HARRIS & HARRIS GROUP INC /NY/
Form 10-Q
August 10, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2015

¨ 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 Incorporation or Organization)	(I.R.S. Employer Identification No.)

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 x 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 x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	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 x

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 10, 2015
Common Stock, $0.01 par value per share	31,321,685 shares

Harris & Harris Group, Inc.

Form 10-Q, June 30, 2015

PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

In the opinion of management, these financial statements reflect all adjustments, consisting of valuation adjustments and normal recurring accruals, necessary for a fair statement of our financial position, results of operations and cash flows for such periods.

Harris & Harris Group, Inc.® (the "Company," "us," "our" and "we"), is an internally managed, non-diversified management investment 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, 2014.

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

(Unaudited)

	June 30, 2015	December 31, 2014
ASSETS		
Investments, in portfolio securities at value:		
Unaffiliated privately held companies (cost: $20,307,754 and $22,304,047, respectively)	$7,452,767	$ 13,854,906
Unaffiliated rights to milestone payments (adjusted cost basis: $2,387,278 and $2,387,278, respectively)	3,181,183	3,193,865
Unaffiliated publicly traded securities (cost: $1,682,079 and $1,741,128, respectively)	1,561,988	1,398,085
Non-controlled affiliated privately held companies (cost: $64,678,768 and $67,236,533, respectively)	58,952,248	58,470,864
Non-controlled affiliated publicly traded companies (cost: $11,683,371 and $5,591,299, respectively)	10,695,100	8,384,641
Controlled affiliated privately held companies (cost: $13,505,442 and $13,111,030, respectively)	5,207,773	4,462,479
Equity method privately held companies (adjusted cost basis: $288,391 and $0, respectively)	288,391	0
Total, investments in private portfolio companies, rights to milestone payments, public securities at value (cost: $114,533,083 and $112,371,315, respectively)	$87,339,450	$ 89,764,840
Cash	22,982,089	20,748,314
Funds held in escrow from sales of investments at value (Note 3)	372,835	306,802
Receivable from portfolio company	17,500	160,877
Interest receivable	72,826	62,482
Prepaid expenses	554,767	754,856
Other assets	417,265	296,690
Total assets	$111,756,732	$ 112,094,861
LIABILITIES & NET ASSETS		
Term loan credit facility (Note 5)	$5,000,000	$ 0
Post retirement plan liabilities (Note 8)	1,293,962	1,267,615
Accounts payable and accrued liabilities	674,840	841,915
Deferred rent	305,192	330,904
Total liabilities	$7,273,994	$ 2,440,434
Commitments and contingencies (Note 12)		
Net assets	$104,482,738	$ 109,654,427
Net assets are comprised of:		

Preferred stock, $0.10 par value, 2,000,000 shares authorized; none issued	$0	$ 0
Common stock, $0.01 par value, 45,000,000 shares authorized at 6/30/15 and 12/31/14; 33,150,425 and 33,109,583 issued at 6/30/15 and 12/31/14, respectively	331,504	331,096
Additional paid in capital (Note 9)	215,435,591	215,051,662
Accumulated net operating and realized loss	(81,298,904)	(80,434,528)
Accumulated unrealized depreciation of investments	(27,193,633)	(22,606,475)
Accumulated other comprehensive income (Note 8)	613,711	718,203
Treasury stock, at cost (1,828,740 shares at 6/30/15 and 12/31/14)	(3,405,531)	(3,405,531)
Net assets	$104,482,738	$ 109,654,427
Shares outstanding	31,321,685	31,280,843
Net asset value per outstanding share	$3.34	$ 3.51

The accompanying unaudited 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,	
	2015	2014	2015	2014
Investment income:				
Interest from:				
Unaffiliated companies	$ 9,533	$ 36,447	$ 20,776	$ 86,682
Non-controlled affiliated companies	201,896	41,095	254,322	83,371
Controlled affiliated companies	47,207	36,607	91,633	71,333
Cash and U.S. Treasury securities and other	3,318	2,929	4,748	6,478
Fees for providing managerial assistance to portfolio companies	6,500	0	13,500	0
Yield-enhancing fees on debt securities	19,741	16,757	46,048	32,262
Total investment income	288,195	133,835	431,027	280,126
Expenses:				
Salaries, benefits and stock-based compensation (Note 9)	977,689	1,247,426	2,056,178	2,659,786
Administration and operations	134,860	206,960	236,094	337,440
Professional fees	314,785	385,352	887,019	597,223
Rent	67,758	80,065	135,464	148,091
Insurance expense	73,724	84,007	141,335	167,940
Directors' fees and expenses	68,901	93,131	188,525	186,408
Interest and other debt expenses	208,026	94,276	351,746	187,996
Custody fees	15,704	14,228	31,616	29,019
Depreciation	12,055	13,245	24,702	26,450
Total expenses	1,873,502	2,218,690	4,052,679	4,340,353
Net operating loss	(1,585,307)	(2,084,855)	(3,621,652)	(4,060,227)
Net realized gain (loss):				
Realized gain (loss) from investments:				
Unaffiliated companies	3,289,351	3,946,838	3,299,836	3,946,838
Non-Controlled affiliated companies	(98,644)	588,221	(392,430)	(6,711,063)
Publicly traded companies	41,411	960,882	41,411	1,333,497
Written call options	0	197,309	0	86,653
Realized gain (loss) from investments	3,232,118	5,693,250	2,948,817	(1,344,075)
Income tax expense (Note 10)	1,600	0	1,705	15,986
Net realized gain (loss) from investments	3,230,518	5,693,250	2,947,112	(1,360,061)

Net (increase) decrease in unrealized depreciation on investments:				
Investments	(3,116,377)	796,969	(4,587,158)	3,183,622
Written call options	0	(77,309)	0	89,044
Net (increase) decrease in unrealized depreciation on investments	(3,116,377)	719,660	(4,587,158)	3,272,666
Net realized and unrealized gains (loss) on investments	114,141	6,412,910	(1,640,046)	1,912,605
Share of loss on equity method investment	(58,330)	0	(189,836)	0
Net (decrease) increase in net assets resulting from operations:				
Total	$ (1,529,496)	$ 4,328,055	$ (5,451,534)	$ (2,147,622)
Per average basic and diluted outstanding share	$ (0.05)	$ 0.14	$ (0.17)	$ (0.07)
Average outstanding shares	31,285,894	31,201,574	31,283,382	31,199,518

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited)

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Net (decrease) increase resulting from operations	$ (1,529,496)	$ 4,328,055	$ (5,451,534)	$ (2,147,622)
Other comprehensive (loss) income:				
Amortization of prior service cost	(52,246)	(52,246)	(104,492)	(104,492)
Other comprehensive loss	(52,246)	(52,246)	(104,492)	(104,492)
Comprehensive (loss) income	$ (1,581,742)	$ 4,275,809	$ (5,556,026)	$ (2,252,114)

The accompanying unaudited 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, 2015	Six Months Ended June 30, 2014
Cash flows (used in) provided by operating activities:		
Net (decrease) in net assets resulting from operations	$ (5,451,534)	$ (2,147,622)
Adjustments to reconcile net (decrease) in net assets resulting from operations to net cash provided by (used in) operating activities:		
Net realized loss (gain) and change in unrealized depreciation (appreciation) on investments	1,638,341	(1,928,591)
Depreciation of fixed assets, amortization of prepaid assets and accretion of bridge note interest	(279,990)	(140,878)
Share of loss on equity method investee	189,836	0
Stock-based compensation expense	431,981	497,634
Amortization of prior service cost	(104,492)	(104,492)
Purchase of U.S. government securities	0	(19,999,044)
Sale of U.S. government securities	0	38,998,052
Purchase of equity method investment	(262,215)	0
Purchase of affiliated portfolio companies	(4,275,915)	(9,714,299)
Purchase of unaffiliated portfolio companies	(509,824)	(240,500)
Payments received on debt investments	186,109	224,711
Proceeds from sale of investments and conversion of bridge notes	5,698,094	9,766,197
Proceeds from call option premiums	0	338,229
Payments for put and call option purchases	0	(218,532)
Changes in assets and liabilities:		
Receivable from sales of investments	0	448,886
Receivable from portfolio company	143,377	(325)
Interest receivable	(10,344)	1,202
Prepaid expenses	200,089	240,034
Other assets	(138,848)	(2,209)
Post retirement plan liabilities	26,347	32,409
Accounts payable and accrued liabilities	(167,075)	179,145
Deferred rent	(25,712)	(22,293)
Net cash (used in) provided by operating activities	(2,711,775)	16,207,714
Cash flows from investing activities:		
Purchase of fixed assets	(6,806)	(1,066)
Net cash used in investing activities	(6,806)	(1,066)

Cash flows from financing activities:		
Proceeds from drawdown of loan facility	5,000,000	0
Payment of withholdings related to net settlement of restricted stock	(47,644)	(68,872)
Net cash provided by (used in) financing activities	4,952,356	(68,872)
Net increase in cash	$ 2,233,775	$ 16,137,776
Cash at beginning of the period	20,748,314	8,538,548
Cash at end of the period	$ 22,982,089	$ 24,676,324
Supplemental disclosures of cash flow information:		
Income taxes paid	$ 1,705	$ 15,986

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(Unaudited)

	Six Months Ended June 30, 2015	Year Ended December 31, 2014
Changes in net assets from operations:		
Net operating loss	$ (3,621,652)	$ (7,901,727)
Net realized gain (loss) on investments	2,947,112	(5,083,625)
Net (increase) in unrealized depreciation on investments	(4,587,158)	(576,186)
Net (decrease) in unrealized appreciation on written call options	0	(8,882)
Share of loss on equity method investment	(189,836)	0
Net decrease in net assets resulting from operations	(5,451,534)	(13,570,420)
Changes in net assets from capital stock transactions:		
Acquisition of vested restricted stock awards to pay required employee withholding tax	(47,644)	(124,751)
Stock-based compensation expense	431,981	857,006
Net increase in net assets resulting from capital stock transactions	384,337	732,255
Changes in net assets from accumulated other comprehensive (loss) income:		
Other comprehensive (loss)	(104,492)	(208,983)
Net (decrease) in net assets resulting from accumulated other comprehensive (loss) income	(104,492)	(208,983)
Net decrease in net assets	(5,171,689)	(13,047,148)
Net Assets:		
Beginning of the period	109,654,427	122,701,575

End of the period	$ 104,482,738	$ 109,654,427

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2015

(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	**Value**
Investments in Unaffiliated Companies (3) – 11.7% of net assets at value					
Private Placement Portfolio (Illiquid) (4) – 7.1% of net assets at value					
Bridgelux, Inc. (5)(8)(9)(10)		Energy			
Manufacturing high-power light emitting diodes (LEDs) and arrays					
Series B Convertible Preferred Stock	(M)		$1,000,000	1,861,504	$259,311
Series C Convertible Preferred Stock	(M)		1,352,196	2,130,699	535,508
Series D Convertible Preferred Stock	(M)		1,371,622	999,999	738,068
Series E Convertible Preferred Stock	(M)		672,599	440,334	608,448
Series E-1 Convertible Preferred Stock	(M)		386,073	399,579	401,208
Warrants for Series C Convertible Preferred Stock expiring 8/31/15	(M)		168,270	163,900	0
Warrants for Series D Convertible Preferred Stock expiring 8/31/15	(M)		128,543	166,665	0
Warrants for Series E Convertible Preferred Stock expiring 12/31/17	(M)		93,969	170,823	0
Warrants for Common Stock expiring 6/1/16	(M)		72,668	132,100	0
Warrants for Common Stock expiring 8/9/18	(M)		148,409	171,183	0
Warrants for Common Stock expiring 10/21/18	(M)		18,816	84,846	0
			5,413,165		2,542,543
Cambrios Technologies Corporation (5)(8)(9)		Electronics			
Developing nanowire-enabled electronic materials for the display industry					
Series B Convertible Preferred Stock	(I)		1,294,025	1,294,025	47,659
Series C Convertible Preferred Stock	(I)		1,300,000	1,300,000	47,879
Series D Convertible Preferred Stock	(I)		515,756	515,756	368,541
Series D-2 Convertible Preferred Stock	(I)		92,400	92,400	33,322
Series D-4 Convertible Preferred Stock	(I)		216,168	216,168	77,955
			3,418,349		575,356
Cobalt Technologies, Inc. (8)(9)(10)(11)		Energy			

Developed processes for making bio-butanol through biomass fermentation				
Series C-1 Convertible Preferred Stock	(M)	749,998	352,112	0
Series D-1 Convertible Preferred Stock	(M)	122,070	48,828	0
Series E-1 Convertible Preferred Stock	(M)	114,938	46,089	0
Warrants for Series E-1 Pref. Stock expiring on 10/9/22	(I)	2,781	1,407	0
Warrants for Series E-1 Pref. Stock expiring on 3/11/23	(I)	5,355	2,707	0
		995,142		0

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

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HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2015

(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	**Shares/** Principal	Value
Investments in Unaffiliated Companies (3) – 11.7% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (4) – 7.1% of net assets at value (Cont.)					
Magic Leap, Inc. (8)(9)(12)		Electronics			
Developing novel human computing interfaces and software					
Series B Convertible Preferred Stock	(I)		$338,604	29,291	$319,472
Mersana Therapeutics, Inc. (5)(8)(9)		Life Sciences			
Developing antibody drug conjugates for cancer therapy					
Series A-1 Convertible Preferred Stock	(I)		683,538	635,081	455,263
Series B-1 Convertible Preferred Stock	(I)		104,521	97,111	107,706
Common Stock	(I)		3,875,395	350,539	143,695
			4,663,454		706,664
Nanosys, Inc. (5)(8)		Energy			
Developing inorganic nanowires and quantum dots for use in LED-backlit devices					
Series C Convertible Preferred Stock	(M)		1,500,000	803,428	491,935
Series D Convertible Preferred Stock	(M)		3,000,003	1,016,950	1,674,974
Series E Convertible Preferred Stock	(M)		496,573	433,688	664,176
			4,996,576		2,831,085
Nano Terra, Inc. (5)		Energy			
Developing surface chemistry and nano-manufacturing solutions					
Senior secured debt, 12.0%, maturing on 12/1/15	(I)		163,857	$199,259	198,420
Warrants for Common Stock expiring on 2/22/21	(I)		69,168	4,462	1,365

Warrants for Series A-3 Pref. Stock expiring on 11/15/22	(I)	35,403	47,508	63,826
		268,428		263,611

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

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HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2015

(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	**Shares/** Principal	Value
Investments in Unaffiliated Companies (3) –					
11.7% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (4) –					
7.1% of net assets at value (Cont.)					
Phylagen, Inc. (5)(8)(13) Developing technology to improve human health and productivity		Life Sciences			
Secured Convertible Bridge Note, 5%, acquired 2/5/15	(M)		$204,000	$200,000	$204,000
Secured Convertible Bridge Note, 5%, acquired 6/5/15	(M)		10,036	$10,000	10,036
			214,036		214,036
Total Unaffiliated Private Placement Portfolio (cost: $20,307,754)					$7,452,767
Rights to Milestone Payments (Illiquid) (6) – 3.1% of net assets at value					
Amgen, Inc. (8)(9)		Life Sciences			
Rights to Milestone Payments from Acquisition of BioVex Group, Inc.	(I)		$1,757,608	$1,757,608	$2,549,261
Laird Technologies, Inc. (8)(9)		Energy			
Rights to Milestone Payments from Merger & Acquisition of Nextreme Thermal Solutions, Inc.	(I)		0	$0	0
Canon, Inc. (8)(9)		Electronics			
Rights to Milestone Payments from	(I)		629,670	$629,670	631,922

Acquisition of Molecular Imprints, Inc.	
Total Unaffiliated Rights to Milestone Payments (cost: $2,387,278)	$3,181,183

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2015

(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	**Shares/** Principal	Value
Publicly Traded Portfolio (7) –					
1.5% of net assets at value					
Solazyme, Inc. (5)(9)		Energy			
Developing algal biodiesel, industrial chemicals and specialty ingredients using synthetic biology					
Common Stock	(M)		$59,050	25,000	$78,500
Champions Oncology, Inc. (5)(9)		Life Sciences			
Developing its TumorGraft™ platform for personalized medicine and drug development					
Common Stock	(M)		1,622,629	2,922,492	1,461,247
Warrants for Common Stock expiring 1/28/19	(I)		400	66,000	22,241
			1,623,029		1,483,488
Total Unaffiliated Publicly Traded Portfolio (cost: $1,682,079)					$1,561,988
Total Investments in Unaffiliated Companies (cost: $24,377,111)					$12,195,938

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2015

(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	**Shares/** Principal	Value
Investments in Non-Controlled					
Affiliated Companies (3) –					
66.6% of net assets at value					
Private Placement Portfolio (Illiquid) (14) –					
56.4% of net assets at value					
ABSMaterials, Inc. (5)(8)(9) Developing nano-structured absorbent materials		Energy			
for water remediation and consumer applications					
Series A Convertible Preferred Stock	(I)		$435,000	390,000	$300,663
Series B Convertible Preferred Stock	(I)		1,217,644	1,037,751	1,248,005
			1,652,644		1,548,668
Adesto Technologies Corporation (5)(8)(9)(15) Developing low-power, high-performance		Electronics			
memory devices					
Series A Convertible Preferred Stock	(H)		2,200,000	6,547,619	1,763,825
Series B Convertible Preferred Stock	(H)		2,200,000	5,952,381	1,630,215
Series C Convertible Preferred Stock	(H)		1,485,531	2,122,187	674,956
Series D Convertible Preferred Stock	(H)		1,393,147	1,466,470	648,067
Series D-1 Convertible Preferred Stock	(H)		703,740	987,706	377,288
Series E Convertible Preferred Stock	(H)		2,499,999	3,508,771	10,563,950
			10,482,417		15,658,301
AgBiome, LLC (5)(8)(9) Providing early-stage research and discovery for		Life Sciences			

agriculture and utilizing the crop microbiome to identify products that reduce risk and improve yield				
Series A-1 Convertible Preferred Stock	(I)	2,000,000	2,000,000	3,963,020
Series A-2 Convertible Preferred Stock	(I)	521,740	417,392	882,834
		2,521,740		4,845,854

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HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2015

(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	**Shares/** Principal	Value
Investments in Non-Controlled					
Affiliated Companies (3) –					
66.6% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (14) –					
56.4% of net assets at value (Cont.)					
D-Wave Systems, Inc. (8)(9)(16)		Electronics			
Developing high-performance					
quantum computing systems					
Series 1 Class B Convertible Preferred Stock	(H)		$1,002,074	1,144,869	$1,640,851
Series 1 Class C Convertible Preferred Stock	(H)		487,804	450,450	650,308
Series 1 Class D Convertible Preferred Stock	(H)		748,473	855,131	1,234,540
Series 1 Class E Convertible Preferred Stock	(H)		248,049	269,280	408,736
Series 1 Class F Convertible Preferred Stock	(H)		238,323	258,721	392,708
Series 1 Class H Convertible Preferred Stock	(H)		909,088	460,866	812,690
Series 2 Class D Convertible Preferred Stock	(H)		736,019	678,264	979,199
Series 2 Class E Convertible Preferred Stock	(H)		659,493	513,900	790,306
Series 2 Class F Convertible Preferred Stock	(H)		633,631	493,747	759,313
Warrants for Common Stock expiring 5/12/19	(I)		26,357	20,415	826
			5,689,311		7,669,477
EchoPixel, Inc. (5)(8)(9)		Life Sciences			
Developing algorithms and software to improve					
visualization of data for life science and healthcare applications					
Series Seed Convertible Preferred Stock	(I)		1,250,000	4,194,630	1,334,312
Ensemble Therapeutics Corporation (5)(8)		Life Sciences			
Developing DNA-Programmed Chemistry™ for the discovery of new classes of therapeutics					
Series B Convertible Preferred Stock	(I)		2,000,000	1,449,275	1,078,730
Series B-1 Convertible Preferred Stock	(I)		679,754	492,575	1,715,927

			2,679,754		2,794,657
HZO, Inc. (5)(8)(9)		Electronics			
Developing novel industrial coatings that protect electronics against damage from liquids					
Common Stock	(I)		666,667	405,729	308,413
Series I Convertible Preferred Stock	(I)		5,709,835	2,266,894	4,148,974
Series II Convertible Preferred Stock	(I)		2,000,003	539,710	2,000,331
			8,376,505		6,457,718

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

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HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2015

(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	**Shares/** Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 66.6% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (14) – 56.4% of net assets at value (Cont.)					
Laser Light Engines, Inc. (8)(9)		Energy			
Manufactured solid-state light sources for					
digital cinema and large-venue projection displays					
Series A Convertible Preferred Stock	(M)		$2,000,000	7,499,062	$0
Series B Convertible Preferred Stock	(M)		3,095,802	13,571,848	0
Secured Convertible Bridge Note, 12%, acquired 10/7/11	(M)		200,000	$200,000	0
Secured Convertible Bridge Note, 12%, acquired 11/17/11	(M)		95,652	$95,652	0
Secured Convertible Bridge Note, 12%, acquired 12/21/11	(M)		82,609	$82,609	0
Secured Convertible Bridge Note, 12%, acquired 3/5/12	(M)		434,784	$434,784	0
Secured Convertible Bridge Note, 12%, acquired 7/26/12	(M)		186,955	$186,955	0
Secured Convertible Bridge Note, 20%, acquired 4/29/13	(M)		166,667	$166,667	0
Secured Convertible Bridge Note, 20%, acquired 7/22/13	(M)		166,667	$166,667	0
Secured Convertible Bridge Note, 10%, acquired 10/30/13	(M)		80,669	$80,669	0
Secured Convertible Bridge Note, 10%, acquired 2/5/14	(M)		19,331	$19,331	0
Secured Convertible Bridge Note, 10%, acquired 6/24/14	(M)		13,745	$13,745	0
			6,542,881		0
Metabolon, Inc. (5)(8)(9)		Life Sciences			
Developing service and diagnostic products through the use of a metabolomics, or biochemical, profiling platform					
Series B Convertible Preferred Stock	(H)		2,500,000	371,739	2,786,2
Series B-1 Convertible Preferred Stock	(H)		706,214	148,696	1,163,1
Series C Convertible Preferred Stock	(H)		1,000,000	1,000,000	2,538,9
Series D Convertible Preferred Stock	(H)		1,499,999	835,882	2,187,1
Series E-1 Convertible Preferred Stock	(H)		1,225,000	444,404	1,562,8
Series E-2 Convertible Preferred Stock	(H)		299,999	103,277	300,41
			7,231,212		10,538
ORIG3N, Inc. (5)(8)(9)(13)		Life Sciences			

Developing precision medicine applications for induced pluripotent stems cells				
Series 1 Convertible Preferred Stock	(I)	250,000	597,658	253,74

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2015

(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	**Shares/** Principal	Valu
Investments in Non-Controlled Affiliated Companies (3) – 66.6% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (14) – 56.4% of net assets at value (Cont.)					
Produced Water Absorbents, Inc. (5)(8)(17)		Energy			
Developing nano-structured absorbent materials for environmental remediation of contaminated water in the oil and gas industries					
Series A Convertible Preferred Stock	(M)		$1,000,000	1,000,000	$34,
Series B Convertible Preferred Stock	(M)		1,496,865	5,987,460	850
Series B-2 Convertible Preferred Stock	(M)		1,015,427	4,322,709	61
Series B-3 Convertible Preferred Stock	(M)		978,641	3,914,564	55
Series C Convertible Preferred Stock	(M)		1,000,268	2,667,380	28
Series D Convertible Preferred Stock	(M)		986,066	2,629,510	55
Subordinated Secured Debt, 12%, maturing on 9/30/15	(I)		991,855	$1,000,000	98
Subordinated Convertible Bridge Note, 12%, acquired 6/3/2015	(M)		252,301	$250,000	25
Warrants for Series B-2 Preferred Stock expiring upon liquidation event	(I)		65,250	300,000	7,5
			7,786,673		4,1
SiOnyx, Inc. (5)(8)(18)		Electronics			
Developing silicon-based optoelectronic products enabled by its proprietary Black Silicon					
Series A Convertible Preferred Stock	(H)		750,000	233,499	0
Series A-1 Convertible Preferred Stock	(H)		890,000	2,966,667	0
Series A-2 Convertible Preferred Stock	(H)		2,445,000	4,207,537	0
Series B-1 Convertible Preferred Stock	(H)		1,169,561	1,892,836	0
Series C Convertible Preferred Stock	(H)		1,171,316	1,674,030	0
Secured Convertible Bridge Note, 8%, acquired 1/31/14	(H)		1,428,027	$1,281,125	58
Secured Convertible Bridge Note, 8%, acquired 5/9/14	(H)		85,695	$93,976	30
Secured Convertible Bridge Note, 10%, acquired 12/12/14	(H)		72,852	$68,999	72
Secured Convertible Bridge Note, 10%, acquired 1/30/15	(H)		107,870	$103,500	1,0
Secured Convertible Bridge Note, 8%, acquired 5/22/15	(H)		118,699	$117,653	21
Warrants for Series B-1 Convertible Preferred					

Stock expiring 2/23/17	(H)		130,439	247,350	0
Warrants for Common Stock expiring 3/28/17	(H)		84,207	418,507	0
Warrants for Common Stock expiring 5/9/19	(H)		17,010	3,208	0
			8,470,676		2,9
UberSeq, Inc. (5)(8)(9)(19)		Life Sciences			
Developing translational genomics solutions					
Series Seed Convertible Preferred Stock	(I)		375,000	500,000	58
Warrants for Series Seed Preferred Stock expiring 6/6/19	(I)		125,000	166,667	19
			500,000		77

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

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HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2015

(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	**Shares/** Principal	Value
Investments in Non-Controlled					
Affiliated Companies (3) –					
66.6% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (14) –					
56.4% of net assets at value (Cont.)					
Ultora, Inc. (5)(8) Developed energy-storage devices		Energy			
enabled by carbon nanotubes					
Series A Convertible Preferred Stock	(M)		$886,830	17,736	$0
Series B Convertible Preferred Stock	(M)		236,603	2,347,254	0
Secured Convertible Bridge Note, 5%, acquired 5/7/14	(M)		86,039	$86,039	0
Secured Convertible Bridge Note, 5%, acquired 8/20/14	(M)		17,208	$17,208	0
Secured Convertible Bridge Note, 5%, acquired 10/14/14	(M)		10,750	$10,750	0
Secured Convertible Bridge Note, 5%, acquired 3/30/15	(M)		7,525	$7,525	0
			1,244,955		0
Total Non-Controlled Private Placement Portfolio (cost: $64,678,768)					$58,952,248
Publicly Traded Portfolio (20) – 10.2% of net assets at value					
Enumeral Biomedical Holdings, Inc. (5)(21) Developing therapeutics and diagnostics		Life Sciences			
through functional assaying of single cells					
Common Stock	(M)		$4,993,357	7,966,368	$4,741,615
Warrants for Common Stock expiring 7/30/19	(I)		540,375	1,500,000	483,558

Warrants for Common Stock expiring 2/2/24	(I)		57,567	255,120	135,698
Options to Purchase Common Stock at $1.00 expiring 8/4/24	(I)		0	75,001	38,536
			5,591,299		5,399,407
OpGen, Inc. (5)(8)		Life Sciences			
Developing tools for genomic sequence assembly and analysis					
Common Stock	(M)		5,665,708	1,409,796	5,044,746
Warrants for Common Stock expiring 5/8/20	(M)		425,579	300,833	201,558
Warrants for Common Stock expiring 2/17/25	(I)		785	31,206	49,389
			6,092,072		5,295,693
Total Non-Controlled Publicly Traded Portfolio (cost: $11,683,371)					$10,695,100
Total Investments in Non-Controlled Affiliated Companies (cost: $76,362,139)					$69,647,348

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2015

(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	**Shares/** Principal	Value
Investments in Controlled Affiliated Companies (3) – 5.0% of net assets at value					
Private Placement Portfolio (Illiquid) (22) – 5.0% of net assets at value					
ProMuc, Inc. (5)(8)		Life Sciences			
Developing synthetic mucins for the nutritional, food and healthcare markets					
Common Stock	(M)		$1	1,000	$1
Secured Convertible Bridge Note, 8%, acquired 12/18/13	(M)		392,959	$350,000	392,959
Secured Convertible Bridge Note, 8%, acquired 8/13/14	(M)		107,057	$100,000	107,057
			500,017		500,017
Senova Systems, Inc. (5)(8)		Life Sciences			
Developing next-generation sensors to measure pH					
Series B Convertible Preferred Stock	(I)		1,218,462	1,350,000	457,705
Series B-1 Convertible Preferred Stock	(I)		1,083,960	2,759,902	956,455
Series C Convertible Preferred Stock	(I)		1,208,287	1,611,049	1,208,671
Warrants for Series B Preferred Stock expiring 10/15/17	(I)		131,538	164,423	55,745
Warrants for Series B Preferred Stock expiring 4/24/18	(I)		20,000	25,000	8,476
			3,662,247		2,687,052
SynGlyco, Inc. (5)(8)(23)		Life Sciences			
Developed synthetic carbohydrates for pharmaceutical applications					
Common Stock	(I)		2,729,817	57,463	0
Series A' Convertible Preferred Stock	(I)		4,855,627	4,855,627	154,685
Senior Secured Debt, 12.00%, maturing on 12/11/14	(I)		457,548	$500,000	565,833
	(I)		422,467	$350,000	422,467

Secured Convertible Bridge Note, 8%, acquired 1/23/13				
Secured Convertible Bridge Note, 8%, acquired 4/25/13	(I)	355,058	$300,000	355,058
		8,820,517		1,498,043

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

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HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2015

(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	**Shares/** Principal	Value
Investments in Controlled Affiliated Companies (3) – 5.0% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (22) – 5.0% of net assets at value (Cont.)					
TARA Biosystems, Inc. (5)(8)		Life Sciences			
Developing human tissue models for toxicology and drug discovery applications					
Common Stock	(M)		$20	2,000,000	$20
Secured Convertible Bridge Note, 8%, acquired 8/20/14	(M)		320,712	$300,000	320,712
Secured Convertible Bridge Note, 8%, acquired 5/18/15	(M)		201,929	$200,000	201,929
			522,661		522,661
Total Controlled Private Placement Portfolio (cost: $13,505,442)					$5,207,773
Total Investments in Controlled Affiliated Companies (cost: $13,505,442)					$5,207,773
Total Private Placement and Publicly Traded Portfolio (cost: $114,244,692)					$87,051,059
Equity Method Investments (24) – 0.3% of net assets at value					
Private Placement Portfolio (Illiquid) (24) – 0.3% of net assets at value					
Accelerator IV-New York Corporation (5)(8)(9)(25)		Life Sciences			
Identifying and managing emerging biotechnology companies					
Series A Common Stock	(E)		$288,391	478,227	$288,391
Total Equity Method Investments (cost: $288,391)					$288,391

Total Investments (cost: $114,533,083)	$87,339,450

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

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HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2015

(Unaudited)

Notes to Consolidated Schedule of Investments

(1) See "Footnote to Consolidated Schedule of Investments" on page 33 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. We classify "Electronics" companies as those that address problems in electronics-related industries, including semiconductors and computing. We classify "Life Sciences" companies as those that address problems in life sciences-related industries, including biotechnology, agriculture, advanced materials and chemicals, healthcare, bioprocessing, water, industrial biotechnology, food, nutrition and 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 $20,307,754. The gross unrealized appreciation based on the tax cost for these securities is $0. The gross unrealized depreciation based on the tax cost for these securities is $12,854,987.

(5) All or a portion of the investments or instruments are pledged as collateral under our Loan Facility with Orix Corporate Capital, Inc.

(6) The aggregate cost for federal income tax purposes of investments in unaffiliated rights to milestone payments is $2,387,278. The gross unrealized appreciation based on the tax cost for these securities is $793,905. The gross unrealized depreciation based on the tax cost for these securities is $0.

(7) The aggregate cost for federal income tax purposes of investments in unaffiliated publicly traded companies is $1,682,079. The gross unrealized appreciation based on the tax cost for these securities is $19,451. The gross

unrealized depreciation based on the tax cost for these securities is $139,542.

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

(9) 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.

(10) On July 21, 2015, Bridgelux signed a definitive agreement to be acquired by an investment group led by China Electronics Corporation and ChongQing Linkong Development Investment Company. The close of this transaction is subject to customary regulatory approvals.

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

(12) We received our shares of Magic Leap, Inc., as part of the consideration paid for one of our portfolio companies in an acquisition during the second quarter of 2015. A total of 4,394 shares of our 29,291 shares of Magic Leap are held in escrow to satisfy indemnity claims through May 1, 2016.

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2015

(Unaudited)

(13) Initial investment was made in 2015.

(14) The aggregate cost for federal income tax purposes of investments in non-controlled affiliated privately held companies is $64,678,768. The gross unrealized appreciation based on the tax cost for these securities is $13,268,272. The gross unrealized depreciation based on the tax cost for these securities is $18,994,792.

(15) Adesto Technologies Corporation's Series E shares have certain rights and preferences in a sale or initial public offering ("IPO") that are not ascribed to the other classes of stock.

(16) D-Wave Systems, Inc., is located and is doing business primarily in Canada. We invested in D-Wave through Parallel Universes, Inc., a Delaware company. Our investment is denominated in Canadian dollars and is subject to foreign currency translation. See "Note 3. Summary of Significant Accounting Policies." D-Wave is not a qualifying asset under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire non-qualifying assets unless, at the time the acquisition is made, qualifying assets are at least 70 percent of our total assets.

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

(18) On August 3, 2015, SiOnyx, Inc., reorganized its corporate structure to become a subsidiary of a new company, Black Silicon Holdings, Inc. Our security holdings of SiOnyx converted into securities of Black Silicon Holdings. SiOnyx was then acquired by an undisclosed buyer. We received cash and a profit interest in the undisclosed buyer that is held through our ownership in Black Silicon Holdings.

(19) UberSeq, Inc., also does business as NGXBio, Inc.

(20) The aggregate cost for federal income tax purposes of investments in non-controlled affiliated publicly traded companies is $11,683,371. 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 $988,271.

(21) A portion of the Company's shares and warrants of Enumeral Biomedical Holdings, Inc., are subject to restrictions on transfer**,** and we are also subject to a lock-up agreement that restricts our ability to trade these

shares, exclusive of the general restriction on the transfer of unregistered securities. The lock-up period on our 7,966,368 shares of Enumeral Biomedical Holdings expires on January 31, 2016.

(22) The aggregate cost for federal income tax purposes of investments in controlled affiliated companies is $13,505,442. 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 $8,297,669.

(23) On July 23, 2015, SynGlyco, Inc., repaid $567,500 in outstanding principal and accrued interest on its senior secured debt.

(24) The aggregate cost for federal income tax purposes of investments in privately held equity method investments is $288,391. Under the equity method, investments are carried at cost, plus or minus the Company's equity in the increases and decreases in the investee's net assets after the date of acquisition and certain other adjustments.

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

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2014

	Method of Valuation (1)	Primary Industry (2)	Cost	**Shares/** Principal	Value
Investments in Unaffiliated Companies (3) – 16.8% of net assets at value					
Private Placement Portfolio (Illiquid) (4) – 12.6% of net assets at value					
Bridgelux, Inc. (5)(8)(9)		Energy			
Manufacturing high-power light emitting diodes (LEDs) and arrays					
Series B Convertible Preferred Stock	(M)		$1,000,000	1,861,504	$607,692
Series C Convertible Preferred Stock	(M)		1,352,196	2,130,699	826,294
Series D Convertible Preferred Stock	(M)		1,371,622	999,999	787,915
Series E Convertible Preferred Stock	(M)		672,599	440,334	724,344
Series E-1 Convertible Preferred Stock	(M)		386,073	399,579	499,686
Warrants for Series C Convertible Preferred Stock expiring 8/31/15	(I)		168,270	163,900	32,815
Warrants for Series D Convertible Preferred Stock expiring 8/31/15	(I)		128,543	166,665	35,139
Warrants for Series E Convertible Preferred Stock expiring 12/31/17	(I)		93,969	170,823	36,448
Warrants for Common Stock expiring 6/1/16	(I)		72,668	132,100	6,562
Warrants for Common Stock expiring 8/9/18	(I)		148,409	171,183	29,966
Warrants for Common Stock expiring 10/21/18	(I)		18,816	84,846	4,215
			5,413,165		3,591,076
Cambrios Technologies Corporation (5)(8)(9)		Electronics			
Developing nanowire-enabled electronic materials for the display industry					
Series B Convertible Preferred Stock	(I)		1,294,025	1,294,025	41,829
Series C Convertible Preferred Stock	(I)		1,300,000	1,300,000	42,022
Series D Convertible Preferred Stock	(I)		515,756	515,756	358,416
Series D-2 Convertible Preferred Stock	(I)		92,400	92,400	32,361
Series D-4 Convertible Preferred Stock	(I)		216,168	216,168	75,708
			3,418,349		550,336
Cobalt Technologies, Inc. (5)(8)(9)(10)		Energy			
Developing processes for making bio-butanol through biomass fermentation					
Series C-1 Convertible Preferred Stock	(M)		749,998	352,112	0

Series D-1 Convertible Preferred Stock	(M)	122,070	48,828	0
Series E-1 Convertible Preferred Stock	(M)	114,938	46,089	0
Warrants for Series E-1 Pref. Stock expiring on 10/9/22	(I)	2,781	1,407	0
Warrants for Series E-1 Pref. Stock expiring on 3/11/23	(I)	5,355	2,707	0
		995,142		0

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

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HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2014

	Method of Valuation (1)	Primary Industry (2)	Cost	**Shares/** Principal	Value
Investments in Unaffiliated Companies (3) – 16.8% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (4) – 12.6% of net assets at value (Cont.)					
GEO Semiconductor Inc. (5)(11)		Electronics			
Developing programmable, high-performance video and geometry processing solutions					
Loan and Security Agreement with GEO Semiconductor relating to the following assets:					
Warrants for Series A Pref. Stock expiring on 3/1/18	(I)		$7,512	10,000	$10,919
Warrants for Series A-1 Pref. Stock expiring on 6/29/18	(I)		7,546	10,000	12,010
			15,058		22,929
Mersana Therapeutics, Inc. (5)(8)(9)(12)		Life Sciences			
Developing antibody drug conjugates for cancer therapy					
Series A-1 Convertible Preferred Stock	(I)		683,538	635,081	434,387
Common Stock	(I)		3,875,395	350,539	138,048
			4,558,933		572,435
Molecular Imprints, Inc. (5)(8)(9)(13)		Electronics			
Manufacturing nanoimprint lithography capital equipment for non-semiconductor manufacturing markets					
Series A Convertible Preferred Stock	(M)		928,884	928,884	928,884
Nanosys, Inc. (5)(8)		Energy			
Developing inorganic nanowires and quantum dots for use in LED-backlit devices					
Series C Convertible Preferred Stock	(M)		1,500,000	803,428	932,035
Series D Convertible Preferred Stock	(M)		3,000,003	1,016,950	2,530,003
Series E Convertible Preferred Stock	(M)		496,573	433,688	844,004
			4,996,576		4,306,042

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

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HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2014

	Method of Valuation (1)	Primary Industry (2)	Cost	**Shares/** Principal	Value
Investments in Unaffiliated Companies (3) – 16.8% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (4) – 12.6% of net assets at value (Cont.)					
Nano Terra, Inc. (5)		Energy			
Developing surface chemistry and nano-manufacturing solutions					
Senior secured debt, 12.0%, maturing on 12/1/15	(I)		$349,966	$385,369	$383,180
Warrants for Series A-2 Pref. Stock expiring on 2/22/21	(I)		69,168	446,248	13
Warrants for Series C Pref. Stock expiring on 11/15/22	(I)		35,403	241,662	66,673
			454,537		449,866
Nantero, Inc. (5)(8)(9)		Electronics			
Developing a high-density, nonvolatile, random access memory chip, enabled by carbon nanotubes					
Series A Convertible Preferred Stock	(I)		489,999	345,070	1,440,529
Series B Convertible Preferred Stock	(I)		323,000	207,051	871,532
Series C Convertible Preferred Stock	(I)		571,329	188,315	941,639
Series D Convertible Preferred Stock	(I)		139,075	35,569	179,638
			1,523,403		3,433,338
Total Unaffiliated Private Placement Portfolio (cost: $22,304,047)					$13,854,906
Rights to Milestone Payments (Illiquid) (6) – 2.9% of net assets at value					
Amgen, Inc. (8)(9)		Life Sciences			
Rights to Milestone Payments from Acquisition of BioVex Group, Inc.	(I)		$1,757,608	$1,757,608	$2,564,917
Laird Technologies, Inc. (8)(9)		Energy			
Rights to Milestone Payments from Merger &	(I)		0	0	0

Acquisition of Nextreme Thermal Solutions, Inc.					
Canon, Inc. (8)(9)		Electronics			
Rights to Milestone Payments from Acquisition of Molecular Imprints, Inc.	(I)		629,670	$629,670	628,948
Total Unaffiliated Rights to Milestone Payments (cost: $2,387,278)					$3,193,865

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

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HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2014

	Method of Valuation (1)	Primary Industry (2)	Cost	**Shares/** Principal	Value
Publicly Traded Portfolio (7) – 1.3% of net assets at value					
Solazyme, Inc. (5)(9)		Energy			
Developing algal biodiesel, industrial chemicals and specialty ingredients using synthetic biology					
Common Stock	(M)		$118,099	50,000	$129,000
Champions Oncology, Inc. (5)(9)		Life Sciences			
Developing its TumorGraft™ platform for personalized medicine and drug development					
Common Stock	(M)		1,622,629	2,523,895	1,261,695
Warrants for Common Stock expiring 1/29/18	(I)		400	40,000	7,390
			1,623,029		1,269,085
Total Unaffiliated Publicly Traded Portfolio (cost: $1,741,128)					$1,398,085
Total Investments in Unaffiliated Companies (cost: $26,432,453)					$18,446,856

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

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HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2014

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 61.0% of net assets at value					
Private Placement Portfolio (Illiquid) (14) – 53.3% of net assets at value					
ABSMaterials, Inc. (5)(8)(9)		Energy			
Developing nano-structured absorbent materials for environmental remediation					
Series A Convertible Preferred Stock	(I)		$435,000	390,000	$291,875
Series B Convertible Preferred Stock	(I)		1,217,644	1,037,751	1,255,717
			1,652,644		1,547,592
Accelerator IV-New York Corporation (8)(9)(15)(16)		Life Sciences			
Identifying and managing emerging biotechnology companies					
Series A Common Stock	(I)		216,012	216,012	51,627
Adesto Technologies Corporation (5)(8)(9)(17)		Electronics			
Developing low-power, high-performance memory devices					
Series A Convertible Preferred Stock	(H)		2,200,000	6,547,619	1,652,609
Series B Convertible Preferred Stock	(H)		2,200,000	5,952,381	1,527,457
Series C Convertible Preferred Stock	(H)		1,485,531	2,122,187	632,526
Series D Convertible Preferred Stock	(H)		1,393,147	1,466,470	612,462
Series D-1 Convertible Preferred Stock	(H)		703,740	987,706	356,159
Series E Convertible Preferred Stock	(H)		2,499,999	3,508,771	10,042,110
			10,482,417		14,823,323
AgBiome, LLC (5)(8)(9)		Life Sciences			
Providing early-stage research and discovery for agriculture and utilizing the crop microbiome to identify products that reduce risk and improve yield					

Series A-1 Convertible Preferred Stock	(I)	2,000,000	2,000,000	2,406,210
Series A-2 Convertible Preferred Stock	(I)	521,740	417,392	583,494
		2,521,740		2,989,704

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

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HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2014

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 61.0% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (14) – 53.3% of net assets at value (Cont.)					
D-Wave Systems, Inc. (8)(18)		Electronics			
Developing high-performance quantum computing systems					
Series 1 Class B Convertible Preferred Stock	(H)		$1,002,074	1,144,869	$1,766,715
Series 1 Class C Convertible Preferred Stock	(H)		487,804	450,450	699,457
Series 1 Class D Convertible Preferred Stock	(H)		748,473	855,131	1,327,843
Series 1 Class E Convertible Preferred Stock	(H)		248,049	269,280	435,260
Series 1 Class F Convertible Preferred Stock	(H)		238,323	258,721	418,193
Series 1 Class H Convertible Preferred Stock	(H)		909,088	460,866	870,998
Series 2 Class D Convertible Preferred Stock	(H)		736,019	678,264	1,053,205
Series 2 Class E Convertible Preferred Stock	(H)		659,493	513,900	839,844
Series 2 Class F Convertible Preferred Stock	(H)		633,631	493,747	806,909
Warrants for Common Stock expiring 6/30/15	(I)		98,644	153,890	108,479
Warrants for Common Stock expiring 5/12/19	(I)		26,357	20,415	8,351
			5,787,955		8,335,254
EchoPixel, Inc. (5)(8)(9)		Life Sciences			
Developing algorithms and software to improve visualization of data for life science and healthcare applications					
Series Seed Convertible Preferred Stock	(I)		1,250,000	4,194,630	1,312,425
Ensemble Therapeutics Corporation (5)(8)		Life Sciences			
Developing DNA-Programmed Chemistry™ for the discovery of new classes of therapeutics					
Series B Convertible Preferred Stock	(I)		2,000,000	1,449,275	1,060,023
Series B-1 Convertible Preferred Stock	(I)		679,754	492,575	1,833,862
			2,679,754		2,893,885
HZO, Inc. (5)(8)(9)		Electronics			
Developing novel industrial coatings that					

protect electronics against damage from liquids				
Common Stock	(I)	666,667	405,729	322,832
Series I Convertible Preferred Stock	(I)	5,709,835	2,266,894	4,482,097
Series II Convertible Preferred Stock	(I)	2,000,003	539,710	2,113,002
		8,376,505		6,917,931

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

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HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2014

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 61.0% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (14) – 53.3% of net assets at value (Cont.)					
Laser Light Engines, Inc. (5)(8) Manufactured 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	0
Secured Convertible Bridge Note, 12%, acquired 10/7/11	(M)		200,000	$200,000	0
Secured Convertible Bridge Note, 12%, acquired 11/17/11	(M)		95,652	$95,652	0
Secured Convertible Bridge Note, 12%, acquired 12/21/11	(M)		82,609	$82,609	0
Secured Convertible Bridge Note, 12%, acquired 3/5/12	(M)		434,784	$434,784	0
Secured Convertible Bridge Note, 12%, acquired 7/26/12	(M)		186,955	$186,955	0
Secured Convertible Bridge Note, 20%, acquired 4/29/13	(M)		166,667	$166,667	0
Secured Convertible Bridge Note, 20%, acquired 7/22/13	(M)		166,667	$166,667	0
Secured Convertible Bridge Note, 10%, acquired 10/30/13	(M)		80,669	$80,669	0
Secured Convertible Bridge Note, 10%, acquired 2/5/14	(M)		19,331	$19,331	0
Secured Convertible Bridge Note, 10%, acquired 6/24/14	(M)		13,745	$13,745	0
			6,542,881		0
Metabolon, Inc. (5)(8)(9) Developing service and diagnostic products through the use of a metabolomics, or biochemical, profiling platform		Life Sciences			

Series B Convertible Preferred Stock	(H)		2,500,000	371,739	2,781,374
Series B-1 Convertible Preferred Stock	(H)		706,214	148,696	1,158,654
Series C Convertible Preferred Stock	(H)		1,000,000	1,000,000	2,535,525
Series D Convertible Preferred Stock	(H)		1,499,999	835,882	2,179,624
Series E Convertible Preferred Stock	(H)		1,225,000	444,404	1,556,847
Warrants for Series B-1 Convertible Preferred Stock expiring 3/25/15	(I)		293,786	74,348	484,535
			7,224,999		10,696,559
OpGen, Inc. (8)(19)		Life Sciences			
Developing tools for genomic sequence assembly and analysis					
Series A Convertible Preferred Stock	(H)		610,017	610,017	606,252
Common Stock	(H)		3,260,000	29,883	22,752
Secured Convertible Bridge Note, 8%, acquired 7/11/14	(H)		216,991	$209,020	273,908
Secured Convertible Bridge Note, 8%, acquired 10/16/14	(H)		254,278	$250,000	256,571
Secured Convertible Bridge Note, 8%, acquired 11/14/14	(H)		202,133	$200,000	203,633
Secured Convertible Bridge Note, 8%, acquired 12/29/14	(H)		100,067	$100,000	100,561
			4,643,486		1,463,677

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

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HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2014

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) –					
61.0% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (14) – 53.3% of net assets at value (Cont.)					
Produced Water Absorbents, Inc. (5)(8)		Energy			
Developing nano-structured absorbent materials for environmental remediation of contaminated water in the oil and gas industries					
Series A Convertible Preferred Stock	(M)		$1,000,000	1,000,000	$300,215
Series B Convertible Preferred Stock	(M)		1,496,865	5,987,460	2,188,272
Series B-2 Convertible Preferred Stock	(M)		1,015,427	4,322,709	1,579,844
Series B-3 Convertible Preferred Stock	(M)		978,641	3,914,564	1,430,677
Series C Convertible Preferred Stock	(M)		1,000,268	2,667,380	755,130
Subordinated Secured Debt, 12%, maturing on 6/30/15	(M)		979,253	$1,000,000	979,450
Warrants for Series B-2 Preferred Stock expiring upon liquidation event	(I)		65,250	300,000	44,014
			6,535,704		7,277,602
SiOnyx, Inc. (5)(8)		Electronics			
Developing silicon-based optoelectronic products enabled by its proprietary Black Silicon					
Series A Convertible Preferred Stock	(I)		750,000	233,499	0
Series A-1 Convertible Preferred Stock	(I)		890,000	2,966,667	0
Series A-2 Convertible Preferred Stock	(I)		2,445,000	4,207,537	0
Series B-1 Convertible Preferred Stock	(I)		1,169,561	1,892,836	0
Series C Convertible Preferred Stock	(I)		1,171,316	1,674,030	0
Secured Convertible Bridge Note, 8%, acquired 1/31/14	(I)		1,281,125	$1,281,125	0
Secured Convertible Bridge Note, 8%, acquired 5/9/14	(I)		76,966	$93,976	0
Secured Convertible Bridge Note, 10%, acquired 12/12/14	(I)		69,382	$68,999	161,285
Warrants for Series B-1 Convertible Preferred Stock expiring 2/23/17	(I)		130,439	247,350	0

Warrants for Common Stock expiring 3/28/17	(I)	84,207	418,507	0
Warrants for Common Stock expiring 5/9/19	(I)	17,010	3,208	0
		8,085,006		161,285

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

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HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2014

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 61.0% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (14) – 53.3% of net assets at value (Cont.)					
Ultora, Inc. (5)(8)		Energy			
Developing energy-storage devices enabled by carbon nanotubes					
Series A Convertible Preferred Stock	(I)		$886,830	17,736	$0
Series B Convertible Preferred Stock	(I)		236,603	2,347,254	0
Secured Convertible Bridge Note, 5%, acquired 5/7/14	(I)		86,039	$86,039	0
Secured Convertible Bridge Note, 5%, acquired 8/20/14	(I)		17,208	$17,208	0
Secured Convertible Bridge Note, 5%, acquired 10/14/14	(I)		10,750	$10,750	0
			1,237,430		0
Total Non-Controlled Private Placement Portfolio (cost: $67,236,533)					$58,470,864
Publicly Traded Portfolio (20) – 7.7% of net assets at value					
Enumeral Biomedical Holdings, Inc. (5)(21)		Life Sciences			
Developing therapeutics and diagnostics through functional assaying of single cells					
Common Stock	(M)		$4,993,357	7,966,368	$7,251,178
Warrants for Common Stock expiring 7/30/19	(I)		540,375	1,500,000	874,594
Warrants for Common Stock expiring 2/2/24	(I)		57,567	255,120	208,179
Options to Purchase Common Stock at $1.00 expiring 8/4/24	(I)		0	56,667	50,690
			5,591,299		8,384,641
Total Non-Controlled Publicly Traded Portfolio (cost: $5,591,299)					$8,384,641
Total Investments in Non-Controlled Affiliated Companies (cost: $72,827,832)					$66,855,505

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2014

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Controlled Affiliated Companies (3) – 4.1% of net assets at value					
Private Placement Portfolio (Illiquid) (22) – 4.1% of net assets at value					
ProMuc, Inc. (5)(8)		Life Sciences			
Developing synthetic mucins for the nutritional, food and healthcare markets					
Common Stock	(M)		$1	1,000	$1
Secured Convertible Bridge Note, 8%, acquired 12/18/13	(M)		379,074	$350,000	379,074
Secured Convertible Bridge Note, 8%, acquired 8/13/14	(M)		103,090	$100,000	103,090
			482,165		482,165
Senova Systems, Inc. (5)(8)		Life Sciences			
Developing next-generation sensors to measure pH					
Series B Convertible Preferred Stock	(I)		1,218,462	1,350,000	403,123
Series B-1 Convertible Preferred Stock	(I)		1,083,960	2,759,902	899,187
Series C Convertible Preferred Stock	(I)		608,287	811,049	609,349
Warrants for Series B Preferred Stock expiring 10/15/17	(I)		131,538	164,423	49,098
Warrants for Series B Preferred Stock expiring 4/24/18	(I)		20,000	25,000	7,465
			3,062,247		1,968,222
SynGlyco, Inc. (5)(8)		Life Sciences			
Developed synthetic carbohydrates for pharmaceutical applications					
Common Stock	(I)		2,729,817	57,463	0
Series A' Convertible Preferred Stock	(I)		4,855,627	4,855,627	0
Senior Secured Debt, 12.00%, maturing on 12/11/14	(I)		424,101	$500,000	820,119
Secured Convertible Bridge Note, 8%, acquired 1/23/13	(I)		406,417	$350,000	204,763
	(I)		341,825	$300,000	172,220

Secured Convertible Bridge Note, 8%, acquired 4/25/13					
			8,757,787		1,197,102
TARA Biosystems, Inc. (5)(8)(15)		Life Sciences			
Developing human tissue models for toxicology and drug discovery applications					
Common Stock	(M)		20	2,000,000	20
Secured Convertible Bridge Note, 8%, acquired 8/20/14	(M)		308,811	$300,000	308,811
			308,831		308,831

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

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HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2014

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Controlled Affiliated Companies (3) – 4.1% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (22) – 4.1% of net assets at value (Cont.)					
UberSeq, Inc. (5)(8)(9)(15)		Life Sciences			
Developing translational genomics solutions					
Series Seed Convertible Preferred Stock	(I)		$500,000	500,000	$506,159
Total Controlled Private Placement Portfolio (cost: $13,111,030)					**$4,462,479**
Total Investments in Controlled Affiliated Companies (cost: $13,111,030)					**$4,462,479**
Total Private Placement and Publicly Traded Portfolio (cost: $112,371,315)					**$89,764,840**
Total Investments (cost: $112,371,315)					**$89,764,840**

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

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HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2014

Notes to Consolidated Schedule of Investments

(1) See "Footnote to Consolidated Schedule of Investments" on page 33 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. We classify "Electronics" companies as those that address problems in electronics-related industries, including semiconductors. We classify "Life Sciences" companies as those that address problems in life sciences-related industries, including biotechnology, agriculture, advanced materials and chemicals, healthcare, bioprocessing, water, industrial biotechnology, food, nutrition and 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 $22,304,047. The gross unrealized appreciation based on the tax cost for these securities is $7,872. The gross unrealized depreciation based on the tax cost for these securities is $8,457,013.

(5) All or a portion of the investments or instruments are pledged as collateral under our Loan Facility with Orix Corporate Capital, Inc.

(6) The aggregate cost for federal income tax purposes of investments in unaffiliated rights to milestone payments is $2,387,278. The gross unrealized appreciation based on the tax cost for these securities is $807,309. The gross unrealized depreciation based on the tax cost for these securities is $722.

(7) The aggregate cost for federal income tax purposes of investments in unaffiliated publicly traded companies is $1,741,128. The gross unrealized appreciation based on the tax cost for these securities is $10,901. The gross unrealized depreciation based on the tax cost for these securities is $353,944.

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

(9) 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.

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

(11) On March 11, 2015, we submitted notice to exercise our put option for our remaining warrants of GEO Semiconductor, Inc.

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

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HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2014

(12) With our investment in the Mersana Therapeutics, Inc., Series A-1 financing, we received a warrant to purchase 277,760 shares of Series A-2 Convertible Preferred Stock. The ability to exercise the warrant is contingent upon Mersana's achievement of certain milestones. Mersana has not achieved those milestones as of December 31, 2014, and, therefore, this warrant is a contingent asset as of that date. In January 2015, the holders of these warrants, including the Company, elected to cancel them owing to the milestones being impossible to achieve.

(13) Upon the closing of Canon, Inc.'s acquisition of Molecular Imprints, Inc.'s semiconductor lithography equipment business, a new spin-out company, which retained the name Molecular Imprints, Inc., was formed. These shares represent our investment in the new company.

(14) The aggregate cost for federal income tax purposes of investments in non-controlled affiliated privately held companies is $67,236,533. The gross unrealized appreciation based on the tax cost for these securities is $11,846,184. The gross unrealized depreciation based on the tax cost for these securities is $20,611,853.

(15) Initial investment was made in 2014.

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

(17) Adesto Technologies Corporation's Series E shares have certain rights and preferences in a sale or IPO that are not ascribed to the other classes of stock.

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

(19) On March 3, 2015, OpGen, Inc., filed a registration statement on Form S-1 to seek an IPO. There can be no assurances if or when such IPO will occur or if it will be successful.

(20) The aggregate cost for federal income tax purposes of investments in non-controlled affiliated publicly traded companies is $5,591,299. The gross unrealized appreciation based on the tax cost for these securities is $2,793,342. The gross unrealized depreciation based on the tax cost for these securities is $0.

(21) The Company's shares of Enumeral Biomedical Holdings, Inc., are subject to restrictions on transfer, and we are also subject to a lock-up agreement that restricts our ability to trade these shares, exclusive of the general restriction on the transfer of unregistered securities. The lock-up period on our 7,966,368 shares of Enumeral Biomedical Holdings expires on January 31, 2016.

(22) The aggregate cost for federal income tax purposes of investments in controlled affiliated companies is $13,111,030. The gross unrealized appreciation based on the tax cost for these securities is $6,159. The gross unrealized depreciation based on the tax cost for these securities is $8,654,710.

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.

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

II. Approaches to Determining Fair Value

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

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

- Market Approach (M): The market approach may use quantitative inputs such as prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities and the values of market multiples derived from a set of comparable companies. The market approach may also use qualitative inputs such as progress toward milestones, the long-term potential of the business, current and future financing requirements and the rights and preferences of certain securities versus those of other securities. The selection of the relevant inputs used to derive value under the market approach requires judgment considering factors specific to the significance and relevance of each input to deriving value.

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

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

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

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

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

- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs are those inputs that reflect our own assumptions that market participants would use to price the asset or liability based upon the best available information.

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

III. Investment Categories

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

- Equity-related securities;
- Long-term fixed-income securities;
- Short-term fixed-income securities;
- Investments in intellectual property, patents, research and development in technology or product development; and
- All other securities.

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

A. EQUITY-RELATED SECURITIES

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

§ Readily available public market quotations;

§ The cost of the Company's investment;

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

§ The financial condition and operating results of the company;

- § The company's progress towards milestones;
- § The long-term potential of the business and technology of the company;
- § The values of similar securities issued by companies in similar businesses;

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

§ Estimated time to exit;

§ Volatility of similar securities in similar businesses;

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

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

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

B. LONG-TERM FIXED-INCOME SECURITIES

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

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

· Credit quality;

· Interest rate analysis;

· Quotations from broker-dealers;

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

· Reasonable price discovery procedures and data from other sources.

C. SHORT-TERM FIXED-INCOME SECURITIES

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

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

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

- The cost of the Company's investment;
- Investments in the same or substantially similar intellectual property or patents or research and development in technology or product development or offers by responsible third parties;
- The results of research and development;
- Product development and milestone progress;
- Commercial prospects;
- Term of patent;
- Projected markets; and
- Other subjective factors.

E. ALL OTHER SECURITIES

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

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

IV. Frequency of Valuation

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

V. Regular Review

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

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

VI. Other Assets

Non-investment assets, such as fixtures and equipment, shall be valued using the cost approach less accumulated depreciation at rates determined by management and reviewed by the Audit Committee. Valuation of such assets is not the responsibility of the Valuation Committee.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1. THE COMPANY

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

H&H Ventures Management, Inc.SM ("Ventures") is a 100 percent wholly owned subsidiary of the Company. Ventures is taxed under Subchapter C (a "C Corporation") of the Internal Revenue Code of 1986 (the "Code"). Harris Partners I, L.P, is a limited partnership and, from time to time, may be used to hold certain interests in portfolio companies. The partners of Harris Partners I, L.P., are Ventures (sole general partner) and the Company (sole limited partner). Ventures pays taxes on income generated by its operations as well as on any non-passive investment income generated by Harris Partners I, L.P. For the period ended June 30, 2015, there was no non-passive investment income generated by Harris Partners I, L.P. Ventures, as the sole general partner, consolidates Harris Partners I, L.P. The Company consolidates its wholly owned subsidiary, Ventures, for financial reporting purposes.

NOTE 2. INTERIM FINANCIAL STATEMENTS

Our interim financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to interim financial information. Accordingly, the information presented on our interim financial statements does 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 for annual financial statements. In the opinion of management, these financial statements reflect all adjustments, consisting of valuation adjustments and normal recurring accruals, necessary for a fair statement of our financial position, results of operations and cash flows for such periods. The results of operations for any interim period are not necessarily indicative of the results for the full year. These financial statements should be read in conjunction with the financial statements and notes thereto contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Principles of Consolidation. The consolidated financial statements have been prepared in accordance with GAAP and include the accounts of the Company and its wholly owned subsidiary. The Company is an investment company following accounting and reporting guidance in Accounting Standards Codification 946. In accordance with GAAP and Regulation S-X, the Company may only consolidate its interests in investment company subsidiaries and controlled operating companies whose business consists of providing services to the Company. Our wholly owned subsidiary, Ventures, is a controlled operating company that provides services to us and is, therefore, consolidated. All significant inter-company accounts and transactions have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform to the current period presentation.

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

Portfolio Investment Valuations. Investments are stated at "value" as defined in the 1940 Act and in the applicable regulations of the Securities and Exchange Commission ("SEC") and in accordance with GAAP. Value, as defined in Section 2(a)(41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) the fair value as determined in good faith by, or under the direction of, the Board of Directors for all other assets. (See "Valuation Procedures" in the "Footnote to Consolidated Schedule of Investments.") As of June 30, 2015, our financial statements include venture capital investments fair valued by the Board of Directors at $83,230,655 and one venture capital investment valued under the equity method at $288,391. The fair values and equity method value were determined in good faith by, or under the direction of, the Board of Directors. The fair value amount includes the values of our privately held investments as well as the warrants of Champions Oncology, Inc., and certain warrants and restricted securities of Enumeral Biomedical Holdings, Inc., and OpGen, Inc., which are publicly traded companies. Our investment in Accelerator-New York IV is accounted for under the equity method of accounting as it represents a non-controlling interest in an operating entity that provides investment advisory services to the Company. Under the equity method, investments are carried at cost, plus or minus the Company’s equity in the increases and decreases in the investee’s net assets after the date of acquisition and certain other adjustments. The Company’s share of the net income or loss of the investee is included in “Equity in earnings/(loss) from equity method investees” on the Company’s “Consolidated Statements of Operations.” Upon sale of investments, the values that are ultimately realized may be different from the fair value presented in the Company's financial statements. The difference could be material.

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

Unaffiliated Rights to Milestone Payments. At June 30, 2015, and December 31, 2014, the outstanding potential milestone payments from Amgen, Inc.’s acquisition of BioVex Group, Inc., were valued at $2,549,261 and $2,564,917, respectively. The milestone payments are derivatives and valued using the probability-adjusted, present value of proceeds from future payments that would be due upon successful completion of certain regulatory and sales milestones. On November 17, 2014, the Company received a payment of $2,070,955 owing to the achievement of the first milestone. If all the remaining milestones are met, we would receive $7,455,438. There can be no assurance as to how much of this amount we will ultimately realize or when it will be realized, if at all. At June 30, 2015, and December 31, 2014, the outstanding potential milestone payments from Canon, Inc.'s acquisition of Molecular Imprints, Inc., were valued at $631,922 and $628,948, respectively. If all the remaining milestones are met, we would receive $1,735,582. There can be no assurance as to how much of this amount we will ultimately realize or when it will be realized, if at all. At June 30, 2015, and December 31, 2014, the outstanding potential milestone payments from Laird Technologies, Inc.’s acquisition of Nextreme Thermal Solutions, Inc., were valued at $0. If all the remaining milestones are met, we would receive approximately $400,000. There can be no assurance as to how much of this amount we will ultimately realize or when it will be realized, if at all.

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Funds Held in Escrow from Sale of Investment. At June 30, 2015, and December 31, 2014, there were funds held in escrow fair valued at $309,469 and $306,802, respectively, relating to the sale of Molecular Imprints, Inc.'s semiconductor lithography equipment business to Canon, Inc. Funds held in escrow from the Molecular Imprints transaction with Canon are expected to be released in April of 2016 and April of 2017, net of settlement of any indemnity claims and expenses related to the transaction. If the funds held in escrow for this transaction are released in full, we would receive $625,000 and realize a gain of $315,531. At June 30, 2015, and December 31, 2014, there were funds held in escrow fair valued at $63,366 and $0, respectively, relating to the sale of Molecular Imprints' non-semiconductor business that are expected to be released in May of 2016, net of settlement of any indemnity claims and expenses related to the transaction. If the funds held in escrow for this transaction are released in full, we would receive $126,972 and realize a gain of $63,606.

Prepaid Expenses. We include prepaid insurance premiums and deferred financing charges in "Prepaid expenses." Prepaid insurance premiums are recognized over the term of the insurance contract and are included in "Insurance expense" in the Consolidated Statements of Operations. Deferred financing charges consist of fees and expenses paid in connection with the closing of loan facilities and are capitalized at the time of payment. Deferred financing charges are amortized over the term of the loan facility discussed in "Note 5. Debt." Amortization of the financing charges is included in "Interest and other debt expense" in the Consolidated Statements of Operations.

Property and Equipment. Property and equipment are included in "Other assets" and are carried at $201,458 and $219,729 at June 30, 2015, and December 31, 2014, respectively, representing cost, less accumulated depreciation of $422,097 and $399,373, respectively. Depreciation is provided using the straight-line method over the estimated useful lives of the property and equipment. We estimate the useful lives to be five to ten years for furniture and fixtures, three years for computer equipment, and the lesser of ten years or the remaining life of the lease for leasehold improvements. All of our fixed assets are pledged as collateral under the Company's four-year $20,000,000 Multi-Draw Term Loan Facility Credit Agreement, by and among the Company, as borrower, Orix Corporate Capital, Inc., as administrative agent and lender and the other lenders party thereto from time to time (the "Loan Facility").

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

Interest Income Recognition. Interest income, including amortization of premium and accretion of discount, is recorded on an accrual basis. When accrued interest is determined not to be recoverable, the Company ceases accruing interest and writes off any previously accrued interest. Securities are deemed to be non-income producing if, on their last interest or dividend date, no cash was paid or no cash or in-kind dividends were declared. These write-offs are reversed through interest income. During the three months and six months ended June 30, 2015, the Company earned $75,730 and $158,537, respectively, in interest on senior secured debt, subordinated secured debt, non-convertible promissory notes and interest-bearing accounts. During the three months and six months ended June 30, 2014, the Company earned $71,029 and $144,592, respectively, in interest on U.S. government securities, senior secured debt, participation agreements, subordinated secured debt, non-convertible promissory notes and interest-bearing accounts. During the three months and six months ended June 30, 2015, the Company recorded, on a net basis, $205,965 and $258,990, respectively, of bridge note interest. The total for the six months ended June 30, 2015, includes a partial write-off of previously accrued bridge note interest of $1,427. During the three months and six months ended June 30, 2014, the Company recorded, on a net basis, $62,806 and $135,534, respectively, of bridge note interest. The total for the six months ended June 30, 2014, includes a partial write-off of previously accrued bridge note interest of $1,392.

Yield-Enhancing Fees on Debt Securities. Yield-enhancing fees received in connection with our venture debt investments are deferred. The unearned fee income is accreted into income based on the effective interest method over the life of the investment. For the three months and six months ended June 30, 2015, total yield-enhancing fees accreted into investment income were $19,741 and $46,048, respectively. For the three months and six months ended June 30, 2014, total yield-enhancing fees accreted into investment income were $16,757 and $32,262, respectively.

Fees for Providing Managerial Assistance to Portfolio Companies. For the three months and six months ended June 30, 2015, the Company earned income of $6,500 and $13,500, respectively, owing to one of its employees providing managerial assistance to one of its portfolio companies. For the three months and six months ended June 30, 2014, the Company did not earn income for providing managerial assistance to any of its portfolio companies.

Call Options. The Company writes covered call options on publicly traded securities with the intention of earning option premiums. Option premiums may increase the Company's realized gains and, therefore, may help increase distributable income, but may limit the realized gains on the security. When a company writes (sells) an option, an amount equal to the premium received by the Company is recorded in the Consolidated Statements of Assets and Liabilities as a liability. The amount of the liability is subsequently marked-to-market to reflect the current market value of the option written. When an option expires, the Company realizes a gain on the option to the extent of the premiums received. Premiums received from writing options that are exercised or closed are added to the proceeds or offset against the amount paid on the transaction to determine the realized gain or loss. Previously recorded unrealized gains and losses on expired, exercised or closed options are reversed at the time of such transactions. At June 30, 2015, and December 31, 2014, the Company did not have shares covered by call option contracts.

Stock-Based Compensation. The Company has a stock-based employee compensation plan. The Company accounts for the Amended and Restated Harris & Harris Group, Inc. 2012 Equity Incentive Plan (the "Stock Plan") by determining the fair value of all share-based payments to employees, including the fair value of grants of employee stock options and restricted stock awards, and records these amounts as an expense in the Consolidated Statements of Operations over the vesting period with a corresponding increase to our additional paid-in capital. For the three months and six months ended June 30, 2015, and June 30, 2014, the increase to our operating expenses was offset by the increase to our additional paid-in capital, resulting in no net impact to our net asset value. Additionally, the Company does not record the potential tax benefits associated with the expensing of stock options or restricted stock because the Company currently intends to qualify as a regulated investment company ("RIC") under Subchapter M of the Code, and the deduction attributable to such expensing, therefore, is unlikely to provide any additional tax savings. The amount of non-cash, stock-based compensation expense recognized in the Consolidated Statements of Operations is based on the fair value of the awards the Company expects to vest, recognized over the vesting period on a straight-line basis for each award, and adjusted for actual awards vested and pre-vesting forfeitures. The forfeiture rate is estimated at the time of grant and revised, if necessary, in subsequent periods if the actual forfeiture rate differs from the estimated rate and is accounted for in the current period and prospectively. See "Note 9. Stock-Based Compensation" for further discussion.

Rent expense. Our lease at 1450 Broadway, New York, New York, commenced on January 21, 2010. The lease expires on December 31, 2019. The base rent is $36 per square foot with a 2.5 percent increase per year over the 10 years of the lease, subject to a full abatement of rent for four months and a rent credit for six months throughout the lease term. We apply these rent abatements, credits, escalations and landlord payments on a straight-line basis in the determination of rent expense over the lease term. Certain leasehold improvements were also paid for on our behalf by the landlord, the cost of which is accounted for as property and equipment and "Deferred rent" in the accompanying Consolidated Statements of Assets and Liabilities. These leasehold improvements are depreciated over the lease term. We also currently lease office space in California and leased office space in North Carolina until December 31, 2014.

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

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

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

Securities Transactions. Securities transactions are accounted for on the date the transaction for the purchase or sale of the securities is entered into by the Company (i.e., trade date).

Concentration of Credit Risk. The Company places its cash and cash equivalents with financial institutions and, at times, cash held in depository accounts may exceed the Federal Deposit Insurance Corporation insured limit.

Recent Accounting Pronouncements. In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"), which changes the presentation of debt issuance costs in financial statements. ASU 2015-03 requires an entity to present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. It is effective for annual reporting periods beginning after December 15, 2016. Early adoption is permitted. The new guidance will be applied retrospectively to each prior period presented. The adoption of ASU 2015-03 is not anticipated to have a material impact on the Company's consolidated financial statements.

NOTE 4. BUSINESS RISKS AND UNCERTAINTIES

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

We do not choose investments based on a strategy of diversification. We also do not rebalance the portfolio should one of our portfolio companies increase in value substantially relative to the rest of the portfolio. Therefore, the value of our portfolio may be more vulnerable to microeconomic events affecting a single sector, industry or portfolio company and to general macroeconomic events that may be unrelated to our portfolio companies. These factors may subject the value of our portfolio to greater volatility than a company that follows a diversification strategy. As of June 30, 2015, and December 31, 2014, our largest 10 investments by value accounted for approximately 78 percent and 82 percent, respectively, of the value of our equity-focused venture capital portfolio. Our largest three investments, by value, Adesto Technologies Corporation, Metabolon, Inc., and D-Wave Systems, Inc., accounted for approximately 19 percent, 13 percent and 9 percent, respectively, of our equity-focused venture capital portfolio at June 30, 2015. Our largest three investments, by value, Adesto Technologies Corporation, Metabolon, Inc., and Enumeral Biomedical Holdings, Inc., accounted for approximately 17 percent, 12 percent and 10 percent, respectively, of our equity-focused venture capital portfolio at December 31, 2014. Adesto Technologies, D-Wave Systems and Metabolon are privately held portfolio companies. Enumeral Biomedical Holdings is a publicly traded portfolio company.

Approximately 95 percent of the portion of our equity-focused venture capital portfolio that was fair valued was comprised of securities of 25 privately held companies, the warrants of publicly traded Champions Oncology, Inc., and certain warrants and restricted securities of Enumeral Biomedical Holdings, Inc., and OpGen, Inc. Approximately 0.3 percent of the portion of our equity-focused venture capital portfolio that was valued according to the equity method was comprised of one privately held company. Because there is typically no public or readily ascertainable market for our interests in the small privately held companies in which we invest, the valuation of the securities in that portion of our portfolio is determined in good faith by our Valuation Committee, which is comprised of all of the independent members of our Board of Directors. The values are determined in accordance with our Valuation Procedures and are subject to significant estimates and judgments. The fair value of the securities in our portfolio may differ significantly from the values that would be placed on these securities if a ready market for the securities existed. Any changes in valuation are recorded in our Consolidated Statements of Operations as "Net decrease (increase) in unrealized depreciation on investments." Changes in valuation of any of our investments in privately held companies from one period to another may be significant.

NOTE 5. DEBT

The Company has a Loan Facility with Orix Corporate Capital, Inc., which may be used to fund investments in portfolio companies. The Loan Facility, among other things, matures on September 30, 2017, and bears interest at 10 percent per annum in cash. The Company has the option to have interest accrue at a rate of 13.5 percent per annum if the Company decides not to pay interest in cash monthly. The Company currently plans to pay interest in cash if and when any borrowings are outstanding. The Loan Facility also requires payment of a draw fee on each borrowing equal to 1.0 percent of such borrowing and an unused commitment fee of 1.0 percent per annum. Fee payments under the Loan Facility are made quarterly in arrears. The Company may prepay the loans or reduce the aggregate commitments under the Loan Facility at any time prior to the maturity date, as long as certain conditions are met, including payment of required prepayment or termination fees. The Loan Facility is secured by all of the assets of the Company and its wholly owned subsidiaries, subject to certain customary exclusions. The Loan Facility contains certain affirmative and negative covenants, including without limitation: (a) maintenance of certain minimum liquidity requirements; (b) maintenance of an eligible asset leverage ratio of not less than 4.0:1.0; (c) limitations on liens; (d) limitations on the incurrence of additional indebtedness; and (e) limitations on structural changes, mergers and disposition of assets (other than in the normal course of our business activities).

At June 30, 2015, and December 31, 2014, the Company had outstanding debt of $5,000,000 and $0, respectively. The weighted average annualized interest rate for the three months and six months ended June 30, 2015, was 10 percent, exclusive of amortization of closing fees and other expenses. The weighted average annual interest rate for the year ended December 31, 2014, was zero percent. The weighted average debt outstanding for the three months and six months ended June 30, 2015, was $5,000,000 and $2,541,436, respectively. The remaining capacity under the Loan Facility was $15,000,000 at June 30, 2015. Unamortized fees and expenses of $393,480 and $480,921 related to establishing the Loan Facility are included as "Prepaid expenses" in the Consolidated Statements of Assets and Liabilities as of June 30, 2015, and December 31, 2014, respectively. These amounts are amortized over the term of the Loan Facility, and $87,440 was amortized in the six months ended June 30, 2015, and in the six months ended June 30, 2014. The Company paid $37,917 and $87,917 in non-utilization fees during the three months and six months ended June 30, 2015, respectively. The Company paid $50,556 and $100,556 in non-utilization fees during the three months and six months ended June 30, 2014, respectively. During the six months ended June 30, 2015, the Company paid a $50,000 utilization fee associated with a drawdown of the Loan Facility. At June 30, 2015, the Company was in compliance with all covenants required by the Loan Facility.

NOTE 6. FAIR VALUE OF INVESTMENTS

At June 30, 2015, our financial assets valued at fair value were categorized as follows in the fair value hierarchy:

		Fair Value Measurement at Reporting Date Using:		
Description	June 30, 2015	**Unadjusted Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Privately Held Portfolio Companies:				
Preferred Stock	$ 63,882,805	$ 0	$ 0	$ 63,882,805
Bridge Notes	5,194,358	0	0	5,194,358
Warrants	1,224,662	201,558	0	1,023,104
Rights to Milestone Payments	3,181,183	0	0	3,181,183
Common Stock	452,129	0	0	452,129
Senior Secured Debt	764,253	0	0	764,253
Subordinated Secured Debt	987,025	0	0	987,025
Options	38,536			38,536
Publicly Traded Portfolio Companies:				
Common Stock	$ 11,326,108	$ 3,618,846	$ 0	$ 7,707,262
Total Investments:	$ 87,051,059	$ 3,820,404	$ 0	$ 83,230,655
Funds Held in Escrow From Sales of Investments:	$ 372,835	$ 0	$ 0	$ 372,835
Total Financial Assets:	$ 87,423,894	$ 3,820,404	$ 0	$ 83,603,490

Financial Instruments Disclosed, but not Carried, at Fair Value

The following table presents the carrying value and the fair value of the Company's financial liabilities disclosed, but not carried, at fair value as of June 30, 2015, and the level of each financial liability within the fair value hierarchy:

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

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

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Significant Unobservable Inputs

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

	Fair Value at June 30, 2015	Valuation Technique(s)	Unobservable Input	**Range (Weighted Average[(a)])**
Preferred Stock	$ 33,865,611	Hybrid Approach	Private Offering Price Volatility Revenue Multiples Time to Exit Discount for Lack of Marketability	$0.71 - $2.90 ($1.72) 36.0% - 50.1% (43.3%) 0 - 3.5 (1.62) 0.50 - 1.51 Years (0.89) 0% - 7.9% (3.7%)
Preferred Stock	21,745,132	Income Approach	Private Offering Price Non-Performance Risk Volatility Time to Exit	$0 - $11.56 ($2.37) 0% - 50% (1.3%) 40.8% - 117.8% (62%) 1.51 - 4.76 Years (2.69)
Preferred Stock	8,272,062	Market Approach	Private Offering Price Volatility Revenue Multiples Time to Exit Discount for Lack of Marketability	$0 - $1.75 ($1.14) 0% - 48% (30%) 0 - 5.8 (3.86) 0.50 - 2 Years (1.5) 0% - 16% (10.3%)
Bridge Notes	2,927,840	Hybrid Approach	Discount for Probability of Success Profit Interest Private Offering Price Escrow Discount Average Time to Return	35% (35%) 10% (10%) $1.00 ($1.00) 50% (50%) 9.4 years (9.4)
Bridge Notes	777,525	Income Approach	Private Offering Price	$1.00 ($1.00)
Bridge Notes	1,488,993	Market Approach	Private Offering Price	$1.00 ($1.00)
Common Stock	452,108	Income Approach	Private Offering Price Volatility Time to Exit	$1.08 - $3.71 ($2.87) 49.5% - 94.7% (63.9%) 3 Years (3)
Common Stock	21	Market Approach	Private Offering Price	$0.0001 - $0.001 ($0.0001)

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	Fair Value at June 30, 2015	Valuation Technique(s)	Unobservable Input	**Range (Weighted Average[a])**
Warrants	1,023,104	Income Approach	Private Offering Price Volatility Expected Term	\$0 - \$3.72 (\$0.96) 37.6% - 100.3% (81%) 1.51 - 9.64 Years (4.9)
Rights to Milestone Payments	3,181,183	Probability Weighted Discounted Cash Flow	Probability of Achieving Independent Milestones Probability of Achieving Dependent Milestones	0% - 80% (45%) 0% - 75% (24%)
Subordinated Secured Debt	987,025	Income Approach	Effective Yield	15.0% (15.0%)
Senior Secured Debt	764,253	Income Approach	Effective Yield	0% - 15.8% (4.1%)
Funds Held in Escrow From Sales of Investments	372,835	Market Approach	Escrow Discount	50% (50%)
Options	38,536	Income Approach	Stock Price Volatility Expected Term	\$0.64 (\$0.64) 89.9% (89.9%) 9.1 Years (9.1)
OTC Traded Common Stock	7,707,262	Market Approach	Stock Price Discount for Lack of Marketability	\$0.64 - \$3.72 (\$2.21) 4.7% - 7.7% (6.17%)
Total	\$ 83,603,490			

(a) Weighted average based on fair value at June 30, 2015.

Valuation Methodologies and Inputs for Level 3 Assets

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

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Preferred Stock, Bridge Notes and Common Stock

Preferred stock, bridge notes and common stock are valued by either a market, income or hybrid approach using internal models with inputs, most of which are not market observable. Common inputs for valuing Level 3 preferred stock, bridge note and private common stock investments include prices from recently executed private transactions in a company’s securities or unconditional firm offers, revenue multiples of comparable publicly traded companies, merger and acquisition ("M&A") transactions consummated by comparable companies, discounts for lack of marketability, rights and preferences of the class of securities we own as compared with other classes of securities the portfolio company has issued, particularly related to potential liquidity scenarios of an initial public offering ("IPO") or an acquisition transaction, estimated time to exit, volatilities of comparable publicly traded companies and management’s best estimate of risk attributable to non-performance risk. Certain securities are valued using the present value of future cash flows. We define non-performance risk as the risk that the price per share (or implied valuation of a portfolio company) or the effective yield of a debt security of a portfolio company, as applicable, does not appropriately represent the risk that a portfolio company with negative cash flow will be: (a) unable to raise capital, will need to be shut down and will not return our invested capital; or (b) able to raise capital, but at a valuation significantly lower than the implied post-money valuation of the last round of financing. We assess non-performance risk for each private portfolio company quarterly. Our assessment of non-performance risk typically includes an evaluation of the financial condition and operating results of the company, the company's progress towards milestones, and the long-term potential of the business and technology of the company and how this potential may or may not affect the value of the shares owned by us. An increase to the non-performance risk or a decrease in the private offering price of a future round of financing from that of the most recent round would result in a lower fair value measurement and/or a change in the distribution of value among the classes of securities we own. An increase in the volatility assumption generally increases the enterprise value calculated in an option pricing model. An increase in the time to exit assumption also generally increases the enterprise value calculated in an option pricing model. Variations in the expected time to exit or expected volatility assumptions have a significant impact on fair value.

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

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

Warrants and Options

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

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

Rights to Milestone Payments

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

Subordinated Secured Debt and Senior Secured Debt

We invest in venture debt investments through subordinated secured debt and senior secured debt. We value these securities using an income approach. The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present value amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts. Common inputs for valuing Level 3 debt investments include: the effective yield of the debt investment or, in the case where we have received warrant coverage, the warrant-adjusted effective yield of the security, adjustments for changes in the yields of comparable publicly traded high-yield debt funds and risk-free interest rates and an assessment of non-performance risk. For venture debt investments, an increase in yields would result in a lower fair value measurement. Furthermore, yields would decrease, and value would increase, if the company is exceeding targets and risk has been substantially reduced from the level of risk that existed at the time of investment. Yields would increase, and values would decrease, if the company is failing to meet its targets and risk has been increased from the level of risk that existed at the time of investment. Historically, we also invested in venture debt through participation agreements. As of December 31, 2014, the amounts held in participation agreements consisted solely of warrants. These warrants are valued using the Black-Scholes-Merton pricing model as discussed in "Warrants and Options."

The following chart shows the components of change in the financial assets categorized as Level 3 for the three months ended June 30, 2015.

	Beginning Balance 4/1/2015	**Total Realized Gains (Losses) Included in Changes in Net Assets**	Transfers	**Total Unrealized (Depreciation) Appreciation Included in Changes in Net Assets**	**Investments in Portfolio Companies, Interest on Bridge Notes, and Amortization of Loan Fees, Net**	**Disposals and Settlements**	**Ending Balance 6/30/2015**	**Amount of (Depreciati Appreciatio Period Incl Changes in Assets Attr to the Char Unrealized or Losses Rela Assets Still the Reporti Date**
Preferred Stock	$70,753,835	$3,351,833	$(733,224)[1]	$(4,555,794)	$600,001	$(5,533,846)	$63,882,805	$(2,645,859
Bridge Notes	4,240,543	0	(1,128,258)	1,238,073	844,000	0	5,194,358	1,238,073
Common Stock	598,687	0	(22,752)	(123,806)	0	0	452,129	(123,806
Warrants	1,288,876	(98,644)	(201,558)	(237,919)	272,349	0	1,023,104	(630,226
Rights to Milestone Payments	3,194,781	0	0	(13,598)	0	0	3,181,183	(13,598
Senior Secured Debt	1,095,806	0	0	(254,508)	17,328	(94,373)	764,253	(254,508
Subordinated Secured Debt	981,100	0	0	3,513	2,412	0	987,025	3,513
Funds Held in Escrow From Sales of Investments	308,345	(62,482)	126,972 [1]	0	0	0	372,835	0
Options	49,280	0	0	(10,744)	0	0	38,536	(10,744

OTC Traded Common Stock	5,718,235	0	(321,837)	1,428,212	882,652	0	7,707,262	924,114
Total	$88,229,488	$3,190,707	$(2,280,657)	$(2,526,571)	$2,618,742	$(5,628,219)	$83,603,490	$(1,513,041

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

We elected to use the beginning of period values to recognize transfers in and out of Level 2 and Level 3 investments. For the three months ended June 30, 2015, there were transfers out of Level 3 investments totaling $2,280,657. Certain of our shares of Enumeral Biomedical Holdings, Inc., and OpGen, Inc., transferred from Level 3 investments owing to the use of their unadjusted closing share price on their respective stock exchanges on June 30, 2015, to derive their value.

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The following chart shows the components of change in the financial assets categorized as Level 3 for the six months ended June 30, 2015.

	Beginning Balance 1/1/2015	**Total Realized Gains (Losses) Included in Changes in Net Assets**	Transfers	**Total Unrealized (Depreciation) Appreciation Included in Changes in Net Assets**	**Investments in Portfolio Companies, Interest on Bridge Notes, and Amortization of Loan Fees, Net**	**Disposals and Settlements**	**Ending Balance 6/30/2015**	**Amount of (Depreciati Appreciatio the Period Included in Changes in Assets Attributabl to the Change in Unrealized or Losses Rela to Assets Still at the Reporti Date**
Preferred Stock	$70,969,603	$3,351,833	$(231,361)[1]	$(6,607,451)	$1,934,027	$(5,533,846)	$63,882,805	$(4,697,516
Bridge Notes	2,163,916	0	(1,630,121)	2,744,477	1,916,086	0	5,194,358	2,744,477
Common Stock	535,280	0	(74,379)	(8,772)	0	0	452,129	(8,772
Warrants	2,026,864	(383,488)	(201,558)	(667,063)	272,349	(24,000)	1,023,104	(860,750
Rights to Milestone Payments	3,193,865	0	0	(12,682)	0	0	3,181,183	(12,682
Senior Secured Debt	1,203,299	0	0	(286,383)	33,446	(186,109)	764,253	(286,383
Subordinated Secured Debt	979,450	0	0	(5,026)	12,601	0	987,025	(5,026
	306,802	(60,939)	126,972 [1]	0	0	0	372,835	0

Funds Held in Escrow From Sales of Investments								
Options	50,690	0	0	(12,154)	0	0	38,536	(12,154
OTC Traded Common Stock	7,251,178	0	(321,837)	(104,731)	882,652	0	7,707,262	(608,829
Total	$88,680,947	$2,907,406	$(2,332,284)	$(4,959,785)	$5,051,161	$(5,743,955)	$83,603,490	$(3,747,635

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

For the six months ended June 30, 2015, there were transfers out of Level 3 investments totaling $2,332,284. Our shares of Accelerator IV-New York Corporation transferred from a Level 3 investment owing to its qualification as an equity method investment. Certain of our shares of Enumeral Biomedical Holdings, Inc., and OpGen, Inc., transferred from Level 3 investments owing to the use of their unadjusted closing share price on their respective stock exchanges on June 30, 2015, to derive their value.

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At December 31, 2014, our financial assets were categorized as follows in the fair value hierarchy:

Fair Value Measurement at Reporting Date Using:

Description	**December 31, 2014**	**Unadjusted Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Privately Held Portfolio Companies:				
Preferred Stock	$ 70,969,603	$ 0	$ 0	$ 70,969,603
Bridge Notes	2,163,916	0	0	2,163,916
Warrants	2,026,864	0	0	2,026,864
Rights to Milestone Payments	3,193,865	0	0	3,193,865
Common Stock	535,280	0	0	535,280
Senior Secured Debt	1,203,299	0	0	1,203,299
Subordinated Secured Debt	979,450	0	0	979,450
Options	50,690	0	0	50,690
Publicly Traded Portfolio Companies:				
Common Stock	$ 8,641,873	$ 1,390,695	$ 0	$ 7,251,178
Total Investments:	$ 89,764,840	$ 1,390,695	$ 0	$ 88,374,145
Funds Held in Escrow From Sales of Investments:	$ 306,802	$ 0	$ 0	$ 306,802
Total Financial Assets:	$ 90,071,642	$ 1,390,695	$ 0	$ 88,680,947

The following chart shows the components of change in the financial assets categorized as Level 3 for the year ended December 31, 2014.

	Beginning Balance 1/1/2014	**Total Realized (Losses) Gains Included in Changes in Net Assets**	Transfers	**Total Unrealized Appreciation (Depreciation) Included in Changes in Net Assets**	**Investments in Portfolio Companies, Interest on Bridge Notes, and Amortization of Loan Fees, Net**	**Disposals and Settlements**	**Ending Balance 12/31/2014**	**Amou (Depre Appre the Period Includ Chang Assets Attribu to the Chang Unreal or Losses to Assets at the Re**
Preferred Stock	$71,577,059	$(7,472,760)	$(371,644)[1,2]	$5,555,721	$8,191,037	$(6,509,810)	$70,969,603	$(6,28
Bridge Notes	6,044,114	(50,000)	(4,968,041)[1]	(2,253,312)	3,434,976	(43,821)	2,163,916	(2,30
Common Stock	108,668	0	1,130,362 [1]	(919,782)	216,032	0	535,280	(919,
Warrants	800,487	0	65,250 [1]	519,818	641,309	0	2,026,864	519,8
Rights to Milestone Payments	3,489,433	536,813	629,670	608,904	0	(2,070,955)	3,193,865	608,9
Participation Agreements	777,195	84,371	0	(68,196)	5,892	(799,262)	0	0
Senior Secured Debt	1,511,828	0	0	17,364	(12,536)	(313,357)	1,203,299	17,36
Subordinated Secured Debt	0	0	0	197	979,253	0	979,450	197

Funds Held in Escrow From Sales of Investments	1,786,390	270,241	625,000 [2]	0	0	(2,374,829)	306,802	0
Options	0	0	0	50,690	0	0	50,690	50,69
OTC Traded Common Stock	0	0	2,889,403 [1]	3,402,150	959,625	0	7,251,178	3,402
Total	$86,095,174	$(6,631,335)	$0	$6,913,554	$14,415,588	$(12,112,034)	$88,680,947	$(4,90

[1]Transfers among asset classes are owing to conversions at financing events. These do not represent transfers in or out of Level 3.

[2] There was a $625,000 transfer from "Preferred Stock" into "Funds Held in Escrow From Sales of Investments" owing to the sale of Molecular Imprints, Inc., to Canon, Inc.

There were no transfers out of Level 3 investments during the year ended December 31, 2014.

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The following chart shows the components of change in the financial assets categorized as Level 3 for the three months ended June 30, 2014.

	Beginning Balance 4/1/2014	**Total Realized Gains (Losses) Included in Changes in Net Assets**	Transfers	**Total Unrealized (Depreciation) Appreciation Included in Changes in Net Assets**	**Investments in Portfolio Companies, Interest on Bridge Notes, and Amortization of Loan Fees, Net**	Disposals	**Ending Balance 6/30/2014**	**Amount of T (Depreciatio Appreciatio the Period Included in Changes in N Assets Attributable to the Change in Unrealized G or Losses Relat to Assets Still H at the Reportin Date**
Preferred Stock	$70,633,956	$4,263,420	$1,897,462 [1,2]	$5,720,997	$6,889,016	$(6,486,461)	$82,918,390	$5,549,964
Bridge Notes	5,402,815	0	(3,653,987)[1]	68,236	697,912	0	2,514,976	68,236
Common Stock	108,668	0	436,605 [1]	1,494	0	0	546,767	1,494
Warrants	740,070	0	65,250 [1]	72,946	43,367	0	921,633	72,946
Rights to Milestone Payments	3,491,600	0	629,670 [1]	5,834	0	0	4,127,104	5,834
Participation Agreements	757,797	0	0	(40,708)	1,276	(43,200)	675,165	(40,708
Senior Secured Debt	1,466,451	0	0	(92,510)	15,481	(83,521)	1,305,901	(92,510

Funds Held in Escrow From Sales of Investments	551,294	271,639	625,000	2	0	0	0	1,447,933	0
Total	$83,152,651	$4,535,059	$0		$5,736,289	$7,647,052	$(6,613,182)	$94,457,869	$(5,565,256

[1]Transfers among asset classes are owing to conversions at financing events. These do not represent transfers in or out of Level 3.

[2] There was a $625,000 transfer from "Preferred Stock" into "Funds Held in Escrow From Sales of Investments" owing to the sale of Molecular Imprints, Inc., to Canon, Inc.

We elected to use the beginning of period values to recognize transfers in and out of Level 3 investments. For the three months ended June 30, 2014, there were no transfers out of Level 3.

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The following chart shows the components of change in the financial assets categorized as Level 3 for the six months ended June 30, 2014.

	Beginning Balance 1/1/2014	**Total Realized Gains (Losses) Included in Changes in Net Assets**	Transfers	**Total Unrealized (Depreciation) Appreciation Included in Changes in Net Assets**	**Investments in Portfolio Companies, Interest on Bridge Notes, and Amortization of Loan Fees, Net**	Disposals	**Ending Balance 6/30/2014**	**Amount of Total (Depreciation) Appreciation for the Period Included in Changes in Net Assets Attributable to the Change in Unrealized Gains or Losses Relating to Assets Still Held at the Reporting Date**
Preferred Stock	$71,577,059							