar and transfer agent for our common stock is American Stock Transfer and Trust Company.

Listing

Our common stock is listed on the New York Stock Exchange under the symbol "KAR." As of June 3, 2011, the closing price per share of our common stock on the New York Stock Exchange was \$18.97, and we had approximately three holders of record of our common stock.

Table of Contents**SELLING STOCKHOLDER**

KAR LLC is the sole selling stockholder under this prospectus. This prospectus relates to the possible resale of up to 106,853,660 shares of our common stock by KAR LLC.

On April 20, 2007, KAR LLC acquired the shares that may be offered for resale pursuant to this prospectus in connection with a merger and related transactions pursuant to which ADESA, Inc. and Insurance Auto Auctions, Inc. became subsidiaries of KAR Auction Services, the issuer of the shares offered hereby. At the time of the merger and until its initial public offering of common stock in December 2009, KAR Auction Services was a wholly owned subsidiary of KAR LLC. In connection with the merger, KAR LLC contributed to KAR Auction Services approximately \$1.1 billion of consideration, consisting of a combination of cash, stock of ADESA, Inc. and stock of Axle Holdings, Inc., in exchange for the 106,853,660 shares that may be offered for resale pursuant to this prospectus (after giving effect to certain capitalization transactions and a 10-for-1 stock split in December 2009). The per share purchase price was approximately \$10 (after giving effect to a 10-for-1 stock split in December 2009).

See the Certain Related Party Relationships section of the proxy statement for our annual meeting of shareholders held on May 12, 2011, which is incorporated by reference into this prospectus, for a description of material relationships between us and the selling stockholder.

The following table presents certain information regarding the beneficial ownership of our common shares at May 31, 2011 that may be sold by the selling stockholder from time to time in one or more transactions:

Name of Beneficial Owner	Shares Beneficially Owned		Number of Shares Registered Hereby	Shares Beneficially Owned After Sale of All Shares Offered Hereby	
	Number	Percentage		Number	Percentage
KAR Holdings II, LLC (KAR LLC)	106,853,660	78.5%	106,853,660		

KAR LLC is controlled by the Equity Sponsors, which own common units in KAR LLC. The Equity Sponsors do not directly hold any shares of our common stock that may be offered for resale pursuant to this prospectus.

The Equity Sponsors acquired common units in KAR LLC in connection with the above-mentioned merger and related transactions that occurred on April 20, 2007. In connection with the merger, the Equity Sponsors and the Company's management contributed to the selling stockholder approximately \$1.1 billion of consideration, consisting of a combination of cash, stock of ADESA, Inc. and stock of Axle Holdings, Inc., in exchange for common units in KAR LLC.

Pursuant to the Second Amended and Restated Limited Liability Company Agreement of KAR LLC, as amended, the business and affairs of KAR LLC are managed by a board of directors. Affiliates of Kelso & Company, GS Capital Partners and ValueAct Capital each have the right to designate two directors for election to KAR LLC's board and affiliates of Parthenon Capital have the right to designate one director, in each case so long as they continue to hold a specified amount of their original common units.

Pursuant to a director designation agreement entered into in connection with the initial public offering of our common stock in December 2009, KAR LLC has the right to directly nominate individuals to our board of directors. The director designation agreement provides that, for so long as KAR LLC owns more than 10% of our outstanding common stock, no change will be made to the size of our board without the consent of KAR LLC. KAR LLC will have the right to nominate individuals to our board at each meeting of stockholders where

Table of Contents

directors are to be elected and, subject to limited exceptions, we will include in the slate of nominees recommended to our stockholders for election as directors the number of individuals designated by KAR LLC as follows (depending on the percentage ownership of KAR LLC at the time of such election):

so long as KAR LLC owns more than 50% of our outstanding common stock, seven individuals;

so long as KAR LLC owns 50% or less but at least 30% of our outstanding common stock, six individuals;

so long as KAR LLC owns less than 30% but at least 20% of our outstanding common stock, four individuals;

so long as KAR LLC owns less than 20% but at least 10% of our outstanding common stock, three individuals;

so long as KAR LLC owns less than 10% but at least 5% of our outstanding common stock, one individual; and

after such time as KAR LLC owns less than 5% of our outstanding common stock, no individuals.

The selling stockholder may be deemed to be an affiliate of Goldman, Sachs & Co. (Goldman Sachs), a registered broker-dealer. The selling stockholder acquired the shares that may be offered for resale pursuant to this prospectus with investment intent in the ordinary course of business (such business being the investment in and development of companies) in connection with the merger transaction described above. At the time of the purchase of these shares, neither the selling stockholder nor Goldman Sachs had any agreements or understandings, directly or indirectly, with any person to distribute the securities.

The Equity Sponsors and certain members of management do not own the shares of our common stock offered for resale pursuant to this prospectus. KAR LLC holds all of these shares and the Equity Sponsors and certain members of management hold common units in KAR LLC. The following table presents information on what the beneficial ownership of these shares would be if beneficial ownership of these shares were attributed to the Equity Sponsors and certain members of management based solely on their proportionate holdings of common units in KAR LLC at May 31, 2011.

Name of Beneficial Owner	Shares Beneficially Owned	
	Number (1)	Percentage (2)
KAR Holdings II, LLC	106,853,660	78.5%
KELSO GROUP:		
Kelso Investment Associates VII, L.P. (3)(4)	45,323,240	33.3%
KEP VI, LLC (3)(4)	45,323,240	33.3%
Frank T. Nickell (3)(4)(5)	45,323,240	33.3%
Thomas R. Wall, IV (3)(4)(5)	45,323,240	33.3%
George E. Matelich (3)(4)(5)	45,323,240	33.3%
Michael B. Goldberg (3)(4)(5)(6)	45,323,240	33.3%
David I. Wahrhaftig (3)(4)(5)	45,323,240	33.3%
Frank K. Bynum, Jr. (3)(4)(5)	45,323,240	33.3%
Philip E. Berney (3)(4)(5)	45,323,240	33.3%
Frank J. Loverro (3)(4)(5)	45,323,240	33.3%
James J. Connors, II (3)(4)(5)	45,323,240	33.3%
Church M. Moore (3)(4)(5)(6)	45,323,240	33.3%
Stanley de J. Osborne (3)(4)(5)	45,323,240	33.3%

Christopher L. Collins (3)(7)

8,995,450

6.6%

Table of Contents

Name of Beneficial Owner	Shares Beneficially Owned	
	Number (1)	Percentage (2)
PARTHENON GROUP:		
Parthenon Investors II, L.P. and related funds (8)(9)(10)	8,865,530	6.5%
GOLDMAN GROUP:		
GS Capital Partners VI Fund, L.P. and related funds (11)(12)	27,081,830	19.9%
VALUEACT GROUP:		
ValueAct Capital Master Fund, L.P. (13)(14)(15)	23,477,018	17.2%
AXLE HOLDINGS II, LLC (3)	27,326,090	20.1%
EXECUTIVE OFFICERS AND DIRECTORS THAT HAVE AN INTEREST IN KAR LLC		
Brian T. Clingen (6)(16)	1,382,680	1.0%
James P. Hallett (6)(17)	109,675	*
Warren W. Byrd (18)	47,740	*
Thomas J. Caruso (19)	73,885	*
Eric M. Loughmiller (20)	15,910	*
Thomas C. O'Brien (6)(21)	27,930	*
Rebecca C. Polak (22)	51,700	*
Benjamin Skuy (23)	85,408	*
David J. Vignes (24)	54,188	*
Thomas J. Carella (6)(12)(25)	27,081,830	19.9%
Michael B. Goldberg (3)(4)(5)(6)	45,323,240	33.3%
Peter H. Kamin (6)(13)(15)	23,477,018	17.2%
Sanjeev K. Mehra (6)(12)(25)	27,081,830	19.9%
Church M. Moore (3)(4)(5)(6)	45,323,240	33.3%
Gregory P. Spivy (6)(13)(15)	23,477,018	17.2%
ALL OTHER PERSONS THAT HAVE AN INTEREST IN KAR LLC AS A GROUP (26)	832,496	*

* Less than one percent.

- (1) The number of shares includes shares of common stock subject to options exercisable within 60 days of May 31, 2011.
- (2) Shares subject to options exercisable within 60 days of May 31, 2011 are considered outstanding for the purpose of determining the percent of the class held by the holder of such option, but not for the purpose of computing the percentage held by others. Percentages for Axle Holdings II, LLC (Axle LLC), the members of the Kelso Group, the members of the Goldman Group, ValueAct Capital and the members of the Parthenon Group are reflective of beneficial ownership of KAR LLC common interests (which, in certain cases, includes beneficial ownership of KAR LLC common interests held by Axle LLC).
- (3) The business address for these persons is c/o Kelso & Company, 320 Park Avenue, 24th Floor, New York, NY 10022.
- (4) Includes (i) 18,479,970 shares of common stock held of record by KAR LLC (which are attributable to Axle LLC), by virtue of Kelso Investment Associates VII, L.P., a Delaware limited partnership, or KIA VII, ownership interest in Axle LLC, (ii) 4,575,990 shares of common stock held of record by KAR LLC (which are attributable to Axle LLC), by virtue of KEP VI, LLC, a Delaware limited liability company, or KEP VI, ownership interest in Axle LLC, (iii) 17,847,820 shares of common stock held of record by KAR LLC, by virtue of KIA VII's ownership interest in KAR LLC and (iv) 4,419,460 shares of common stock held of record by KAR LLC, by virtue of KEP VI's ownership interest in KAR LLC. KIA VII and KEP VI may be deemed to share beneficial ownership of shares of common stock owned of record by KAR LLC (including beneficial ownership of shares held by KAR LLC that are attributable to Axle LLC), by virtue of their ownership interests in KAR LLC and Axle LLC. KIA VII and KEP VI, due to their common control, could be deemed to beneficially own each of the other's shares. Each of KIA VII and KEP VI disclaim such beneficial ownership.

Table of Contents

- (5) Messrs. Nickell, Wall, Matelich, Goldberg, Wahrhaftig, Bynum, Berney, Loverro, Connors, Moore and Osborne may be deemed to share beneficial ownership of shares of common stock owned of record by KAR LLC (including shares owned by KAR LLC which are attributable to Axle LLC), by virtue of their status as managing members of KEP VI and of Kelso GP VII, LLC, a Delaware limited liability company, the principal business of which is serving as the general partner of Kelso GP VII, L.P., a Delaware limited partnership, the principal business of which is serving as the general partner of KIA VII. Each of Messrs. Nickell, Wall, Matelich, Goldberg, Wahrhaftig, Bynum, Berney, Loverro, Connors, Moore and Osborne (the Kelso Individuals) share investment and voting power with respect to the ownership interests owned by KIA VII and KEP VI but disclaim beneficial ownership of such interests.
- (6) Members of our Board of Directors.
- (7) Mr. Collins may be deemed to share beneficial ownership of shares of common stock owned of record by KAR LLC (including shares owned by KAR LLC which are attributable to Axle LLC), by virtue of his status as a managing member of KEP VI. Mr. Collins shares investment and voting power with the Kelso Individuals with respect to ownership interests owned by KEP VI but disclaims beneficial ownership of such interests.
- (8) The business address for these persons is c/o Parthenon Capital, 265 Franklin Street, 18th Floor Boston, MA 02110.
- (9) Includes 6,018,180 shares of common stock beneficially owned by PCap KAR, LLC (Parthenon HoldCo) through KAR LLC. PCap KAR, LLC is controlled by Parthenon Investors II, L.P. and Parthenon Investors III, L.P. Also includes shares beneficially owned by the following entities by virtue of their ownership in Axle Holdings II, LLC, which in turn is a member of KAR LLC: (i) 2,766,570 shares through Parthenon Investors II, L.P., (ii) 38,070 shares through PCIP Investors, and (iii) 42,710 shares through J&R Founders Fund II, L.P.
- (10) Mr. John C. Rutherford, William Kessinger, David Ament and Brian Golson, by virtue of their status of members of the investment committee of the general partner of Parthenon Holdco, Parthenon Investors II, L.P., Parthenon Investors III, L.P. and PCIP Investors may be deemed to control the shares beneficially owned by these entities. The shares held by J&R Founder Fund II, L.P. may be deemed to be beneficially owned by J&R Advisors F.F., LLC., its general partner, and by Mr. Ernest K. Jacquet and Mr. John C. Rutherford due to their control of J&R Advisors F.F., LLC. Each of these entities and individuals disclaims beneficial ownership of these shares except to the extent of its or his pecuniary interest therein.
- (11) Shares reported are held of record by KAR LLC but are beneficially owned directly by GS Capital Partners VI Fund, L.P., GS Capital Partners VI Parallel, L.P., GS Capital Partners VI GmbH & Co. KG, GS Capital Partners VI Offshore Fund, L.P., GSCP VI Advisors, L.L.C., GSCP VI Offshore Advisors, L.L.C., Goldman, Sachs Management GP GMBH and GS Advisors VI, L.L.C. (together, the Goldman Funds). Affiliates of The Goldman Sachs Group, Inc. and Goldman, Sachs & Co. are the general partner, managing limited partner or the managing partner of each of the Goldman Funds. Goldman, Sachs & Co. is the investment manager for certain of the Goldman Funds. Goldman, Sachs & Co. is a direct and indirect, wholly owned subsidiary of The Goldman Sachs Group, Inc. The Goldman Sachs Group, Inc. is a public entity and its common stock is publicly traded on the NYSE. The Goldman Sachs Group, Inc., Goldman, Sachs & Co. and the Goldman Funds share voting and investment power with certain of their respective affiliates. Each of The Goldman Sachs Group Inc. and Goldman, Sachs & Co. disclaims beneficial ownership of the common shares owned directly or indirectly by the Goldman Funds, except to the extent of its pecuniary interest therein, if any.
- (12) The business address for these persons is c/o Goldman, Sachs & Co., 200 West Street, New York, NY 10282.
- (13) Includes 22,568,190 shares of common stock held of record by KAR LLC but is beneficially owned directly by ValueAct Capital Master Fund, L.P. by virtue of ValueAct Capital Master Fund, L.P.'s ownership interest in KAR LLC and may be deemed to be beneficially owned by (i) VA Partners I, LLC as General Partner of ValueAct Capital Master Fund, L.P., (ii) ValueAct Capital Management, L.P. as the manager of ValueAct Capital Master Fund, L.P., (iii) ValueAct Capital Management, LLC as General Partner of ValueAct Capital Management, L.P., (iv) ValueAct Holdings, L.P. as the sole owner of the limited

Table of Contents

partnership interests of ValueAct Capital Management, L.P. and the membership interests of ValueAct Capital Management, LLC, and as the majority owner of the membership interests of VA Partners I, LLC, and (v) ValueAct Holdings GP, LLC as General Partner of ValueAct Holdings, L.P. Jeffrey W. Ubben, G. Mason Morfit and George F. Hamel, Jr. serve on the management board of ValueAct Holdings GP, LLC, and as such may be deemed to share voting and investment power with respect to the reported shares. Each of the foregoing reporting persons disclaims beneficial ownership of the reported stock except to the extent of their pecuniary interest therein.

- (14) The business address for these persons is c/o ValueAct Capital, 435 Pacific Avenue, 4th Floor, San Francisco, CA 94133.
- (15) Includes 908,828 shares of common stock directly beneficially owned by ValueAct Capital Master Fund, L.P. and may be deemed to be indirectly beneficially owned by (i) VA Partners I, LLC as General Partner of ValueAct Capital Master Fund, L.P., (ii) ValueAct Capital Management, L.P. as the manager of ValueAct Capital Master Fund, L.P., (iii) ValueAct Capital Management, LLC as General Partner of ValueAct Capital Management, L.P., (iv) ValueAct Holdings, L.P. as the sole owner of the limited partnership interests of ValueAct Capital Management, L.P. and the membership interests of ValueAct Capital Management, LLC and as the majority owner of the membership interests of VA Partners I, LLC, and (v) ValueAct Holdings GP, LLC as General Partner of ValueAct Holdings, L.P. Each of the foregoing reporting persons disclaims beneficial ownership of the reported stock except to the extent of their pecuniary interest therein.
- (16) Includes (i) 379,650 shares of common stock held of record by KAR LLC (which are attributable to Axle LLC), by virtue of Mr. Clingen s common ownership interest in Axle LLC, and (ii) 1,003,030 shares of common stock held of record by KAR LLC, by virtue of Mr. Clingen s common ownership interest in KAR LLC.
- (17) Includes (i) 9,375 shares of common stock issuable pursuant to options that are currently exercisable, and (ii) 100,300 shares of common stock held of record by KAR LLC, by virtue of Mr. Hallett s common ownership interest in KAR LLC.
- (18) Includes (i) 42,720 shares of common stock issuable pursuant to options that are currently exercisable, and (ii) 5,020 shares of common stock held of record by KAR LLC, by virtue of Mr. Byrd s common ownership interest in KAR LLC.
- (19) Includes (i) 68,865 shares of common stock issuable pursuant to options that are currently exercisable, and (ii) 5,020 shares of common stock held of record by KAR LLC, by virtue of Mr. Caruso s common ownership interest in KAR LLC.
- (20) Includes (i) 3,010 shares of common stock held of record by KAR LLC, by virtue of Mr. Loughmiller s common ownership interest in KAR LLC, and (ii) 12,900 shares of common stock owned by Mr. Loughmiller.
- (21) Includes (i) 25,920 shares of common stock held of record by KAR LLC (which are attributable to Axle LLC), by virtue of Mr. O Brien s common ownership interest in Axle LLC, and (ii) 2,010 shares of common stock held of record by KAR LLC, by virtue of Mr. O Brien s common ownership interest in KAR LLC.
- (22) Includes (i) 7,520 shares of common stock held of record by KAR LLC, by virtue of Ms. Polak s common ownership interest in KAR LLC, and (ii) 44,180 shares of common stock issuable pursuant to options that are currently exercisable.
- (23) Includes (i) 55,328 shares of common stock issuable pursuant to options that are currently exercisable, (ii) 25,080 shares of common stock held of record by KAR LLC, by virtue of Mr. Skuy s common ownership interest in KAR LLC, and (iii) 5,000 shares of common stock owned by Mr. Skuy.

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- (24) Includes (i) 45,678 shares of common stock issuable pursuant to options that are currently exercisable, (ii) 3,510 shares of common stock held of record by KAR LLC, by virtue of Mr. Vignes' common ownership interest in KAR LLC, and (iii) 5,000 shares of common stock owned by Mr. Vignes.

Table of Contents

- (25) Messrs. Mehra and Carella are managing directors of Goldman, Sachs & Co. Mr. Mehra, Mr. Carella and The Goldman Sachs Group, Inc. each disclaims beneficial ownership of the common stock owned directly or indirectly by the Goldman Funds and Goldman Sachs & Co., except to the extent of his or its pecuniary interest therein, if any. Each of The Goldman Sachs Group, Inc. and Goldman, Sachs & Co. disclaims beneficial ownership of the common shares owned directly or indirectly by the Goldman Funds, except to the extent of its pecuniary interest therein, if any.
- (26) Includes other persons who in the aggregate own less than 1% of our outstanding common stock indirectly through KAR LLC.

Table of Contents

PLAN OF DISTRIBUTION

The selling stockholder may sell the securities offered by this prospectus from time to time in one or more transactions, including without limitation:

directly to one or more purchasers, including affiliates;

through agents;

to or through underwriters, brokers or dealers; or

through a combination of any of these methods.

In addition, the manner in which the selling stockholder may sell the securities, include, without limitation, through:

a block trade in which a broker-dealer will attempt to sell as agent, but may position or resell a portion of the block, as principal, in order to facilitate the transaction;

purchases by a broker-dealer, as principal, and resale by the broker-dealer for its account;

ordinary brokerage transactions and transactions in which a broker solicits purchasers; or

privately negotiated transactions.

The selling stockholder may also enter into hedging transactions. For example, the selling stockholder may:

enter into transactions with a broker-dealer or affiliate thereof in connection with which such broker-dealer or affiliate will engage in short sales of the common stock pursuant to this prospectus, in which case such broker-dealer or affiliate may use common stock received from the selling stockholder to close out its short positions;

sell securities short and redeliver such shares to close out the selling stockholder's short positions;

enter into option or other types of transactions that require the selling stockholder to deliver common stock to a broker-dealer or an affiliate thereof, who will then resell or transfer the common stock under this prospectus; or

loan or pledge the common stock to a broker-dealer or an affiliate thereof, who may sell the loaned shares or, in an event of default in the case of a pledge, sell the pledged shares pursuant to this prospectus.

In addition, the selling stockholder may enter into derivative or hedging transactions with third parties, or sell securities not covered by this prospectus to third parties in privately negotiated transactions. In connection with such a transaction, the third parties may sell securities covered

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by and pursuant to this prospectus and an applicable prospectus supplement, if any. If so, the third party may use securities borrowed from the selling stockholder to settle such sales and may use securities received from the selling stockholder to close out any related short positions. The selling stockholder may also loan or pledge securities covered by this prospectus and an applicable prospectus supplement to third parties, who or which may sell the loaned securities or, in an event of default in the case of a pledge, sell the pledged securities pursuant to this prospectus and the applicable prospectus supplement, if any.

If required by applicable law, a prospectus supplement with respect to each offering of securities will state the terms of the offering of the securities, including:

the name or names of any underwriters or agents and the amounts of securities underwritten or purchased by each of them, if any;

the public offering price or purchase price of the securities and the net proceeds to be received from the sale;

Table of Contents

any delayed delivery arrangements;

any underwriting discounts or agency fees and other items constituting underwriters' or agents' compensation;

any discounts or concessions allowed or reallocated or paid to dealers; and

any securities exchange or markets on which the securities may be listed.

The offer and sale of the securities described in this prospectus by the selling stockholder, the underwriters or the third parties described above may be effected from time to time in one or more transactions, including privately negotiated transactions, either:

at a fixed price or prices, which may be changed;

at market prices prevailing at the time of sale;

at prices related to the prevailing market prices; or

at negotiated prices.

General

Any public offering price and any discounts, commissions, concessions or other items constituting compensation allowed or reallocated or paid to underwriters, dealers, agents or remarketing firms may be changed from time to time. Underwriters, dealers, agents and remarketing firms that participate in the distribution of the offered securities may be underwriters as defined in the Securities Act of 1933, as amended (the Securities Act). Any discounts or commissions and any profits they receive on the resale of the offered securities may be treated as underwriting discounts and commissions under the Securities Act. The selling stockholder will identify any underwriters, agents or dealers and describe their commissions, fees or discounts in the applicable prospectus supplement, if any.

Underwriters and Agents

If underwriters are used in a sale, they will acquire the offered securities for their own account. The underwriters may resell the offered securities in one or more transactions, including negotiated transactions. These sales may be made at a fixed public offering price or prices, which may be changed, at market prices prevailing at the time of the sale, at prices related to such prevailing market price or at negotiated prices. The selling stockholder may offer the securities to the public through an underwriting syndicate or through a single underwriter. The underwriters in any particular offering will be mentioned in the applicable prospectus supplement, if any.

Unless otherwise specified in connection with any particular offering of securities, the obligations of the underwriters to purchase the offered securities will be subject to certain conditions contained in an underwriting agreement that we and the selling stockholder will enter into with the underwriters at the time of the sale to them. The underwriters will be obligated to purchase all of the securities of the series offered if any of the securities are purchased, unless otherwise specified in connection with any particular offering of securities. Any initial offering price and any discounts or concessions allowed, reallocated or paid to dealers may be changed from time to time.

The selling stockholder may designate agents to sell the offered securities. Unless otherwise specified in connection with any particular offering of securities, the agents will agree to use their best efforts to solicit purchases for the period of their appointment. The selling stockholder may also sell the offered securities to one or more remarketing firms, acting as principals for their own accounts or as agents for the selling stockholder. These firms will remarket the offered securities upon purchasing them in accordance with a redemption or repayment pursuant to the terms of the offered securities. A prospectus supplement will identify any remarketing firm and will describe the terms of its agreement, if any, with us and its compensation.

Table of Contents

In connection with offerings made through underwriters or agents, the selling stockholder may enter into agreements with such underwriters or agents pursuant to which the selling stockholder receives our outstanding securities in consideration for the securities being offered to the public for cash. In connection with these arrangements, the underwriters or agents may also sell securities covered by this prospectus to hedge their positions in these outstanding securities, including in short sale transactions. If so, the underwriters or agents may use the securities received from the selling stockholder under these arrangements to close out any related open borrowings of securities.

Dealers

The selling stockholder may sell the offered securities to dealers as principals. The selling stockholder may negotiate and pay dealers commissions, discounts or concessions for their services. The dealer may then resell such securities to the public either at varying prices to be determined by the dealer or at a fixed offering price agreed to with the selling stockholder at the time of resale. Dealers engaged by the selling stockholder may allow other dealers to participate in resales.

Direct Sales

The selling stockholder may choose to sell the offered securities directly. In this case, no underwriters or agents would be involved.

Institutional Purchasers

The selling stockholder may authorize agents, dealers or underwriters to solicit certain institutional investors to purchase offered securities on a delayed delivery basis pursuant to delayed delivery contracts providing for payment and delivery on a specified future date. The applicable prospectus supplement, if any, will provide the details of any such arrangement, including the offering price and commissions payable on the solicitations.

The selling stockholder will enter into such delayed contracts only with institutional purchasers that the selling stockholder approves. These institutions may include commercial and savings banks, insurance companies, pension funds, investment companies and educational and charitable institutions.

Electronic Auctions

The selling stockholder may also make sales through the Internet or through other electronic means. Since the selling stockholder may from time to time elect to offer securities directly to the public, with or without the involvement of agents, underwriters or dealers, utilizing the Internet or other forms of electronic bidding or ordering systems for the pricing and allocation of such securities, you should pay particular attention to the description of that system we will provide in a prospectus supplement.

Such electronic system may allow bidders to directly participate, through electronic access to an auction site, by submitting conditional offers to buy that are subject to acceptance by the selling stockholder, and which may directly affect the price or other terms and conditions at which such securities are sold. These bidding or ordering systems may present to each bidder, on a so-called real-time basis, relevant information to assist in making a bid, such as the clearing spread at which the offering would be sold, based on the bids submitted, and whether a bidder's individual bids would be accepted, prorated or rejected.

Upon completion of such an electronic auction process, securities will be allocated based on prices bid, terms of bid or other factors. The final offering price at which securities would be sold and the allocation of securities among bidders would be based in whole or in part on the results of the Internet or other electronic bidding process or auction.

Table of Contents

Indemnification; Other Relationships

The selling stockholder may have agreements with agents, underwriters, dealers and remarketing firms to indemnify them against certain civil liabilities, including liabilities under the Securities Act. Agents, underwriters, dealers and remarketing firms, and their affiliates, may engage in transactions with, or perform services for, us in the ordinary course of business. This includes commercial banking and investment banking transactions.

Stabilization and Other Transactions

In connection with any offering of common stock, the underwriters may purchase and sell common stock in the open market. These transactions may include short sales, syndicate covering transactions and stabilizing transactions. Short sales involve syndicate sales of common stock in excess of the number of shares to be purchased by the underwriters in the offering, which creates a syndicate short position. Covered short sales are sales of shares made in an amount up to the number of shares represented by the underwriters' over-allotment option. In determining the source of shares to close out the covered syndicate short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. Transactions to close out the covered syndicate short involve either purchases of the common stock in the open market after the distribution has been completed or the exercise of the over-allotment option. The underwriters may also make naked short sales of shares in excess of the over-allotment option. The underwriters must close out any naked short position by purchasing common stock in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of bids for or purchases of shares in the open market while the offering is in progress for the purpose of pegging, fixing or maintaining the price of the securities.

In connection with any offering, the underwriters may also engage in penalty bids. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when the securities originally sold by the syndicate member are purchased in a syndicate covering transaction to cover syndicate short positions. Stabilizing transactions, syndicate covering transactions and penalty bids may cause the price of the securities to be higher than it would be in the absence of the transactions. The underwriters may, if they commence these transactions, discontinue them at any time.

Fees and Commissions

In compliance with the guidelines of the Financial Industry Regulatory Authority (the "FINRA"), the aggregate maximum discount, commission or agency fees or other items constituting underwriting compensation to be received by any FINRA member or independent broker-dealer will not exceed 8% of any offering pursuant to this prospectus and any applicable prospectus supplement.

Table of Contents

LEGAL MATTERS

Unless otherwise indicated in the applicable prospectus supplement, Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York is representing us in connection with offerings pursuant to this prospectus. Any underwriters will also be advised about legal matters by their own counsel, which will be named in the applicable prospectus supplement, if any.

EXPERTS

The consolidated financial statements of KAR Auction Services, Inc. and subsidiaries as of December 31, 2010 and 2009 and for each of the years in the three-year period ended December 31, 2010, and management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2010 have been incorporated by reference herein in reliance upon the report of KPMG LLP, independent registered public accounting firm, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and which are subject to certain risks, trends and uncertainties. In particular, statements made in this prospectus that are not historical facts (including, but not limited to, expectations, estimates, assumptions and projections regarding the industry, business, future operating results, potential acquisitions, potential refinancings and anticipated cash requirements) may be forward-looking statements. Words such as should, may, will, anticipates, expects, intends, plans, believes, seeks, estimates and similar expressions identify forward-looking statements. Such statements, including statements regarding our future growth; anticipated cost savings, revenue increases and capital expenditures; strategic initiatives, greenfields and acquisitions; our competitive position; and our continued investment in information technology are not guarantees of future performance and are subject to risks and uncertainties that could cause actual results to differ materially from the results projected, expressed or implied by these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in Item 1A Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010 filed on February 24, 2011. Some of these factors include:

fluctuations in consumer demand for and in the supply of used, leased and salvage vehicles and the resulting impact on auction sales volumes, conversion rates and loan transaction volumes;

trends in new and used vehicle sales and incentives, including wholesale used vehicle pricing;

the ability of consumers to lease or finance the purchase of new and/or used vehicles;

the ability to recover or collect from delinquent or bankrupt customers;

economic conditions including fuel prices, foreign exchange rates and interest rate fluctuations;

trends in the vehicle remarketing industry;

changes in the volume of vehicle production, including capacity reductions at the major original equipment manufacturers;

the introduction of new competitors;

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laws, regulations and industry standards, including changes in regulations governing the sale of used vehicles, the processing of salvage vehicles and commercial lending activities;

changes in the market value of vehicles auctioned, including changes in the actual cash value of salvage vehicles;

competitive pricing pressures;

Table of Contents

costs associated with the acquisition of businesses or technologies;

litigation developments;

our ability to successfully implement our business strategies or realize expected cost savings and revenue enhancements;

our ability to develop and implement information systems responsive to customer needs;

business development activities, including acquisitions and integration of acquired businesses;

the costs of environmental compliance and/or the imposition of liabilities under environmental laws and regulations;

weather;

general business conditions;

our substantial amount of debt;

restrictive covenants in our debt agreements;

our assumption of the settlement risk for vehicles sold;

any impairment to our goodwill;

our self-insurance for certain risks;

any losses of key personnel;

interruptions to service from our workforce;

changes in effective tax rates;

changes to accounting standards; and

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other risks described from time to time in our filings with the SEC, including our most recent Annual Report on Form 10-K and the Quarterly Reports on Form 10-Q filed by us.

Many of these risk factors are outside of our control, and as such, they involve risks which are not currently known that could cause actual results to differ materially from those discussed or implied herein. The forward-looking statements in this prospectus are made as of the date on which they are made and we do not undertake to update our forward-looking statements.

Our future growth depends on a variety of factors, including our ability to increase vehicle sold volumes and loan transaction volumes, acquire additional auctions, manage expansion, relocate and integrate acquisitions, control costs in our operations, introduce fee increases, expand our product and service offerings including information systems development and retain our executive officers and key employees. Certain initiatives that management considers important to our long-term success include substantial capital investment in e-business, information technology, facility relocations and expansions, as well as operating initiatives designed to enhance overall efficiencies, have significant risks associated with their execution, and could take several years to yield any direct monetary benefits. Accordingly, we cannot predict whether our growth strategy will be successful. In addition, we cannot predict what portion of overall sales will be conducted through online auctions or other redistribution methods in the future and what impact this may have on our auction business.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC under the Exchange Act. You may inspect without charge any documents filed by us at the SEC's Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may obtain information on the operation

Table of Contents

of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site, www.sec.gov, that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including KAR Auction Services.

The SEC allows us to incorporate by reference information into this prospectus and any accompanying prospectus supplement, which means that we can disclose important information to you by referring you to other documents filed separately with the SEC. The information incorporated by reference is considered part of this prospectus, and information filed with the SEC subsequent to this prospectus and prior to the termination of the particular offering referred to in such prospectus supplement will automatically be deemed to update and supersede this information. We incorporate by reference into this prospectus and any accompanying prospectus supplement the documents listed below (excluding any portions of such documents that have been furnished but not filed for purposes of the Exchange Act):

our Annual Report on Form 10-K for the year ended December 31, 2010, filed on February 24, 2011;

our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, filed on May 4, 2011;

portions of our Definitive Proxy Statement on Schedule 14A filed on April 12, 2011, that are incorporated by reference into Part III of our Annual Report on Form 10-K for the year ended December 31, 2010;

our Current Reports on Form 8-K filed February 16, 2011, April 26, 2011, May 17, 2011, May 20, 2011 and May 25, 2011; and

the description of our common stock contained in our Form 8-A filed on December 2, 2009, and any amendment or report filed for the purpose of updating such description.

We also incorporate by reference any future filings made by us with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act between the date of this prospectus and the date all of the securities offered hereby are sold or the offering is otherwise terminated, with the exception of any information furnished under Item 2.02 and Item 7.01 of Form 8-K (and exhibits filed under Item 9.01 of Form 8-K relating to such information), which is not deemed filed and which is not incorporated by reference herein. Any such filings shall be deemed to be incorporated by reference and to be a part of this prospectus from the respective dates of filing of those documents.

We will provide without charge upon written or oral request to each person, including any beneficial owner, to whom a prospectus is delivered, a copy of any and all of the documents which are incorporated by reference into this prospectus but not delivered with this prospectus (other than exhibits unless such exhibits are specifically incorporated by reference in such documents).

You may request a copy of these documents by writing or telephoning us at:

KAR Auction Services, Inc.

13085 Hamilton Crossing Blvd.

Carmel, IN 46032

Attention: Investor Relations

(800) 923-3725

You may also access the documents incorporated by reference into this prospectus through our website at www.karauctionservices.com. Except for these specific incorporated documents, the contents of our website are not part of this prospectus, and you should not consider the contents of our website in making an investment decision with respect to our securities.

Table of Contents