

PLURISTEM LIFE SYSTEMS INC  
Form 8-K  
November 26, 2007

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 8-K**

**CURRENT REPORT  
Pursuant to Section 13 or 15(d) of  
the Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): **November 26, 2007**

**PLURISTEM THERAPEUTICS INC.**  
(Exact name of registrant as specified in its charter)

**NEVADA**  
(State or other jurisdiction  
of incorporation)

**001-31392**  
(Commission  
File Number)

**98-0351734**  
(IRS Employer  
Identification No.)

**MATAM Advanced Technology Park, Building No. 20, Haifa, Israel**  
(Address of principal executive offices)

**31905**  
(Zip Code)

**+972-74-710-7171**  
(Registrant's telephone number, including area code)

**PLURISTEM LIFE SYSTEMS, INC.**  
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**Item 8.01 Other Events.**

On November 26, 2007, the registrant issued a press release announcing the effectiveness of its reverse stock split and change of name to Pluristem Therapeutics Inc., as well as its new trading symbol. A copy of the Press Release is attached hereto as Exhibit 99.1 and incorporated by reference herein.

**Item 9.01 Financial Statements and Exhibits.**

(d) Exhibits

99.1 Press release issued by the registrant on November 26, 2007

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PLURISTEM THERAPEUTICS INC.  
(registrant)

By: /s/ Zami Aberman

Date: November 26, 2007

Name: Zami Aberman  
Title: Chief Executive Officer

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Total Investments in Non-Controlled Affiliated Companies (cost: \$60,725,793)

\$  
38,033,288

Investments in Controlled Affiliated Companies (3) -

13.5% of net assets at value

Private Placement Portfolio (Illiquid) (18) -

13.5% of net assets at value

180 Degree Capital Corp. (5)(6)(7)

Other

Entity originally formed as spinout vehicle that was subsequently dissolved

Common Stock (acquired 12/28/16)  
(M)

\$  
150,000

10,000,000

\$  
150,000

Black Silicon Holdings, Inc. (5)(14)(19)

Electronics

Holding company for interest in a company that develops silicon-based optoelectronic products

Series A Convertible Preferred Stock (acquired 8/4/15)

(1)

750,000

233,499

0

Series A-1 Convertible Preferred Stock (acquired 8/4/15)

(1)

890,000

2,966,667

0

Series A-2 Convertible Preferred Stock (acquired 8/4/15)  
(I)

2,445,000

4,207,537

0

Series B-1 Convertible Preferred Stock (acquired 8/4/15)  
(I)

1,169,561

1,892,836

0

Series C Convertible Preferred Stock (acquired 8/4/15)  
(I)

1,171,316

1,674,030

0

Secured Convertible Bridge Note, 8%, (acquired 8/25/16)  
(I)

1,315,102

\$  
1,278,453

262,477

7,740,979

262,477

Essential Health Solutions, Inc. (5)(6)(7)

Life Sciences

Developing software for information transfer amongst healthcare providers and consumers



Common Stock (acquired 11/18/16)

(I)

20

200,000

116,767

Series A Convertible Preferred Stock (acquired 11/18/16)

(I)

2,750,000

2,750,000

2,747,905

2,750,020

2,864,672

The accompanying notes are an integral part of these consolidated financial statements.  
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HARRIS & HARRIS GROUP, INC.  
CONSOLIDATED SCHEDULE OF  
INVESTMENTS AS OF DECEMBER 31, 2016

Method of Primary Cost Shares/ Value  
Valuation (1) Industry (2) Principal

Investments in Controlled Affiliated Companies (3) -  
13.5% of net assets at value (Cont.)

Private Placement Portfolio (Illiquid) (18) -  
13.5% of net assets at value (Cont.)

Interome, Inc. (5)(7)(20)		Life Sciences		
Developing a platform to facilitate precision health and medicine				
Common Stock (acquired 3/1/16)	(M)	\$ 10	1,000,000	\$ 10
Secured Convertible Bridge Note, 12%, (acquired 3/1/16)	(M)	300,000	\$300,000	300,000
Secured Convertible Bridge Note, 12%, (acquired 7/12/16)	(M)	300,000	\$300,000	300,000
Secured Convertible Bridge Note, 12%, (acquired 9/14/16)	(M)	50,000	\$50,000	50,000
Secured Convertible Bridge Note, 12%, (acquired 9/29/16)	(M)	350,000	\$350,000	350,000
Secured Convertible Bridge Note, 12%, (acquired 11/4/16)	(M)	30,000	\$30,000	30,000
Secured Convertible Bridge Note, 12%, (acquired 11/30/16)	(M)	50,000	\$50,000	50,000
Secured Convertible Bridge Note, 12%, (acquired 12/22/16)	(M)	375,000	\$375,000	375,000
		1,455,010		1,455,010

NGX Bio, Inc. (5)(21)		Life Sciences		
Developing translational genomics solutions				
Series Seed Convertible Preferred Stock (acquired 6/6/14-1/10/16)	(I)	500,002	666,667	706,423
Series A Convertible Preferred Stock (acquired 8/20/15-9/30/15)	(I)	499,999	329,989	447,338
Unsecured Convertible Bridge Note, 6% (acquired 4/6/16)	(M)	522,192	\$500,000	580,211
		1,522,193		1,733,972

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

HARRIS & HARRIS GROUP, INC.  
CONSOLIDATED SCHEDULE OF  
INVESTMENTS AS OF DECEMBER 31, 2016

Method of Primary Cost Shares/ Value  
Valuation (1) Industry (2) Principal

Investments in Controlled Affiliated Companies (3) -  
13.5% of net assets at value (Cont.)

Private Placement Portfolio (Illiquid) (18) -  
13.5% of net assets at value (Cont.)

ProMuc, Inc. (5)

Life  
Sciences

Developing synthetic mucins for the nutritional, food and health care  
markets

Common Stock (acquired 12/18/13)	(I)	\$ 1	1,000	\$ 0
Secured Convertible Bridge Note, 8%, (acquired 12/18/13)	(I)	350,000	\$ 350,000	8,374
Secured Convertible Bridge Note, 8%, (acquired 8/13/14)	(I)	100,000	\$ 100,000	2,393
Secured Convertible Bridge Note, 8%, (acquired 8/5/15)	(I)	75,000	\$ 75,000	1,794
Secured Convertible Bridge Note, 8%, (acquired 12/7/15)	(I)	55,000	\$ 55,000	1,316
		580,001		13,877

Senova Systems, Inc. (5)(22)

Life  
Sciences

Developing next-generation sensors to measure pH

Series B Convertible Preferred Stock (acquired 9/9/11-7/18/12)	(I)	1,218,462	1,350,000	0
Series B-1 Convertible Preferred Stock (acquired 8/1/13-1/15/14)	(I)	1,083,960	2,759,902	0
Series C Convertible Preferred Stock (acquired 10/24/14-4/1/15)	(I)	1,208,287	1,611,049	455,050
Warrants for Series B Preferred Stock expiring 10/15/17 (acquired 10/15/12)	(I)	131,538	164,423	0
Warrants for Series B Preferred Stock expiring 4/24/18 (acquired 4/24/13)	(I)	20,000	25,000	0
		3,662,247		455,050

SynGlyco, Inc. (5)(14)

Life  
Sciences

Developed synthetic carbohydrates for pharmaceutical applications

Common Stock (acquired 12/13/11)	(I)	2,729,817	57,463	0
Series A' Convertible Preferred Stock (acquired 12/13/11-6/7/12)	(I)	4,855,627	4,855,627	0
Secured Convertible Bridge Note, 8%, (acquired 2/26/16)	(I)	72,432	\$ 67,823	30,000
		7,657,876		30,000

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

HARRIS & HARRIS GROUP, INC.  
CONSOLIDATED SCHEDULE OF  
INVESTMENTS AS OF DECEMBER 31, 2016

Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Controlled Affiliated Companies (3) - 13.5% of net assets at value (Cont.)				
Private Placement Portfolio (Illiquid) (18) - 13.5% of net assets at value (Cont.)				
TARA Biosystems, Inc. (5)				
Developing human tissue models for toxicology and drug discovery applications				
Life Sciences				
Common Stock (acquired 8/20/14)		(I)	\$20	2,000,000 \$702,904
Secured Convertible Bridge Note, 8%, (acquired 8/20/14)		(M)	356,877	\$300,000 396,530
Secured Convertible Bridge Note, 8%, (acquired 5/18/15)		(M)	226,038	\$200,000 251,153
Secured Convertible Bridge Note, 8%, (acquired 12/1/15)		(M)	1,304,416	\$1,200,000 1,449,351
			1,887,351	2,799,938
Total Controlled Private Placement Portfolio (cost: \$27,405,677)				\$9,764,996
Total Investments in Controlled Affiliated Companies (cost: \$27,405,677)				\$9,764,996
Total Investments in Private Placement and Publicly Traded Portfolio (cost: \$101,748,975)				\$58,155,949
Equity Method Investments (23) - 0.2% of net assets at value				
Private Placement Portfolio (Illiquid) (23) - 0.2% of net assets at value				
Accelerator IV-New York Corporation (5)(6)(24)				
Life Sciences				
Identifying and managing emerging biotechnology companies				
Series A Common Stock (acquired 7/21/14-1/29/16)		(E)	\$178,360	581,907 \$178,360
Total Equity Method Investments (cost: \$178,360)				\$178,360
Total Investments (cost: \$101,927,335)				\$58,334,309

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Notes to Consolidated Schedule of Investments

- (1) See "Footnote to Consolidated Schedule of Investments" on page 116 for a description of the "Valuation Procedures."
- We classify "Energy" companies as those that seek to improve performance, productivity or efficiency, and to reduce environmental impact, waste, cost, energy consumption or raw materials. We classify "Electronics" companies as those that address problems in electronics-related industries, including semiconductors and computing. We classify "Life Sciences" companies as those that address problems in life sciences-related industries, including precision health and precision medicine, biotechnology, agriculture, advanced materials and chemicals, health care, bioprocessing, water, industrial biotechnology, food, nutrition and energy.
- Investments in unaffiliated companies consist of investments in which we own less than five percent of the voting shares of the portfolio company. Investments in non-controlled affiliated companies consist of investments in which we own five percent or more, but less than 25 percent, of the voting shares of the portfolio company, or where we hold one or more seats on the portfolio company's board of directors but do not control the company.
- (2) Investments in controlled affiliated companies consist of investments in which we own 25 percent or more of the voting shares of the portfolio company or otherwise control the company, including control of a majority of the seats on the board of directors, or more than 25 percent of the seats on the board of directors, with no other entity or person in control of more director seats than us. Among our controlled affiliated companies, ProMuc, Inc., and Interome, Inc., were 100 percent owned by us at December 31, 2016.
- The aggregate cost for federal income tax purposes of investments in unaffiliated privately held companies is
- (4) \$12,408,878. The gross unrealized appreciation based on the tax cost for these securities is \$96,266. The gross unrealized depreciation based on the tax cost for these securities is \$4,766,507.
- (5) We are subject to legal restrictions on the sale of our investment(s) in this company.
- (6) Represents a non-income producing investment. Investments that have not paid dividends or interest within the last 12 months are considered to be non-income producing.
- (7) Initial investment was made in 2016.
- We received shares of Xenio Corporation as part of the consideration distributed to shareholders of Bridgelux, Inc.,
- (8) for the sale of Bridgelux, Inc., to an investment group led by China Electronics Corporation and ChongQing Linkong Development Investment Company. The close of this transaction occurred on August 1, 2016.
- The aggregate cost for federal income tax purposes of investments in unaffiliated rights to milestone payments is
- (9) \$781,863. The gross unrealized appreciation based on the tax cost for these securities is \$1,757,490. The gross unrealized depreciation based on the tax cost for these securities is \$0.
- The aggregate cost for federal income tax purposes of investments in unaffiliated publicly traded companies is
- (10) \$426,764. The gross unrealized appreciation based on the tax cost for these securities is \$3,638. The gross unrealized depreciation based on the tax cost for these securities is \$350,727.
- The aggregate cost for federal income tax purposes of investments in non-controlled affiliated privately held
- (11) companies is \$43,832,202. The gross unrealized appreciation based on the tax cost for these securities is \$10,476,913. The gross unrealized depreciation based on the tax cost for these securities is \$20,614,492.

Our initial investment in AgTech Accelerator Corporation was on May 4, 2016, and from the date of initial investment through September 30, 2016, the investment was accounted for using the equity method of accounting. On February 3, 2017, we withdrew from participation in AgTech Accelerator. The value reflects the price per share at which our ownership may be purchased by other investors in the entity within 90 days of notice of our intent to withdraw. We have yet to receive notification of such interest from other investors. In the event that the other investors do not complete the purchase of our shares of AgTech Accelerator within the 90 days of notice, we would retain our shares of AgTech Accelerator and the investment would again be accounted for using equity method of accounting.

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

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- (13) D-Wave Systems, Inc., is located and is doing business primarily in Canada. We invested in D-Wave through Parallel Universes, Inc., a Delaware company. Our investment is denominated in Canadian dollars and is subject to foreign currency translation. See "Note 3. Summary of Significant Accounting Policies." D-Wave is not a qualifying asset under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire non-qualifying assets unless, at the time the acquisition is made, qualifying assets are at least 70 percent of our total assets. We were over this threshold at the time of acquisition of these securities.
- (14) Represents a non-operating entity that exists to collect future payments from licenses or other engagements and/or monetize assets for future distributions to investors and debt holders.
- (15) Produced Water Absorbents, Inc., also does business as ProSep, Inc.
- (16) The aggregate cost for federal income tax purposes of investments in non-controlled affiliated publicly traded companies is \$16,893,591. The gross unrealized appreciation based on the tax cost for these securities is \$0. The gross unrealized depreciation based on the tax cost for these securities is \$12,554,926.
- (17) A total of 200,000 shares of our holdings in Adesto Technologies Corporation are not qualifying assets under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire non-qualifying assets unless, at the time the acquisition is made, qualifying assets are at least 70 percent of our total assets.
- (18) The aggregate cost for federal income tax purposes of investments in controlled affiliated companies is \$27,405,677. The gross unrealized appreciation based on the tax cost for these securities is \$1,239,018. The gross unrealized depreciation based on the tax cost for these securities is \$18,879,699.
- (19) On August 4, 2015, SiOnyx, Inc., reorganized its corporate structure to become a subsidiary of a new company, Black Silicon Holdings, Inc. Our security holdings of SiOnyx converted into securities of Black Silicon Holdings. SiOnyx was then acquired by an undisclosed buyer. Black Silicon Holdings owns a profit interest in the undisclosed buyer.
- (20) In 2017, Interome, Inc., changed its name to HALE.life Corporation.
- (21) On August 19, 2015, UberSeq, Inc., changed its name to NGX Bio, Inc.
- (22) On October 19, 2016, Senova Systems, Inc., sold substantially all of its assets to an undisclosed buyer for an up-front payment and potential future payments upon achievement of milestones.
- (23) The aggregate cost for federal income tax purposes of investments in privately held equity method investments is \$178,360. Under the equity method, investments are carried at cost, plus or minus the Company's equity in the increases and decreases in the investee's net assets after the date of acquisition and certain other adjustments. The Company owns approximately 9 percent of Accelerator IV-New York Corporation.
- (24) See "Note 11. Commitments and Contingencies."

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

HARRIS & HARRIS GROUP, INC.  
CONSOLIDATED SCHEDULE OF  
INVESTMENTS AS OF DECEMBER 31, 2015

Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Unaffiliated Companies (3) – 11.0% of net assets at value				
Private Placement Portfolio (Illiquid) (4) – 6.1% of net assets at value				
Bridgelux, Inc. (5)(8)(9)(10)			Energy	
Manufacturing high-power light emitting diodes (LEDs) and arrays				
			(M)	\$ 1,000,000 1,861,504 \$ 258,939
			(M)	1,352,196 2,130,699 534,737
			(M)	1,371,622 999,999 737,006
			(M)	672,599 440,334 607,572
			(M)	386,073 399,579 400,630
			(M)	93,969 170,823 0
			(M)	72,668 132,100 0
			(M)	148,409 171,183 0
			(M)	18,816 84,846 0
				5,116,352 2,538,884
Cambrios Technologies Corporation (5)(8)(9)(11)			Electronics	
Developed nanowire-enabled electronic materials for the display industry				
			(M)	1,294,025 1,294,025 0
			(M)	1,300,000 1,300,000 0
			(M)	515,756 515,756 0
			(M)	92,400 92,400 0
			(M)	216,168 216,168 0
				3,418,349 0

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

HARRIS & HARRIS GROUP, INC.  
CONSOLIDATED SCHEDULE OF  
INVESTMENTS AS OF DECEMBER 31, 2015

Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Unaffiliated Companies (3) – 11.0% of net assets at value (Cont.)				
Private Placement Portfolio (Illiquid) (4) – 6.1% of net assets at value (Cont.)				
Magic Leap, Inc. (8)(9)(12) <span style="float: right;">Electronics</span>				
Developing novel human computing interfaces and software				
Series B Convertible Preferred Stock (acquired 5/1/15)	(I)	\$338,604	29,291	\$348,994
Mersana Therapeutics, Inc. (5)(8)(9) <span style="float: right;">Life Sciences</span>				
Developing antibody drug conjugates for cancer therapy				
Series A-1 Convertible Preferred Stock (acquired 7/27/12-4/2/14)	(H)	683,538	635,081	613,892
Series B-1 Convertible Preferred Stock (acquired 2/20/15)	(H)	104,521	97,111	104,407
Common Stock (acquired 7/27/12)	(H)	3,875,395	350,539	309,963
		4,663,454		1,028,262
Nanosys, Inc. (5)(8)(9) <span style="float: right;">Energy</span>				
Developing inorganic nanowires and quantum dots for use in LED-backlit devices				
Series C Convertible Preferred Stock (acquired 4/10/03)	(M)	1,500,000	803,428	128,853
Series D Convertible Preferred Stock (acquired 11/7/05)	(M)	3,000,003	1,016,950	597,334
Series E Convertible Preferred Stock (acquired 8/13/10)	(M)	496,573	433,688	452,627
		4,996,576		1,178,814
Nano Terra, Inc. (5)(8) <span style="float: right;">Energy</span>				
Developing surface chemistry and nano- manufacturing solutions				
Warrants for Common Stock expiring on 2/22/21 (acquired 2/22/11)	(I)	69,168	4,462	211
Warrants for Series A-3 Preferred Stock expiring on 11/15/22 (acquired 11/15/12)	(I)	35,403	47,508	61,978
		104,571		62,189

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HARRIS & HARRIS GROUP, INC.  
CONSOLIDATED SCHEDULE OF  
INVESTMENTS AS OF DECEMBER 31, 2015

Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value				
Investments in Unaffiliated Companies (3) – 11.0% of net assets at value (Cont.)								
Private Placement Portfolio (Illiquid) (4) – 6.1% of net assets at value (Cont.)								
Phylagen, Inc. (5)(8)(13)				Life Sciences				
Developing technology to improve human health and business productivity								
Secured Convertible Bridge Note, 5%, (acquired 2/5/15)				(M)	\$209,041	\$200,000	\$209,041	
Secured Convertible Bridge Note, 5%, (acquired 6/5/15)				(M)	10,288	\$10,000	10,288	
					219,329		219,329	
Total Unaffiliated Private Placement Portfolio (cost: \$18,857,235)								\$5,376,472
Rights to Milestone Payments (Illiquid) (6) – 3.8% of net assets at value								
Amgen, Inc. (8)(9)				Life Sciences				
Rights to Milestone Payments from Acquisition of BioVex Group, Inc. (acquired 3/4/11)				(I)	\$548,998	\$548,998	\$2,900,232	
Laird Technologies, Inc. (8)(9)				Energy				
Rights to Milestone Payments from Merger & Acquisition of Nextreme Thermal Solutions, Inc. (acquired 2/13/13)				(I)	0	\$0	0	
Canon, Inc. (8)(9)				Electronics				
Rights to Milestone Payments from Acquisition of Molecular Imprints, Inc. (acquired 4/18/14)				(I)	232,865	\$232,865	461,819	
Total Unaffiliated Rights to Milestone Payments (cost: \$781,863)								\$3,362,051

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HARRIS & HARRIS GROUP, INC.  
CONSOLIDATED SCHEDULE OF  
INVESTMENTS AS OF DECEMBER 31, 2015

Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value	
Publicly Traded Portfolio (7) – 1.1% of net assets at value					
Champions Oncology, Inc. (5)(9)				Life Sciences	
Developing its TumorGraft™ platform for personalized medicine and drug development					
Common Stock (acquired 3/24/11-3/11/15)		(M)	\$1,622,629	243,540	\$944,819
Warrants for Common Stock expiring 1/28/19 (acquired 1/28/13)		(I)	400	5,500	12,725
			1,623,029		957,544
Total Unaffiliated Publicly Traded Portfolio (cost: \$1,623,029)					\$957,544
Total Investments in Unaffiliated Companies (cost: \$21,262,127)					\$9,696,067
Investments in Non-Controlled Affiliated Companies (3) – 67.9% of net assets at value					
Private Placement Portfolio (Illiquid) (14) – 47.2% of net assets at value					
ABSMaterials, Inc. (5)(8)(9)				Energy	
Developing nano-structured absorbent materials for water remediation and consumer applications					
Series A Convertible Preferred Stock (acquired 2/17/10-10/24/11)		(I)	\$435,000	390,000	\$160,303
Series B Convertible Preferred Stock (acquired 11/8/13-6/25/14)		(I)	1,217,644	1,037,751	823,319
			1,652,644		983,622
AgBiome, LLC (5)(8)(9)				Life Sciences	
Providing early-stage research and discovery for agriculture and utilizing the crop microbiome to identify products that reduce risk and improve yield					
Series A-1 Convertible Preferred Stock (acquired 1/30/13)		(I)	2,000,000	2,000,000	4,022,722
Series A-2 Convertible Preferred Stock (acquired 4/9/13-10/15/13)		(I)	521,740	417,392	891,588
Series B Convertible Preferred Stock (acquired 8/7/15)		(I)	500,006	160,526	575,979
			3,021,746		5,490,289

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HARRIS & HARRIS GROUP, INC.  
CONSOLIDATED SCHEDULE OF  
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Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 67.9% of net assets at value (Cont.)				
Private Placement Portfolio (Illiquid) (14) – 47.2% of net assets at value (Cont.)				
D-Wave Systems, Inc. (8)(9)(15)			Electronics	
Developing high-performance quantum computing systems				
	Series 1 Class B Convertible Preferred Stock (acquired 9/30/08) (H)	\$1,002,074	1,144,869	\$1,485,943
	Series 1 Class C Convertible Preferred Stock (acquired 9/30/08) (H)	487,804	450,450	588,844
	Series 1 Class D Convertible Preferred Stock (acquired 9/30/08) (H)	748,473	855,131	1,117,858
	Series 1 Class E Convertible Preferred Stock (acquired 11/24/10) (H)	248,049	269,280	368,385
	Series 1 Class F Convertible Preferred Stock (acquired 11/24/10) (H)	238,323	258,721	353,940
	Series 1 Class H Convertible Preferred Stock (acquired 6/27/14) (H)	909,088	460,866	732,972
	Series 2 Class D Convertible Preferred Stock (acquired 9/30/08) (H)	736,019	678,264	886,651
	Series 2 Class E Convertible Preferred Stock (acquired 6/1/12-3/22/13) (H)	659,493	513,900	711,876
	Series 2 Class F Convertible Preferred Stock (acquired 6/1/12-3/22/13) (H)	633,631	493,747	683,959
	Warrants for Common Stock expiring 5/12/19 (acquired 5/12/14) (I)	26,357	20,415	710
		5,689,311		6,931,138
EchoPixel, Inc. (5)(8)			Life Sciences	
Developing virtual reality 3-D visualization software for life sciences and health care applications				
	Series Seed Convertible Preferred Stock (acquired 6/21/13-6/30/14) (I)	1,250,000	4,194,630	1,327,092
	Secured Convertible Bridge Note, 8%, (acquired 11/25/15) (M)	113,425	\$112,500	113,425
		1,363,425		1,440,517

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

HARRIS & HARRIS GROUP, INC.  
 CONSOLIDATED SCHEDULE OF  
 INVESTMENTS AS OF DECEMBER 31, 2015

Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 67.9% of net assets at value (Cont.)				
Private Placement Portfolio (Illiquid) (14) – 47.2% of net assets at value (Cont.)				
Ensemble Therapeutics Corporation (5)(8)(9)				Life Sciences
Developing DNA-Programmed Chemistry™ for the discovery of new classes of therapeutics				
Series B Convertible Preferred Stock (acquired 6/6/07)		(I )		\$2,000,000 1,449,275\$ 662,607
Series B-1 Convertible Preferred Stock (acquired 4/21/14)		(I )		679,754 492,575 1,448,295
				2,679,754 2,110,902
HZO, Inc. (5)(8)(9)				Electronics
Developing novel industrial coatings that protect electronics against damage from liquids				
Common Stock (acquired 6/23/14)		(I )		666,667 405,729 329,802
Series I Convertible Preferred Stock (acquired 6/23/14)		(I )		5,709,835 2,266,894 4,281,820
Series II Convertible Preferred Stock (acquired 6/23/14-8/3/15)		(I )		2,500,006 674,638 2,515,164
				8,876,508 7,126,786

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

HARRIS & HARRIS GROUP, INC.  
CONSOLIDATED SCHEDULE OF  
INVESTMENTS AS OF DECEMBER 31, 2015

Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value	
Investments in Non-Controlled Affiliated Companies (3) – 67.9% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (14) – 47.2% of net assets at value (Cont.)					
Laser Light Engines, Inc. (8)(9)			Energy		
Manufactured solid-state light sources for digital cinema and large-venue projection displays					
Series A Convertible Preferred Stock (acquired 5/6/08)		(M)	\$2,000,000	7,499,062	\$ 0
Series B Convertible Preferred Stock (acquired 9/17/10)		(M)	3,095,802	13,571,848	0
Secured Convertible Bridge Note, 12%, (acquired 10/7/11)		(M)	200,000	\$ 200,000	0
Secured Convertible Bridge Note, 12%, (acquired 11/17/11)		(M)	95,652	\$ 95,652	0
Secured Convertible Bridge Note, 12%, (acquired 12/21/11)		(M)	82,609	\$ 82,609	0
Secured Convertible Bridge Note, 12%, (acquired 3/5/12)		(M)	434,784	\$ 434,784	0
Secured Convertible Bridge Note, 12%, (acquired 7/26/12)		(M)	186,955	\$ 186,955	0
Secured Convertible Bridge Note, 20%, (acquired 4/29/13)		(M)	166,667	\$ 166,667	0
Secured Convertible Bridge Note, 20%, (acquired 7/22/13)		(M)	166,667	\$ 166,667	0
Secured Convertible Bridge Note, 10%, (acquired 10/30/13)		(M)	80,669	\$ 80,669	0
Secured Convertible Bridge Note, 10%, (acquired 2/5/14)		(M)	19,331	\$ 19,331	0
Secured Convertible Bridge Note, 10%, (acquired 6/24/14)		(M)	13,745	\$ 13,745	0
			6,542,881		0
Lodo Therapeutics Corporation (5)(8)(9)(13)			Life Sciences		
Developing and commercializing novel therapeutics derived from a metagenome-based Natural Product Discovery Platform					
Series A Convertible Preferred Stock (acquired 12/21/15)		( I )	107,900	107,900	107,281

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



HARRIS & HARRIS GROUP, INC.  
CONSOLIDATED SCHEDULE OF  
INVESTMENTS AS OF DECEMBER 31, 2015

Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 67.9% of net assets at value (Cont.)				
Private Placement Portfolio (Illiquid) (14) – 47.2% of net assets at value (Cont.)				
Metabolon, Inc. (5)(8)(9)			Life Sciences	
Developing a biochemical profiling platform for precision medicine				
			(M)	\$2,500,000 371,739 \$3,699,120
			(M)	706,214 148,696 1,479,647
			(M)	1,000,000 1,000,000 3,388,907
			(M)	1,499,999 835,882 2,887,617
			(M)	1,225,000 444,404 1,776,987
			(M)	299,999 103,277 389,566
				7,231,212 13,621,844
ORIG3N, Inc. (5)(8)(9)(13)			Life Sciences	
Developing precision medicine applications for induced pluripotent stems cells				
			(I)	500,000 1,195,315 826,563
			(I)	750,000 682,333 750,338
				1,250,000 1,576,901
Petra Pharma Corporation (5)(8)(9)(13)			Life Sciences	
Developing small molecule inhibitors for treatment of cancer and metabolic diseases				
			(I)	1,025,050 1,025,050 1,019,755

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

HARRIS & HARRIS GROUP, INC.  
CONSOLIDATED SCHEDULE OF  
INVESTMENTS AS OF DECEMBER 31, 2015

Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 67.9% of net assets at value (Cont.)				
Private Placement Portfolio (Illiquid) (14) – 47.2% of net assets at value (Cont.)				
Produced Water Absorbents, Inc. (5)(8)(16)			Energy	
Providing integrated process separation solutions to the global oil and gas industries, enabling onsite treatment of produced and flowback water				
Series A Convertible Preferred Stock (acquired 6/21/11)		(M)	\$1,000,000	1,000,000 \$ 77,549
Series B Convertible Preferred Stock (acquired 6/20/13-3/31/14)		(M)	1,496,865	5,987,460 214,302
Series B-2 Convertible Preferred Stock (acquired 5/12/14)		(M)	1,015,427	4,322,709 154,718
Series B-3 Convertible Preferred Stock (acquired 11/14/13)		(M)	978,641	3,914,564 140,109
Series C Convertible Preferred Stock (acquired 5/26/14)		(M)	1,000,268	2,667,380 75,581
Series D Convertible Preferred Stock (acquired 2/17/15)		(M)	986,066	2,629,510 133,330
Subordinated Secured Debt, 12%, maturing on 6/30/16 (acquired 10/7/14)		(M)	990,634	\$ 1,000,000 560,538
Subordinated Convertible Bridge Note, 12%, (acquired 6/3/2015)		(M)	267,425	\$250,000 36,854
Subordinated Convertible Bridge Note, 12%, (acquired 7/15/2015)		(M)	263,973	\$250,000 36,378
Subordinated Convertible Bridge Note, 12%, (acquired 9/28/2015)		(M)	257,808	\$250,000 35,528
Subordinated Convertible Bridge Note, 12%, (acquired 10/30/2015)		(M)	255,178	\$250,000 35,166
Warrants for Series B-2 Preferred Stock expiring upon liquidation event (acquired 5/12/14)		(I)	65,250	300,000 174
			8,577,535	1,500,227

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

HARRIS & HARRIS GROUP, INC.  
CONSOLIDATED SCHEDULE OF  
INVESTMENTS AS OF DECEMBER 31, 2015

Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value	
Investments in Non-Controlled Affiliated Companies (3) – 67.9% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (14) – 47.2% of net assets at value (Cont.)					
Ultora, Inc. (5)(8)(17)				Energy	
Developed energy-storage devices enabled by carbon nanotubes					
Series A Convertible Preferred Stock (acquired 12/5/13)	(M)	\$886,830	17,736	\$0	
Series B Convertible Preferred Stock (acquired 12/5/13)	(M)	236,603	2,347,254	0	
Secured Convertible Bridge Note, 5%, (acquired 5/7/14)	(M)	86,039	\$86,039	0	
Secured Convertible Bridge Note, 5%, (acquired 8/20/14)	(M)	17,208	\$17,208	0	
Secured Convertible Bridge Note, 5%, (acquired 10/14/14)	(M)	10,750	\$10,750	0	
Secured Convertible Bridge Note, 5%, (acquired 3/30/15)	(M)	7,525	\$7,525	0	
		1,244,955		0	
Total Non-Controlled Private Placement Portfolio (cost: \$49,262,921)					\$41,909,262
Publicly Traded Portfolio (18) – 20.7% of net assets at value					
Adesto Technologies Corporation (5)(8)(9)(19)				Electronics	
Developing low-power, high-performance memory devices					
Common Stock (acquired 10/27/15)	(M)	\$11,482,417	1,769,868	\$13,645,682	
Enumeral Biomedical Holdings, Inc. (5)(8)(9)(20)				Life Sciences	
Developing therapeutics and diagnostics through functional assaying of single cells					
Common Stock (acquired 7/31/14)	(M)	4,993,357	7,966,368	1,831,468	
Warrants for Common Stock expiring 7/30/19 (acquired 7/31/14)	(I)	540,375	1,500,000	43,326	
Warrants for Common Stock expiring 2/2/24 (acquired 7/31/14)	(I)	57,567	255,120	44,160	
Options to Purchase Common Stock at \$1.00 expiring 7/30/16 (acquired 8/4/14)	(I)	0	80,000	54	
		5,591,299		1,919,008	

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



HARRIS & HARRIS GROUP, INC.  
CONSOLIDATED SCHEDULE OF  
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Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value	
Publicly Traded Portfolio (18) – 20.7% of net assets at value (Cont.)					
OpGen, Inc. (5)(21)				Life Sciences	
Developing tools for genomic sequence assembly and analysis					
Common Stock (acquired 5/5/15)		(M)	\$5,665,708	1,409,796	\$2,678,612
Warrants for Common Stock expiring 5/8/20 (acquired 5/5/15)		(M)	425,579	300,833	101,431
Warrants for Common Stock expiring 2/17/25 (acquired 5/5/15)		(I)	785	31,206	26,372
			6,092,072		2,806,415
Total Non-Controlled Affiliated Publicly Traded Portfolio (cost: \$23,165,788)					\$18,371,105
Total Investments in Non-Controlled Affiliated Companies (cost: \$72,428,709)					\$60,280,367
Investments in Controlled Affiliated Companies (3) – 7.9% of net assets at value					
Private Placement Portfolio (Illiquid) (22) – 7.9% of net assets at value					
Black Silicon Holdings, Inc. (5)(8)(23)				Electronics	
Holding company for interest in a company that develops silicon-based optoelectronic products					
Series A Convertible Preferred Stock (acquired 8/4/15)		(I)	\$750,000	233,499	\$0
Series A-1 Convertible Preferred Stock (acquired 8/4/15)		(I)	890,000	2,966,667	0
Series A-2 Convertible Preferred Stock (acquired 8/4/15)		(I)	2,445,000	4,207,537	0
Series B-1 Convertible Preferred Stock (acquired 8/4/15)		(I)	1,169,561	1,892,836	0
Series C Convertible Preferred Stock (acquired 8/4/15)		(I)	1,171,316	1,674,030	0
Secured Convertible Bridge Note, 8%, (acquired 8/4/15)		(I)	1,321,068	\$1,278,454	316,613
			7,746,945		316,613

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

HARRIS & HARRIS GROUP, INC.  
CONSOLIDATED SCHEDULE OF  
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Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value	
Investments in Controlled Affiliated Companies (3) – 7.9% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (22) – 7.9% of net assets at value (Cont.)					
NGX Bio, Inc. (5)(8)(9)(24)					
Life Sciences					
Developing translational genomics solutions					
Series Seed Convertible Preferred Stock (acquired 6/6/14)	(I)	\$375,000	500,000	\$446,878	
Series A Convertible Preferred Stock (acquired 8/20/15-9/30/15)	(I)	499,999	329,989	403,538	
Warrants for Series Seed Preferred Stock expiring 6/6/19 (acquired 6/6/15)	(I)	125,000	166,667	148,958	
		999,999		999,374	
ProMuc, Inc. (5)(8)					
Life Sciences					
Developing synthetic mucins for the nutritional, food and health care markets					
Common Stock (acquired 12/18/13)	(M)	1	1,000	1	
Secured Convertible Bridge Note, 8%, (acquired 12/18/13)	(M)	407,074	\$350,000	407,074	
Secured Convertible Bridge Note, 8%, (acquired 8/13/14)	(M)	111,091	\$100,000	111,091	
Secured Convertible Bridge Note, 8%, (acquired 8/5/15)	(M)	77,449	\$75,000	77,449	
Secured Convertible Bridge Note, 8%, (acquired 12/7/15)	(M)	55,301	\$55,000	55,301	
		650,916		650,916	
Senova Systems, Inc. (5)(8)(9)					
Life Sciences					
Developing next-generation sensors to measure pH					
Series B Convertible Preferred Stock (acquired 9/9/11-7/18/12)	(I)	1,218,462	1,350,000	284,938	
Series B-1 Convertible Preferred Stock (acquired 8/1/13-1/15/14)	(I)	1,083,960	2,759,902	659,411	
Series C Convertible Preferred Stock (acquired 10/24/14-4/1/15)	(I)	1,208,287	1,611,049	1,127,419	
Warrants for Series B Preferred Stock expiring 10/15/17 (acquired 10/15/12)	(I)	131,538	164,423	34,703	
Warrants for Series B Preferred Stock expiring 4/24/18 (acquired 4/24/13)	(I)	20,000	25,000	5,277	
		3,662,247		2,111,748	

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

HARRIS & HARRIS GROUP, INC.  
CONSOLIDATED SCHEDULE OF  
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Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Controlled Affiliated Companies (3) – 7.9% of net assets at value				
Private Placement Portfolio (Illiquid) (22) – 7.9% of net assets at value				
SynGlyco, Inc. (5)(8)				Life Sciences
Developed synthetic carbohydrates for pharmaceutical applications				
Common Stock (acquired 12/13/11)	(I)	\$2,729,817	57,463	\$0
Series A' Convertible Preferred Stock (acquired 12/13/11-6/7/12)	(I)	4,855,627	4,855,627	100,343
Secured Convertible Bridge Note, 8%, (acquired 1/23/13)	(I)	438,931	\$350,000	438,931
Secured Convertible Bridge Note, 8%, (acquired 4/25/13)	(I)	369,170	\$300,000	369,170
		8,393,545		908,444
TARA Biosystems, Inc. (5)(8)				Life Sciences
Developing human tissue models for toxicology and drug discovery applications				
Common Stock (acquired 8/20/14)	(M)	20	2,000,000	20
Secured Convertible Bridge Note, 8%, (acquired 8/20/14)	(M)	333,516	\$300,000	500,274
Secured Convertible Bridge Note, 8%, (acquired 5/18/15)	(M)	209,995	\$200,000	314,992
Secured Convertible Bridge Note, 8%, acquired 12/1/15	(M)	1,208,153	\$1,200,000	1,208,153
		1,751,684		2,023,439
Total Controlled Private Placement Portfolio (cost: \$23,205,336)				\$7,010,534
Total Investments in Controlled Affiliated Companies (cost: \$23,205,336)				\$7,010,534
Total Private Placement and Publicly Traded Portfolio (cost: \$116,896,172)				\$76,986,968

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

HARRIS & HARRIS GROUP, INC.  
 CONSOLIDATED SCHEDULE OF  
 INVESTMENTS AS OF DECEMBER 31, 2015

Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Equity Method Investments (25) – 0.2% of net assets at value				
Private Placement Portfolio (Illiquid) (25) – 0.2% of net assets at value				
Accelerator IV-New York Corporation (8)(9)(26) Identifying and managing emerging biotechnology companies Series A Common Stock (acquired 7/21/14-1/30/15)			Life Sciences  (E)	\$165,936 478,227 \$165,936
Total Equity Method Investments (cost: \$165,936)				\$165,936
Total Investments (cost: \$117,062,108)				\$77,152,904

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



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Notes to Consolidated Schedule of Investments

- (1) See "Footnote to Consolidated Schedule of Investments" on page 116 for a description of the "Valuation Procedures."  
We classify "Energy" companies as those that seek to improve performance, productivity or efficiency, and to reduce environmental impact, waste, cost, energy consumption or raw materials. We classify "Electronics" companies as those that address problems in electronics-related industries, including semiconductors and computing. We classify "Life Sciences" companies as those that address problems in life sciences-related industries, including precision health and precision medicine, biotechnology, agriculture, advanced materials and chemicals, health care, bioprocessing, water, industrial biotechnology, food, nutrition and energy.
- (2) Investments in unaffiliated companies consist of investments in which we own less than five percent of the voting shares of the portfolio company. Investments in non-controlled affiliated companies consist of investments in which we own five percent or more, but less than 25 percent, of the voting shares of the portfolio company, or where we hold one or more seats on the portfolio company's board of directors but do not control the company.
- (3) Investments in controlled affiliated companies consist of investments in which we own 25 percent or more of the voting shares of the portfolio company or otherwise control the company, including control of a majority of the seats on the board of directors, or more than 25 percent of the seats on the board of directors, with no other entity or person in control of more director seats than us. Among our controlled affiliated companies, ProMuc, Inc., was 100 percent owned by us at December 31, 2015.  
The aggregate cost for federal income tax purposes of investments in unaffiliated privately held companies is
- (4) \$18,857,235. The gross unrealized appreciation based on the tax cost for these securities is \$10,390. The gross unrealized depreciation based on the tax cost for these securities is \$13,491,153.
- (5) All or a portion of the investments or instruments are pledged as collateral under our Loan Facility with Orix Corporate Capital, Inc.  
The aggregate cost for federal income tax purposes of investments in unaffiliated rights to milestone payments is
- (6) \$781,863. The gross unrealized appreciation based on the tax cost for these securities is \$2,580,188. The gross unrealized depreciation based on the tax cost for these securities is \$0.  
The aggregate cost for federal income tax purposes of investments in unaffiliated publicly traded companies is
- (7) \$1,623,029. The gross unrealized appreciation based on the tax cost for these securities is \$0. The gross unrealized depreciation based on the tax cost for these securities is \$665,485.
- (8) We are subject to legal restrictions on the sale of our investment(s) in this company.
- (9) Represents a non-income producing investment. Investments that have not paid dividends or interest within the last 12 months are considered to be non-income producing.  
On July 21, 2015, Bridgelux, Inc., signed a definitive agreement to be acquired by an investment group led by
- (10) China Electronics Corporation and ChongQing Linkong Development Investment Company. The close of this transaction is subject to customary regulatory approvals.
- (11) In February of 2016, Cambrios Technologies Corporation ceased operations and began liquidation of its assets through a general assignment for the benefit of creditors.
- (12) We received our shares of Magic Leap, Inc., as part of the consideration paid for one of our portfolio companies in an acquisition during the second quarter of 2015. A total of 4,394 shares of our 29,291 shares

of Magic Leap are held in escrow to satisfy indemnity claims through May 1, 2016.

(13) Initial investment was made in 2015.

The aggregate cost for federal income tax purposes of investments in non-controlled affiliated privately held (14) companies is \$49,262,921. The gross unrealized appreciation based on the tax cost for these securities is \$10,504,995. The gross unrealized depreciation based on the tax cost for these securities is \$17,858,654.

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

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D-Wave Systems, Inc., is located and is doing business primarily in Canada. We invested in D-Wave through Parallel Universes, Inc., a Delaware company. Our investment is denominated in Canadian dollars and is subject (15) to foreign currency translation. See "Note 2. Summary of Significant Accounting Policies." D-Wave is not a qualifying asset under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire non-qualifying assets unless, at the time the acquisition is made, qualifying assets are at least 70 percent of our total assets.

(16) Produced Water Absorbents, Inc., also does business as ProSep, Inc.

(17) In March of 2015, Ultora, Inc., ceased operations and began liquidation of its assets through a general assignment for the benefit of creditors.

The aggregate cost for federal income tax purposes of investments in non-controlled affiliated publicly traded (18) companies is \$23,165,788. The gross unrealized appreciation based on the tax cost for these securities is \$2,163,265. The gross unrealized depreciation based on the tax cost for these securities is \$6,957,948.

(19) As of December 31, 2015, the Company's shares of Adesto Technologies Corporation were subject to a lock-up agreement that restricts our ability to trade these securities. A total of 200,000 shares are not qualifying assets under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire non-qualifying assets unless, at the time the acquisition is made, qualifying assets are at least 70 percent of our total assets.

(20) As of December 31, 2015, a portion of the Company's shares and warrants of Enumeral Biomedical Holdings, Inc., were subject to a lock-up agreement that restricts our ability to trade these securities. The lock-up period on our securities of Enumeral Biomedical Holdings expired on January 31, 2016. A portion of our shares were held in escrow as of the end of 2015. This escrow period expired with no claims against the escrowed shares.

(21) The Company's shares of OpGen, Inc., became freely tradeable on November 2, 2015. A total of 300,833 shares and 300,833 warrants are not qualifying assets under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire non-qualifying assets unless, at the time the acquisition is made, qualifying assets are at least 70 percent of our total assets.

(22) The aggregate cost for federal income tax purposes of investments in controlled affiliated companies is \$23,205,336. The gross unrealized appreciation based on the tax cost for these securities is \$271,755. The gross unrealized depreciation based on the tax cost for these securities is \$16,466,557.

(23) On August 4, 2015, SiOnyx, Inc., reorganized its corporate structure to become a subsidiary of a new company, Black Silicon Holdings, Inc. Our security holdings of SiOnyx converted into securities of Black Silicon Holdings. SiOnyx was then acquired by an undisclosed buyer. Black Silicon Holdings owns a profit interest in the undisclosed buyer.

(24) On August 19, 2015, UberSeq, Inc., changed its name to NGX Bio, Inc.

(25) The aggregate cost for federal income tax purposes of investments in privately held equity method investments is \$165,936. Under the equity method, investments are carried at cost, plus or minus the Company's equity in the increases and decreases in the investee's net assets after the date of acquisition and certain other adjustments.

(26) As part of our initial investment in Accelerator IV-New York Corporation, the Company made an additional operating and investment commitment. See "Note 11. Commitments and Contingencies."

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



HARRIS & HARRIS GROUP, INC.

FOOTNOTE TO CONSOLIDATED SCHEDULE OF INVESTMENTS

## VALUATION PROCEDURES

### I. Determination of Net Asset Value

The 1940 Act requires periodic valuation of each investment in the portfolio of the Company to determine its net asset value. Under the 1940 Act, unrestricted securities with readily available market quotations are to be valued at the current market value; all other assets must be valued at "fair value" as determined in good faith by or under the direction of the Board of Directors.

The Board of Directors is also responsible for (1) determining overall valuation guidelines and (2) ensuring that the investments of the Company are valued within the prescribed guidelines.

The Valuation Committee, comprised of all of the independent Board members, is responsible for determining the valuation of the Company's assets within the guidelines established by the Board of Directors. The Valuation Committee receives information and recommendations from management. An independent valuation firm also reviews select portfolio company valuations. The independent valuation firm does not provide proposed valuations.

The fair values assigned to these investments are based on available information and do not necessarily represent amounts that might ultimately be realized when that investment is sold, as such amounts depend on future circumstances and cannot reasonably be determined until the individual investments are actually liquidated or become readily marketable.

The deal team meets at the end of each quarter to discuss portfolio companies and propose fair valuations for all privately held securities, restricted publicly traded securities and publicly traded securities without reliable market quotations. The Valuation Committee book is prepared with the use of data from primary sources whenever reasonably practicable. Proposed valuations for each portfolio company are communicated to the Valuation Committee in the Valuation Committee book and at the Valuation Committee meeting after the end of each quarter. The Valuation Committee determines the fair value of each private security and publicly traded securities without reliable market quotations. All valuations are then reported to the full Board of Directors along with the Chief Financial Officer's calculation of net asset value.

### II. Approaches to Determining Fair Value

Accounting Standards Codification Topic 820, "Fair Value Measurements and Disclosures," ("ASC 820") defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). It applies fair value terminology to all valuations whereas the 1940 Act applies market value terminology to readily marketable assets and fair value terminology to other assets.

The main approaches to measuring fair value utilized are the market approach, the income approach and the hybrid approach.

**Market Approach (M):** The market approach may use quantitative inputs such as prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities and the values of market multiples derived from a set of comparable companies. The market approach may also use qualitative inputs such as progress toward milestones, the long-term potential of the business, current and future financing requirements and the

rights and preferences of certain securities versus those of other securities. The selection of the relevant inputs used to derive value under the market approach requires judgment considering factors specific to the significance and relevance of each input to deriving value.

Income Approach (I): The income approach uses valuation techniques to convert future amounts (for example, revenue, cash flows or earnings) to a single present value amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts. Those valuation techniques include present value techniques; option-pricing models, such as the Black-Scholes-Merton formula (a closed-form model) and a binomial model (a lattice model), which incorporate present value techniques; and the multi-period excess earnings method, which is used to measure the fair value of certain assets.

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Hybrid Approach (H): The hybrid approach uses elements of both the market approach and the income approach. The hybrid approach calculates values using the market and income approach, individually. The resulting values are then distributed among the share classes based on probability of exit outcomes.

ASC Topic 820 classifies the inputs used to measure fair value by these approaches into the following hierarchy:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices in active markets for similar assets or liabilities, or quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Level 2 inputs are in those markets for which there are few transactions, the prices are not current, little public information exists or instances where prices vary substantially over time or among brokered market makers; and

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Unobservable inputs are those inputs that reflect our own assumptions that market participants would use to price the asset or liability based upon the best available information.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement and are not necessarily an indication of risks associated with the investment.

### III. Investment Categories

The Company's investments can be classified into five broad categories for valuation purposes:

Equity-related securities;

Long-term fixed-income securities;

Short-term fixed-income securities;

Investments in intellectual property, patents, research and development in technology or product development; and

All other securities.

The Company applies the methods for determining fair value discussed above to the valuation of investments in each of these five broad categories as follows:

#### A. EQUITY-RELATED SECURITIES

Equity-related securities, including options or warrants, are fair valued using the market, income or hybrid approaches. The following factors may be considered to fair value these types of securities:

Readily available public market quotations;

The cost of the Company's investment;

Transactions in a company's securities or unconditional firm offers by responsible parties as a factor in determining valuation;

•The financial condition and operating results of the company;

•The company's progress towards milestones;

•The long-term potential of the business and technology of the company;

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• The values of similar securities issued by companies in similar businesses;

• Multiples to revenue, net income or EBITDA that similar securities issued by companies in similar businesses receive;

• Estimated time to exit;

• Volatility of similar securities in similar businesses;

• The proportion of the company's securities we own and the nature of any rights to require the company to register restricted securities under applicable securities laws; and

• The rights and preferences of the class of securities we own as compared with other classes of securities the portfolio company has issued.

When the income approach is used to value warrants, the Company uses the Black-Scholes-Merton formula.

The Company values one investment using the equity method.

• Equity Method (E): Under the equity method, investments are carried at cost, plus or minus the Company's equity in the increases and decreases in the investee's net assets after the date of acquisition and certain other adjustments.

## B. LONG-TERM FIXED-INCOME SECURITIES

1. Readily Marketable. Long-term fixed-income securities for which market quotations are readily available are valued using the most recent bid quotations when available.

2. Not Readily Marketable. Long-term fixed-income securities for which market quotations are not readily available are fair valued using the income approach. The factors that may be considered when valuing these types of securities by the income approach include:

• Credit quality;

• Interest rate analysis;

• Quotations from broker-dealers;

• Prices from independent pricing services that the Board believes are reasonably reliable; and

• Reasonable price discovery procedures and data from other sources.

## C. SHORT-TERM FIXED-INCOME SECURITIES

Short-term fixed-income securities are valued in the same manner as long-term fixed-income securities until the remaining maturity is 60 days or less, after which time such securities may be valued at amortized cost if there is no concern over payment at maturity.

D. INVESTMENTS IN INTELLECTUAL PROPERTY, PATENTS, RESEARCH AND DEVELOPMENT IN TECHNOLOGY OR PRODUCT DEVELOPMENT

Such investments are fair valued using the market approach. The Company may consider factors specific to these types of investments when using the market approach including:

• The cost of the Company's investment;

• Investments in the same or substantially similar intellectual property or patents or research and development in technology or product development or offers by responsible third parties;

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- The results of research and development;
- Product development and milestone progress;
- Commercial prospects;
- Term of patent;
- Projected markets; and
- Other subjective factors.

#### E. ALL OTHER SECURITIES

All other securities are reported at fair value as determined in good faith by the Valuation Committee using the approaches for determining valuation as described above.

For all other securities, the reported values shall reflect the Valuation Committee's judgment of fair values as of the valuation date using the outlined basic approaches of valuation discussed in Section II. They do not necessarily represent an amount of money that would be realized if we had to sell such assets in an immediate liquidation. Thus, valuations as of any particular date are not necessarily indicative of amounts that we may ultimately realize as a result of future sales or other dispositions of investments we hold.

#### IV. Frequency of Valuation

The Valuation Committee shall value the Company's investment assets (i) as of the end of each calendar quarter at the time sufficiently far in advance of filing of the Company's reports on Form 10-Q and Form 10-K to enable preparation thereof, (ii) as of within 48 hours of pricing any common stock of the Company by the Company (exclusive of Sundays and holidays) unless the proposed sale price is at least 200 percent of any reasonable net asset value of such shares, and (iii) as of any other time requested by the Board of Directors.

#### V. Regular Review

The Chief Financial Officer shall review these Valuation Procedures on an annual basis to determine the continued appropriateness and accuracy of the methodologies used in valuing the Company's investment assets, and will report any proposed modifications to these Valuation Procedures to the Board of Directors for consideration and approval.

The Chief Executive Officer, the Chief Financial Officer and the individuals responsible for preparing the Valuation Committee book shall meet quarterly before each Valuation Committee meeting to review the methodologies for the valuation of each security, and will highlight any changes to the Valuation Committee.

#### VI. Other Assets

Non-investment assets, such as fixtures and equipment, shall be valued using the cost approach less accumulated depreciation at rates determined by management and reviewed by the Audit Committee. Valuation of such assets is

not the responsibility of the Valuation Committee.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1. THE COMPANY

Harris & Harris Group, Inc. (the "Company," "us," "our" and "we"), is a non-diversified management investment company operating as a business development company ("BDC") under the Investment Company Act of 1940 (the "1940 Act") that specializes in making investments in companies commercializing and integrating products enabled by disruptive technologies predominantly in the life sciences industry. We operate as an internally managed investment company whereby our officers and employees, under the general supervision of our Board of Directors, conduct our operations.

H&H Ventures Management, Inc.<sup>SM</sup> ("Ventures") is a 100 percent owned subsidiary of the Company. Ventures is taxed under Subchapter C (a "C Corporation") of the Internal Revenue Code of 1986 (the "Code"). Harris Partners I, L.P., is a limited partnership and, from time to time, may be used to hold certain interests in our portfolio companies. The partners of Harris Partners I, L.P., are Ventures (sole general partner) and the Company (sole limited partner). Ventures pays taxes on income generated by its operations as well as on any non-passive investment income generated by Harris Partners I, L.P. For the years ended December 31, 2016, 2015 and 2014, there was no non-passive investment income generated by Harris Partners I, L.P. Ventures, as the sole general partner, consolidates Harris Partners I, L.P. The Company consolidates its wholly owned subsidiary, Ventures, for financial reporting purposes.

The Company is the Managing Member of H&H Co-Investment Partners, LLC, a limited liability company formed to facilitate the opportunity for interested investors to co-invest alongside the Company in its portfolio companies. The Company is also the Investment Manager of two series formed by H&H Co-Investment Partners, H&H Co-Investment Partners, LLC D-Wave Co-Investment Series J and H&H Co-Investment Partners, LLC HZO Co-Investment Series III. As of December 31, 2016, H&H Co-Investment Partners did not have any capital under management. The Company expects to receive management fees and/or carried interest in profits generated on invested capital from any capital under management if and when capital is raised. The Company does not expect to consolidate the operations of H&H Co-Investment Partners if and when it has capital under management. The Company also does not expect to consolidate H&H Co-Investment Partners, LLC D-Wave Co-Investment Series J and H&H Co-Investment Partners, LLC HZO Co-Investment Series III if and when issued.

### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed in the preparation of the consolidated financial statements:

**Principles of Consolidation.** The consolidated financial statements have been prepared in accordance with GAAP and include the accounts of the Company and its wholly owned subsidiary. The Company is an investment company following accounting and reporting guidance in Accounting Standards Codification 946. In accordance with GAAP and Regulation S-X, the Company may only consolidate its interests in investment company subsidiaries and controlled operating companies whose business consists of providing services to the Company. Our wholly owned subsidiary, Ventures, is a controlled operating company that provides services to us and is, therefore, consolidated. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform to the current period presentation. Amounts reported in "Net decrease (increase) in unrealized depreciation on investments" have been reclassified from prior years. Amounts related to portfolio company investments were previously reported as a single amount and have been reclassified to present unrealized (depreciation) appreciation from unaffiliated companies, controlled affiliated companies, non-controlled

affiliated companies, publicly traded companies and unaffiliated rights to milestone payments. There was no impact to the total amounts reported in any period.

Use of Estimates. The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from these estimates, and the differences could be material. The most significant estimates relate to the fair valuations of our investments.

Portfolio Investment Valuations. Investments are stated at "value" as defined in the 1940 Act and in the applicable regulations of the Securities and Exchange Commission ("SEC") and in accordance with GAAP. Value, as defined in Section 2(a)(41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) the fair

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value as determined in good faith by, or under the direction of, the Board of Directors for all other assets. (See "Valuation Procedures" in the "Footnote to Consolidated Schedule of Investments.") As of December 31, 2016, our financial statements include investments fair valued by the Board of Directors at \$53,846,065 and one investment valued under the equity method at \$178,360. The fair values and equity method value were determined in good faith by, or under the direction of, the Board of Directors. The fair value amount includes the values of our privately held investments as well as the warrants of Champions Oncology, Inc., Enumeral Biomedical Holdings, Inc., and OpGen, Inc., which are publicly traded companies. Our investment in Accelerator IV-New York Corporation is accounted for under the equity method of accounting as it represents non-controlling interest in operating entities that provide investment advisory services to the Company. Under the equity method, investments are carried at cost, plus or minus the Company's equity in the increases and decreases in the investee's net assets after the date of acquisition and certain other adjustments. The Company's share of the net income or loss of the investee is included in "Share of loss on equity method investment" on the Company's "Consolidated Statements of Operations." Upon sale of investments, the values that are ultimately realized may be different from the fair value presented in the Company's financial statements. The difference could be material.

Our investment in AgTech Accelerator Corporation was historically accounted for using the equity method of accounting since our initial investment on May 4, 2016. Following discussions that began in the fourth quarter of 2016, on February 3, 2017, the Company withdrew from its investment commitment to AgTech Accelerator. As a result of this decision, the investment was fair valued by the Board of Directors as of December 31, 2016, rather than valued using the equity method.

Cash. Cash includes demand deposits. Cash is carried at cost, which approximates fair value.

Unaffiliated Rights to Milestone Payments. At December 31, 2016, and December 31, 2015, the outstanding potential milestone payments from Amgen, Inc.'s acquisition of BioVex Group, Inc., were valued at \$2,305,239 and \$2,900,232, respectively. The milestone payments are derivatives and valued using the probability-adjusted, present value of proceeds from future payments that would be due upon successful completion of certain regulatory and sales milestones. On November 17, 2014, the Company received a payment of \$2,070,955 owing to the achievement of the first milestone. On November 23, 2015, the Company received a payment of \$2,070,955 owing to the achievement of the second milestone. If all the remaining milestones are met, we would receive \$5,384,482. At December 31, 2016, and December 31, 2015, the outstanding potential milestone payments from Canon, Inc.'s acquisition of Molecular Imprints, Inc., were valued at \$234,114 and \$461,819, respectively. On October 1, 2015, the Company received a payment of \$795,567 owing to the achievement of the first milestone. If all the remaining milestones are met, we would receive an additional \$938,926. At December 31, 2016, and December 31, 2015, the outstanding potential milestone payments from Laird Technologies, Inc.'s acquisition of Nextreme Thermal Solutions, Inc., were valued at \$0. If all the remaining milestones are met, we would receive approximately \$400,000. There can be no assurance as to how much of these amounts we will ultimately realize or when they will be realized, if at all.

Funds Held in Escrow from Sale of Investment. At December 31, 2016, and December 31, 2015, there were funds held in escrow fair valued at \$116,978 and \$311,137, respectively, relating to the sale of Molecular Imprints, Inc.'s semiconductor lithography equipment business to Canon, Inc. On April 20, 2016, the Company received proceeds of \$390,492 from the release of a portion of the funds held in escrow following the transaction. The remaining funds held in escrow are expected to be released in April of 2017, net of settlement of any indemnity claims and expenses related to the transaction. If the funds held in escrow for this transaction are released in full, we would receive \$234,322 and realize a gain of \$117,344. At December 31, 2016, and December 31, 2015, there were funds held in escrow fair valued at \$0 and \$63,428, respectively, relating to the sale of Molecular Imprints' non-semiconductor business to Magic Leap, Inc. On May 18, 2016, the Company received proceeds of \$130,522, following the expiration of the one-year escrow period established at the closing of the transaction.

Prepaid Expenses. We include prepaid insurance premiums and deferred financing charges in "Prepaid expenses." Prepaid insurance premiums are recognized over the term of the insurance contract and are included in "Insurance expense" in the Consolidated Statements of Operations. Deferred financing charges consist of fees and expenses paid in connection with the closing of loan facilities and are capitalized at the time of payment. Deferred financing charges are amortized over the term of the Loan Facility discussed in "Note 4. Debt." Amortization of the financing charges is included in "Interest and other debt expenses" in the Consolidated Statements of Operations.

Property and Equipment. Property and equipment are included in "Other assets" and are carried at \$136,018 and \$180,089 at December 31, 2016, and December 31, 2015, respectively, representing cost, less accumulated depreciation of \$436,043 and \$445,476, respectively. Depreciation is provided using the straight-line method over the estimated useful lives of the property and equipment. We estimate the useful lives to be five to ten years for furniture and fixtures, three years for computer equipment, and the lesser of ten years or the remaining life of the lease for leasehold improvements.



**Post-Retirement Plan Liabilities.** The Company provides a Retiree Medical Benefit Plan for employees who meet certain eligibility requirements. Until it was terminated on May 5, 2011, the Company also provided an Executive Mandatory Retirement Benefit Plan for certain individuals employed by us in a bona fide executive or high policy-making position. The net periodic post-retirement benefit cost for the year includes service cost for the year and interest on the accumulated post-retirement benefit obligation. Unrecognized actuarial gains and losses are recognized as net periodic benefit cost pursuant to the Company's historical accounting policy. The impact of plan amendments is amortized over the employee's average service period as a reduction of net periodic benefit cost. Unamortized plan amendments are included in "Accumulated other comprehensive income" in the Consolidated Statements of Assets and Liabilities.

**Interest Income Recognition.** Interest income, including amortization of premium and accretion of discount, is recorded on an accrual basis. When accrued interest is determined not to be recoverable, the Company ceases accruing interest and writes off any previously accrued interest. Securities are deemed to be non-income producing if investments have not paid dividends or interest within the last 12 months. These write-offs are reversed through interest income. During the years ended December 31, 2016, December 31, 2015, and December 31, 2014, the Company earned \$390,662, \$193,689, and \$207,782, respectively, in interest on senior secured debt, subordinated secured debt, participation agreements, non-convertible promissory notes and interest-bearing accounts. During the years ended December 31, 2016, December 31, 2015, and December 31, 2014, the Company recorded, on a net basis, \$282,168, \$444,417, and \$170,741, respectively, of bridge note interest. The total for the years ended December 31, 2016, December 31, 2015, and December 31, 2014, included a partial write-off of previously accrued bridge note interest of \$117,442, \$1,427, and \$77,268, respectively.

**Yield-Enhancing Fees on Debt Securities.** Yield-enhancing fees received in connection with our non-convertible debt investments are deferred. The unearned fee income is accreted into income based on the effective interest method over the life of the investment. During the years ended December 31, 2016, December 31, 2015, and December 31, 2014, total yield-enhancing fees accreted into investment income were \$116,507, \$87,280, and \$52,610, respectively.

**Fees for Providing Managerial Assistance to Portfolio Companies.** During the years ended December 31, 2016, December 31, 2015, and December 31, 2014, the Company earned income of \$1,002,853, \$191,609, and \$86,667, respectively, owing to certain of its employees providing managerial assistance to certain portfolio companies. Earned income totaling \$900,000 during 2016 was primarily from Interome, Inc. Fees were also received from certain other portfolio companies during 2016, namely Adesto Technologies Corporation, Essential Health Solutions, Inc., Fleet Health Alliance, LLC, Muses Labs, Inc., OpGen, Inc., and TARA Biosystems, Inc.

**Stock-Based Compensation.** The Company has a stock-based employee compensation plan. The Company accounts for the Amended and Restated Harris & Harris Group, Inc. 2012 Equity Incentive Plan (the "Stock Plan") by determining the fair value of all share-based payments to employees, including the fair value of grants of employee stock options and restricted stock awards, and records these amounts as an expense in the Consolidated Statements of Operations over the vesting period with a corresponding increase (decrease) to our additional paid-in capital. For the years ended December 31, 2016, 2015, and 2014, the increase to our operating expenses was offset by the increase to our additional paid-in capital, resulting in no net impact to our net asset value. Additionally, the Company does not record the potential tax benefits associated with the expensing of stock options or restricted stock because the Company currently intends to qualify as a regulated investment company ("RIC") under Subchapter M of the Code, and the deduction attributable to such expensing, therefore, is unlikely to provide any additional tax savings. The amount of non-cash, stock-based compensation expense recognized in the Consolidated Statements of Operations is based on the fair value of the awards the Company expects to vest, recognized over the vesting period on a straight-line basis for each award, and adjusted for actual awards vested and pre-vesting forfeitures. The forfeiture rate is estimated at the time of grant and revised, if necessary, in subsequent periods if the actual forfeiture rate differs from the estimated rate and is accounted for in the current period and prospectively. See "Note 7. Stock-Based

Compensation" for further discussion.

Rent expense. Our lease at 1450 Broadway, New York, New York, commenced on January 21, 2010. The lease expires on December 31, 2019. The base rent is \$36 per square foot with a 2.5 percent increase per year over the 10 years of the lease, subject to a full abatement of rent for four months and a rent credit for six months throughout the lease term. We apply these rent abatements, credits, escalations and landlord payments on a straight-line basis in the determination of rent expense over the lease term. Certain leasehold improvements were also paid for on our behalf by the landlord, the cost of which is accounted for as property and equipment and "Deferred rent" in the accompanying Consolidated Statements of Assets and Liabilities. These leasehold improvements are depreciated over the lease term. We also leased office space in California until December 31, 2015.

Realized Gain or Loss and Unrealized Appreciation or Depreciation of Portfolio Investments. Realized gain or loss is recognized when an investment is disposed of and is computed as the difference between the Company's cost basis in the investment at the disposition date and the net proceeds received from such disposition. Realized gains and losses on investment transactions

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are determined by specific identification. Unrealized appreciation or depreciation is computed as the difference between the fair value of the investment and the cost basis of such investment.

**Income Taxes.** We did not qualify as a RIC under Subchapter M of the Code in 2016. We did not have any taxable income in 2016, so this failure to qualify as a RIC did not result in a tax liability. As we currently intend to qualify as a RIC in future years and distribute any ordinary income, the Company does not accrue for income taxes. The Company has capital loss carryforwards that can be used to offset net realized capital gains. The Company recognizes interest and penalties in income tax expense. We pay federal, state and local income taxes on behalf of our wholly owned subsidiary, Ventures, which is a C corporation. See "Note 10. Income Taxes" for further discussion.

**Foreign Currency Translation.** The accounting records of the Company are maintained in U.S. dollars. All assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the rate of exchange of such currencies against U.S. dollars on the date of valuation. The Company does not isolate the portion of the results of operations that arises from changes in foreign currency rates on investments held on its Consolidated Statements of Operations.

**Securities Transactions.** Securities transactions are accounted for on the date the transaction for the purchase or sale of the securities is entered into by the Company (i.e., trade date). Securities transactions outside conventional channels, such as private transactions, are recorded as of the date the Company obtains the right to demand the securities purchased or to collect the proceeds from a sale and incurs the obligation to pay for the securities purchased or to deliver the securities sold.

**Concentration of Credit Risk.** The Company places its cash and cash equivalents with financial institutions and, at times, cash held in depository accounts may exceed the Federal Deposit Insurance Corporation's insured limit and is subject to the credit risk of such institutions to the extent it exceeds such limit.

**Concentration of Investor Risk.** As of December 31, 2016, two investors, Ariel Investments, LLC and Financial & Investment Management Group, Ltd., owned approximately 17.1 percent and 5.8 percent, respectively, of our outstanding shares.

**Recent Accounting Pronouncements.** In December, 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-19, "Technical Corrections and Improvements." This ASU clarified the difference between a valuation approach and a valuation technique. This ASU indicates that there are three major valuation approaches: the cost approach, the market approach and the income approach and that various valuation techniques are consistent with these broader approaches. Entities are required to disclose a current period change in either a valuation approach or a valuation technique as of and for the year ended December 31, 2016.

On August 26, 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments." This ASU is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The guidance will affect how distributions received from equity method investees will be reported. The guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. This ASU does not impact the accounting but rather the presentation of distributions in the Consolidated Statement of Cash Flows. The impact of this ASU on the Company's Consolidated Financial Statements is currently being evaluated.

On June 16, 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." This ASU is intended to introduce new guidance for the accounting for credit losses on instruments within scope based on an estimate of current expected credit losses. The guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early

adoption permitted. The impact of this ASU on the Company's Consolidated Financial Statements is currently being evaluated.

On March 30, 2016, the FASB issued ASU 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." This ASU is intended to simplify several aspects of the accounting for share-based payment award transactions. The guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016, with early adoption permitted. This ASU impacts the tax effects of share-based payments, minimum statutory tax withholding requirements and forfeitures.

On February 25, 2016, the FASB issued ASU 2016-02, "Leases" (Topic 842). This ASU revises the accounting for leases. Under the new guidance, lessees are required to recognize a right-of-use asset and a lease liability for all leases. The new guidance will continue to classify leases as either financing or operating, with classification affecting the pattern of expense recognition. The accounting applied by a lessor under the new guidance will be substantially equivalent to current lease accounting guidance.

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This ASU is required to be applied with a modified retrospective approach to each prior reporting period presented and provides for certain practical expedients. The guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. The impact of this ASU on the Company's Consolidated Financial Statements is currently being evaluated.

On August 27, 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern." This ASU requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued and provides guidance on determining when and how to disclose going concern uncertainties in the financial statements. Certain disclosures will be required if conditions give rise to substantial doubt about an entity's ability to continue as a going concern. This guidance was effective for fiscal years, and interim periods within those fiscal years, ending after December 15, 2016.

### NOTE 3. BUSINESS RISKS AND UNCERTAINTIES

We invest primarily in privately held companies, the securities of which are inherently illiquid. We also have investments in small publicly traded companies. Although these companies are publicly traded, their stock may not trade at high volumes, which may restrict our ability to sell our positions and prices can be volatile. We may also be subject to restrictions on transfer and/or other lock-up provisions after these companies initially go public. These privately held and publicly traded businesses tend to not have attained profitability, and many of these businesses also lack management depth and have limited or no history of operations. Because of the speculative nature of our investments and the lack of a liquid market for and restrictions on transfers of privately held investments, there is greater risk of loss relative to traditional marketable investment securities.

We do not choose investments based on a strategy of diversification. We also do not rebalance the portfolio should one of our portfolio companies increase in value substantially relative to the rest of the portfolio. Therefore, the value of our portfolio may be more vulnerable to microeconomic events affecting a single sector, industry or portfolio company and to general macroeconomic events that may be unrelated to our portfolio companies. These factors may subject the value of our portfolio to greater volatility than a company that follows a diversification strategy. As of December 31, 2016, and December 31, 2015, our largest 10 investments by value accounted for approximately 78 percent of the value of our equity-focused portfolio. Our largest three investments, by value, D-Wave Systems, Inc., AgBiome, LLC, and HZO, Inc., accounted for approximately 17 percent, 17 percent and 12 percent, respectively, of our equity-focused portfolio at December 31, 2016. D-Wave Systems, Inc., AgBiome, LLC, and HZO, Inc. are privately held portfolio companies. Our largest three investments, by value, Adesto Technologies Corporation, Metabolon, Inc., and HZO, Inc., accounted for approximately 19 percent, 18 percent and 10 percent, respectively, of our equity-focused portfolio at December 31, 2015. As of that date, Metabolon, Inc., and HZO, Inc. were privately held portfolio companies and Adesto Technologies was a publicly traded portfolio company.

Approximately 92 percent of the portion of our equity-focused portfolio that was fair valued was comprised of securities of 28 privately held companies, as well as the warrants of publicly traded Champions Oncology, Inc., OpGen, Inc., and Enumeral Biomedical Holdings, Inc. Approximately 0.3 percent of the portion of our equity-focused portfolio that was valued according to the equity method was comprised of one privately held company. Because there is typically no public or readily ascertainable market for our interests in the small privately held companies in which we invest, the valuation of the securities in that portion of our portfolio is determined in good faith by our Valuation Committee, which is comprised of all of the independent members of our Board of Directors. The values are determined in accordance with our Valuation Procedures and are subject to significant estimates and judgments. The fair value of the securities in our portfolio may differ significantly from the values that would be placed on these securities if a ready market for the securities existed. Any changes in valuation are recorded in our Consolidated

Statements of Operations as "Net increase in unrealized depreciation on investments." Changes in valuation of any of our investments in privately held companies from one period to another may be significant.

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## NOTE 4. DEBT

The Company had a \$20 million Loan Facility with Orix Corporate Capital, Inc., that was scheduled to mature on September 30, 2017. During the fourth quarter of 2016, the Company paid off all its outstanding obligations associated with this Loan Facility and the Loan Facility was no longer in effect. At December 31, 2016, the Company did not have outstanding debt.

The Loan Facility, which could be used to fund investments in portfolio companies, carried interest at 10 percent per annum in cash. The Company had the option to have interest accrue at a rate of 13.5 percent per annum if the Company decided not to pay interest in cash monthly. The Company paid interest in cash on its outstanding borrowings. The Loan Facility also required payment of a draw fee on each borrowing equal to 1.0 percent of such borrowing and an unused commitment fee of 1.0 percent per annum. Fee payments under the Loan Facility were made quarterly in arrears. The Company had the option to prepay the loans or reduce the aggregate commitments under the Loan Facility at any time prior to the maturity date, as long as certain conditions were met, including payment of required prepayment or termination fees. There were no required prepayment or termination fees associated with the repayment of the obligation. The Loan Facility was secured by all of the assets of the Company and its wholly owned subsidiaries, subject to certain customary exclusions. The Loan Facility contained certain affirmative and negative covenants, including without limitation: (a) maintenance of certain minimum liquidity requirements; (b) maintenance of an eligible asset leverage ratio of not less than 4.0:1.0; (c) limitations on liens; (d) limitations on the incurrence of additional indebtedness; and (e) limitations on structural changes, mergers and disposition of assets (other than in the normal course of our business activities).

At December 31, 2016, and December 31, 2015, the Company had outstanding debt of \$0 and \$5,000,000, respectively. The Loan Facility was repaid as of December 1, 2016. The weighted average annualized interest rate for the period January 1, 2016 through December 1, 2016 and of the year ended December 31, 2015, was 10 percent, exclusive of amortization of closing fees and other expenses. The weighted average debt outstanding for the period January 1, 2016, through December 1, 2016, and for the year ended December 31, 2015, was \$5,000,000. The remaining capacity under the Loan Facility was \$15,000,000 at December 31, 2015. The draw period for the Loan Facility expired on September 30, 2016. Unamortized fees and expenses of \$0 and \$306,040 related to establishing the Loan Facility are included as "Prepaid expenses" in the Consolidated Statements of Assets and Liabilities as of December 31, 2016, and December 31, 2015, respectively. These amounts were amortized over the term of the Loan Facility, and \$306,040, \$174,880 and \$174,880 was amortized in the years ended December 31, 2016, 2015 and 2014, respectively. The Company paid \$114,167, \$164,583 and \$202,778 in non-utilization fees during the years ended December 31, 2016, 2015 and 2014, respectively. The Company paid \$466,667, \$381,944 and \$0 in interest expense for the years ended December 31, 2016, 2015 and 2014, respectively. During the years ended December 31, 2016, and December 31, 2015, the Company paid \$0 and \$50,000 in utilization fees associated with a drawdown of the Loan Facility. At December 31, 2016, the Company did not have outstanding debt.

## NOTE 5. FAIR VALUE OF INVESTMENTS

At December 31, 2016, our financial assets valued at fair value were categorized as follows in the fair value hierarchy:

Description	Fair Value Measurement at Reporting Date Using:			
	December 31, 2016	Unadjusted Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Privately Held Portfolio Companies:				
Preferred Stock	\$41,527,287	\$0	\$0	\$41,527,287
Bridge Notes	5,951,657	0	0	5,951,657
Warrants	138,157	0	0	138,157
Rights to Milestone Payments	2,539,353	0	0	2,539,353
Common Stock	2,338,455	0	150,000	2,188,455
Senior Secured Debt	1,242,700	0	0	1,242,700
Publicly Traded Portfolio Companies:				
Common Stock	\$4,309,884	\$4,309,884	\$0	\$0
Warrants	108,456	0	49,485	58,971
Total Investments:	\$58,155,949	\$4,309,884	\$199,485	\$53,646,580
Funds Held in Escrow From Sales of Investments:	\$116,978	\$0	\$0	\$116,978
Total Financial Assets:	\$58,272,927	\$4,309,884	\$199,485	\$53,763,558



## Significant Unobservable Inputs

The table below presents the valuation technique and quantitative information about the significant unobservable inputs utilized by the Company in the fair value measurements of Level 3 assets. Unobservable inputs are those inputs for which little or no market data exists and, therefore, require an entity to develop its own assumptions.

	Fair Value at December 31, 2016	Valuation Approach(es)	Unobservable Input(s)	Range(s) (Weighted Average <sup>(a)</sup> )
Preferred Stock	\$ 11,773,458	Hybrid Approach	Price Per Share	\$2.26 - \$2.31 (\$2.30)
			Public Comparable Adjustment (Including Non-Performance Risk)	0.0% (0.0%)
			Volatility	48.9% - 95.6% (57.1%)
			Time to Exit / Cash Flows (Years)	5.0 (5.00)
			Probability of Achieving Independent Milestones	50.0% - 75.0% (53.7%)
			Probability of Achieving Dependent Milestones	25.0% - 85.3% (57.5%)
			Price Per Share	\$0.00 - \$3.71 (\$2.37)
Preferred Stock	27,385,693	Income Approach	Public Comparable Adjustment (Including Non-Performance Risk)	-29.0% - 45.9% (37.8%)
			Volatility	45.8% - 119.6% (65.0%)
			Time to Exit / Cash Flows (Years)	0.2 - 10.5 (5.43)
			Volatility	52.5% (52.5%)
Preferred Stock	2,368,136	Market Approach	Revenue Multiples	7.2 (7.2)
			Time to Exit (Years)	5.0 (5.0)
			Discount for Lack of Marketability	22.9% (22.9%)
Bridge Notes	306,354	Income Approach	Estimated Value to Cost Ratio at Payout	0.00 - 0.41 (0.21)
			Estimated Value to Cost Ratio at Payout	0.00 (0.00)
Bridge Notes	5,645,303	Market Approach	Estimated Value to Cost Ratio at Conversion	1.00 - 1.58 (1.09)
			Price Per Share	\$2.26 (\$2.26)
			Public Comparable Adjustment (Including Non-Performance Risk)	0.0% (0.0%)
			Volatility	95.6% (95.6%)
Common Stock	718,414	Hybrid Approach	Time to Exit (Years)	5.0 (5.00)
			Discount for Lack of Marketability	11.9% (11.9%)
			Public Comparable Adjustment (Including Non-Performance Risk)	0.0% (0.0%)
			Volatility	45.8% - 104.4% (81.9%)
			Time to Exit (Years)	5.0 - 8.0 (5.7)

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Common Stock	1,284,940	Income Approach	Price Per Share	\$0.00 - \$3.71 (\$1.65)
			Volatility	49.2% (49.2%)
			Revenue Multiples	1.6 (1.6)
			Time to Exit (Years)	2.0 (2.0)
			Discount for Lack of Marketability	15.9% (15.9%)
Common Stock	185,101	Market Approach	Price Per Share	\$0.00001 - \$0.83200 (\$0.82999)
			Stock Price	\$0.00 - \$3.71 (\$2.46)
			Volatility	49.2% - 104.5% (69.2%)
Warrants	197,128	Income Approach	Time to Exit (Years)	2.0 - 8.1 (5.48)
			Probability of Achieving Independent Milestones	0% - 75% (67%)
			Probability of Achieving Dependent Milestones	25% - 100% (74%)
Rights to Milestone Payments	2,539,353	Income Approach	Time to Cash Flows (Years)	0.3 - 8.0 (4.3)
Senior Secured Debt	1,242,700	Income Approach	Discount Rate	67% (67%)
			Escrow Discount	50% (50%)
Funds Held in Escrow from Sales of Investments	116,978	Income Approach	Time to Cash Flows (Years)	0.3 (0.3)
Total	\$53,763,558			

(a) Weighted average based on fair value at December 31, 2016.

## Valuation Methodologies and Inputs for Level 3 Assets

The following sections describe the valuation techniques and significant unobservable inputs used to measure Level 3 assets.

### Preferred Stock, Bridge Notes and Common Stock

Preferred stock, bridge notes and common stock are valued by either a market, income or hybrid approach using internal models with inputs, most of which are not market observable. Common inputs for valuing Level 3 preferred stock, bridge note and private common stock investments include prices from recently executed private transactions in a company's securities or unconditional firm offers, revenue multiples of comparable publicly traded companies, merger and acquisition ("M&A") transactions consummated by comparable companies, discounts for lack of marketability, rights and preferences of the class of securities we own as compared with other classes of securities the portfolio company has issued, particularly related to potential liquidity scenarios of an initial public offering ("IPO") or an acquisition transaction, estimated time to exit, volatilities of comparable publicly traded companies and management's best estimate of risk attributable to non-performance risk. Certain securities are valued using the present value of future cash flows.

We may also consider changes in market values for sets of comparable companies when recent private transaction information is not available and/or in consideration of non-performance risk. We define non-performance risk as the risk that the price per share (or implied valuation of a portfolio company) or the effective yield of a debt security of a portfolio company, as applicable, does not appropriately represent the risk that a portfolio company with negative cash flow will be: (a) unable to raise capital, will need to be shut down and will not return our invested capital; or (b) able to raise capital, but at a valuation significantly lower than the implied post-money valuation of the last round of financing. We assess non-performance risk for each private portfolio company quarterly. Our assessment of non-performance risk typically includes an evaluation of the financial condition and operating results of the company, the company's progress towards milestones, and the long-term potential of the business and technology of the company and how this potential may or may not affect the value of the shares owned by us. An increase to the non-performance risk or a decrease in the private offering price of a future round of financing from that of the most recent round would result in a lower fair value measurement and/or a change in the distribution of value among the classes of securities we own.

Option pricing models place a high weighting on liquidation preferences, which means that small differences in how the preferences are structured can have a material effect on the fair value of our securities at the time of valuation and also on future valuations should additional rounds of financing occur with senior preferences. As such, valuations calculated by option pricing models may not increase if 1) rounds of financing occur at higher prices per share, 2) liquidation preferences include multiples on investment, 3) the amount of invested capital is small and/or 4) liquidation preferences are senior to prior rounds of financing. Additionally, an increase in the volatility assumption generally increases the enterprise value calculated in an option pricing model. An increase in the time to exit assumption also generally increases the enterprise value calculated in an option pricing model. Variations in the expected time to exit or expected volatility assumptions have a significant impact on fair value.

Bridge notes commonly contain terms that provide for the conversion of the full amount of principal, and sometimes interest, into shares of preferred stock at a defined price per share and/or the price per share of the next round of financing. The use of a discount for non-performance risk in the valuation of bridge notes would indicate the potential for conversion of only a portion of the principal, plus interest when applicable, into shares of preferred stock or the potential that a conversion event will not occur and that the likely outcome of a liquidation of assets would result in

payment of less than the remaining principal outstanding of the note. An increase in non-performance risk would result in a lower fair value measurement.

#### Warrants and Options

We use the Black-Scholes-Merton option-pricing model to determine the fair value of warrants and options held in our portfolio unless there is a publicly traded active market for such warrants and options or another indication of value such as a sale of the portfolio company. Option pricing models, including the Black-Scholes-Merton model, require the use of subjective input assumptions, including expected volatility, expected life, expected dividend rate, and expected risk-free rate of return. In the Black-Scholes-Merton model, variations in the expected volatility or expected term assumptions have a significant impact on fair value. Because certain securities underlying the warrants in our portfolio are not publicly traded, many of the required input assumptions are more difficult to estimate than they would be if a public market for the underlying securities existed.

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An input to the Black-Scholes-Merton option-pricing model is the value per share of the type of stock for which the warrant is exercisable as of the date of valuation. This input is derived according to the methodologies discussed in "Preferred Stock, Bridge Notes and Common Stock."

#### Rights to Milestone Payments

Rights to milestone payments are valued using a probability-weighted discounted cash flow model. As part of Amgen Inc.'s acquisition of our former portfolio company, BioVex Group, Inc., we are entitled to potential future milestone payments based upon the achievement of certain regulatory and sales milestones. We are also entitled to future milestone payments from Laird Technologies Inc.'s acquisition of our former portfolio company, Nextreme Thermal Solutions, Inc., and from Canon, Inc.'s acquisition of Molecular Imprints, Inc. We assign probabilities to the achievements of the various milestones. Milestones identified as independent milestones can be achieved irrespective of the achievement of other contractual milestones. Dependent milestones are those that can only be achieved after another, or series of other, milestones are achieved. The interest rates used in these models are observable inputs from sources such as the published interest rates for corporate bonds of the acquiring or comparable companies.

#### Subordinated Secured Debt and Senior Secured Debt

We invest in venture debt investments through subordinated secured debt and senior secured debt. We value these securities using an income approach. The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present value amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts. Common inputs for valuing Level 3 debt investments include: the effective yield of the debt investment or, in the case where we have received warrant coverage, the warrant-adjusted effective yield of the security, adjustments for changes in the yields of comparable publicly traded high-yield debt funds and risk-free interest rates and an assessment of non-performance risk. For venture debt investments, an increase in yields would result in a lower fair value measurement. Furthermore, yields would decrease, and value would increase, if the company is exceeding targets and risk has been substantially reduced from the level of risk that existed at the time of investment. Yields would increase, and values would decrease, if the company is failing to meet its targets and risk has been increased from the level of risk that existed at the time of investment. Historically, we also invested in venture debt through participation agreements. We did not hold any participation agreements in 2016. As of December 31, 2015, the amounts held in participation agreements consisted solely of warrants. These warrants were valued using the Black-Scholes-Merton pricing model as discussed in "Warrants and Options." The participation agreements were sold in 2015.

#### Changes in Valuation Approaches

We changed the approaches used to determine the fair value of our common stock and bridge notes of ProMuc, Inc., and our common stock of TARA Biosystems, Inc., as of December 31, 2016, from those used to determine fair value as of December 31, 2015.

As of December 31, 2016, we valued our common stock and bridge notes of ProMuc, Inc., based on the Income approach. As of December 31, 2015, we valued our common stock and bridge notes of ProMuc, based on the Market approach. The change was owing to the decision to shut down ProMuc, and to return the remaining capital to the Company as the holder of ProMuc's senior debt securities.

As of December 31, 2016, we valued our common stock of TARA Biosystems, Inc., based on the Income approach. As of December 31, 2015, we valued our common stock of TARA Biosystems, based on the Market approach. The change was owing to the terms of a pending round of financing of TARA Biosystems as of December 31, 2016 that enabled the use of option pricing models to derive value. Such inputs were not available or applicable as of December 31, 2015.

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The following chart shows the components of change in the financial assets categorized as Level 3 for the year ended December 31, 2016.

	Beginning Balance 1/1/2016	Total Realized (Losses) Gains Included in Changes in Net Assets	Transfers	Total Unrealized Appreciation (Depreciation) Included in Changes in Net Assets	Investments in Portfolio Companies, Interest on Bridge Notes, and Amortization of Loan Fees, Net	Disposals and Settlements	Ending Balance 12/31/2016	Amount of Total Appreciation (Depreciation) for the Period Including Changes in Net Assets Attributable to the Change in Unrealized Gains/Losses Related to Assets Still Held at the Reporting Date
Preferred Stock	\$48,568,205	\$(3,333,948) <sup>1</sup>	\$(396,631) <sup>5,6</sup>	\$4,938,208	\$5,311,592	\$(13,560,139)	\$41,527,287	\$4,553,843
Bridge Notes	4,275,728	(112,227) <sup>2</sup>	(406,621) <sup>5</sup>	(528,885)	4,047,564	(1,323,902)	5,951,657	(508,580)
Common Stock	639,786	0	952,210 <sup>5</sup>	111,776	484,683	0	2,188,455	111,776
Warrants	480,025	(333,862) <sup>3</sup>	(250,389) <sup>5,6</sup>	301,354	0	0	197,128	(32,508)
Rights to Milestone Payments	3,362,051	0	0	(822,698)	0	0	2,539,353	(822,698)
Senior Secured Debt	0	0	569,904 <sup>5</sup>	(309,346)	982,142	0	1,242,700	(309,346)
Subordinated Secured Debt	560,538	0	(569,904) <sup>5</sup>	0	9,366	0	0	0
Funds Held in Escrow From Sales of Investments	374,565	263,427 <sup>4</sup>	0	0	0	(521,014)	116,978	0
Options	54	0	0	(54)	0	0	0	(54)
OTC Traded Common Stock	29,732	0	(29,732) <sup>7</sup>	0	0	0	0	0

Total	\$58,290,684	\$(3,516,610)	\$(131,163)	\$3,690,355	\$10,835,347	\$(15,405,055)	\$53,763,558	\$2,992,433
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<sup>1</sup>Represents gross realized losses of \$7,207,390 net of gross realized gains of \$3,873,442.

<sup>2</sup>Represents a gross realized losses of \$121,522 net of gross realized gains of \$9,295.

<sup>3</sup>Represents a gross realized loss.

<sup>4</sup>Represents a gross realized gain.

<sup>5</sup>Transfers among asset classes are owing to conversions or exercises at financing events. These do not represent transfers in or out of Level 3.

<sup>6</sup>There was a \$101,431 transfer from "Warrants" of OpGen, Inc. from Level 3 investments to a Level 2 investment.

<sup>7</sup>There was a \$29,732 transfer from "OTC Traded Common Stock" of Enumeral Biomedical Holdings, Inc. from Level 3 investments to a Level 1 investment.

We elected to use the beginning of period values to recognize transfers in and out of Level 3 investments. For the year ended December 31, 2016, there were transfers out of Level 3 investments totaling \$131,163. A total of 129,327 of our shares of Enumeral Biomedical Holdings, Inc., transferred from Level 3 investments to Level 1 investments owing to the use of their unadjusted closing share price on their respective stock exchanges on December 31, 2016, to derive their value. Transfers from Level 3 investments to Level 2 investments occur when observable inputs replace unobservable inputs as the primary inputs used to derive value.



At December 31, 2015, our financial assets were categorized as follows in the fair value hierarchy:

Fair Value Measurement at Reporting Date Using:

Description	December 31, 2015	Unadjusted Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Significant Unobservable Inputs (Level 3)
<b>Privately Held Portfolio Companies:</b>				
Preferred Stock	\$48,568,205	\$ 0	\$ 0	\$ 48,568,205
Bridge Notes	4,275,728	0	0	4,275,728
Warrants	480,025	0	0	480,025
Rights to Milestone Payments	3,362,051	0	0	3,362,051
Common Stock	639,786	0	0	639,786
Subordinated Secured Debt	560,538	0	0	560,538
Options	54	0	0	54
<b>Publicly Traded Portfolio Companies:</b>				
Common Stock	\$19,100,581	\$ 18,126,030	\$ 944,819	\$ 29,732
Total Investments:	\$76,986,968	\$ 18,126,030	\$ 944,819	\$ 57,916,119
Funds Held in Escrow From Sales of Investments:	\$374,565	\$ 0	\$ 0	\$ 374,565
Total Financial Assets:	\$77,361,533	\$ 18,126,030	\$ 944,819	\$ 58,290,684

Financial Instruments Disclosed, but not Carried, at Fair Value

The following table presents the carrying value and the fair value of the Company's financial liabilities disclosed, but not carried, at fair value as of December 31, 2015, and the level of each financial liability within the fair value hierarchy:

Description	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Term Loan Credit Facility <sup>(1)</sup>	\$5,000,000	\$5,000,000	\$ 0	\$ 0	\$5,000,000
Total	\$5,000,000	\$5,000,000	\$ 0	\$ 0	\$5,000,000

<sup>(1)</sup> Fair value of the Term Loan Credit Facility is equal to the carrying amount of this credit facility.

Significant Unobservable Inputs

The table below presents the valuation technique and quantitative information about the significant unobservable inputs utilized by the Company in the fair value measurements of Level 3 assets. Unobservable inputs are those inputs

for which little or no market data exists and, therefore, require an entity to develop its own assumptions.

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	December 31, 2015	Valuation Approach(es)	Unobservable Input(s)	Range(s) (Weighted Average(a))
Preferred Stock	\$7,648,727	Hybrid Approach	Private Offering Price Volatility Time to Exit	\$1.08 - \$2.17 (\$2.07) 48.8% - 131.2% (56.5%) 1.25 - 1.5 Years (1.48)
Preferred Stock	22,784,347	Income Approach	Private Offering Price Non-Performance Risk Volatility Time to Exit	\$0.02 - \$23.03 (\$2.65) 0% - 48% (4.4%) 0% - 112.8% (68.4%) 1.0 - 5.0 Years (2.8)
Preferred Stock	18,135,131	Market Approach	Volatility Revenue Multiples Time to Exit Discount for Lack of Marketability	0% - 54.1% (45.5%) 0 - 5.9 (4.76) 0.2 - 2 Years (1. 2) 0% - 16.7% (12.9%)
Bridge Notes	1,124,714	Income Approach	Private Offering Price	\$1.00 (\$1.00)
Bridge Notes	3,151,014	Market Approach	Private Offering Price	\$0.56 - \$1.00 (\$0.98)
Common Stock	309,963	Hybrid Approach	Private Offering Price Volatility Time to Exit	\$1.08 (\$1.08) 131.2% (131.2%) 1.25 Years (1.25)
Common Stock	329,802	Income Approach	Private Offering Price Volatility Time to Exit	\$0 - \$3.71 (\$3.71) 50.8% (50.8%) 3 Years (3)
Common Stock	21	Market Approach	Private Offering Price	\$0.0001 - \$0.001 (\$0.0001)
Warrants	101,431	Market Approach	Volume Weighted Average Price Stock Price Volatility	0.34 (0.34) \$0.021 - \$3.88 (\$1.04) 48.8% - 101.9% (64%)

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Warrants	378,594	Income Approach	Expected Term	0.03 - 9.14 Years (3.34)
		Probability Weighted	Probability of Achieving Independent Milestones	25% - 100% (58%)
Rights to Milestone Payments	3,362,051	Discounted Cash Flow	Probability of Achieving Dependent Milestones	0% - 75% (36%)
Subordinated Secured Debt	560,538	Market Approach	Market Price	0.56 (0.56)
Funds Held in Escrow From Sales of Investments	374,565	Market Approach	Escrow Discount	50% (50%)

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Cont'd	December 31, 2015	Valuation Approach(es)	Unobservable Input(s)	Range(s) (Weighted Average(a))
			Stock Price	\$0.23 (\$0.23)
			Volatility	79% (79%)
Options	\$54	Income Approach	Expected Term	0.58 Years (0.58)
OTC Traded Common Stock	29,732	Market Approach	Stock Price	\$0.23 (\$0.23)
Total	\$58,290,684			

(a) Weighted average based on fair value at December 31, 2015.

The following chart shows the components of change in the financial assets categorized as Level 3 for the year ended December 31, 2015.

	Beginning Balance 1/1/2015	Total Realized Gains (Losses) Included in Changes in Net Assets	Transfers	Total Unrealized (Depreciation) Appreciation Included in Changes in Net Assets	Investments in Portfolio Companies, Interest on Bridge Notes, and Amortization of Loan Fees, Net	Disposals and Settlements	Ending Balance 12/31/2015	Amount of (Depreciation) Appreciation the Period Includes Changes in Assets Attributable to the Change in Unrealized Losses Related to Assets Still at the Reporting
Preferred Stock	\$70,969,603	\$2,364,827 <sup>7</sup>	\$(15,054,684) <sup>1,3</sup>	\$(9,744,679)	\$5,566,984	\$(5,533,846)	\$48,568,205	\$(8,821,700)
Bridge Notes	2,163,916	1,790,891 <sup>5</sup>	(1,630,121) <sup>2</sup>	(4,488)	4,384,732	(2,429,202)	4,275,728	(1,270,670)
Common Stock	535,280	0	(74,379) <sup>2</sup>	178,885	0	0	639,786	178,885
Warrants	2,026,864	(920,093) <sup>8</sup>	0	(875,095)	272,349	(24,000)	480,025	(1,135,290)
Rights to Milestone Payments	3,193,865	1,261,108 <sup>5</sup>	0	1,773,600	0	(2,866,522)	3,362,051	1,773,600
Senior Secured Debt	1,203,299	35,403 <sup>5</sup>	0	(429,232)	75,899	(885,369)	0	0

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Subordinated Secured Debt	979,450	0	0	(430,293	) 11,381	0	560,538	(430,293
Funds Held in Escrow From Sales of Investments	306,802	(59,209	) <sup>6</sup> 126,972	<sup>1</sup> 0	0	0	374,565	0
Options	50,690	0	0	(50,636	) 0	0	54	(50,636
OTC Traded Common Stock	7,251,178	0	(8,020,281)	<sup>4</sup> (83,817	) 882,652	0	29,732	(83,817
Total	\$88,680,947	\$4,472,927	\$(24,652,493)	\$(9,665,755)	\$11,193,997	\$(11,738,939)	\$58,290,684	\$(9,839,9

<sup>1</sup>There was a \$126,972 transfer from "Preferred Stock" into "Funds Held in Escrow From Sales of Investments" owing to the sale of Molecular Imprints, Inc.

<sup>2</sup> Represents gross transfers.

<sup>3</sup> Represents gross transfers out of \$15,556,547, net of gross transfers in of \$501,863.

<sup>4</sup> Represents gross transfers out of \$8,894,891, net of gross transfers in of \$874,610.

<sup>5</sup> Represents a gross realized gain.

<sup>6</sup> Represents gross realized losses of \$63,544, net of gross realized gains of \$4,335.

<sup>7</sup> Represents gross realized gains of \$3,351,834, net of gross realized losses of \$987,007.

<sup>8</sup> Represents gross realized losses of \$929,035, net of gross realized gains of \$8,942.

For the year ended December 31, 2015, there were transfers out of Level 3 investments totaling \$24,652,493. Our shares of Accelerator IV-New York Corporation transferred from a Level 3 investment owing to its qualification as an equity method investment. A total of 1,769,868 of our shares of Adesto Technologies Corporation, 7,837,041 of our shares of Enumeral Biomedical Holdings, Inc., and 1,409,796 of our shares of OpGen, Inc., transferred from Level 3 investments to Level 1 investments owing to the use of their unadjusted closing share price on their respective stock exchanges on December 31, 2015, to derive their value. Our shares of Champions Oncology, Inc., transferred from a Level 1 investment to a Level 2 investment owing to the fact that the shares did not trade in an active market at December 31, 2015.

NOTE 6. DERIVATIVES

At December 31, 2016, and December 31, 2015, we had rights to milestone payments from Amgen, Inc.'s acquisition of our former portfolio company, BioVex Group, Inc. These milestone payments were fair valued at \$2,305,239 and \$2,900,232 as of December 31, 2016, and December 31, 2015, respectively. At December 31, 2016, and December 31, 2015, we had rights to milestone payments from Laird Technologies, Inc.'s acquisition of our former portfolio company, Nextreme Thermal Solutions, Inc. These milestone payments were fair valued at \$0 as of December 31, 2016, and December 31, 2015. At December 31, 2016, and December 31, 2015, we had rights to milestone payments from Canon, Inc.'s acquisition of our former portfolio company, Molecular Imprints, Inc. These milestone payments were fair valued at \$234,114 and \$461,819 as of December 31, 2016, and December 31, 2015, respectively. These milestone payments are contingent upon certain milestones being achieved in the future.

The following tables present the value of derivatives held at December 31, 2016, and the effect of derivatives held during the year ended December 31, 2016, along with the respective location in the financial statements.

Statements of Assets and Liabilities:

Derivatives	Assets		Liabilities	
	Location	Fair Value	Location	Fair Value
Amgen, Inc. Rights to Milestone Payments from Acquisition of BioVex Group, Inc.	Investments	\$2,305,239	—	—
Laird Technologies, Inc. Rights to Milestone Payments from Acquisition of Nextreme Thermal Solutions, Inc.	Investments	\$0	—	—
Canon, Inc. Rights to Milestone Payments from Acquisition of Molecular Imprints, Inc.	Investments	\$234,114	—	—

Statements of Operations:

Derivatives	Location	Realized Gain/(Loss)	Change in unrealized Depreciation

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Amgen, Inc. Rights to Milestone Payments from Acquisition of BioVex Group, Inc.	Net Realized and Unrealized (Loss) Gain	\$ 0	\$(594,993 )
Laird Technologies, Inc. Rights to Milestone Payments from Acquisition of Nextreme Thermal Solutions, Inc.	Net Realized and Unrealized (Loss) Gain	\$ 0	\$0
Canon, Inc. Rights to Milestone Payments from Acquisition of Molecular Imprints, Inc.	Net Realized and Unrealized (Loss) Gain	\$ 0	\$(227,705 )

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The following tables present the value of derivatives held at December 31, 2015, and the effect of derivatives held during the year ended December 31, 2015, along with the respective location in the financial statements.

Statements of Assets and Liabilities:

Derivatives	Assets		Liabilities	
	Location	Fair Value	Location	Fair Value
Amgen, Inc. Rights to Milestone Payments from Acquisition of BioVex Group, Inc.	Investments	\$2,900,232	—	—
Laird Technologies, Inc. Rights to Milestone Payments from Acquisition of Nextreme Thermal Solutions, Inc.	Investments	\$0	—	—
Canon, Inc. Rights to Milestone Payments from Acquisition of Molecular Imprints, Inc.	Investments	\$461,819	—	—

Statements of Operations:

Derivatives	Location	Realized Gain/(Loss)	Change in unrealized Appreciation
Amgen, Inc. Rights to Milestone Payments from Acquisition of BioVex Group, Inc.	Net Realized and Unrealized Gain (Loss)	\$ 862,346	\$ 1,543,924
Laird Technologies, Inc. Rights to Milestone Payments from Acquisition of Nextreme Thermal Solutions, Inc.	Net Realized and Unrealized Gain (Loss)	\$ 0	\$ 0
Canon, Inc. Rights to Milestone Payments from Acquisition of Molecular Imprints, Inc.	Net Realized and Unrealized Gain (Loss)	\$ 398,762	\$ 229,676

NOTE 7. STOCK-BASED COMPENSATION

The Company maintains the Stock Plan, which provides for the grant of equity-based awards of stock options to our officers and employees and restricted stock to our officers, employees and non-employee directors subject to compliance with the 1940 Act and an exemptive order granted on April 3, 2012, by the SEC permitting us to award shares of restricted stock (the "Exemptive Order").

Under the Stock Plan, a maximum of 20 percent (6,200,120 shares) of our total shares of common stock issued and outstanding as of the 2012 Annual Meeting date, calculated on a fully diluted basis (31,000,601 shares), were available for awards under the Stock Plan. Under the Stock Plan, no more than 50 percent of the shares of stock reserved for the grant of the awards under the Stock Plan (up to an aggregate of 3,100,060 shares) may be restricted stock awards at any time during the term of the Stock Plan. If any shares of restricted stock are awarded, such awards

will reduce on a percentage basis the total number of shares of stock for which options may be awarded. No more than 1,000,000 shares of our common stock may be made subject to awards under the Stock Plan to any individual in any year. Although the Stock Plan permits us to continue to grant stock options, our Board of Directors has discontinued further grants of stock options. As of December 31, 2016, 710,745 shares of restricted stock, or 2.3 percent, of the 31,000,601 total shares outstanding as of the effective date of the Stock Plan were outstanding. As of December 31, 2016, 197,852 options, or 0.6 percent, of the 31,000,601 total shares outstanding as of the effective date of the Stock Plan were outstanding.

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The Stock Plan will expire on June 7, 2022. The expiration of the Stock Plan will not by itself adversely affect the rights of plan participants under awards that are outstanding at the time the Stock Plan expires.

#### Stock Option Awards

During the years ended December 31, 2016, 2015 and 2014, the Compensation Committee of the Board of Directors of the Company did not grant any stock options. The Compensation Committee does not plan to grant new stock options to employees.

For the years ended December 31, 2016, December 31, 2015, and December 31, 2014, the Company recognized \$0, \$0, and \$92,758, respectively, of compensation expense in the Consolidated Statements of Operations related to stock options. As of December 31, 2016, and December 31, 2015, the stock options outstanding were fully vested and, therefore, fully expensed.

No options were exercised during the years ended December 31, 2016, December 31, 2015, and December 31, 2014. Upon exercise, shares would be issued from our previously authorized but unissued shares.

A summary of the changes in outstanding stock options for the year ended December 31, 2016, is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Options Outstanding at January 1, 2016	1,402,912	\$ 9.85	\$ 6.34	0.70	\$ 0
Granted	0	0	0	0	
Exercised	0	0	0	0	
Forfeited or Expired	(1,205,060)	10.34	6.85	0	
Options Outstanding and Exercisable at December 31, 2016	197,852	\$ 6.86	\$ 3.25	1.01	\$ 0

The aggregate intrinsic value in the table above with respect to outstanding options is calculated as the difference between the Company's closing stock price of \$1.38 on December 30, 2016, the last trading day of the year, and the exercise price, multiplied by the number of in-the-money options. This amount represents the total pre-tax intrinsic value that would have been received by the option holders had all option holders exercised their awards on December 30, 2016.

At December 31, 2016, and December 31, 2015, there were no unvested options.

#### Restricted Stock

On June 11, 2012, the Compensation Committee granted the employees a total of 1,780,000 shares of restricted stock. A total of 1,068,000 awards (60 percent) vest when the volume-weighted stock price is at or above pre-determined stock price targets over a 30-day period. These pre-determined stock price targets range from \$5.00 per share to \$9.00 per share. The remaining 712,000 of these shares (40 percent) have vesting dates ranging from December 31, 2012, through June 30, 2017, based on the employee's continued service to the Company. On March 6, 2014, the

Compensation Committee granted 26,360 shares of restricted stock to a new employee under service terms and volume weighted market price conditions matching those of the June 11, 2012, employee grant. On November 3, 2016, the Compensation Committee granted 4,690 shares of restricted stock to a new employee under service terms matching those of the June 11, 2012, employee grant. Pursuant to the Exemptive Order, non-employee directors receive up to 2,000 shares of restricted stock annually, which vest pro rata over a three-year period from the date of the grant. Non-employee directors were granted 14,000 shares of restricted stock on May 1, 2014, 10,000 shares of restricted stock on June 5, 2015, and 12,000 shares of restricted stock on June 7, 2016.

The compensation expense for the service-based award is determined by the market price of our stock at the date of grant applied to the total number of shares we anticipate to fully vest. The market price for the March 6, 2014, and November 3, 2016, employee service-based award was \$3.05 and \$1.28, respectively. The market price for the May 1, 2014, grant to the non-employee

directors was \$3.60. The market price for the June 5, 2015, grant to the non-employee directors was \$2.72. The market price for the June 7, 2016, grant to the non-employee directors was \$1.74.

The compensation expense for the market-based award is determined by the fair value of the award applied to the number of shares granted, net of estimated forfeitures. The fair value of the market-based award granted on March 6, 2014, was determined using a lattice model. The fair value of this award ranges from \$2.40 per share to \$2.64 per share and will be expensed over derived service periods ranging from approximately 44 to 86 months.

During 2016, a total of 283,370 shares of restricted stock were forfeited in connection with the voluntary termination of two of our employees. As a result, compensation cost of \$374,564 related to these awards was reversed, which reduced stock-based compensation cost for the period. For the year ended December 31, 2016, we recognized \$158,973 of net compensation expense related to restricted stock awards. As of December 31, 2016, there was unrecognized compensation cost of \$336,397 related to restricted stock awards. This cost is expected to be recognized over a remaining weighted average period of approximately nine months.

Non-vested restricted stock awards as of December 31, 2016, and changes during the year ended December 31, 2016, were as follows:

	Shares	Weighted-Average Grant Date Fair Value Per Share
Outstanding at January 1, 2016	1,062,329	\$ 2.66
Granted	16,690	1.61
Vested based on service	(58,454 )	3.33
Shares withheld related to net share settlement of restricted stock	(26,450 )	3.37
Forfeited	(283,370 )	2.65
Outstanding at December 31, 2016	710,745	\$ 2.56

For the year ended December 31, 2015, we recognized \$798,965 of compensation expense related to restricted stock awards. As of December 31, 2015, there was unrecognized compensation cost of \$1,074,141 related to restricted stock awards. This cost is expected to be recognized over a remaining weighted average period of approximately 1.0 year.

Non-vested restricted stock awards as of December 31, 2015, and changes during the year ended December 31, 2015, were as follows:

	Shares	Weighted-Average Grant Date Fair Value Per Share
Outstanding at January 1, 2015	1,165,495	\$ 2.73
Granted	10,000	2.72
Vested based on service	(73,992 )	3.38
Shares withheld related to net share settlement of restricted stock	(35,175 )	3.37
Forfeited	(3,999 )	3.44
Outstanding at December 31, 2015	1,062,329	\$ 2.66

Under net settlement procedures currently applicable to our outstanding restricted stock awards for current employees, upon each settlement date, restricted stock awards are withheld to cover the required withholding tax, which is based on the value of the restricted stock award on the settlement date as determined by the closing price of our common stock on the vesting date. The remaining amounts are delivered to the recipient as shares of our common stock. During

2016, 84,904 restricted stock awards vested, of which 75,570 restricted stock awards were net settled by withholding 26,450 shares, which represented the employees' minimum statutory obligation for each employee's applicable income and other employment taxes and remitted cash totaling

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\$39,691 to the appropriate tax authorities. During 2015, 109,167 restricted stock awards vested, of which 100,500 restricted stock awards were net settled by withholding 35,175 shares, which represented the employees' minimum statutory obligation for each such employee's applicable income and other employment taxes and remitted cash totaling of \$86,914 to the appropriate tax authorities. The amount remitted to the tax authorities for the employees' tax obligation was reflected as a financing activity within our Consolidated Statements of Cash Flows. The shares withheld by us as a result of the net settlement of restricted stock awards are not considered issued and outstanding, thereby reducing our shares outstanding used to calculate net asset value per share.

#### NOTE 8. DISTRIBUTABLE EARNINGS

As of December 31, 2016, December 31, 2015, and December 31, 2014, there were no distributable earnings. The difference between the book basis and tax basis components of distributable earnings is primarily nondeductible deferred compensation and net operating losses.

The Company did not declare dividends for the years ended December 31, 2016, 2015 or 2014.

#### NOTE 9. EMPLOYEE BENEFITS

##### 401(k) Plan

We adopted a 401(k) Plan covering substantially all of our employees. Matching contributions to the plan are at the discretion of the Compensation Committee. For the year ended December 31, 2016, the Compensation Committee approved a 100 percent match, which amounted to \$162,000. The 401(k) Company match for the years ended December 31, 2015, and December 31, 2014, was \$180,690 and \$216,420, respectively.

##### Medical Benefit Retirement Plan

We administer a plan to provide medical and dental insurance for retirees and their spouses 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 (the "Medical Benefit Retirement Plan"). On March 7, 2013, the Board of Directors amended the Medical Benefit Retirement Plan. The amendment limits the medical benefit to \$10,000 per year for a period of ten years. The amendment does not affect benefits accrued by former employees or one current employee who is grandfathered under the former terms of the plan.

Our accumulated postretirement benefit obligation was re-measured as of the plan amendment date, which resulted in a \$1,101,338 decrease in our liability. A deferred gain of \$1,101,338 owing to this amendment was included in "Accumulated other comprehensive income" as of March 31, 2013. This amount is being amortized over a service period of 5.27 years. During the years ended December 31, 2016, December 31, 2015, and December 31, 2014, a total of \$208,983, \$208,983 and \$208,983, respectively, was amortized and included as a reduction of "Salaries, benefits and stock-based compensation" on our Consolidated Statements of Operations. All of the amounts reported in the Consolidated Statements of Comprehensive Income (Loss) relate to the plan amendment.

The plan is unfunded and has no assets. The following disclosures about changes in the benefit obligation under our plan to provide medical and dental insurance for retirees are as of the measurement date of December 31:

2016	2015
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Accumulated Postretirement Benefit Obligation at Beginning of Year	\$991,429	\$1,042,730
Service Cost	19,031	25,362
Interest Cost	40,241	39,186
Actuarial Loss (Gain)	35,798	(94,174 )
Benefits Paid	(18,580 )	(21,675 )
Accumulated Postretirement Benefit Obligation at End of Year	\$1,067,919	\$991,429

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In accounting for the plan, the assumption made for the discount rate was 3.94 percent and 4.15 percent for the years ended December 31, 2016, and 2015, respectively. The assumed health care cost trend rates in 2016 were 8 percent grading to 5 percent over 10 years for medical and 5 percent per year for dental. The assumed health care cost trend rates in 2015 were 8 percent grading to 5 percent over 6 years for medical and 5 percent per year for dental. The effect on disclosure information of a one percentage point change in the assumed health care cost trend rate for each future year is shown below.

	1% Decrease in Rates	Assumed Rates	1% Increase in Rates
Aggregated Service and Interest Cost	\$53,243	\$59,272	\$66,618
Accumulated Postretirement Benefit Obligation	\$958,704	\$1,067,919	\$1,198,624

The net periodic postretirement benefit cost for the year is determined as the sum of service cost for the year, interest on the accumulated postretirement benefit obligation and amortization of the prior service cost and actuarial gains/losses over the average remaining service period of employees expected to receive plan benefits. The following is the net periodic postretirement benefit cost for the years ended December 31, 2016, 2015, and 2014:

	2016	2015	2014
Service Cost	\$19,031	\$25,362	\$41,433
Interest Cost on Accumulated Postretirement Benefit Obligation	40,241	39,186	42,075
Amortization of Prior Service Cost	(208,983 )	(208,983 )	(208,983 )
Amortization of Net (Gain)/Loss	10,288	17,077	11,833
Net Periodic Post Retirement Benefit Cost	\$(139,423)	\$(127,358)	\$(113,642)

A total of \$208,983 in accumulated other comprehensive income is expected to be recognized as a component of net periodic post retirement benefit cost in 2017.

The Company estimates the following benefits to be paid in each of the following years:

2017	\$24,323
2018	\$28,516
2019	\$33,702
2020	\$39,391
2021	\$45,311
2022 through 2026	\$306,370

For the year ended December 31, 2016, net unrecognized actuarial losses, which resulted primarily from the decrease in the discount rate, increased by \$25,510, which represents \$35,798 of actuarial losses arising during the year, offset by a reclassification adjustment of \$10,288 that increased the net periodic benefit cost for the year.

For the year ended December 31, 2015, net unrecognized actuarial gains, which resulted primarily from an increase in the discount rate, increased by \$111,251, which represents \$94,174 of actuarial gains arising during the year and a reclassification adjustment of \$17,077 that increased the net periodic benefit cost for the year.

For the year ended December 31, 2014, net unrecognized actuarial losses, which resulted primarily from the decrease in the discount rate, increased by \$72,412, which represents \$84,245 of actuarial losses arising during the year, offset by an \$11,833 reclassification adjustment that increased the net periodic benefit cost for the year.

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## Executive Mandatory Retirement Benefit Plan

On May 5, 2011, the Board of Directors of Harris & Harris Group, Inc., terminated the Amended and Restated Executive Mandatory Retirement Benefit Plan. The plan was adopted in 2003 in order to begin planning for eventual management succession for individuals who are employed by us in a bona fide executive or high policy-making position. The plan provided benefits required by age discrimination laws as a result of the Company's policy of mandatory retirement when such individuals attained the age of 65. Our former President accrued benefits under this plan prior to his retirement, and the termination of this plan has no impact on his accrued benefits. At December 31, 2016, and 2015, we had \$201,102 and \$210,718, respectively, accrued for benefits for this former employee under the plan, which is included in "Post retirement plan liabilities" on the Consolidated Statements of Assets and Liabilities.

## NOTE 10. INCOME TAXES

We filed for the 1999 tax year to elect treatment as a RIC under Subchapter M of the Code and qualified for the same treatment for the years 2000 through 2015. We did not qualify as a RIC under Subchapter M of the Code in 2016. We did not have any taxable income in 2016, so this failure to qualify as a RIC did not result in a tax liability. The discussion below provides details on why we did not qualify as a RIC in 2016.

In the case of a RIC that furnishes capital to development corporations, there is an exception to the rule relating to the diversification of investments required to qualify for RIC treatment. Because of the specialized nature of our investment portfolio, we generally can satisfy the diversification requirements under the Code if we receive a certification from the SEC pursuant to Section 851(e) of the Code. This exception is available only to RICs that the SEC determines to be principally engaged in the furnishing of capital to other corporations that are principally engaged in the development or exploitation of inventions, technological improvements, new processes, or products not previously generally available ("SEC Certification"). If we require, but fail to obtain, the SEC Certification for a taxable year, we may fail to qualify as a RIC for such year. We have received SEC Certification since 1999, including for 2015, but it is possible that we may not receive SEC Certification in future years. Because we failed to qualify as a RIC in 2016, we do not intend to apply for certification for 2016.

In addition, under certain circumstances, even if we qualified for Subchapter M treatment for a given year, we might take action in a subsequent year to ensure that we would be taxed in that subsequent year as a C Corporation, rather than as a RIC.

As a RIC, we also will fail to qualify for favorable RIC tax treatment for a taxable year if we do not satisfy the 90 percent Income Test or Annual Distribution Requirement for such year. In the event we do not satisfy the 90 percent Income Test, the Diversification Tests or the Annual Distribution Requirement for any taxable year, we will be subject to federal tax with respect to all of our taxable income, whether or not distributed. In addition, all our distributions to shareholders in that situation generally will be taxable as ordinary dividends.

Income from fees and consulting payments generally does not qualify as good RIC income under the 90 percent Income Test. We generated more income from such payments for the year ended December 31, 2016, and have failed to qualify as a RIC for the current taxable year owing to the inability to satisfy the 90 percent Income Test. The Company is obligated to be taxed as a corporation (subject to federal, state and local income tax) on its taxable income. Although the Company failed the income test for the year ended December 31, 2016, it does not have taxable income as it is in a loss position owing to gains being offset by current year's capital losses and operating losses. The Company will continue to evaluate the long-term impact of potential taxation as a C-Corporation based on tax liabilities resulting from failure to pass the 90 Percent Income Test, the Diversification Tests or the Annual Distribution Requirement in each subsequent year.

Furthermore, our ownership percentages in our portfolio have grown over the last several years, which makes it more difficult to pass certain RIC diversification tests when companies in our portfolio are successful and we wish to invest more capital in those companies to increase our investment returns. As long as the aggregate values of our

non-qualifying assets remain below 50 percent of total assets, we will continue to qualify as a RIC. Rather than selling portfolio companies that are performing well in order to pass our RIC diversification tests, we may opt instead not to qualify as a RIC. We will choose to take such action only if we believe that the result of the action will benefit us and our shareholders.

For federal tax purposes, the Company's 2013 through 2016 tax years remain open for examination by the tax authorities under the normal three-year statute of limitations. Generally, for state tax purposes, the Company's 2012 through 2016 tax years remain open for examination by the tax authorities under a four-year statute of limitations.

During 2016, the Company recorded a consolidated expense of \$1,767 in federal, state and local income taxes. At December 31, 2016, we had \$0 accrued for federal, state and local taxes payable by the Company.

We pay federal, state and local taxes on behalf of Ventures, which is taxed as a C Corporation. For the years ended December 31, 2016, 2015, and 2014, our income tax (benefit) expense for Ventures was \$(3,412), \$1,125 and \$16,698, respectively.

Tax expense included in the Consolidated Statement of Operations consists of the following:

	2016	2015	2014
Current	\$1,767	\$2,148	\$17,896
Total income tax expense	\$1,767	\$2,148	\$17,896

The Company realized short- and long-term losses of \$8,073,408 in 2016. The Company realized short- and long-term gains of \$4,533,848 in 2015 and short- and long-term capital losses of \$5,899,525 in 2014. The Company offsets any gains with capital loss carryforwards and neither owes federal income taxes on the gains or is required to distribute a portion of the gains to shareholders.

On December 22, 2010, the Regulated Investment Company Modernization Act of 2010 (the "Act") was enacted, which changed various technical rules governing the tax treatment of RICs. The changes are generally effective for taxable years beginning after the date of enactment. One of the more prominent changes addresses capital loss carryforwards. Under the Act, the Company will be permitted to carry forward capital losses incurred in taxable years beginning after the date of enactment for an unlimited period. However, any losses incurred during those future taxable years will be required to be utilized prior to the losses incurred in pre-enactment taxable years, which carry an expiration date. As a result of this ordering rule, pre-enactment capital loss carryforwards may be more likely to expire unused. Additionally, post-enactment capital loss carryforwards will retain their character as either short-term or long-term capital losses rather than being considered all short term as permitted under previous regulation.

As of December 31, 2016, we had post-enactment loss carryforwards under the provisions of the Act of \$612,621 short term and \$8,837,366 long term. Post-enactment losses have no expiration date. As of December 31, 2016, we had pre-enactment loss carryforwards totaling \$3,875,967, expiring in 2018. We had no post-October losses.

#### NOTE 11. COMMITMENTS AND CONTINGENCIES

On May 4, 2016, the Company made its first investment of \$150,000 in AgTech Accelerator Corporation ("AgTech"). On November 17, 2016, the Company made a second investment of \$150,000, representing its total operating commitment of \$300,000 to AgTech. AgTech will be identifying emerging agricultural innovation companies for the Company to invest in directly. As of December 31, 2016, the Company had an unfunded \$1,200,000 investment commitment to be invested in the identified portfolio companies over a five-year period. On February 3, 2017, the Company withdrew from participation in AgTech prior to any of the investment commitment being called. The Company no longer has any unfunded commitments to AgTech following the date of the withdrawal. The Company's decision to withdraw from AgTech allows the other investors the option to purchase the Company's shares of AgTech for \$0.001 per share within 90 days from our notice of withdrawal. This option has yet to be exercised. If the other investors do not exercise the option to purchase the Company's shares of AgTech within the 90 days, the Company will retain its shares of AgTech with no further investment commitment.

On July 21, 2014, the Company made a \$216,012 investment in Accelerator IV-New York Corporation ("Accelerator"). This initial investment was part of an overall initial \$666,667 operating commitment to Accelerator. Accelerator will be identifying emerging biotechnology companies for the Company to invest in directly. In addition

to this operating commitment, the Company had an initial \$3,333,333 investment commitment to be invested in the identified portfolio companies over a five-year period. If the Company defaults on these commitments, the other investors may purchase the Company's shares of Accelerator for \$0.001 per share. In the event of default, the Company would still be required to contribute the remaining operating commitment. During the third quarter of 2016, the board of directors of Accelerator voted to modify the operating commitment and investment commitment distributions, which resulted in the Company's operating commitment to be set at \$833,333 and investment commitment to be set at \$3,166,667.

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The Company's aggregate operating and investment commitments in Accelerator amounted to \$833,333 and \$3,166,667, respectively. During the year ended December 31, 2015, \$262,215 in capital related to the operating commitment and \$1,132,950 in capital related to the investment commitment was called. During the year ended December 31, 2016, \$103,680 in capital related to the operating commitment and \$1,050,290 in capital related to the investment commitment was called. As of December 31, 2016, the Company had remaining unfunded commitments of \$251,426 and \$983,427, or approximately 30.2 percent and 31.1 percent, of the total operating and investment commitments, respectively. The withdrawal of contributed capital is not permitted. The transfer or assignment of capital is subject to approval by Accelerator.

On September 24, 2009, we signed a ten-year lease for approximately 6,900 square feet of office space located at 1450 Broadway, New York, New York. The lease commenced on January 21, 2010, with these offices replacing our corporate headquarters previously located at 111 West 57th Street, New York, New York. The base rent is \$36 per square foot with a 2.5 percent increase per year over the 10 years of the lease, subject to a full abatement of rent for four months and a rent credit for six months throughout the lease term. The lease expires on December 31, 2019.

We have one option to extend the lease term for a five-year period, provided that we are not in default under the lease. Annual rent during the renewal period will equal 95 percent of the fair market value of the leased premises, as determined in accordance with the lease. Upon an event of default, the lease provides that the landlord may terminate the lease and require us to pay all rent that would have been payable during the remainder of the lease or until the date the landlord re-enters the premises.

Total rent expense for all of our office space, including rent on expired leases, was \$262,024 in 2016; \$301,828 in 2015; and \$299,048 in 2014. Aggregate future minimum lease payments in each of the following years are: 2017 - \$294,882; 2018 - \$302,254; and 2019 - \$309,811.

In the ordinary course of business, we indemnify our officers and directors, subject to certain regulatory limitations, for loss or liability related to their service on behalf of the Company, including serving on the boards of directors or as officers of portfolio companies. At December 31, 2016, and 2015, we believed our estimated exposure was minimal, and accordingly we have no liability recorded.

#### NOTE 12. SHARE REPURCHASE PROGRAM

On August 6, 2015, our Board of Directors authorized a repurchase of up to \$2.5 million of the Company's common stock in the open market within a six-month period. Under the repurchase program, we may, but we are not obligated to, repurchase our outstanding common stock in the open market from time to time provided that we comply with the prohibitions under our Insider Trading Policies and Procedures and the guidelines specified in Rule 10b-18 of the Securities Exchange Act of 1934, as amended, including certain price, market volume and timing constraints. In addition, any repurchases are conducted in accordance with the 1940 Act. During the year ended December 31, 2015, we repurchased 509,082 shares at an average price of approximately \$2.36 per share, inclusive of commissions. This represented a discount of approximately 18.1 percent of the net asset value per share at December 31, 2015. The total dollar amount of shares repurchased in this period was \$1,199,994, leaving a maximum of \$1,300,006 available for future program purchases as of December 31, 2015. This six-month period expired on February 6, 2016. On March 3, 2016, our Board of Directors reauthorized the repurchase of up to \$2.5 million of the Company's common stock within a six-month period from the proxy mailing date of April 29, 2016. This six-month period expired on October 31, 2016. On November 3, 2016, our Board of Directors reauthorized the repurchase of up to \$2.5 million of the Company's common stock within a six-month period from the date of notice to investors, which date has yet to be determined. As of December 31, 2016, and March 15, 2017, no additional repurchases had occurred, leaving a maximum of \$2.5 million available for future repurchases.

NOTE 13. CHANGE IN NET ASSETS PER SHARE

The following table sets forth the computation of basic and diluted per share net decreases in net assets resulting from operations for the years ended December 31, 2016, 2015, and 2014.

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	2016	2015	2014
Numerator for decrease in net assets per share resulting from operations	\$(16,366,360)	\$(20,245,830)	\$(13,570,420)
Denominator for basic weighted average shares	30,864,815	31,174,758	31,222,877
Basic net decrease in net assets per share resulting from operations	\$(0.53 )	\$(0.65 )	\$(0.43 )
Denominator for diluted weighted average shares	30,864,815	31,174,758	31,222,877
Diluted net decrease in net assets per share resulting from operations	\$(0.53 )	\$(0.65 )	\$(0.43 )
Anti-dilutive shares by type:			
Stock options	197,852	1,402,912	1,423,912
Restricted stock <sup>1</sup>	63,746	169,329	268,705
Total anti-dilutive shares	261,598	1,572,241	1,692,617

<sup>1</sup>A total of 647,000, 893,000, and 893,000 market-based shares of restricted stock were outstanding at December 31, 2016, December 31, 2015, and December 31, 2014. These shares vest when the volume-weighted stock price is at or above pre-determined stock price targets over a 30-day period. These pre-determined stock price targets range from \$5.00 per share to \$9.00 per share. These shares were not included in the computation of diluted net asset value per share because as of the end of the reporting period none of the pre-determined stock price targets were met.

For the years ended December 31, 2016, 2015 and 2014, the calculation of net decrease in net assets resulting from operations per diluted share did not include stock options or shares of restricted stock because such shares were anti-dilutive. Stock options and restricted stock awards may be dilutive in future periods in which there are both a net increase in net assets resulting from operations and either significant increases in our average stock price or significant decreases in the amount of unrecognized compensation cost during the period.

#### NOTE 14. RELATED PARTY TRANSACTIONS

As a BDC, we provide managerial assistance to our portfolio companies. In certain cases, we receive fees for providing such assistance. During the years ended December 31, 2016, 2015 and 2014, we received fees totaling \$1,002,853, \$191,609 and \$86,667, respectively.

#### NOTE 15. SUBSEQUENT EVENTS

On January 17, 2017, 180 Degree Capital Corp., a privately held portfolio company, was dissolved, and the Company's invested capital of \$150,000 was returned in full.

On February 3, 2017, the Company withdrew from participation in AgTech Accelerator Corporation.

On February 16, 2017, the Company made a \$425,000 follow-on investment in Interome, Inc., a privately held portfolio company.

## NOTE 16. SELECTED QUARTERLY DATA (UNAUDITED)

	2016			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Total investment income	\$302,042	\$460,042	\$566,152	\$463,954
Net operating loss	\$(1,161,926)	\$(1,048,306)	\$(856,765)	\$(1,449,111)
Net (decrease) increase in net assets resulting from operations	\$(6,049,614)	\$(1,185,045)	\$(6,022,037)	\$(3,109,664)
Net (decrease) increase in net assets resulting from operations per average outstanding share	\$(0.20)	\$(0.04)	\$(0.20)	\$(0.09)
	2015			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Total investment income	\$142,832	\$288,195	\$244,402	\$241,566
Net operating loss	\$(2,036,345)	\$(1,585,307)	\$(1,587,808)	\$(1,953,050)
Net (decrease) increase in net assets resulting from operations	\$(3,922,038)	\$(1,529,496)	\$(16,904,625)	\$2,110,329
Net (decrease) increase in net assets resulting from operations per average outstanding share	\$(0.13)	\$(0.05)	\$(0.54)	\$0.07

HARRIS & HARRIS GROUP, INC.  
FINANCIAL HIGHLIGHTS

	Year Ended Dec. 31, 2016	Year Ended Dec. 31, 2015	Year Ended Dec. 31, 2014	Year Ended Dec. 31, 2013	Year Ended Dec. 31, 2012
Per Share Operating Performance					
Net asset value per share, beginning of year	\$2.88	\$3.51	\$3.93	\$4.13	\$4.70
Net operating loss*	(0.15 )	(0.23 )	(0.25 )	(0.26 )	(0.28 )
Net realized (loss) gain on investments*	(0.26 )	0.15	(0.16 )	0.59	0.08
Net increase in unrealized depreciation on investments and written call options*(1)	(0.12 )	(0.56 )	(0.02 )	(0.58 )	(0.44 )
Share of loss on equity method investment*(2)	0.00	(0.01 )	0.00	0.00	0.00
Total from investment operations*	(0.53 )	(0.65 )	(0.43 )	(0.25 )	(0.64 )
Net increase as a result of stock-based compensation expense*(2)	0.01	0.03	0.03	0.04	0.09
Net increase as a result of purchase of treasury stock	0.00	0.01	0.00	0.00	0.00
Net decrease as a result of acquisition of vested restricted stock awards related to employee withholding(2)	(0.01 )	(0.01 )	(0.01 )	(0.01 )	(0.02 )
Total increase from capital stock transactions	0.00	0.03	0.02	0.03	0.07
Net (decrease) increase as a result of other comprehensive (loss) income*(2)	(0.01 )	(0.01 )	(0.01 )	0.02	0.00
Net decrease in net asset value	(0.54 )	(0.63 )	(0.42 )	(0.20 )	(0.57 )
Net asset value per share, end of year	\$2.34	\$2.88	\$3.51	\$3.93	\$4.13
Stock price per share, end of year	\$1.38	\$2.20	\$2.95	\$2.98	\$3.30
Total return based on stock price	(37.27 )%	(25.42 )%	(1.01 )%	(9.70 )%	(4.62 )%
Supplemental Data:					
Net assets, end of year	\$72,255,610	\$88,711,671	\$109,654,427	\$122,701,575	\$128,436,774
Ratio of expenses, excluding taxes, to average net assets(3)	7.88 %	8.15 %	7.14 %	6.62 %	6.57 %
Ratio of expenses, including taxes, to average net assets(3)	7.89 %	8.15 %	7.15 %	6.65 %	6.58 %
	(5.64 )%	(7.22 )%	(6.70 )%	(6.26 )%	(6.07 )%

Ratio of net operating loss to  
average net assets<sup>(3)</sup>

Average debt outstanding	\$4,590,164	\$3,780,822	\$0	\$0	\$1,679,781
Average debt per share	0.15	0.12	\$0	\$0	\$0.05
Number of shares outstanding, end of year	30,904,209	30,845,754	31,280,843	31,197,438	31,116,881

\*Based on average shares outstanding.

(1) Net unrealized losses include rounding adjustments to reconcile change in net asset value per share. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for a description of unrealized losses on investments.

(2) Amounts listed as zero are amounts calculated as less than \$0.005.

(3) Not annualized.

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Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

As of the end of the period covered by this report, the Company's management, under the supervision and with the participation of our chief executive officer and chief financial officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as required by Rules 13a-15 of the Exchange Act). Disclosure controls and procedures means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the issuer's management, as appropriate, to allow timely decisions regarding required disclosures. As of December 31, 2016, based upon this evaluation of our disclosure controls and procedures, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective.

Internal Control Over Financial Reporting

Management's Report on Internal Control Over Financial Reporting and the Report of Independent Registered Public Accounting Firm, on the Company's internal control over financial reporting, is included in Item 8 of this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fourth quarter of 2016 to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information.

None.

### PART III

#### Item 10. Directors, Executive Officers and Corporate Governance.

The information set forth under the captions "Nominees," "Executive Officers," "Section 16(a) Beneficial Ownership Reporting Compliance" and "Audit Committee" in our Proxy Statement for the 2017 Annual Meeting of Shareholders, to be filed pursuant to Regulation 14A under the Exchange Act (the "2017 Proxy Statement"), is herein incorporated by reference.

We have adopted a Code of Conduct for Directors and Employees, which also applies to our Chief Executive Officer, Chief Financial Officer, Treasurer and Senior Controllers, which is posted on our website at <http://ir.hhvc.com/governance.cfm>.

The Board of Directors has determined that W. Dillaway Ayres, Jr., Stacy R. Brandom and Richard P. Shanley are all "Audit Committee Financial Experts" serving on our Audit Committee. Messrs. Ayres and Shanley and Ms. Brandom are not "interested persons" as defined under Section 2(a)(19) of the 1940 Act and are independent under the rules of the Nasdaq Stock Market.

#### Item 11. Executive Compensation.

The information set forth under the captions "Executive Compensation," "Compensation Committee Interlocks and Insider Participation" and "Compensation Committee Report on Executive Compensation" in the 2017 Proxy Statement is herein incorporated by reference.

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

The information set forth under the caption "How Many Shares Do the Company's Principal Shareholders, Directors and Executive Officers Own?" in the 2017 Proxy Statement is herein incorporated by reference. The "Equity Compensation Plan Information" chart is set forth herein under Item 5.

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

The information set forth under the captions "Nominees" and "Related Party Transactions" in the 2017 Proxy Statement is herein incorporated by reference.

#### Item 14. Principal Accountant Fees and Services.

The information set forth under the captions "Audit Committee's Pre-Approval Policies" and "Fees Paid to PwC for 2016 and 2015" in the 2017 Proxy Statement is herein incorporated by reference.

PART IV

Item 15. Exhibits and Financial Statements Schedules.

(a) The following documents are filed as a part of this report:

(1) Listed below are the financial statements which are filed as part of this report:

Consolidated Statements of Assets and Liabilities as of December 31, 2016, and 2015;

Consolidated Statements of Operations for the years ended December 31, 2016, 2015, and 2014;

Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2016, 2015, and 2014

Consolidated Statements of Cash Flows for the years ended December 31, 2016, 2015, and 2014;

Consolidated Statements of Changes in Net Assets for the years ended December 31, 2016, 2015, and 2014;

Consolidated Schedule of Investments as of December 31, 2016;

Consolidated Schedule of Investments as of December 31, 2015;

Footnote to Consolidated Schedule of Investments;

Notes to Consolidated Financial Statements; and

Financial Highlights for the years ended December 31, 2016, 2015, 2014, 2013 and 2012.

(2) Schedule 12-14 – "Investments and Advances to Affiliates."

(3) The following exhibits are filed with this report or are incorporated herein by reference to a prior filing, in accordance with Rule 12b-32 under the Exchange Act.

3.1(a) Restated Certificate of Incorporation of Harris & Harris Group, Inc., dated September 23, 2005, incorporated by reference to Exhibit 3.1(a) to the Company's Annual Report on Form 10-K for the year ended December 31, 2015 (File No. 814-00176) filed on March 15, 2016.

3.1(b)\* Certificate of Amendment of the Certificate of Incorporation of Harris & Harris Group, Inc., dated May 19, 2006.

3.1(c) Certificate of Change of the Certificate of Incorporation of Harris & Harris Group, Inc., dated August 5, 2010, incorporated by reference to Exhibit 3.1(c) to the Company's Annual Report on Form 10-K for the year ended December 31, 2015 (File No. 814-00176) filed on March 15, 2016.

3.2 Amended and Restated By-laws, incorporated by reference as Exhibit 3.1 to the Company's Form 8-K (File No. 814-00176) filed on December 20, 2016.

31.01\* Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.02\* Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.01\* Certification of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\*Filed herewith

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SIGNATURES

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

HARRIS & HARRIS GROUP,  
INC.

Date: March 15, 2017 By: /s/ Douglas W. Jamison  
Douglas W. Jamison  
Chairman of the Board and  
Chief Executive Officer

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

Signatures	Title	Date
/s/ Douglas W. Jamison Douglas W. Jamison	Chairman of the Board and Chief Executive Officer	March 15, 2017
/s/ Daniel B. Wolfe Daniel B. Wolfe	Chief Financial Officer	March 15, 2017
/s/ W. Dillaway Ayres, Jr. W. Dillaway Ayres, Jr.	Director	March 15, 2017
/s/ Phillip A. Bauman Phillip A. Bauman	Director	March 15, 2017
/s/ Stacy R. Brandom Stacy R. Brandom	Director	March 15, 2017
/s/ Charles E. Ramsey Charles E. Ramsey	Director	March 15, 2017
/s/ Kevin M. Rendino Kevin M. Rendino	Director	March 15, 2017
/s/ Richard P. Shanley Richard P. Shanley	Director	March 15, 2017

EXHIBIT INDEX

The following exhibits are filed with this report in accordance with Rule 12b-32 under the Securities Exchange Act of 1934.

Exhibit No.	Description
3.1(b)	Certificate of Amendment of the Certificate of Incorporation of Harris & Harris Group, Inc., dated May 19, 2006.
31.01	Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.02	Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.01	Certification of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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## Schedule 12-14

## HARRIS &amp; HARRIS GROUP, INC. INVESTMENTS IN AND ADVANCES TO AFFILIATES

Name of Issuer	Title of Issue or Nature of Indebtedness(A)	Amount of Dividends or Interest Credited(Debited) to Income (B)	Value as of December 31, 2015	Gross Additions (C)	Gross Reductions (D)	Value as of December 31, 2016
<b>MAJORITY OWNED CONTROLLED INVESTMENTS (E):</b>						
180 Degree Capital Corp.	Common Stock	\$ 0	\$0	\$150,000	\$0	\$150,000
Black Silicon Holdings, Inc.	Series A Convertible Preferred Stock	\$ 0	\$0	\$0	\$0	\$0
	Series A-1 Convertible Preferred Stock	0	0	0	0	0
	Series A-2 Convertible Preferred Stock	0	0	0	0	0
	Series B-1 Convertible Preferred Stock	0	0	0	0	0
	Series C Convertible Preferred Stock	0	0	0	0	0
	Secured Convertible Bridge Notes	103,981	316,613	0	(54,136 )	262,477
Interome, Inc.	Common Stock	\$ 0	\$0	\$10	\$0	\$10
	Secured Convertible Bridge Note	63,047	0	1,455,000	0	1,455,000
ProMuc, Inc.	Common Stock	\$ 0	\$1	\$0	\$(1 )	\$0
	Secured Convertible Bridge Note	(70,915 )	650,915	0	(637,038 )	13,877
SynGlyco, Inc.	Common Stock	\$ 0	\$0	\$0	\$0	\$0
	Series A' Convertible Preferred Stock	0	100,343	0	(100,343 )	0
	Secured Convertible Bridge Notes	14,331	808,101	0	(778,101 )	30,000
Total Majority Owned Controlled Investments		\$ 110,444	\$1,875,973	\$1,605,010	\$(1,569,619)	\$1,911,364
<b>OTHER CONTROLLED INVESTMENTS (F):</b>						
Essential Health Solutions, Inc.(G)	Common Stock	\$ 0	\$0	\$116,767	\$0	\$116,767
	Series A Convertible Preferred Stock	0	0	2,747,905	0	2,747,905
NGX Bio, Inc.(H)		\$ 0	\$446,878	\$259,545	\$0	\$706,423

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	Series Seed Convertible Preferred Stock					
	Series A Convertible Preferred Stock	0	403,538	43,800	0	447,338
	Unsecured Convertible Bridge Note	22,192	0	580,211	0	580,211
	Warrants for Series Seed Preferred Stock	0	148,958	0	(148,958)	0
Senova Systems, Inc.(I)	Series B Convertible Preferred Stock	\$ 0	\$284,938	\$0	\$(284,938)	\$0
	Series B-1 Convertible Preferred Stock	0	659,411	0	(659,411)	0
	Series C Convertible Preferred Stock	0	1,127,419	0	(672,369)	455,050
	Warrants for Series B Preferred Stock	0	39,980	0	(39,980)	0
	Secured Convertible Bridge Note	22,314	0	356,075	(356,075)	0
TARA Biosystems, Inc.(J)	Common Stock	\$ 0	\$20	\$702,884	\$0	\$702,904
	Secured Convertible Bridge Notes	135,668	2,023,419	73,615	0	2,097,034
Total Other Controlled Investments		\$ 180,174	\$5,134,561	\$4,880,802	\$(2,161,731)	\$7,853,632
Total Controlled Investments		\$ 290,618	\$7,010,534	\$6,485,812	\$(3,731,350)	\$9,764,996
AFFILIATED INVESTMENTS (K):						
ABSMaterials, Inc.	Series A Convertible Preferred Stock	\$ 0	\$160,303	\$44,529	\$0	\$204,832
	Series B Convertible Preferred Stock	0	823,319	81,114	0	904,433
	Secured Convertible Bridge Note	7,605	0	107,605	0	107,605
AgBiome, LLC	Series A-1 Convertible Preferred Stock	\$ 0	\$4,022,722	\$2,927,087	\$0	\$6,949,809
	Series A-2 Convertible Preferred Stock	0	891,588	607,416	0	1,499,004
	Series B Convertible Preferred Stock	0	575,979	190,205	0	766,184

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Name of Issuer	Title of Issue or Nature of Indebtedness(A)	Amount of Dividends or Interest Credited to Income (B)	Value as of December 31, 2015 (C)	Gross Additions (C)	Gross Reductions (D)	Value as of December 31, 2016
<b>AFFILIATED INVESTMENTS (K):</b>						
AgTech Accelerator Corporation	Common Stock	\$ 0	\$0	\$300	\$0	\$300
	Class B Common Stock	0	0	138	0	138
D-Wave Systems, Inc.	Series 1 Class B Convertible Preferred Stock	\$ 0	\$1,485,943	\$651,162	\$0	\$2,137,105
	Series 1 Class C Convertible Preferred Stock	0	588,844	254,613	0	843,457
	Series 1 Class D Convertible Preferred Stock	0	1,117,858	483,355	0	1,601,213
	Series 1 Class E Convertible Preferred Stock	0	368,385	141,553	0	509,938
	Series 1 Class F Convertible Preferred Stock	0	353,940	136,002	0	489,942
	Series 1 Class H Convertible Preferred Stock	0	732,972	199,349	0	932,321
	Series 2 Class D Convertible Preferred Stock	0	886,651	383,382	0	1,270,033
	Series 2 Class E Convertible Preferred Stock	0	711,876	265,852	0	977,728
	Series 2 Class F Convertible Preferred Stock	0	683,959	255,427	0	939,386
	Warrants for Common Stock	0	710	12,626	0	13,336
EchoPixel, Inc.	Series Seed Convertible Preferred Stock	\$ 0	\$1,327,092	\$0	\$(397,036)	\$930,056
	Series Seed-2 Convertible Preferred Stock	0	0	332,650	0	332,650
	Convertible Bridge Note	525	113,425	296,809	0	410,234
Ensemble Therapeutics Corporation	Series B Convertible Preferred Stock	\$ 0	\$662,607	\$0	\$(662,607)	\$0
	Series B-1 Convertible Preferred Stock	0	1,448,295	0	(575,826)	872,469
Genome Profiling, LLC	Convertible Bridge Note	\$ 7,667	\$0	\$230,000	\$0	\$230,000
HZO, Inc.	Common Stock	\$ 0	\$329,802	\$135,467	\$0	\$465,269
	Series I Convertible Preferred Stock	0	4,281,820	0	(155,277)	4,126,543
	Series II Convertible Preferred Stock	0	2,515,164	0	(774,131)	1,741,033
		0	0	255,888	0	255,888

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	Series II-A Convertible Preferred Stock					
	Warrants for Series II-A Convertible Preferred Stock	\$ 0	\$0	\$24,313	\$0	\$24,313
	Convertible Bridge Note	5,890	0	255,890	(255,890 )	0
Laser Light Engines, Inc.	Series A Convertible Preferred Stock	\$ 0	\$0	\$0	\$0	\$0
	Series B Convertible Preferred Stock	0	0	0	0	0
	Convertible Bridge Notes(L)	0	0	0	0	0
Lodo Therapeutics Corporation	Series A Convertible Preferred Stock	\$ 0	\$107,281	\$552,481	\$0	\$659,762
Metabolon, Inc.	Series B Convertible Preferred Stock	\$ 0	\$3,699,120	\$0	\$(3,699,120)	\$0
	Series B-1 Convertible Preferred Stock	0	1,479,647	0	(1,479,647 )	0
	Series C Convertible Preferred Stock	0	3,388,907	0	(3,388,907 )	0
	Series D Convertible Preferred Stock	0	2,887,617	0	(2,887,617 )	0
	Series E-1 Convertible Preferred Stock	0	1,776,987	0	(1,776,987 )	0
	Series E-2 Convertible Preferred Stock	0	389,566	0	(389,566 )	0

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Name of Issuer	Title of Issue or Nature of Indebtedness(A)	Amount of Dividends or Interest Credited to Income (B)	Value as of December 31, 2015 (Debit)	Gross Additions (C)	Gross Reductions (D)	Value as of December 31, 2016
<b>AFFILIATED INVESTMENTS (K):</b>						
ORIG3N, Inc.	Series 1 Convertible Preferred Stock	\$ 0	\$826,563	\$ 159,373	\$0	\$985,936
	Series A Convertible Preferred Stock	0	750,338	520,668	0	1,271,006
Produced Water Absorbents, Inc.	Series A Convertible Preferred Stock	\$ 0	\$77,549	\$0	\$(77,549)	) \$0
	Series B Convertible Preferred Stock	0	214,302	0	(214,302)	) 0
	Series B-2 Convertible Preferred Stock	0	154,718	0	(154,718)	) 0
	Series B-3 Convertible Preferred Stock	0	140,109	0	(140,109)	) 0
	Series C Convertible Preferred Stock	0	75,581	0	(75,581)	) 0
	Series D Convertible Preferred Stock	0	133,330	0	(133,330)	) 0
	Warrants for Series B-2 Convertible Preferred Stock	0	174	0	(174)	) 0
	Subordinated Secured Non- Convertible Debt	39,699	560,538	0	(560,538)	) 0
	Secured Convertible Bridge Note	23,630	143,926	0	(143,926)	) 0
	Common Stock	0	0	0	0	0
	Senior Secured Debt	392,451	0	1,242,700	0	1,242,700
Total Affiliated Private Investments		\$ 477,467	\$40,889,507	\$ 10,747,954	\$(17,942,838)	\$33,694,623
<b>PUBLICLY TRADED AFFILIATED INVESTMENTS:</b>						
Adesto Technologies Corporation	Common Stock	\$ 0	\$13,645,682	\$0	\$(10,371,426)	\$3,274,256
Enumeral Biomedical Holdings, Inc.	Common Stock	\$ 0	\$1,831,468	\$0	\$(795,840)	) \$1,035,628
	Warrants for Common Stock	0	87,486	0	(58,705)	) 28,781

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	Options to Purchase Common Stock	0	54	0	(54	) 0
Total Non- Controlled Affiliated Public Investments		\$ 0	\$ 15,564,690	\$ 0	\$(11,226,025)	\$ 4,338,665
Total Non- Controlled Affiliated Investments		\$ 477,467	\$ 56,454,197	\$ 10,747,954	\$(29,168,863)	\$ 38,033,288
EQUITY METHOD INVESTMENT:						
Accelerator IV-New York Corporation	Series A Common Stock	\$ 0	\$ 165,936	\$ 12,424	\$ 0	\$ 178,360
Total Equity Method Investment		\$ 0	\$ 165,936	\$ 12,424	\$ 0	\$ 178,360

(A) Common stock, warrants, options, membership units and, in some cases, preferred stock are generally non-income producing and restricted. The principal amount of debt and the number of shares of common and preferred stock and number of membership units are shown in the accompanying Consolidated Schedules of Investments as of December 31, 2016, and December 31, 2015.

(B) Represents the total amount of interest or dividends and yield-enhancing fees on debt securities credited(debited) to income for the portion of the year an investment was a control or affiliate investment, as appropriate. Amounts credited to preferred or common stock represent accrued bridge note interest related to conversions that occurred during the year ended.

(C) Gross additions include increases in investments resulting from new portfolio investments, paid-in-kind interest or dividends, the amortization of discounts and fees. Gross additions also include net increases in unrealized appreciation or decreases in unrealized depreciation.



Gross reductions include decreases in investments resulting from principal collections related to investment (D) repayments or sales, the amortization of premiums and acquisition costs. Gross reductions also include net increases in unrealized depreciation or decreases in unrealized appreciation.

(E) "Majority Owned Controlled" is defined as control of 50.1 percent or more of the voting securities outstanding and/or 50.1 percent or more control of the appointment of members of the board of directors.

"Other Controlled Investments" is defined as ownership of more than 25 percent and less than 50.1 percent of the (F) voting securities outstanding and/or 25 percent and less than 50.1 percent control of the appointment of members of the board of directors

(G) We own over 25 percent of Essential Health Solutions, Inc.'s voting securities outstanding and controlled the appointment of three of seven members (43 percent) of its board of directors.

(H) We own over 25 percent of NGX Bio, Inc.'s voting securities outstanding, but we control the appointment of two out of five members (40 percent) of its board of directors.

(I) We own over 25 percent of Senova Systems, Inc.'s voting securities outstanding, but we controlled the appointment of only one out of five members (20 percent) of its board of directors.

(J) We own 20 percent of TARA BioSystems, Inc.'s voting securities outstanding, but we control the appointment of two out of five members (40 percent) of its board of directors.

"Affiliated Investments" is defined as ownership of five percent or more, but less than 25 percent, of the voting (K) shares of the portfolio company, or where we hold the right to appoint one or more members to the portfolio company's board of directors, but less than 25 percent of the members of the board of directors.

(L) Debt security is on non-accrual status and, therefore, is considered non-income producing during the year ended Decemebr 31, 2016.

\*\*Information related to the amount of equity in the net profit and loss for the year for the investments listed has not been included in this schedule. This information is not considered to be meaningful owing to the complex capital structures of the portfolio companies, with different classes of equity securities outstanding with different preferences in liquidation. These investments are not consolidated, nor are they accounted for under the equity method of accounting, with the exception of Accelerator IV-New York Corporation, which are accounted for under the equity method.