

HARRIS & HARRIS GROUP INC /NY/
Form 10-Q
August 08, 2012

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 June 30, 2012

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

For the transition period from _____ to _____

Commission file number: 0-11576

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

New York 13-3119827
(State or Other Jurisdiction of (I.R.S. Employer Identification No.)
Incorporation or Organization)

1450 Broadway, New York, New York 10018
(Address of Principal Executive Offices) (Zip Code)

(212) 582-0900

(Registrant's Telephone Number, Including Area Code)

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

Yes No

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

Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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 August 8, 2012
Common Stock, \$0.01 par value per share	31,000,601 shares

Harris & Harris Group, Inc.

Form 10-Q, June 30, 2012

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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 fair presentation of our financial position, results of operations and cash flows in conformity with GAAP. The results of operations for any interim period are not necessarily indicative of the results for the full year. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2011.

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

	June 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Investments, in portfolio securities at value:		
Unaffiliated privately held companies (cost: \$24,479,403 and \$23,794,145, respectively)	\$26,300,391	\$ 23,748,247
Unaffiliated rights to milestone payments (adjusted cost basis: \$3,291,750 and \$3,291,750, respectively)	3,386,224	3,362,791
Unaffiliated publicly traded securities (cost: \$12,535,134 and \$12,743,787, respectively)	33,027,782	29,484,527
Non-controlled affiliated privately held companies (cost: \$52,751,538 and \$48,968,029, respectively)	53,874,397	47,601,785
Non-controlled affiliated publicly traded companies (cost: \$2,000,000 and \$2,000,000, respectively)	1,973,334	1,973,334
Controlled affiliated privately held companies (cost: \$14,014,759 and \$12,518,936, respectively)	8,335,716	6,877,566
Total, investments in private portfolio companies, rights to milestone payments and public securities at value (cost: \$109,072,584 and \$103,316,647, respectively)	\$126,897,844	\$ 113,048,250
Cash	27,734,326	33,841,394
Restricted funds (Note 3)	2,010,005	1,512,031
Funds held in escrow from sales of investments, at value (Note 3)	587,923	1,064,234
Receivable from portfolio company	26,341	37,331
Interest receivable	7,800	14,635
Prepaid expenses	185,467	398,858
Other assets	414,364	426,920
Total assets	\$157,864,070	\$ 150,343,653
LIABILITIES & NET ASSETS		
Post retirement plan liabilities	\$1,766,206	\$ 1,660,958
Revolving loan (Note 5)	2,000,000	1,500,000
Accounts payable and accrued liabilities	982,657	906,910
Deferred rent	363,276	378,980
Written call options payable (premiums received: \$914,245 and \$315,000, respectively) (Note 7)	1,391,092	195,000
Debt interest and other payable	3,049	3,398
Total liabilities	6,506,280	4,645,246
Net assets	\$151,357,790	\$ 145,698,407

Net assets are comprised of:

Preferred stock, \$0.10 par value,

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2,000,000 shares authorized; none issued	\$0	\$ 0
Common stock, \$0.01 par value, 45,000,000 shares authorized at 6/30/12 and 12/31/11; 32,829,341 issued at 6/30/12 and 12/31/11	328,294	328,294
Additional paid in capital (Note 8)	212,455,488	210,470,369
Accumulated net operating and realized loss	(75,381,539)	(71,546,328)
Accumulated unrealized appreciation of investments	17,361,078	9,851,603
Treasury stock, at cost (1,828,740 shares at 6/30/12 and 12/31/11)	(3,405,531)	(3,405,531)
Net assets	\$151,357,790	\$ 145,698,407
Shares outstanding	31,000,601	31,000,601
Net asset value per outstanding share	\$4.88	\$ 4.70

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Investment (loss) income:				
Interest from:				
Unaffiliated companies	\$ 71,257	\$ 81,762	\$ 121,321	\$ 127,237
Non-controlled affiliated companies	(193,188)	42,382	(150,376)	70,697
Controlled affiliated companies	39,658	40,223	67,000	75,730
Cash and U.S. Treasury obligations	6,387	9,300	12,699	21,780
Miscellaneous income	47,440	14,159	81,800	29,206
Total investment (loss) income	(28,446)	187,826	132,444	324,650
Expenses:				
Salaries, benefits and stock-based compensation (Note 8)	2,558,000	1,344,781	3,947,391	2,583,879
Administration and operations	225,542	219,243	582,226	475,801
Professional fees	244,296	208,713	517,639	456,561
Rent	99,254	89,500	197,697	179,000
Directors' fees and expenses	81,906	85,391	177,732	184,172
Custody fees	11,127	24,000	21,982	48,000
Depreciation	14,645	12,602	28,598	25,166
Interest and other debt expenses	12,064	9,989	23,840	13,767
Total expenses	3,246,834	1,994,219	5,497,105	3,966,346
Net operating loss	(3,275,280)	(1,806,393)	(5,364,661)	(3,641,696)
Net realized gain (loss):				
Realized gain (loss) from investments:				
Unaffiliated companies	0	(205,597)	476,887	7,328,743
Non-Controlled affiliated companies	(16,195)	(1,966,590)	11,421	(1,966,590)
Publicly traded companies	670,879	0	670,879	0
Written call options	213,338	0	378,338	0
U.S. Treasury obligations/other	0	(82)	0	(82)
Realized gain (loss) from investments	868,022	(2,172,269)	1,537,525	5,362,071
Income tax expense (Note 9)	0	103	8,075	2,393
Net realized gain (loss) from investments	868,022	(2,172,372)	1,529,450	5,359,678
Net increase (decrease) in unrealized appreciation on investments:				
Change as a result of investment sales	(670,879)	2,006,126	(670,879)	(5,522,992)

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Change on investments held	1,543,565	23,194,860	8,764,536	23,901,072
Change on written call options	(371,347)	0	(584,182)	0
Net increase in unrealized appreciation on investments	501,339	25,200,986	7,509,475	18,378,080
Net realized and unrealized gains on investments	1,369,361	23,028,614	9,038,925	23,737,758
Net (decrease) increase in net assets resulting from operations:				
Total	\$(1,905,919)	\$21,222,221	\$3,674,264	\$20,096,062
Per average basic and diluted outstanding share	\$(0.06)	\$0.68	\$0.12	\$0.65
Average outstanding shares - basic	31,000,601	30,999,579	31,000,601	30,959,503
Average outstanding shares - diluted	31,000,601	31,017,329	31,000,700	30,977,558

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

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

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011 (Corrected)
Cash flows used in operating activities:		
Net increase in net assets resulting from operations	\$ 3,674,264	\$ 20,096,062
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:		
Net realized gain and unrealized appreciation on investments	(9,047,000)	(23,740,151)
Depreciation of fixed assets, amortization of premium or discount on U.S. government securities, and bridge note interest	103,547	(158,484)
Stock-based compensation expense	1,985,119	985,120
Changes in assets and liabilities:		
Purchase of U.S. government securities	0	(84,283,377)
Sale of U.S. government securities	0	90,337,925
Investments in affiliated portfolio companies	(5,368,669)	(6,860,821)
Investments in unaffiliated portfolio companies	(874,530)	(3,795,265)
Principal payments received on debt investments	203,962	109,763
Proceeds from sale of investments	1,844,152	8,257,334
Proceeds from call option premiums	2,324,314	0
Payments for call option purchases	(1,334,370)	0
Restricted funds	(497,974)	(2,562,023)
Receivable from portfolio company	10,990	(5,879)
Interest receivable	6,835	4,459
Prepaid expenses	213,391	140,929
Other assets	(525)	8,698
Post retirement plan liabilities	105,248	59,571
Accounts payable and accrued liabilities	75,398	(75,261)
Deferred rent	(15,704)	(11,496)
Net cash used in operating activities	(6,591,552)	(1,492,896)
Cash flows from investing activities:		
Purchase of fixed assets	(15,516)	(3,746)
Net cash used in investing activities	(15,516)	(3,746)
Cash flows from financing activities:		
Proceeds from stock option exercises	0	491,058
Proceeds from drawdown of credit facility	500,000	2,550,000
Net cash provided by financing activities	500,000	3,041,058

Net (decrease) increase in cash:		
Cash at beginning of the period	33,841,394	3,756,919
Cash at end of the period.	27,734,326	5,301,335
Net (decrease) increase in cash	\$ (6,107,068) \$ 1,544,416
Supplemental disclosures of cash flow information:		
Income taxes paid	\$ 8,075	\$ 2,393
Interest paid	\$ 13,405	\$ 0

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

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

	Six Months Ended June 30, 2012 (Unaudited)	Year Ended December 31, 2011
Changes in net assets from operations:		
Net operating loss	\$ (5,364,661) \$ (8,338,365)
Net realized gain on investments	1,529,450	2,449,705
Net (decrease) increase in unrealized appreciation on investments as a result of sales	(670,879) 74,649
Net increase in unrealized appreciation on investments held	8,764,536	2,152,648
Net (decrease) increase in unrealized appreciation on written call options	(584,182) 120,000
Net increase (decrease) in net assets resulting from operations	3,674,264	(3,541,363)
Changes in net assets from capital stock transactions:		
Issuance of common stock upon the exercise of stock options	0	1,224
Additional paid in capital on common stock issued net of offering expenses	0	489,834
Stock-based compensation expense	1,985,119	1,894,800
Net increase in net assets resulting from capital stock transactions	1,985,119	2,385,858
Net increase (decrease) in net assets	5,659,383	(1,155,505)
Net Assets:		
Beginning of the period	145,698,407	146,853,912
End of the period	\$ 151,357,790	\$ 145,698,407

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2012**(Unaudited)**

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Investments in Unaffiliated Companies (3) – 41.4% of net assets at value					
Private Placement Portfolio (Illiquid) (4) – 17.4% of net assets at value					
Bridgelux, Inc. (7)(8)					
Manufacturing high-power light emitting diodes (LEDs) and arrays					
Energy					
Series B Convertible Preferred Stock	(M)		\$1,000,000	1,861,504	\$2,213,782
Series C Convertible Preferred Stock	(M)		1,352,196	2,130,699	2,721,847
Series D Convertible Preferred Stock	(M)		1,371,622	999,999	1,670,641
Series E Convertible Preferred Stock	(M)		672,599	440,334	824,941
Series E-1 Convertible Preferred Stock	(M)		534,482	399,579	644,518
Warrants for Series C Convertible Preferred Stock expiring 12/31/14	(I)		168,270	163,900	106,875
Warrants for Series D Convertible Preferred Stock expiring 8/26/14	(I)		88,531	124,999	69,706
Warrants for Series D Convertible Preferred Stock expiring 3/10/15	(I)		40,012	41,666	23,235
Warrants for Series E Convertible Preferred Stock expiring 12/31/17	(I)		93,969	170,823	92,518
Warrants for Common Stock expiring 6/1/16	(I)		72,668	132,100	337
Warrant for Common Stock expiring 10/21/18	(I)		18,816	84,846	216
			5,413,165		8,368,616
Cambrios Technologies Corporation (7)(9)(14)					
Developing nanowire-enabled electronic materials for the display industry					
Electronics					
Series B Convertible Preferred Stock	(M)		1,294,025	1,294,025	1,165,383
Series C Convertible Preferred Stock	(M)		1,300,000	1,300,000	1,170,764
Series D Convertible Preferred Stock	(M)		515,756	515,756	773,634
Series D-2 Convertible Preferred Stock	(M)		92,400	92,400	92,400
			3,202,181		3,202,181
Cobalt Technologies, Inc. (7)(9)(10)					
Developing processes for making bio-butanol through biomass fermentation					
Energy					

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Series C-1 Convertible Preferred Stock	(M)	749,998	352,112	435,580
Series D-1 Convertible Preferred Stock	(M)	122,070	48,828	65,595
Secured Convertible Bridge Note, 10%, acquired 5/25/12	(M)	45,554	\$45,097	45,554
		917,622		546,729

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2012**(Unaudited)**

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Investments in Unaffiliated Companies (3) – 41.4% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (4) – 17.4% of net assets at value (Cont.)					
Ensemble Therapeutics Corporation (7)(9)(11)					
Developing DNA-Programmed Chemistry™ for the discovery of new classes of therapeutics					
Series B Convertible Preferred Stock (M)					
			\$2,000,000	1,449,275	\$46,667
Secured Convertible Bridge Note, 8%, acquired 9/11/08 (M)					
			326,460	\$250,211	1,547,663
Secured Convertible Bridge Note, 8%, acquired 12/10/09 (M)					
			58,887	\$48,868	297,398
Secured Convertible Bridge Note, 8%, acquired 1/25/12 (M)					
			113,222	\$109,400	647,170
			2,498,569		2,538,898
GEO Semiconductor Inc. (12)					
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 7/15/12 (I)					
			347,428	\$437,900	402,350
Warrants for Series A Pref. Stock expiring on 9/17/17 (I)					
			66,684	100,000	67,813
Warrants for Series A-1 Pref. Stock expiring on 6/30/18 (I)					
			23,566	34,500	23,796
Loan and Security Agreement with GEO Semiconductor relating to the following assets:					
Subordinated secured debt, 15.75%, maturing on 7/15/12 (I)					
			109,630	\$125,000	119,760
Warrants for Series A Pref. Stock expiring on 3/1/18 (I)					
			7,512	10,000	6,380
Warrants for Series A-1 Pref. Stock expiring on 6/29/18 (I)					
			7,546	10,000	6,400
			562,366		626,499

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Molecular Imprints, Inc. (7)(13)		Electronics		
Manufacturing nanoimprint lithography capital equipment				
Series B Convertible Preferred Stock	(M)	2,000,000	1,333,333	1,789,108
Series C Convertible Preferred Stock	(M)	2,406,595	1,285,071	2,138,498
Non-Convertible Bridge Note	(I)	0	0	3,033,338
		4,406,595		6,960,944
Nanosys, Inc. (7)(14)		Energy		
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	0
Series D Convertible Preferred Stock	(M)	3,000,003	1,016,950	474,663
Series E Convertible Preferred Stock	(M)	496,573	433,688	744,859
		4,996,576		1,219,522

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2012**(Unaudited)**

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Investments in Unaffiliated Companies (3) – 41.4% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (4) – 17.4% of net assets at value (Cont.)					
NanoTerra, Inc. (9)		Energy			
Developing surface chemistry and nano-manufacturing solutions					
Senior secured debt, 12.0%, maturing on 2/22/14	(I)		\$246,499	\$299,685	\$277,190
Senior secured debt, 12.0%, maturing on 2/22/13	(I)		74,066	\$90,048	87,210
Warrants for Series A-2 Pref. Stock expiring on 2/22/21	(I)		69,168	446,248	66,819
			389,733		431,219
Nantero, Inc. (7)(9)(14)		Electronics			
Developing a high-density, nonvolatile, random access memory chip, enabled by carbon nanotubes					
Series A Convertible Preferred Stock	(M)		489,999	345,070	746,422
Series B Convertible Preferred Stock	(M)		323,000	207,051	451,501
Series C Convertible Preferred Stock	(M)		571,329	188,315	486,884
			1,384,328		1,684,807
OHSO Clean, Inc. (15)(16)		Healthcare			
Developing natural, hypoallergenic household cleaning products enabled by nanotechnology-enabled formulations of thyme oil					
Participation Agreement with Montage Capital relating to the following assets:					
Senior secured debt, 13.00%, maturing on 9/30/14	(I)		616,526	\$712,640	629,900
Warrants for Series C Pref. Stock expiring on 3/30/22	(I)		91,742	1,109,333	91,076
			708,268		720,976
					\$26,300,391

Total Unaffiliated Private Placement Portfolio
(cost: \$24,479,403)

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2012**(Unaudited)**

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Rights to Milestone Payments (Illiquid) (5) – 2.2% of net assets at value					
Amgen, Inc. (7)(14) Rights to Milestone Payments from Acquisition of BioVex Group, Inc.	(I)	Healthcare	\$3,291,750	\$3,291,750	\$3,386,224
Total Unaffiliated Rights to Milestone Payments (cost: \$3,291,750)					\$3,386,224
Publicly Traded Portfolio (6) – 21.8% of net assets at value					
NeoPhotonics Corporation (14)(17) Developing and manufacturing optical devices and components Common Stock	(M)	Electronics	\$7,299,590	450,907	\$2,227,481
Solazyme, Inc. (14)(18) Developing algal biodiesel, industrial chemicals and specialty ingredients using synthetic biology Common Stock	(M)	Energy	5,235,544	2,215,849	30,800,301
Total Unaffiliated Publicly Traded Portfolio (cost: \$12,535,134)					\$33,027,782
Total Investments in Unaffiliated Companies (cost: \$40,306,287)					\$62,714,397

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2012

(Unaudited)

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 36.9% of net assets at value					
Private Placement Portfolio (Illiquid) (19) – 35.6% of net assets at value					
ABSMaterials, Inc. (7)(9)(14) Developing nano-structured absorbent materials for environmental remediation		Energy			
Series A Convertible Preferred Stock	(M)		\$435,000	390,000	\$1,170,000
Adesto Technologies Corporation (7)(9) Developing low-power, high-performance memory devices		Electronics			
Series A Convertible Preferred Stock	(M)		2,200,000	6,547,619	4,583,333
Series B Convertible Preferred Stock	(M)		2,200,000	5,952,381	4,166,667
Series C Convertible Preferred Stock	(M)		1,485,531	2,122,187	1,485,531
			5,885,531		10,235,531
Contour Energy Systems, Inc. (7)(9)(14) Developing batteries using nanostructured materials		Energy			
Series A Convertible Preferred Stock	(M)		2,009,995	2,565,798	2,504,488
Series B Convertible Preferred Stock	(M)		1,300,000	812,500	1,340,672
Series C Convertible Preferred Stock	(M)		1,200,000	1,148,325	1,271,099
			4,509,995		5,116,259
D-Wave Systems, Inc. (7)(9)(20) Developing high-performance quantum computing systems		Electronics			
Class 1 Series B Convertible Preferred Stock	(M)		1,002,074	1,144,869	1,455,815
Class 1 Series C Convertible Preferred Stock	(M)		487,804	450,450	572,792
Class 1 Series D Convertible Preferred Stock	(M)		1,484,492	1,533,395	1,949,866
Class 1 Series E Convertible Preferred Stock	(M)		248,049	269,280	342,416
Class 1 Series F Convertible Preferred Stock	(M)		238,323	258,721	328,990
Class 2 Series E Convertible Preferred Stock	(M)		409,032	317,746	404,046
Class 2 Series F Convertible Preferred Stock	(M)		392,993	305,286	388,201
Warrants for Common Stock expiring 6/30/15	(I)		98,644	153,890	46,573

		4,361,411		5,488,699
Enumeral Biomedical Corp. (7)(9)(14)			Healthcare	
Developing therapeutics and diagnostics through functional assaying of single cells				
Series A Convertible Preferred Stock	(M)	1,026,832	957,038	1,325,507
Series A-1 Convertible Preferred Stock	(M)	750,000	576,923	750,000
		1,776,832		2,075,507

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2012

(Unaudited)

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 36.9% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (19) – 35.6% of net assets at value (Cont.)					
HzO, Inc. (7)(9)(14)		Electronics			
Developing novel industrial coatings that protect electronics against damage from liquids					
Series A Convertible Preferred Stock	(M)		\$666,667	4,057,294	\$1,130,362
Series B Convertible Preferred Stock	(M)		1,000,000	3,947,888	1,099,882
			1,666,667		2,230,244
Kovio, Inc. (7)(9)(14)		Electronics			
Developing semiconductor products using printed electronics and thin-film technologies					
Series A' Convertible Preferred Stock	(M)		5,242,993	2,160,000	1,437,286
Series B' Convertible Preferred Stock	(M)		1,418,540	2,131,827	1,418,539
			6,661,533		2,855,825
Mersana Therapeutics, Inc. (7)(9)		Healthcare			
Developing treatments for cancer based on novel drug delivery polymers					
Series A Convertible Preferred Stock	(M)		700,000	68,451	6,434
Series B Convertible Preferred Stock	(M)		1,542,098	866,500	81,451
Unsecured Convertible Bridge Note, 10%, acquired 8/5/08	(M)		219,570	\$200,000	19,570
Unsecured Convertible Bridge Note, 10%, acquired 2/13/09	(M)		216,935	\$200,000	16,935
Unsecured Convertible Bridge Note, 10%, acquired 7/2/09	(M)		268,784	\$250,000	18,784
Unsecured Convertible Bridge Note, 10%, acquired 1/19/10	(M)		92,868	\$87,500	5,368
Unsecured Convertible Bridge Note, 10%, acquired 2/19/10	(M)		89,478	\$84,475	5,003
Unsecured Convertible Bridge Note, 10%, acquired 4/12/11	(M)		308,047	\$298,900	9,147

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Unsecured Convertible Bridge Note, 10%, acquired 10/28/11	(M)	25,424	\$25,000	424
Unsecured Convertible Bridge Note, 10%, acquired 11/17/11	(M)	25,389	\$25,000	389
Unsecured Convertible Bridge Note, 10%, acquired 12/22/11	(M)	25,329	\$25,000	329
Unsecured Convertible Bridge Note, 10%, acquired 4/11/12	(M)	125,234	\$124,542	692
		3,639,156		164,526

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2012

(Unaudited)

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 36.9% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (19) – 35.6% of net assets at value (Cont.)					
Metabolon, Inc. (7)(14) Developing service and diagnostic products through the use of a metabolomics, or biochemical, profiling platform		Healthcare			
Series B Convertible Preferred Stock	(M)		\$2,500,000	371,739	\$1,951,723
Series B-1 Convertible Preferred Stock	(M)		706,214	148,696	780,689
Series C Convertible Preferred Stock	(M)		1,000,000	1,000,000	1,794,510
Series D Convertible Preferred Stock	(M)		1,499,999	835,882	1,499,999
Warrants for Series B-1 Convertible Preferred Stock expiring 3/25/15	(I)		293,786	74,348	71,232
			5,999,999		6,098,153
Nextreme Thermal Solutions, Inc. (7)(9)(14) Developing thin-film thermoelectric devices for cooling and energy conversion		Energy			
Series A Convertible Preferred Stock	(M)		2,192,381	22,027	0
Common Stock	(M)		2,192,381	4,039,985	0
			4,384,762		0
OpGen, Inc. (7)(14)(15) Developing tools for genomic sequence assembly and analysis		Healthcare			
Series C Convertible Preferred Stock	(M)		815,000	5,905,797	815,000
Produced Water Absorbents, Inc. (7)(9)(14) Developing nano-structured absorbent materials for environmental remediation of contaminated water in the oil and gas industries		Energy			
Series A Convertible Preferred Stock	(M)		1,000,000	1,000,000	1,000,000

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2012

(Unaudited)

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 36.9% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (19) – 35.6% of net assets at value (Cont.)					
Senova Systems, Inc. (7)(9)(14) Developing next-generation sensors to measure pH		Healthcare			
Series B Convertible Preferred Stock	(M)		\$ 692,308	692,308	\$ 553,846
SiOnyx, Inc. (7)(9)(14) Developing silicon-based optoelectronic products enabled by its proprietary Black Silicon		Electronics			
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
Series C Convertible Preferred Stock	(M)		1,171,316	1,674,030	1,255,523
Warrants for Series B-1 Convertible Preferred Stock expiring 2/23/17	(I)		130,439	247,350	128,290
Warrants for Common Stock expiring 3/28/17	(I)		84,207	418,507	82,729
			6,640,523		7,854,152
Ultora, Inc. (7)(9)(14) Developing energy-storage devices enabled by carbon nanotubes		Energy			
Series A Convertible Preferred Stock	(M)		282,821	282,821	282,821
Xradia, Inc. (7)(14) Designing, manufacturing and selling ultra-high resolution 3D x-ray microscopes and fluorescence imaging systems		Electronics			
Series D Convertible Preferred Stock	(M)		4,000,000	3,121,099	7,933,834
Total Non-Controlled Private Placement Portfolio (cost: \$52,751,538)					\$ 53,874,397

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2012

(Unaudited)

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 36.9% of net assets at value (Cont.)					
Publicly Traded Portfolio (Illiquid) (21) – 1.3% of net assets at value					
Champions Oncology, Inc. (14) Developing its TumorGraft™ platform for personalized medicine and drug development Common Stock	(M)	Healthcare	\$2,000,000	2,666,667	\$1,973,334
Total Non-Controlled Affiliated Publicly Traded Portfolio (cost: \$2,000,000)					\$1,973,334
Total Investments in Non-Controlled Affiliated Companies (cost: \$54,751,538)					\$55,847,731
Investments in Controlled Affiliated Companies (3)(22) – 5.5% of net assets at value					
Private Placement Portfolio (Illiquid) – 5.5% of net assets at value					
Ancora Pharmaceuticals Inc. (7)(9) Developing synthetic carbohydrates for pharmaceutical applications Common Stock	(M)	Healthcare	\$2,729,817	57,463	\$1,724
Series A Convertible Preferred Stock	(M)		4,855,627	4,855,627	4,855,627
Senior Secured Debt, 12.00%, maturing on 12/11/12	(I)		473,598	\$500,000	478,780
			8,059,042		5,336,131

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2012

(Unaudited)

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Investments in Controlled Affiliated Companies (3)(22) – 5.5% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) – 5.5% of net assets at value (Cont.)					
Laser Light Engines, Inc. (7)(9)		Energy			
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	\$0
Series B Convertible Preferred Stock	(M)		3,095,802	13,571,848	2,139,670
Secured Convertible Bridge Note, 12%, acquired 10/7/11	(M)		217,622	\$200,000	217,622
Secured Convertible Bridge Note, 12%, acquired 11/17/11	(M)		102,791	\$95,652	102,791
Secured Convertible Bridge Note, 12%, acquired 12/21/11	(M)		87,851	\$82,609	87,851
Secured Convertible Bridge Note, 12%, acquired 3/5/12	(M)		451,651	\$434,784	451,651
			5,955,717		2,999,585
Total Controlled Private Placement Portfolio (cost: \$14,014,759)					\$8,335,716
Total Investments in Controlled Affiliated Companies (cost: \$14,014,759)					\$8,335,716
Total Private Placement and Publicly Traded Portfolio (cost: \$109,072,584)					\$126,897,844
Total Investments (cost: \$109,072,584)					\$126,897,844

Method of Valuation (1)	Number of Contracts	Value
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Written Call Options (15) – (0.9)% of net assets at value

Solazyme, Inc. — Strike Price \$10.00, 9/22/12	(M)	117	\$(42,160)
Solazyme, Inc. — Strike Price \$12.50, 12/22/12	(M)	4,000	(760,000)
Solazyme, Inc. — Strike Price \$15.00, 12/22/12	(M)	2,750	(288,750)
Solazyme, Inc. — Strike Price \$17.50, 3/8/13	(M)	4,010	(298,932)
NeoPhotonics Corporation — Strike Price \$7.50, 8/18/12	(M)	250	(1,250)
Total Written Call Options (Premiums Received \$914,245)			\$(1,391,092)

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2012

(Unaudited)

Notes to Consolidated Schedule of Investments

(1) See "Footnote to Consolidated Schedule of Investments" on page 31 for a description of the "Valuation Procedures."

(2) 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 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.

(3) 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. 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.

(4) The aggregate cost for federal income tax purposes of investments in unaffiliated privately held companies is \$24,479,403. The gross unrealized appreciation based on the tax cost for these securities is \$5,628,127. The gross unrealized depreciation based on the tax cost for these securities is \$3,807,139.

(5) The aggregate cost for federal income tax purposes of investments in unaffiliated rights to milestone payments is \$3,291,750. The gross unrealized appreciation based on the tax cost for these securities is \$94,474. The gross unrealized depreciation based on the tax cost for these securities is \$0.

(6) The aggregate cost for federal income tax purposes of investments in unaffiliated publicly traded companies is \$12,535,134. The gross unrealized appreciation based on the tax cost for these securities is \$25,564,757. The gross unrealized depreciation based on the tax cost for these securities is \$5,072,109.

(7) We are subject to legal restrictions on the sale of our investment(s) in this company.

With the conversion of our bridge note into shares of Series E-1 Preferred Stock, we received a warrant to purchase shares of common stock at \$0.25 per share. The number of shares is determined by certain financial targets for (8)2012 set upon receipt of the audited financial statements for 2012. Should the company complete a sale or an IPO prior to the end of 2012, the warrant will become void. This warrant is, therefore, a contingent asset as of June 30, 2012.

These investments are development-stage companies. A development-stage company is defined as a company that (9) is devoting substantially all of its efforts to establishing a new business, and either it has not yet commenced its planned principal operations, or it has commenced such operations but has not realized significant revenue from them.

(10)Cobalt Technologies, Inc., also does business as Cobalt Biofuels.

The accompanying notes are an integral part of this consolidated schedule.

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2012

(Unaudited)

(11) With our investment in a convertible bridge note issued by Ensemble Therapeutics Corporation, we received a warrant to purchase a number of shares of the class of stock sold in the next financing of Ensemble Therapeutics Corporation equal to \$149,539.57 divided by the price per share of the class of stock sold in the next financing of Ensemble Therapeutics Corporation. The ability to exercise this warrant is, therefore, contingent on Ensemble Therapeutics Corporation completing successfully a subsequent round of financing. This warrant shall expire and no longer be exercisable on September 10, 2015. The cost basis of this warrant is \$89.86.

(12) The maturity dates of the senior secured debt and the subordinated secured debt are expected to be extended to the end of 2012 or 2013. As such, the notes were not repaid on July 15, 2012.

(13) As part of a loan the Company made to Molecular Imprints in the second quarter of 2011, we received a liquidation preference payable upon a sale of the company equal to three times the principal of the loan, or \$4,044,450. This preference is senior to the preferences of the outstanding preferred stock. While the loan has since been repaid, this liquidation preference remains outstanding as of June 30, 2012.

(14) Represents a non-income producing security. Investments that have not paid dividends or interest within the last 12 months are considered to be non-income producing.

(15) Initial investment was made during 2012.

(16) OHSO Clean, Inc. also does business as CleanWell Company.

(17) A portion of this security is held in connection with written call option contracts: 25,000 shares have been pledged to brokers.

(18) A portion of this security is held in connection with written call option contracts: 1,087,700 shares have been pledged to brokers.

(19) The aggregate cost for federal income tax purposes of investments in non-controlled affiliated companies is \$52,751,538. The gross unrealized appreciation based on the tax cost for these securities is \$12,926,423. The gross unrealized depreciation based on the tax cost for these securities is \$11,803,564.

D-Wave Systems, Inc., is located and is doing business primarily in Canada. We invested in D-Wave Systems, (20) Inc., 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."

The aggregate cost for federal income tax purposes of investments in non-controlled affiliated publicly traded (21) companies is \$2,000,000. 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 \$26,666.

The aggregate cost for federal income tax purposes of investments in controlled affiliated companies is (22) \$14,014,759. 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 \$5,679,043.

The accompanying notes are an integral part of this consolidated schedule.

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2011

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Investments in Unaffiliated Companies					
(3)(4)(5)(6) – 38.8% of net assets at value					
Private Placement Portfolio (Illiquid) – 16.3% of net assets at value					
Bridgelux, Inc. (7)(8)					
Manufacturing high-power light emitting diodes (LEDs) and arrays					
Series B Convertible Preferred Stock	(M)		\$ 1,000,000	1,861,504	\$ 2,245,039
Series C Convertible Preferred Stock	(M)		1,352,196	2,130,699	2,757,625
Series D Convertible Preferred Stock	(M)		1,371,622	999,999	1,687,433
Series E Convertible Preferred Stock	(M)		730,369	440,334	832,335
Warrants for Series C Convertible Preferred Stock expiring 12/31/14	(I)		168,270	163,900	123,541
Warrants for Series D Convertible Preferred Stock expiring 8/26/14	(I)		88,531	124,999	93,385
Warrants for Series D Convertible Preferred Stock expiring 3/10/15	(I)		40,012	41,666	31,128
Warrants for Series E Convertible Preferred Stock expiring 12/31/17	(I)		108,867	170,823	130,872
Secured Convertible Bridge Note (including interest)	(M)		529,697	\$ 538,945	548,513
Warrant for Common Stock expiring 10/21/18	(I)		18,816	56,564	2,581
			5,408,380		8,452,452
Cambrios Technologies Corporation (7)(9)					
Developing nanowire-enabled electronic materials for the display industry					
Series B Convertible Preferred Stock	(M)		1,294,025	1,294,025	720,672
Series C Convertible Preferred Stock	(M)		1,300,000	1,300,000	724,000
Series D Convertible Preferred Stock	(M)		515,756	515,756	870,338
Series D-2 Convertible Preferred Stock	(M)		92,400	92,400	86,625
			3,202,181		2,401,635
Cobalt Technologies, Inc. (7)(9)(10)					
Developing processes for making bio- butanol through biomass fermentation					
Series C-1 Convertible Preferred Stock	(M)		749,998	352,112	216,651
Series D-1 Convertible Preferred Stock	(M)		122,070	48,828	33,937

		872,068		250,588
Ensemble Therapeutics Corporation (7)(9)(11) Developing DNA- Programmed Chemistry™ for the discovery of new classes of therapeutics	Healthcare			
Series B Convertible Preferred Stock	(M)	2,000,000	1,449,275	0
Secured Convertible Bridge Notes (including interest)	(M)	373,439	\$299,169	1,298,436
		2,373,439		1,298,436

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2011

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Investments in Unaffiliated Companies					
(3)(4)(5)(6) – 38.8% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) – 16.3% of net assets at value (Cont.)					
GEO Semiconductor Inc. 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 6/30/12	(I)		\$403,732	\$500,000	\$476,700
Warrants for Series A Pref. Stock expiring on 9/17/17	(I)		66,684	100,000	61,814
Warrants for Series A-1 Pref. Stock expiring on 6/30/18	(I)		23,566	34,500	21,686
Loan and Security Agreement with GEO Semiconductor relating to the following assets:					
Subordinated secured debt, 15.75%, maturing on 1/1/12	(I)		109,942	\$125,000	121,880
Warrants for Series A Pref. Stock expiring on 3/1/18	(I)		7,512	10,000	5,819
Warrants for Series A-1 Pref. Stock expiring on 6/29/18	(I)		7,546	10,000	5,836
			618,982		693,735
Molecular Imprints, Inc. (7)(12) Electronics					
Manufacturing nanoimprint lithography capital equipment					
Series B Convertible Preferred Stock	(M)		2,000,000	1,333,333	1,789,108
Series C Convertible Preferred Stock	(M)		2,406,595	1,285,071	2,138,498
Non-Convertible Bridge Note	(I)		0	0	3,033,338
			4,406,595		6,960,944
Nanosys, Inc. (7)(13) Energy					
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	255,503
Series D Convertible Preferred Stock	(M)		3,000,003	1,016,950	698,410
Series E Convertible Preferred Stock	(M)		496,573	433,688	496,573

		4,996,576		1,450,486
NanoTerra, Inc. (9)(14)	Energy			
Developing surface chemistry and nano-manufacturing solutions				
Senior secured debt, 12.0%, maturing on 2/22/14 (I)		329,307	\$378,564	342,650
Senior secured debt, 12.0%, maturing on 2/22/13 (I)		133,121	\$153,032	144,855
Warrants for Series A-2 Pref. Stock expiring on 2/22/21 (I)		69,168	446,248	67,659
		531,596		555,164

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2011

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Investments in Unaffiliated Companies (3)(4)(5)(6) – 38.8% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) – 16.3% of net assets at value (Cont.)					
Nantero, Inc. (7)(9)(13)		Electronics			
Developing a high-density, nonvolatile, random access memory chip, enabled by carbon nanotubes					
Series A Convertible Preferred Stock	(M)		\$489,999	345,070	\$746,548
Series B Convertible Preferred Stock	(M)		323,000	207,051	451,499
Series C Convertible Preferred Stock	(M)		571,329	188,315	486,760
			1,384,328		1,684,807
Total Unaffiliated Private Placement Portfolio (cost: \$23,794,145)					\$23,748,247
Rights to Milestone Payments (Illiquid) – 2.3% of net assets at value					
Amgen, Inc. (7)(13)		Healthcare			
Rights to Milestone Payments from Acquisition of BioVex Group, Inc.					
	(I)		\$3,291,750	\$3,291,750	\$3,362,791
Total Unaffiliated Rights to Milestone Payments (cost: \$3,291,750)					\$3,362,791
Publicly Traded Portfolio – 20.2% of net assets at value					
NeoPhotonics Corporation (13)		Electronics			
Developing and manufacturing optical devices and components					
Common Stock	(M)		\$7,299,590	450,907	\$2,065,154

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2011

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Solazyme, Inc. (13)(15)(16) Developing algal biodiesel, industrial chemicals and specialty ingredients using synthetic biology Common Stock	(M)	Energy	\$5,444,197	2,304,149	\$27,419,373
Total Unaffiliated Publicly Traded Portfolio (cost: \$12,743,787)					\$29,484,527
Total Investments in Unaffiliated Companies (cost: \$39,829,682)					\$56,595,565

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2011

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3)(17)(18) – 34.1% of net assets at value					
Private Placement Portfolio (Illiquid) – 32.7% of net assets at value					
ABSMaterials, Inc. (7)(9)(13) Developing nano-structured absorbent materials for environmental remediation		Energy			
Series A Convertible Preferred Stock	(M)		\$435,000	390,000	\$1,560,000
Adesto Technologies Corporation (7)(9) Developing low-power, high- performance memory devices		Electronics			
Series A Convertible Preferred Stock	(M)		2,200,000	6,547,619	3,328,635
Series B Convertible Preferred Stock	(M)		2,200,000	5,952,381	3,076,031
Series C Convertible Preferred Stock	(M)		1,485,531	2,122,187	1,271,982
			5,885,531		7,676,648
Contour Energy Systems, Inc. (7)(9)(13) Developing batteries using nanostructured materials		Energy			
Series A Convertible Preferred Stock	(M)		2,009,995	2,565,798	2,520,935
Series B Convertible Preferred Stock	(M)		1,300,000	812,500	1,348,249
Series C Convertible Preferred Stock	(M)		720,000	688,995	767,076
			4,029,995		4,636,260
D-Wave Systems, Inc. (7)(9)(19) Developing high- performance quantum computing systems		Electronics			
Series B Convertible Preferred Stock	(M)		1,002,074	1,144,869	1,311,562
Series C Convertible Preferred Stock	(M)		487,804	450,450	516,036
Series D Convertible Preferred Stock	(M)		1,484,492	1,533,395	1,756,657
Series E Convertible Preferred Stock	(M)		248,049	269,280	308,487
Series F Convertible Preferred Stock	(M)		238,323	258,721	296,391
Warrants for Common Stock expiring 6/30/15	(I)		98,644	153,890	64,272
Secured Convertible Bridge Note (including interest)	(M)		341,047	\$337,579	332,058
			3,900,433		4,585,463

Enumeral Biomedical Corp. (7)(9)		Healthcare			
Developing therapeutics and diagnostics through functional assaying of single cells					
Series A Convertible Preferred Stock	(M)		1,026,832	957,038	1,110,164

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2011

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3)(17)(18) – 34.1% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) – 32.7% of net assets at value (Cont.)					
HzO, Inc. (7)(9)(13)(14)		Electronics			
Developing novel industrial coatings that protect electronics against damage from liquids					
Series A Convertible Preferred Stock	(M)		\$666,667	4,057,294	\$1,130,362
Series B Convertible Preferred Stock	(M)		1,000,000	3,947,888	1,099,882
			1,666,667		2,230,244
Kovio, Inc. (7)(9)(13)		Electronics			
Developing semiconductor products using printed electronics and thin-film technologies					
Series A' Convertible Preferred Stock	(M)		5,242,993	2,160,000	1,437,286
Series B' Convertible Preferred Stock	(M)		1,418,540	2,131,827	1,418,539
			6,661,533		2,855,825
Mersana Therapeutics, Inc. (7)(9)		Healthcare			
Developing treatments for cancer based on novel drug delivery polymers					
Series A Convertible Preferred Stock	(M)		700,000	68,451	0
Series B Convertible Preferred Stock	(M)		1,542,098	866,500	0
Unsecured Convertible Bridge Notes (including interest)	(M)		1,442,871	\$1,195,875	1,442,871
			3,684,969		1,442,871
Metabolon, Inc. (7)(13)		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	1,951,723
Series B-1 Convertible Preferred Stock	(M)		706,214	148,696	780,689
Series C Convertible Preferred Stock	(M)		1,000,000	1,000,000	1,794,510
Series D Convertible Preferred Stock	(M)		1,499,999	835,882	1,499,999
Warrants for Series B-1 Convertible Preferred Stock expiring 3/25/15	(I)		293,786	74,348	71,142

5,999,999

6,098,063

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2011

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3)(17)(18) – 34.1% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) – 32.7% of net assets at value (Cont.)					
Nextreme Thermal Solutions, Inc. (7)(9)(13) Developing thin-film thermoelectric devices for cooling and energy conversion		Energy			
Series A Convertible Preferred Stock	(M)		\$4,384,762	44,053	\$0
Produced Water Absorbents, Inc. (7)(9)(13)(14) Developing nano-structured absorbent materials for environmental remediation of contaminated water in the oil and gas industries		Energy			
Series A Convertible Preferred Stock	(M)		1,000,000	1,000,000	1,000,000
Senova Systems, Inc. (7)(9)(13)(14) Developing next-generation sensors to measure pH		Healthcare			
Series B Convertible Preferred Stock	(M)		692,308	692,308	692,308
SiOnyx, Inc. (7)(9)(13) Developing silicon-based optoelectronic products enabled by its proprietary Black Silicon		Electronics			
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	132,552
			5,385,000		6,520,162
Ultora, Inc. (7)(9)(13) Developing energy-storage devices enabled by carbon nanotubes		Energy			
Series A Convertible Preferred Stock	(M)		215,000	215,000	215,000

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2011

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3)(17)(18) – 34.1% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) – 32.7% of net assets at value (Cont.)					
Xradia, Inc. (7)(13)		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	\$6,978,777
Total Non-Controlled Private Placement Portfolio (cost: \$48,968,029)					\$47,601,785
Publicly Traded Portfolio (Illiquid) – 1.4% of net assets at value					
Champions Oncology, Inc. (13)(14)(20)		Healthcare			
Developing its TumorGraft™ platform for personalized medicine and drug development					
Common Stock	(M)		\$2,000,000	2,666,667	\$1,973,334
Total Non-Controlled Affiliated Publicly Traded Portfolio (cost: \$2,000,000)					\$1,973,334
Total Investments in Non-Controlled Affiliated Companies (cost: \$50,968,029)					\$49,575,119

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2011

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Investments in Controlled Affiliated Companies (3)(21) – 4.7% of net assets at value					
Private Placement Portfolio (Illiquid) – 4.7% of net assets at value					
Ancora Pharmaceuticals Inc. (7)(9) Developing synthetic carbohydrates for pharmaceutical applications		Healthcare			
Common Stock	(M)		\$2,729,817	57,463	\$0
Series A Convertible Preferred Stock	(M)		3,855,627	3,855,627	3,855,627
Senior Secured Debt, 12.00%, maturing on 12/11/12	(I)		452,060	\$500,000	455,190
			7,037,504		4,310,817
Laser Light Engines, Inc. (7)(9) Manufacturing solid-state light sources for digital cinema and large-venue projection displays		Energy			
Series A Convertible Preferred Stock	(M)		2,000,000	7,499,062	0
Series B Convertible Preferred Stock	(M)		3,095,802	13,571,848	2,181,119
Secured Convertible Bridge Note (including interest)	(M)		385,630	\$378,261	385,630
			5,481,432		2,566,749
Total Controlled Private Placement Portfolio (cost: \$12,518,936)					\$6,877,566
Total Investments in Controlled Affiliated Companies (cost: \$12,518,936)					\$6,877,566
Total Private Placement and Publicly Traded Portfolio (cost: \$103,316,647)					\$113,048,250
Total Investments (cost: \$103,316,647)					\$113,048,250

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2011

	Method of Valuation (1)	Number of Contracts	Value
Written Call Options (15) – (0.1)% of net assets at value			
Solazyme, Inc. — Strike Price \$15.00, 3/17/12	(M)	3,000	\$(195,000)
Total Written Call Options (Premiums Received \$315,000)			\$(195,000)

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2011

Notes to Consolidated Schedule of Investments

(1) See "Footnote to Consolidated Schedule of Investments" on page 31 for a description of the "Valuation Procedures."

(2) 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 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 "Energy," "Electronics" and "Healthcare." We do not have any portfolio companies classified as "Other" as of December 31, 2011. In the first quarter of 2011, we renamed the sector classification "Electronics/Semiconductors" to "Electronics" and reclassified three companies, NeoPhotonics Corporation, Polatis, Inc., and Xradia, Inc., from a sector classification of "Other" to "Electronics" to reflect a broader definition of electronics to include photonics, metrology, and test and measurement. We also renamed the sector classification "Healthcare/Biotech" to "Healthcare." In the fourth quarter of 2011, we renamed the sector classification, "Cleantech" to "Energy."

(3) 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. 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.

(4) The aggregate cost for federal income tax purposes of investments in unaffiliated privately held companies is \$23,794,145. The gross unrealized appreciation based on the tax cost for these securities is \$5,997,220. The gross unrealized depreciation based on the tax cost for these securities is \$6,043,118.

(5) The aggregate cost for federal income tax purposes of investments in unaffiliated rights to milestone payments is \$3,291,750. The gross unrealized appreciation based on the tax cost for these securities is \$71,041. The gross unrealized depreciation based on the tax cost for these securities is \$0.

(6) The aggregate cost for federal income tax purposes of investments in unaffiliated publicly traded companies is \$12,743,787. The gross unrealized appreciation based on the tax cost for these securities is \$21,975,176. The gross unrealized depreciation based on the tax cost for these securities is \$5,234,436.

- (7) We are subject to legal restrictions on the sale of our investment(s) in this company.

The accompanying notes are an integral part of this consolidated schedule.

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2011

With our investment in the Series E round of financing, we received a warrant to purchase shares of common stock of up to 30 percent of the amount invested in the Series E round of financing of Bridgelux, Inc., depending on certain financial performance metrics of the company as of December 31, 2011, at a price per share of \$1.9056. The number of shares able to be purchased and beginning of the period for when this warrant is exercisable will be set upon receipt of the audited financial statements of the company for the 2011 fiscal year or upon the completion of an IPO or sale of the company, whichever comes first. Bridgelux did not complete an IPO or sale of the
(8) company as of December 31, 2011. Also as of that date, the audited financials for the company's 2011 fiscal year were not available. This warrant is, therefore, a contingent asset as of December 31, 2011. With our investment in the bridge note financing in the fourth quarter of 2011, we received a warrant for the purchase of common stock that is exercisable at the date of issuance, but the number of shares for which it can be exercised increases monthly from the date of issuance through the close of the next round of equity financing of the company up to 50 percent of the principal amount invested in the note divided by \$1.9056. The warrant for common stock is exercisable for 56,564 shares of common stock of Bridgelux as of December 31, 2011.

These investments are development-stage companies. A development-stage company is defined as a company that is devoting substantially all of its efforts to establishing a new business, and either it has not yet commenced its
(9) planned principal operations, or it has commenced such operations but has not realized significant revenue from them.

(10) Cobalt Technologies, Inc., also does business as Cobalt Biofuels.

With our investment in a convertible bridge note issued by Ensemble Therapeutics Corporation, we received a warrant to purchase a number of shares of the class of stock sold in the next financing of Ensemble Therapeutics Corporation equal to \$149,539.57 divided by the price per share of the class of stock sold in the next financing of
(11) Ensemble Therapeutics Corporation. The ability to exercise this warrant is, therefore, contingent on Ensemble Therapeutics Corporation completing successfully a subsequent round of financing. This warrant shall expire and no longer be exercisable on September 10, 2015. The cost basis of this warrant is \$89.86.

As part of a loan the Company made to Molecular Imprints in the second quarter of 2011, we received a liquidation preference payable upon a sale of the company equal to three times the principal of the loan, or
(12) \$4,044,450. This preference is senior to the preferences of the outstanding preferred stock. While the loan has since been repaid, this liquidation preference remains outstanding as of December 31, 2011.

(13) Represents a non-income producing security. Investments that have not paid dividends or interest within the last 12 months are considered to be non-income producing.

(14) Initial investment was made during 2011.

(15) A portion of this security is held in connection with written call option contracts: 300,000 shares have been pledged to brokers.

(16) The lock-up period on our 2,304,149 shares of Solazyme, Inc., expired on November 25, 2011.

The accompanying notes are an integral part of this consolidated schedule.

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2011

The aggregate cost for federal income tax purposes of investments in non-controlled affiliated companies is (17) \$48,968,029. The gross unrealized appreciation based on the tax cost for these securities is \$9,066,325. The gross unrealized depreciation based on the tax cost for these securities is \$10,432,569.

The aggregate cost for federal income tax purposes of investments in non-controlled affiliated publicly traded (18) companies is \$2,000,000. 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 \$26,666.

D-Wave Systems, Inc., is located and is doing business primarily in Canada. We invested in D-Wave Systems, (19) Inc., through Parallel Universes, Inc., a Delaware company. Our investment is denominated in Canadian dollars and is subject to foreign currency translation. See "Note 2. Summary of Significant Accounting Policies."

(20) Our 2,666,667 shares of Champions Oncology, Inc., became freely tradable on October 1, 2011, pursuant to Rule 144.

The aggregate cost for federal income tax purposes of investments in controlled affiliated companies is (21) \$12,518,936. 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 \$5,641,370.

The accompanying notes are an integral part of this consolidated schedule.

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.

II. Approaches to Determining Fair Value

Accounting principles generally accepted in the United States of America ("GAAP") define 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). In effect, GAAP 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 and the income approach.

Market Approach (M): The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. For example, the market approach often uses market multiples derived from a set of comparables. Multiples might lie in ranges with a different multiple for each comparable. The selection of where within the range each appropriate multiple falls requires judgment considering factors specific to the measurement (qualitative and quantitative).

Income Approach (I): 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. 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.

GAAP classifies the inputs used to measure fair value by these approaches into the following hierarchy:

Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets;

Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs 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 or income approaches. The following factors may be considered when the market approach is used 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;

§ 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;

§ 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