

HARRIS & HARRIS GROUP INC /NY/
Form 10-Q
May 10, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2011

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 0-11576

HARRIS & HARRIS GROUP, INC.
(Exact Name of Registrant as Specified in Its Charter)

New York
(State or Other Jurisdiction of
Incorporation or Organization)

13-3119827
(I.R.S. Employer Identification No.)

1450 Broadway, New York, New York
(Address of Principal Executive Offices)

10018
(Zip Code)

(212) 582-0900
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company

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(Do not check if a smaller reporting company)

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

Yes " No

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

Class	Outstanding at May 10, 2011
Common Stock, \$0.01 par value per share	31,000,601 shares

Harris & Harris Group, Inc.
Form 10-Q, March 31, 2011

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

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

Harris & Harris Group, Inc.® (the "Company," "us," "our" and "we"), is an internally managed venture capital company that has elected to operate as a business development company ("BDC") under the Investment Company Act of 1940 (the "1940 Act"). Certain information and disclosures normally included in the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted as permitted by Regulation S-X and Regulation S-K. Accordingly, they do not include all information and disclosures necessary for a presentation of our financial position, results of operations and cash flows in conformity with GAAP. The results of operations for any interim period are not necessarily indicative of the results for the full year. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2010.

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

ASSETS

	March 31, 2011 (Unaudited)	December 31, 2010
Investments in portfolio securities, at value:		
Unaffiliated privately held companies (cost: \$28,274,450 and \$37,480,266, respectively)	\$ 44,311,705	\$ 56,315,330
Unaffiliated publicly traded securities (cost: \$7,299,590 and \$0, respectively)	4,447,843	0
Non-controlled affiliated privately held companies (cost: \$51,752,650 and \$51,451,965, respectively)	42,541,213	42,775,415
Controlled affiliated privately held companies (cost: \$9,750,660 and \$9,715,153, respectively)	6,458,228	7,059,677
Total investments in private portfolio companies and public securities, at value (cost: \$97,077,350 and \$98,647,384, respectively)	\$ 97,758,989	\$ 106,150,422
Investments in U.S. Treasury obligations, at value (cost: \$39,196,567 and \$38,273,349, respectively)	39,196,328	38,274,617
Cash	7,054,254	3,756,919
Restricted funds (Note 3)	1,252,752	2,751
Milestone payments from sale of investment, at value (Note 3)	3,291,750	0
Funds held in escrow from sale of investment, at value (Note 3)	477,568	0
Receivable from unsettled trade	115,143	0
Receivable from portfolio company	14,500	10,000
Interest receivable	7,958	5,924
Prepaid expenses	322,071	379,705
Other assets	682,962	708,830
Total assets	\$ 150,174,275	\$ 149,289,168

LIABILITIES & NET ASSETS

Post retirement plan liabilities	\$ 1,536,315	\$ 1,506,906
Revolving loan (Note 5)	1,250,000	0
Accounts payable and accrued liabilities	418,770	589,592
Deferred rent	333,361	338,758
Debt interest and other payable	3,084	0
Total liabilities	3,541,530	2,435,256
Net assets	\$ 146,632,745	\$ 146,853,912
Net assets are comprised of:	\$ 0	\$ 0

Preferred stock, \$0.10 par value, 2,000,000 shares authorized; none issued		
Common stock, \$0.01 par value, 45,000,000 shares authorized at 03/31/11 and 12/31/10; 32,826,341 issued at 03/31/11 and 32,706,904 issued at 12/31/10	328,264	327,070
Additional paid in capital	208,989,533	208,085,735
Accumulated net operating and realized loss	(59,960,921)	(65,657,668)
Accumulated unrealized appreciation of investments	681,400	7,504,306
Treasury stock, at cost (1,828,740 shares at 03/31/11 and 12/31/10)	(3,405,531)	(3,405,531)
Net assets	\$ 146,632,745	\$ 146,853,912
Shares outstanding	30,997,601	30,878,164
Net asset value per outstanding share	\$ 4.73	\$ 4.76

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

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

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Investment income:		
Interest from:		
Fixed-income securities and bridge notes (Note 3)	\$ 121,777	\$ 73,073
Miscellaneous income	15,047	6,000
Total investment income	136,824	79,073
Expenses:		
Salaries, benefits and stock-based compensation (Note 7)	1,239,098	1,389,277
Administration and operations	256,558	282,522
Professional fees	247,848	243,369
Rent (Note 3)	89,500	77,215
Directors' fees and expenses	98,781	95,361
Custody fees	24,000	24,000
Depreciation	12,564	11,969
Interest and other debt expenses	3,778	0
Lease termination costs (Note 3)	0	68,038
Total expenses	1,972,127	2,191,751
Net operating loss	(1,835,303)	(2,112,678)
Net realized gain (loss):		
Realized gain (loss) from investments:		
Unaffiliated companies	7,534,340	0
U.S. Treasury obligations/other	0	(11,523)
Realized gain (loss) from investments	7,534,340	(11,523)
Income tax expense (Note 8)	2,290	2,632
Net realized gain (loss) from investments	7,532,050	(14,155)
Net (decrease) increase in unrealized appreciation on investments:		
Change as a result of investment sales	(7,467,614)	0
Change on investments held	644,708	3,814,564
Net (decrease) increase in unrealized appreciation on investments	(6,822,906)	3,814,564
Net (decrease) increase in net assets resulting from operations:		
Total	\$ (1,126,159)	\$ 1,687,731
Per average basic and diluted outstanding share	\$ (0.04)	\$ 0.05

Average outstanding shares	30,918,981	30,859,888
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The accompanying notes are an integral part of these consolidated financial statements.

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

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Cash flows (used in) providedA by operating activities:		
Net (decrease) increase in net assets resulting from operations	\$ (1,126,159)	\$ 1,687,731
Adjustments to reconcile net (decrease) increase in net assets resulting from operations to net cash used in operating activities:		
Net realized gain and unrealized appreciation on investments	(711,434)	(3,803,041)
Depreciation of fixed assets, amortization of premium or discount on securities, and bridge note interest	(69,815)	(41,107)
Stock-based compensation expense	427,314	553,272
Changes in assets and liabilities:		
Restricted funds	(1,250,001)	0
Receivable from unsettled trade	(115,143)	0
Receivable from portfolio company	(4,500)	28,247
Interest receivable	17,198	12,589
Receivable from investments sold	0	(799,925)
Prepaid expenses	57,634	(244,413)
Other assets	13,067	(260,892)
Post retirement plan liabilities	29,409	33,051
Accounts payable and accrued liabilities	(167,738)	93,740
Deferred rent	(5,397)	319,534
Net cash used in operating activities	(2,905,565)	(2,421,214)
Cash flows from investing activities:		
Purchase of U.S. government securities	(59,188,063)	(2,399,293)
Sale of U.S. government securities	58,245,613	5,199,533
Investment in affiliated portfolio companies	(272,369)	(1,171,975)
Investment in unaffiliated portfolio companies	(2,262,305)	(503,083)
Proceeds from conversion of bridge note	0	1,356
Purchase of fixed assets	0	(80,516)
Principal payments received on debt investments	20,876	0
Proceeds from sale of investments	7,931,470	0
Net cash provided by investing activities	4,475,222	1,046,022
Cash flows from financing activities:		
Proceeds from stock option exercises	477,678	9,949
Payment of offering costs	0	(48,928)
Proceeds from drawdown of credit facility	1,250,000	0
Net cash provided by (used in) financing activities	1,727,678	(38,979)
Net increase (decrease) in cash:		
Cash at beginning of the period	3,756,919	1,611,465
Cash at end of the period	7,054,254	197,294

Net increase (decrease) in cash	\$ 3,297,335	\$ (1,414,171)
Supplemental disclosures of cash flow information:		
Income taxes paid	\$ 2,290	\$ 2,632

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

	Three Months Ended March 31, 2011 (Unaudited)	Year Ended December 31, 2010
Changes in net assets from operations:		
Net operating loss	\$ (1,835,303)	\$ (7,555,807)
Net realized gain (loss) on investments	7,532,050	(3,740,518)
Net (decrease) increase in unrealized appreciation on investments as a result of sales	(7,467,614)	3,608,205
Net increase in unrealized appreciation on investments held	644,708	18,274,970
Net (decrease) increase in net assets resulting from operations	(1,126,159)	10,586,850
Changes in net assets from capital stock transactions:		
Issuance of common stock upon the exercise of stock options	1,194	186
Additional paid-in capital on common stock issued net of offering expenses	476,484	20,527
Stock-based compensation expense	427,314	2,088,091
Net increase in net assets resulting from capital stock transactions	904,992	2,108,804
Net (decrease) increase in net assets	(221,167)	12,695,654
Net assets:		
Beginning of the period	146,853,912	134,158,258
End of the period	\$ 146,632,745	\$ 146,853,912

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2011
(Unaudited)

	Method of Valuation	Industry (2)	Cost	Shares/ Principal	Value
(1)					
Investments in Unaffiliated Companies					
(3)(4)(5) –					
33.3% of net assets at value					
Private Placement Portfolio (Illiquid) –					
30.2% of net assets at value					
Bridgelux, Inc. (6)(7)(9)					
Cleantech					
Manufacturing high-power light emitting diodes (LEDs) and arrays					
Series B Convertible Preferred Stock	(M)		\$ 1,000,000	1,861,504	\$ 2,345,495
Series C Convertible Preferred Stock	(M)		1,352,196	2,130,699	2,684,681
Series D Convertible Preferred Stock	(M)		1,371,622	999,999	1,259,998
Warrants for Series C Convertible Preferred Stock expiring 12/31/14	(I)		168,270	163,900	124,728
Warrants for Series D Convertible Preferred Stock expiring 8/26/14	(I)		128,543	166,665	84,832
Secured Convertible Bridge Note (including interest)	(M)		826,648	\$ 813,805	826,648
			4,847,279		7,326,382
Cobalt Technologies, Inc. (6)(7)(10)					
Cleantech					
Developing processes for making bio-butanol through biomass fermentation					
Series C Convertible Preferred Stock	(M)		749,998	352,112	880,280
Ensemble Therapeutics Corporation					
(6)(7)(11)					
Healthcare					
Developing DNA-Programmed Chemistry™ for the discovery of new classes of therapeutics					
Series B Convertible Preferred Stock	(M)		2,000,000	1,449,275	2,000,000
Secured Convertible Bridge Notes (including interest)	(M)		355,407	\$ 299,169	355,407
			2,355,407		2,355,407
GEO Semiconductor Inc. (8)					
Electronics					
Developing programmable, high-performance video and geometry					

processing solutions

Participation Agreement with Montage

Capital relating to the following assets:

Senior secured debt, 13.75%, maturing on 06/30/12	(I)	441,719	\$ 500,000	427,300
Warrants for Series A Pref. Stock expiring on 09/17/17	(I)	44,624	100,000	55,800
Loan and Security Agreement with GEO Semiconductor relating to the following assets:				
Subordinated secured debt, 15.75%, maturing on 06/29/11	(I)	137,375	\$ 150,000	144,490
Warrants for Series A Pref. Stock expiring on 03/01/18	(I)	8,079	10,000	5,700
		631,797		633,290

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2011
(Unaudited)

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Investments in Unaffiliated Companies					
(3)(4)(5) –					
33.3% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) –					
30.2% of net assets at value (Cont.)					
Molecular Imprints, Inc. (6)(7)					
Electronics					
Manufacturing nanoimprint lithography capital equipment					
Series B Convertible Preferred Stock	(M)		\$ 2,000,000	1,333,333	\$ 1,861,111
Series C Convertible Preferred Stock	(M)		2,309,098	1,250,000	2,013,889
Warrants for Series C Convertible Preferred Stock expiring 12/31/11	(I)		190,902	125,000	58,250
			4,500,000		3,933,250
Nanosys, Inc. (6)(7)					
Cleantech					
Developing inorganic nanowires and quantum dots for use in batteries and LED-backlit devices					
Series C Convertible Preferred Stock	(M)		1,500,000	803,428	916,225
Series D Convertible Preferred Stock	(M)		3,000,003	1,016,950	1,239,680
Series E Convertible Preferred Stock	(M)		496,573	433,688	745,076
			4,996,576		2,900,981
NanoTerra, Inc. (8)(12)					
Cleantech					
Developing surface chemistry and nano-manufacturing solutions					
Senior secured debt, 12.0%, maturing on 02/22/14	(I)		442,062	\$ 500,000	443,888
Senior secured debt, 12.0%, maturing on 02/22/13	(I)		217,894	\$ 250,000	218,644
Warrants for Series A Pref. Stock expiring on 02/22/21	(I)		69,168	446,248	69,168
			729,124		731,700
Nantero, Inc. (6)(7)(8)					
Electronics					
Developing a high-density, nonvolatile, random access memory chip, enabled by carbon nanotubes					

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Series A Convertible Preferred Stock	(M)	489,999	345,070	1,046,908
Series B Convertible Preferred Stock	(M)	323,000	207,051	628,172
Series C Convertible Preferred Stock	(M)	571,329	188,315	571,329
		1,384,328		2,246,409

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 MARCH 31, 2011
(Unaudited)

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Investments in Unaffiliated Companies					
(3)(4)(5) –					
33.3% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) –					
30.2% of net assets at value (Cont.)					
Polatis, Inc. (6)(7)(8) Electronics					
Developing MEMS-based optical networking components and systems					
Common Stock	(M)		\$ 135,105	16,438	\$ 0
Series A-1 Convertible Preferred Stock	(M)		1,000,000	16,775	0
Series A-2 Convertible Preferred Stock	(M)		839,000	71,611	0
Series A-4 Convertible Preferred Stock	(M)		44,183	4,774	0
			2,018,288		0
PolyRemedy, Inc. (6)(7)(8) Healthcare					
Developing a platform for producing and tracking the use of wound treatment patches					
Series B-1 Convertible Preferred Stock	(M)		244,500	287,647	23,466
Series B-2 Convertible Preferred Stock	(M)		121,706	676,147	30,427
			366,206		53,893
Solazyme, Inc. (6)(7) Cleantech					
Developing algal biodiesel, industrial chemicals and specialty ingredients using synthetic biology					
Series A Convertible Preferred Stock	(M)		385,400	988,204	9,970,978
Series B Convertible Preferred Stock	(M)		500,000	495,246	4,997,032
Series C Convertible Preferred Stock	(M)		3,058,806	651,309	6,571,708
Series D Convertible Preferred Stock	(M)		1,499,991	169,390	1,709,145
			5,444,197		23,248,863
TetraVitae Bioscience, Inc. (6)(7)(8) Cleantech					
Developing methods of producing alternative chemicals and fuels through biomass fermentation					
Common Stock	(M)		250,000	118,804	0

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HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2011
(Unaudited)

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Investments in Unaffiliated Companies (3)(4)(5) – 33.3% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) – 30.2% of net assets at value (Cont.)					
Ultora, Inc. (6)(7)(8) Cleantech					
Developing energy-storage devices enabled by carbon nanotubes					
Secured Convertible Bridge Note	(M)		\$ 1,250	\$ 1,250	\$ 1,250
Total Unaffiliated Private Placement Portfolio (cost: \$28,274,450) \$ 44,311,705					
	Method of Valuation (1)	Industry(2)	Cost	Shares/ Principal	Value
Publicly Traded Portfolio (Illiquid) – 3.1% of net assets at value					
NeoPhotonics Corporation (6)(7)(13) Electronics					
Developing and manufacturing optical devices and components					
Common Stock	(M)		\$ 7,299,590	450,907	\$ 4,447,843
Total Unaffiliated Publicly Traded Portfolio (cost: \$7,299,590) \$ 4,447,843					
Total Investments in Unaffiliated Companies (cost: \$35,574,040) \$ 48,759,548					

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2011
(Unaudited)

	Method of Valuation		Cost	Shares/	
	(1)	(2)		Principal	Value
Investments in Non-Controlled Affiliated Companies (3)(14) – 29.0% of net assets at value					
Private Placement Portfolio (Illiquid) – 29.0% of net assets at value					
ABS Materials, Inc. (6)(7)					
		Cleantech			
Developing nano-structured absorbent materials for environmental remediation and for the petroleum industry					
Series A Convertible Preferred Stock	(M)		\$ 375,000	375,000	\$ 375,000
Adesto Technologies Corporation (6)(7)(8)					
		Electronics			
Developing low-power, high- performance memory devices					
Series A Convertible Preferred Stock	(M)		2,200,000	6,547,619	2,420,000
Series B Convertible Preferred Stock	(M)		2,200,000	5,952,381	2,200,000
			4,400,000		4,620,000
Cambrios Technologies Corporation (6)(7)(8)					
		Electronics			
Developing nanowire-enabled electronic materials for the display industry					
Series B Convertible Preferred Stock	(M)		1,294,025	1,294,025	323,506
Series C Convertible Preferred Stock	(M)		1,300,000	1,300,000	586,690
Series D Convertible Preferred Stock	(M)		515,756	515,756	644,695
Unsecured Convertible Bridge Note (including interest)	(M)		95,154	\$92,400	95,154
			3,204,935		1,650,045
Contour Energy Systems, Inc. (6)(7)(8)					
		Cleantech			
Developing batteries using nanostructured materials					
Series A Convertible Preferred Stock	(M)		2,009,995	2,565,798	2,681,260
Series B Convertible Preferred Stock	(M)		1,300,000	812,500	1,254,919
			3,309,995		3,936,179

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2011
(Unaudited)

	Method of Valuation	Industry (2)	Cost	Shares/ Principal	Value
(1)					
Investments in Non-Controlled Affiliated Companies (3)(14) – 29.0% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) – 29.0% of net assets at value (Cont.)					
Crystal IS, Inc. (6)(7) Cleantech					
Developing single-crystal aluminum nitride substrates for light-emitting diodes					
Common Stock	(M)		\$ 1,734,199	3,994,468	\$ 0
Warrants for Series A-1 Pref. Stock expiring 05/05/13	(I)		8,746	15,231	0
Warrants for Series A-1 Pref. Stock expiring 05/12/13	(I)		1,351	2,350	0
Warrants for Series A-1 Pref. Stock expiring 08/08/13	(I)		2,543	4,396	0
			1,746,839		0
D-Wave Systems, Inc. (6)(7)(8)(15) Electronics					
Developing high- performance quantum computing systems					
Series B Convertible Preferred Stock	(M)		1,002,074	1,144,869	1,380,483
Series C Convertible Preferred Stock	(M)		487,804	450,450	543,153
Series D Convertible Preferred Stock	(M)		1,484,492	1,533,395	1,848,968
Series E Convertible Preferred Stock	(M)		248,049	269,280	324,698
Series F Convertible Preferred Stock	(M)		238,323	258,721	311,966
Warrants for Common Stock expiring 06/30/15	(I)		98,644	153,890	72,482
			3,559,386		4,481,750
Enumeral Biomedical Corp. (6)(7)(8) Healthcare					
Developing therapeutics and diagnostics through functional assaying of single cells					
Unsecured Convertible Bridge Note (including interest)	(M)		275,425	\$ 250,000	358,758

Innovalight, Inc. (6)(7)(8)				
		Cleantech		
Developing silicon-based nanomaterials for use in the solar energy industry				
Series B Convertible Preferred Stock	(M)	2,500,000	16,666,666	1,235,515
Series C Convertible Preferred Stock	(M)	1,993,568	5,810,577	1,728,843
Series D Convertible Preferred Stock	(M)	721,090	4,046,974	672,820
Warrants for Series D Preferred Stock expiring 03/03/18	(I)	37,196	304,194	10,951
Unsecured Convertible Bridge Note (including interest)	(M)	236,465	\$ 271,007	272,299
		5,488,319		3,920,428

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2011
(Unaudited)

	Method of Valuation	Industry (2)	Cost	Shares/ Principal	Value
(1)					
Investments in Non-Controlled Affiliated Companies (3)(14) – 29.0% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) – 29.0% of net assets at value (Cont.)					
Kovio, Inc. (6)(7) Electronics					
Developing semiconductor products using printed electronics and thin-film technologies					
Series A' Convertible Preferred Stock	(M)		\$ 5,242,993	2,160,000	\$ 1,439,620
Series A3X Convertible Preferred Stock	(M)		526,225	526,225	526,225
			5,769,218		1,965,845
Mersana Therapeutics, Inc. (6)(7)(8) Healthcare					
Developing treatments for cancer based on novel drug delivery polymers					
Series A Convertible Preferred Stock	(M)		700,000	68,451	136,902
Series B Convertible Preferred Stock	(M)		1,542,098	866,500	1,733,000
Unsecured Convertible Bridge Notes (including interest)	(M)		981,217	\$ 821,975	981,217
			3,223,315		2,851,119
Metabolon, Inc. (6)(7) Healthcare					
Developing service and diagnostic products through the use of a metabolomics, or biochemical, profiling platform					
Series B Convertible Preferred Stock	(M)		2,500,000	371,739	1,087,608
Series B-1 Convertible Preferred Stock	(M)		706,214	148,696	435,043
Series C Convertible Preferred Stock	(M)		1,000,000	1,000,000	1,000,000
Warrants for Series B-1 Convertible Preferred Stock expiring 3/25/15	(I)		293,786	74,348	90,076
			4,500,000		2,612,727
Nextreme Thermal Solutions, Inc. (6)(7) Cleantech					
Developing thin-film thermoelectric devices for cooling and energy conversion					
Series A Convertible Preferred Stock	(M)		1,750,000	17,500	5,940
Series B Convertible Preferred Stock	(M)		2,634,762	4,870,244	269,389

4,384,762

275,329

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 MARCH 31, 2011
(Unaudited)

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3)(14) – 29.0% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) – 29.0% of net assets at value (Cont.)					
Questech Corporation (6)(7) Other					
Manufacturing and marketing proprietary metal and stone products for home decoration					
Common Stock	(M)		\$ 2,130,456	655,454	\$ 436,642
SiOnyx, Inc. (6)(7)(8) Electronics					
Developing silicon-based optoelectronic products enabled by its proprietary Black Silicon					
Series A Convertible Preferred Stock	(M)		750,000	233,499	160,367
Series A-1 Convertible Preferred Stock	(M)		890,000	2,966,667	2,037,507
Series A-2 Convertible Preferred Stock	(M)		2,445,000	4,207,537	2,889,736
Series B-1 Convertible Preferred Stock	(M)		1,169,561	1,892,836	1,300,000
Warrants for Series B-1 Convertible Preferred Stock expiring 2/23/17	(I)		130,439	247,350	139,505
			5,385,000		6,527,115
Xradia, Inc. (6)(7) Electronics					
Designing, manufacturing and selling ultra- high resolution 3D x-ray microscopes and fluorescence imaging systems Series D					
Convertible Preferred Stock	(M)		4,000,000	3,121,099	8,530,276
Total Non-Controlled Private Placement Portfolio (cost: \$51,752,650)					\$ 42,541,213
Total Investments in Non-Controlled Affiliated Companies (cost: \$51,752,650)					\$ 42,541,213

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2011
(Unaudited)

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Investments in Controlled Affiliated Companies (3)(16) – 4.4% of net assets at value					
Private Placement Portfolio (Illiquid) – 4.4% of net assets at value					
Ancora Pharmaceuticals Inc. (6)(7)(8) Healthcare					
Developing synthetic carbohydrates for pharmaceutical applications					
Series B Convertible Preferred Stock	(M)		\$ 1,600,000	1,663,808	\$ 3,258
Series C Convertible Preferred Stock	(M)		1,129,817	2,066,051	315,220
Secured Convertible Bridge Notes (including interest)	(M)		1,925,041	\$ 1,800,000	1,925,041
			4,654,858		2,243,519
Laser Light Engines, Inc. (6)(7)(8) Cleantech					
Manufacturing solid-state light sources for digital cinema and large-venue projection displays					
Series A Convertible Preferred Stock	(M)		2,000,000	7,499,062	1,273,774
Series B Convertible Preferred Stock	(M)		3,095,802	13,571,848	2,940,935
			5,095,802		4,214,709
Total Controlled Private Placement Portfolio (cost: \$9,750,660)					\$ 6,458,228
Total Investments in Controlled Affiliated Companies (cost: \$9,750,660)					\$ 6,458,228
Total Private Placement and Publicly Traded Portfolio (cost: \$97,077,350)					\$ 97,758,989

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2011
(Unaudited)

	Method of Valuation (1)	Cost	Shares/ Principal	Value
U.S. Government Securities (17)				
– 26.7% of net assets at value				
U.S. Treasury Bill — due date 04/14/11	(M)	\$ 17,999,204	\$ 18,000,000	\$ 17,999,820
U.S. Treasury Bill — due date 05/12/11	(M)	6,999,192	7,000,000	6,999,650
U.S. Treasury Bill — due date 06/09/11	(M)	7,099,466	7,100,000	7,099,077
U.S. Treasury Bill — due date 07/21/11	(M)	7,098,705	7,100,000	7,097,781
Total Investments in U.S. Government Securities (cost: \$39,196,567)				\$ 39,196,328
Total Investments (cost: \$136,273,917)				\$ 136,955,317

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2011
(Unaudited)

Notes to Consolidated Schedule of Investments

- (1) See "Footnote to Consolidated Schedule of Investments" on page 29 for a description of the "Valuation Procedures."
- (2) We classify "Cleantech" companies as those that seek to improve performance, productivity or efficiency, and to reduce environmental impact, waste, cost, energy consumption or raw materials using nanotechnology-enabled solutions. We classify "Electronics" companies as those that use nanotechnology to address problems in electronics-related industries, including semiconductors. We classify "Healthcare" companies as those that use nanotechnology to address problems in healthcare-related industries, including biotechnology, pharmaceuticals and medical devices. We use the term "Other" for companies that operate primarily in industries other than those within "Cleantech," "Electronics" and "Healthcare." These industries include mining, decorative products and personal care products. In the first quarter of 2011, we re