

HARRIS & HARRIS GROUP INC /NY/  
Form 10-Q  
November 09, 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 September 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 (I.R.S. Employer Identification No.)  
Incorporation or Organization)

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

(212) 582-0900

(Registrant's Telephone Number, Including Area Code)

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

Yes  No

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

Yes  No

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

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

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

Yes  No

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

Class	Outstanding at November 9, 2015
Common Stock, \$0.01 par value per share	30,903,501 shares

Harris & Harris Group, Inc.

Form 10-Q, September 30, 2015

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## 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.<sup>®</sup> (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)**

	September 30, 2015	December 31, 2014
<b>ASSETS</b>		
Investments, in portfolio securities at value:		
Unaffiliated privately held companies (cost: \$19,916,279 and \$22,304,047, respectively)	\$ 5,689,722	\$ 13,854,906
Unaffiliated rights to milestone payments (adjusted cost basis: \$2,387,278 and \$2,387,278, respectively)	5,058,083	3,193,865
Unaffiliated publicly traded securities (cost: \$1,623,029 and \$1,741,128, respectively)	1,605,704	1,398,085
Non-controlled affiliated privately held companies (cost: \$57,473,883 and \$67,236,533, respectively)	45,339,625	58,470,864
Non-controlled affiliated publicly traded companies (cost: \$11,683,371 and \$5,591,299, respectively)	7,285,825	8,384,641
Controlled affiliated privately held companies (cost: \$21,879,303 and \$13,111,030, respectively)	6,258,526	4,462,479
Equity method privately held company (adjusted cost basis: \$228,379 and \$0, respectively)	228,379	0
Total, investments in private portfolio companies, rights to milestone payments, public securities at value (cost: \$115,191,522 and \$112,371,315, respectively)	\$ 71,465,864	\$ 89,764,840
Cash	21,427,019	20,748,314
Funds held in escrow from sales of investments at value (Note 3)	374,851	306,802
Receivable from portfolio company	0	160,877
Interest receivable	11,020	62,482
Prepaid expenses	420,654	754,856
Other assets	458,600	296,690
Total assets	\$ 94,158,008	\$ 112,094,861
<b>LIABILITIES &amp; NET ASSETS</b>		
Term loan credit facility (Note 5)	\$ 5,000,000	\$ 0
Post-retirement plan liabilities (Note 8)	1,307,680	1,267,615
Accounts payable and accrued liabilities	583,980	841,915
Deferred rent	292,152	330,904
Total liabilities	\$ 7,183,812	\$ 2,440,434
Commitments and contingencies (Note 12)		
Net assets	\$ 86,974,196	\$ 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 9/30/15 and 12/31/14; 33,150,425 and 33,109,583 shares issued at 9/30/15 and 12/31/14, respectively	331,504	331,096
Additional paid in capital (Note 9)	215,621,582	215,051,662
Accumulated net operating and realized loss	(81,671,504	) (80,434,528
Accumulated unrealized depreciation of investments	(43,725,658	) (22,606,475
Accumulated other comprehensive income (Note 8)	561,465	718,203
Treasury stock, at cost (2,127,559 shares at 9/30/15 and 1,828,740 shares at 12/31/14) (Note 13)	(4,143,193	) (3,405,531
Net assets	\$ 86,974,196	\$ 109,654,427
Shares outstanding	31,022,866	31,280,843
Net asset value per outstanding share	\$ 2.80	\$ 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 Sept. 30,		Nine Months Ended Sept. 30,	
	2015	2014	2015	2014
Investment income:				
Interest from:				
Unaffiliated companies	\$6,785	\$21,555	\$27,561	\$108,237
Non-controlled affiliated companies	44,886	(27,703)	299,208	55,668
Controlled affiliated companies	72,759	40,382	164,392	111,715
Cash and U.S. Treasury securities and other	4,599	1,796	9,347	8,274
Fees for providing managerial assistance to portfolio companies	71,359	37,500	84,859	37,500
Yield-enhancing fees on debt securities	44,014	19,843	90,062	52,105
Total investment income	244,402	93,373	675,429	373,499
Expenses:				
Salaries, benefits and stock-based compensation (Note 9)	955,900	1,127,028	3,012,078	3,786,814
Administration and operations	105,120	108,908	341,214	446,348
Professional fees	278,654	365,557	1,165,673	962,780
Rent	83,308	69,389	218,772	217,480
Insurance expense	73,768	84,006	215,103	251,946
Directors' fees and expenses	98,218	91,875	286,743	278,283
Interest and other debt expense	209,831	94,831	561,577	282,827
Custody fees	15,701	16,200	47,317	45,219
Depreciation	11,710	13,182	36,412	39,632
Total expenses	1,832,210	1,970,976	5,884,889	<u>6,311,329</u>
Net operating loss	(1,587,808)	(1,877,603)	(5,209,460)	(5,937,830)
Net realized gain (loss):				
Realized gain (loss) from investments:				
Unaffiliated companies	(294,797)	15,475	3,005,039	3,962,313
Controlled affiliated companies	1,559,235	0	1,559,235	0
Unaffiliated rights to milestone payments	0	536,813	0	536,813
Non-Controlled affiliated companies	0	(4,488,575)	(392,430)	(11,199,638)
Publicly traded companies	11,158	0	52,569	1,333,497
Written call options	0	145,426	0	232,079
Realized gain (loss) from investments	1,275,596	(3,790,861)	4,224,413	(5,134,936)
Income tax expense (Note 10)	376	1,676	2,081	17,662
Net realized gain (loss) from investments	1,275,220	(3,792,537)	4,222,332	(5,152,598)



Net (increase) decrease in unrealized depreciation on investments:				
Investments	(16,532,025 )	4,857,214	(21,119,183 )	8,040,836
Written call options	0	(97,926 )	0	(8,882 )
Net (increase) decrease in unrealized depreciation on investments	(16,532,025 )	4,759,288	(21,119,183 )	8,031,954
Net realized and unrealized (loss) gain on investments	(15,256,805 )	966,751	(16,896,851 )	2,879,356
Share of loss on equity method investment	(60,012 )	0	(249,848 )	0
Net decrease in net assets resulting from operations:				
Total	\$(16,904,625 )	\$(910,852 )	\$(22,356,159 )	\$(3,058,474 )
Per average basic and diluted outstanding share	\$(0.54 )	\$(0.03 )	\$(0.71 )	\$(0.10 )
Average outstanding shares	31,251,950	<u>31,245,664</u>	31,272,790	31,215,069

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 Sept. 30,		Nine Months Ended Sept. 30,	
	2015	2014	2015	2014
Net decrease resulting from operations	\$ (16,904,625 )	\$ (910,852 )	\$ (22,356,159 )	\$ (3,058,474 )
Other comprehensive income (loss):				
Amortization of prior service cost	(52,246 )	(52,246 )	(156,738 )	(156,738 )
Other comprehensive loss	(52,246 )	(52,246 )	(156,738 )	(156,738 )
Comprehensive loss	\$ (16,956,871 )	\$ (963,098 )	\$ (22,512,897 )	\$ (3,215,212 )

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

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

	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Cash flows (used in) provided by operating activities:		
Net decrease in net assets resulting from operations	\$ (22,356,159	) \$ (3,058,474
Adjustments to reconcile net decrease in net assets resulting from operations to net cash (used in) provided by operating activities:		
Net realized loss (gain) and change in unrealized depreciation (appreciation) on investments	16,894,770	(2,897,018
Depreciation of fixed assets, amortization of prepaid assets and accretion of bridge note interest	(381,204	) (145,502
Share of loss on equity method investee	249,848	0
Stock-based compensation expense	617,972	741,483
Amortization of prior service cost	(156,738	) (156,738
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	(6,690,532	) (12,056,559
Purchase of unaffiliated portfolio companies	(509,824	) (240,500
Payments received on debt investments	783,418	865,071
Proceeds from sale of investments and conversion of bridge notes	8,183,453	10,929,061
Proceeds from call option premiums	0	338,229
Payments for put and call option purchases	0	(218,352
Changes in assets and liabilities:		
Receivable from portfolio company	160,877	54,160
Receivable from sales of investments	0	427,466
Interest receivable	51,462	2,728
Prepaid expenses	334,202	368,642
Other assets	(191,891	) (621
Post-retirement plan liabilities	40,065	48,776
Accounts payable and accrued liabilities	(257,935	) (4,244
Deferred rent	(38,752	) (10,771
Net cash (used in) provided by operating activities	(3,529,183	) 13,985,845
Cash flows from investing activities:		
Purchase of fixed assets	(6,806	) (5,296
Net cash used in investing activities	(6,806	) (5,296

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Cash flows from financing activities:

Proceeds from drawdown of loan facility	5,000,000	0
Purchase of treasury stock	(737,662	) 0
Payment of withholdings related to net settlement of restricted stock	(47,644	) (68,872
Net cash provided by (used in) financing activities	4,214,694	(68,872
Net increase in cash	\$ 678,705	\$ 13,911,677
Cash at beginning of the period	20,748,314	8,538,548
Cash at end of the period	\$ 21,427,019	\$ 22,450,225
Supplemental disclosures of cash flow information:		
Income taxes paid	\$ 2,081	\$ 17,662

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)**

	Nine Months Ended September 30, 2015	Year Ended December 31, 2014
Changes in net assets from operations:		
Net operating loss	\$ (5,209,460	) \$ (7,901,727
Net realized gain (loss) on investments	4,222,332	(5,083,625
Net (increase) in unrealized depreciation on investments	(21,119,183	) (576,186
Net (decrease) in unrealized appreciation on written call options	0	(8,882
Share of loss on equity method investment	(249,848	) 0
Net decrease in net assets resulting from operations	(22,356,159	) (13,570,420
Changes in net assets from capital stock transactions:		
Purchase of treasury stock	(737,662	) 0
Acquisition of vested restricted stock awards to pay required employee withholding tax	(47,644	) (124,751
Stock-based compensation expense	617,972	857,006
Net (decrease) increase in net assets resulting from capital stock transactions	(167,334	) 732,255
Changes in net assets from accumulated other comprehensive (loss) income:		
Other comprehensive (loss)	(156,738	) (208,983
Net (decrease) in net assets resulting from accumulated other comprehensive (loss) income	(156,738	) (208,983
Net decrease in net assets	(22,680,231	) (13,047,148
Net Assets:		
Beginning of the period	109,654,427	122,701,575

End of the period	\$ 86,974,196	\$ 109,654,427
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The accompanying unaudited notes are an integral part of these consolidated financial statements.

## HARRIS &amp; HARRIS GROUP, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF SEPTEMBER 30, 2015

## (Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Unaffiliated Companies (3) – 14.2% of net assets at value					
Private Placement Portfolio (Illiquid) (4) – 6.5% of net assets at value					
Bridgelux, Inc. (5)(8)(9)(10)					
Manufacturing high-power light emitting diodes (LEDs) and arrays					
Series B Convertible Preferred Stock	(M)		\$1,000,000	1,861,504	\$259,350
Series C Convertible Preferred Stock	(M)		1,352,196	2,130,699	535,587
Series D Convertible Preferred Stock	(M)		1,371,622	999,999	738,177
Series E Convertible Preferred Stock	(M)		672,599	440,334	608,537
Series E-1 Convertible Preferred Stock	(M)		386,073	399,579	401,267
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
			5,116,352		2,542,918
Cambrios Technologies Corporation (5)(8)(9)					
Developing nanowire-enabled electronic materials for the display industry					
Series B Convertible Preferred Stock	(I)		1,294,025	1,294,025	9,176
Series C Convertible Preferred Stock	(I)		1,300,000	1,300,000	9,218
Series D Convertible Preferred Stock	(I)		515,756	515,756	192,940
Series D-2 Convertible Preferred Stock	(I)		92,400	92,400	17,338
Series D-4 Convertible Preferred Stock	(I)		216,168	216,168	40,563
			3,418,349		269,235
Cobalt Technologies, Inc. (8)(9)(11)					
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

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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
Magic Leap, Inc. (8)(9)(12)				
Developing novel human computing interfaces and software				
Series B Convertible Preferred Stock	( I )	338,604	29,291	323,677

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



HARRIS &amp; HARRIS GROUP, INC.

**CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF SEPTEMBER 30, 2015****(Unaudited)**

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Unaffiliated Companies (3) – 14.2% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (4) – 6.5% of net assets at value (Cont.)					
Mersana Therapeutics, Inc. (5)(8)(9) Developing antibody drug conjugates for cancer therapy		Life Sciences			
Series A-1 Convertible Preferred Stock	(H)		\$683,538	635,081	\$557,075
Series B-1 Convertible Preferred Stock	(H)		104,521	97,111	106,820
Common Stock	(H)		3,875,395	350,539	243,483
			4,663,454		907,378
Nanosys, Inc. (5)(8) Developing inorganic nanowires and quantum dots for use in LED-backlit devices		Energy			
Series C Convertible Preferred Stock	(M)		1,500,000	803,428	141,754
Series D Convertible Preferred Stock	(M)		3,000,003	1,016,950	652,762
Series E Convertible Preferred Stock	(M)		496,573	433,688	471,530
			4,996,576		1,266,046
Nano Terra, Inc. (5) Developing surface chemistry and nano- manufacturing solutions		Energy			
Senior secured debt, 12.0%, maturing on 12/1/15	(I)		66,548	\$101,951	100,975
Warrants for Common Stock expiring on 2/22/21	(I)		69,168	4,462	1,148
Warrants for Series A-3 Pref. Stock expiring on 11/15/22	(I)		35,403	47,508	61,662
			171,119		163,785
Phylagen, Inc. (5)(8)(13) Developing technology to improve human health and productivity		Life Sciences			
	(M)		206,521	\$200,000	206,521

Secured Convertible Bridge Note, 5%, acquired 2/5/15			
Secured Convertible Bridge Note, 5%, acquired 6/5/15	(M)	10,162	\$10,000
		216,683	10,162
			216,683
Total Unaffiliated Private Placement Portfolio (cost: \$19,916,279)			\$5,689,722

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

**HARRIS & HARRIS GROUP, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF SEPTEMBER 30, 2015****(Unaudited)**

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Rights to Milestone Payments (Illiquid) (6) – 5.8% 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	\$3,794,540
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)(14)		Electronics			
Rights to Milestone Payments from Acquisition of Molecular Imprints, Inc.	(I)		629,670	\$629,670	1,263,543
Total Unaffiliated Rights to Milestone Payments (cost: \$2,387,278)					\$5,058,083
Publicly Traded Portfolio (7) – 1.9% of net assets at value					
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	\$1,579,284
Warrants for Common Stock expiring 1/28/19	(I)		400	66,000	26,420
			1,623,029		1,605,704
Total Unaffiliated Publicly Traded Portfolio (cost: \$1,623,029)					\$1,605,704
Total Investments in Unaffiliated Companies (cost: \$23,926,586)					\$12,353,509

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



## HARRIS &amp; HARRIS GROUP, INC.

**CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF SEPTEMBER 30, 2015****(Unaudited)**

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 60.5% of net assets at value					
Private Placement Portfolio (Illiquid) (15) – 52.1% of net assets at value					
ABSMaterials, Inc. (5)(8)(9)					
Developing nano-structured absorbent materials for water remediation and consumer applications					
		Energy			
Series A Convertible Preferred Stock	( I )		\$435,000	390,000	\$306,779
Series B Convertible Preferred Stock	( I )		1,217,644	1,037,751	1,248,058
			1,652,644		1,554,837
Adesto Technologies Corporation (5)(8)(9)(16)					
Developing low-power, high-performance memory devices					
		Electronics			
Series A Convertible Preferred Stock	(M)		2,200,000	6,547,619	928,895
Series B Convertible Preferred Stock	(M)		2,200,000	5,952,381	844,450
Series C Convertible Preferred Stock	(M)		1,485,531	2,122,187	301,070
Series D Convertible Preferred Stock	(M)		1,393,147	1,466,470	214,922
Series D-1 Convertible Preferred Stock	(M)		703,740	987,706	140,124
Series E Convertible Preferred Stock	(M)		2,499,999	3,508,771	4,920,118
			10,482,417		7,349,579
AgBiome, LLC (5)(8)(9)					
Providing early-stage research and discovery for agriculture and utilizing the crop microbiome to identify products that reduce risk and improve yield					
		Life Sciences			
Series A-1 Convertible Preferred Stock	( I )		2,000,000	2,000,000	4,035,554
Series A-2 Convertible Preferred Stock	( I )		521,740	417,392	896,459
Series B Convertible Preferred Stock	( I )		500,006	160,526	574,333
			3,021,746		5,506,346

D-Wave Systems, Inc. (8)(9)(17)				
Developing high-performance quantum computing systems				
Series 1 Class B Convertible Preferred Stock	(H)	1,002,074	1,144,869	1,535,674
Series 1 Class C Convertible Preferred Stock	(H)	487,804	450,450	608,449
Series 1 Class D Convertible Preferred Stock	(H)	748,473	855,131	1,155,075
Series 1 Class E Convertible Preferred Stock	(H)	248,049	269,280	380,372
Series 1 Class F Convertible Preferred Stock	(H)	238,323	258,721	365,457
Series 1 Class H Convertible Preferred Stock	(H)	909,088	460,866	758,165
Series 2 Class D Convertible Preferred Stock	(H)	736,019	678,264	916,171
Series 2 Class E Convertible Preferred Stock	(H)	659,493	513,900	734,858
Series 2 Class F Convertible Preferred Stock	(H)	633,631	493,747	706,040
Warrants for Common Stock expiring 5/12/19	(I)	26,357	20,415	819
		5,689,311		7,161,080

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

## HARRIS &amp; HARRIS GROUP, INC.

**CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF SEPTEMBER 30, 2015**

(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 60.5% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (15) – 52.1% of net assets at value (Cont.)					
EchoPixel, Inc. (5)(8)(9) Developing algorithms and software to improve visualization of data for life science and healthcare applications		Life Sciences			
Series Seed Convertible Preferred Stock	(I)		\$1,250,000	4,194,630	\$1,348,754
Ensemble Therapeutics Corporation (5)(8)(9) Developing DNA-Programmed Chemistry™ for the discovery of new classes of therapeutics					
Series B Convertible Preferred Stock	(I)	Life Sciences	2,000,000	1,449,275	752,423
Series B-1 Convertible Preferred Stock	(I)		679,754	492,575	1,461,514
			2,679,754		2,213,937
HZO, Inc. (5)(8)(9) Developing novel industrial coatings that protect electronics against damage from liquids					
Common Stock	(I)	Electronics	666,667	405,729	318,269
Series I Convertible Preferred Stock	(I)		5,709,835	2,266,894	4,181,907
Series II Convertible Preferred Stock	(I)		2,500,006	674,638	2,503,470
			8,876,508		7,003,646
Laser Light Engines, Inc. (8)(9) Manufactured solid-state light sources for digital cinema and large-venue projection displays					
Series A Convertible Preferred Stock	(M)	Energy	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

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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

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



## HARRIS &amp; HARRIS GROUP, INC.

**CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF SEPTEMBER 30, 2015**

(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 60.5% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (15) – 52.1% of net assets at value (Cont.)					
Metabolon, Inc. (5)(8)(9)		Life Sciences			
Developing a biochemical profiling platform for precision medicine					
Series B Convertible Preferred Stock	(M)		\$2,500,000	371,739	\$2,594,442
Series B-1 Convertible Preferred Stock	(M)		706,214	148,696	1,082,077
Series C Convertible Preferred Stock	(M)		1,000,000	1,000,000	2,360,805
Series D Convertible Preferred Stock	(M)		1,499,999	835,882	1,990,454
Series E-1 Convertible Preferred Stock	(M)		1,225,000	444,404	1,402,598
Series E-2 Convertible Preferred Stock	(M)		299,999	103,277	300,234
			7,231,212		9,730,610
ORIG3N, Inc. (5)(8)(9)(13)		Life Sciences			
Developing precision medicine applications for induced pluripotent stems cells					
Series 1 Convertible Preferred Stock	(I)		500,000	1,195,315	505,938
Produced Water Absorbents, Inc. (5)(8)(18)		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	2,704
Series B Convertible Preferred Stock	(M)		1,496,865	5,987,460	364,117
Series B-2 Convertible Preferred Stock	(M)		1,015,427	4,322,709	262,878
Series B-3 Convertible Preferred Stock	(M)		978,641	3,914,564	238,057
Series C Convertible Preferred Stock	(M)		1,000,268	2,667,380	121,750
Series D Convertible Preferred Stock	(M)		986,066	2,629,510	239,682
Subordinated Secured Debt, 12%, maturing on 12/31/15	(I)		993,417	\$1,000,000	968,050
	(M)		259,863	\$250,000	259,863

Subordinated Convertible Bridge Note, 12%, acquired 6/3/2015				
Subordinated Convertible Bridge Note, 12%, acquired 7/15/2015	(M)	256,411	\$250,000	256,411
Subordinated Convertible Bridge Note, 12%, acquired 9/28/2015	(M)	250,247	\$250,000	250,247
Warrants for Series B-2 Preferred Stock expiring upon liquidation event	(I)	65,250	300,000	1,139
		8,302,455		2,964,898

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

HARRIS &amp; HARRIS GROUP, INC.

**CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF SEPTEMBER 30, 2015**

(Unaudited)

	<b>Method of</b>	<b>Primary</b>		<b>Shares/</b>	
	<b>Valuation (1)</b>	<b>Industry (2)</b>	<b>Cost</b>	<b>Principal</b>	<b>Value</b>
Investments in Non-Controlled Affiliated Companies (3) – 60.5% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (15) – 52.1% of net assets at value (Cont.)					
Ultora, Inc. (5)(8)		Energy			
Developed energy-storage devices 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: \$57,473,883)					\$45,339,625
Publicly Traded Portfolio (19) – 8.4% of net assets at value					
Enumeral Biomedical Holdings, Inc. (5)(9)(20)		Life Sciences			
Developing therapeutics and diagnostics through functional assaying of single cells					
Common Stock	(M)		\$4,993,357	7,966,368	\$3,160,681
Warrants for Common Stock expiring 7/30/19	(I)		540,375	1,500,000	195,549
Warrants for Common Stock expiring 2/2/24	(I)		57,567	255,120	87,482
Options to Purchase Common Stock at \$1.00 expiring 7/30/16	(I)		0	80,000	1,875
			5,591,299		3,445,587

OpGen, Inc. (5)(8)(21)		Life Sciences		
Developing tools for genomic sequence assembly and analysis				
Common Stock	(M)	5,665,708	1,409,796	3,637,274
Warrants for Common Stock expiring 5/8/20	(M)	425,579	300,833	174,032
Warrants for Common Stock expiring 2/17/25	(I)	785	31,206	28,932
		6,092,072		3,840,238
Total Non-Controlled Publicly Traded Portfolio (cost: \$11,683,371)				\$7,285,825
Total Investments in Non-Controlled Affiliated Companies (cost: \$69,157,254)				\$52,625,450

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

HARRIS &amp; HARRIS GROUP, INC.

**CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF SEPTEMBER 30, 2015****(Unaudited)**

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Controlled Affiliated Companies (3) – 7.2% of net assets at value					
Private Placement Portfolio (Illiquid) (22) – 7.2% of net assets at value					
Black Silicon Holdings, Inc. (5)(8)(23)					
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 8/4/15	(I)		1,294,931	\$1,278,454	318,738
			7,720,808		318,738
NGX Bio, Inc. (5)(8)(9)(24)					
Developing translational genomics solutions					
Series Seed Convertible Preferred Stock	(I)		375,000	500,000	585,214
Series A Convertible Preferred Stock	(I)		499,999	329,989	504,882
Warrants for Series Seed Preferred Stock expiring 6/6/19	(I)		125,000	166,667	195,070
			999,999		1,285,166
ProMuc, Inc. (5)(8)					
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)		400,016	\$350,000	400,016
Secured Convertible Bridge Note, 8%, acquired 8/13/14	(M)		109,074	\$100,000	109,074
	(M)		75,937	\$75,000	75,937

Secured Convertible Bridge Note, 8%, acquired  
8/5/15

		585,028		585,028
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	465,021
Series B-1 Convertible Preferred Stock	( I )	1,083,960	2,759,902	879,999
Series C Convertible Preferred Stock	( I )	1,208,287	1,611,049	1,210,089
Warrants for Series B Preferred Stock expiring 10/15/17	( I )	131,538	164,423	56,637
Warrants for Series B Preferred Stock expiring 4/24/18	( I )	20,000	25,000	8,611
		3,662,247		2,620,357

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

HARRIS &amp; HARRIS GROUP, INC.

**CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF SEPTEMBER 30, 2015****(Unaudited)**

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Controlled Affiliated Companies (3) – 7.2% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (22) – 7.2% of net assets at value (Cont.)					
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	123,460
Secured Convertible Bridge Note, 8%, acquired 1/23/13	(I)		430,699	\$350,000	430,699
Secured Convertible Bridge Note, 8%, acquired 4/25/13	(I)		362,114	\$300,000	362,114
			8,378,257		916,273
TARA Biosystems, Inc. (5)(8)					
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)		326,983	\$300,000	326,983
Secured Convertible Bridge Note, 8%, acquired 5/18/15	(M)		205,961	\$200,000	205,961
			532,964		532,964
Total Controlled Private Placement Portfolio (cost: \$21,879,303)					\$6,258,526
Total Investments in Controlled Affiliated Companies (cost: \$21,879,303)					\$6,258,526
					\$71,237,485

Total Private Placement and Publicly Traded Portfolio (cost:  
\$114,963,143)

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



HARRIS & HARRIS GROUP, INC.

**CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF SEPTEMBER 30, 2015**

**(Unaudited)**

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Equity Method Investments (25) – 0.3% of net assets at value					
Private Placement Portfolio (Illiquid) (25) – 0.3% of net assets at value					
Accelerator IV-New York Corporation (5)(8)(9)(26) Identifying and managing emerging biotechnology companies Series A Common Stock	(E)	Life Sciences	\$228,379	478,227	\$228,379
Total Equity Method Investments (cost: \$228,379)					\$228,379
Total Investments (cost: \$115,191,522)					\$71,465,864

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

HARRIS & HARRIS GROUP, INC.

**CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF SEPTEMBER 30, 2015**

(Unaudited)

Notes to Consolidated Schedule of Investments

- (1) See "Footnote to Consolidated Schedule of Investments" on page 32 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 \$19,916,279. 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 \$14,226,557.

(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 \$2,670,805. 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 \$1,623,029. The gross unrealized appreciation based on the tax cost for these securities is \$0. The gross unrealized

depreciation based on the tax cost for these securities is \$17,325.

(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.

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 did business as Cobalt Biofuels. Cobalt is in the process of liquidating its assets for the benefit of creditors.

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

(13) Initial investment was made in 2015.

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

HARRIS & HARRIS GROUP, INC.

**CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF SEPTEMBER 30, 2015**

(Unaudited)

(14) On October 1, 2015, we received proceeds of \$795,657 upon achievement of the first milestone. This amount is included in the value of our potential milestone payments as of September 30, 2015.

(15) The aggregate cost for federal income tax purposes of investments in non-controlled affiliated privately held companies is \$57,473,883. The gross unrealized appreciation based on the tax cost for these securities is \$6,560,459. The gross unrealized depreciation based on the tax cost for these securities is \$18,694,717.

(16) In October of 2015, Adesto effected a 33:1 reverse stock split. On October 27, 2015, Adesto completed an initial public offering ("IPO") at which time all of our shares of preferred stock converted to common stock. Our shares of Series A, B, C, and D Preferred Stock converted on a one-for-one basis. Each share of our Series D-1 Preferred Stock converted into 1.033 shares of common stock. Each share of our Series E Preferred Stock converted into 9.8841 shares of common stock.

(17) 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.

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

(19) 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 \$4,397,546.

(20) 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.

(21) The Company's shares of OpGen, Inc., became freely tradeable on November 2, 2015. A total of 300,833 shares and 300,833 warrants are not qualifying assets under Section 55(a) of the 1940 Act. Under the 1940 Act, we may

not acquire non-qualifying assets unless, at the time the acquisition is made, qualifying assets are at least 70 percent of our total assets.

The aggregate cost for federal income tax purposes of investments in controlled affiliated companies is (22) \$21,879,303. The gross unrealized appreciation based on the tax cost for these securities is \$285,167. The gross unrealized depreciation based on the tax cost for these securities is \$15,905,944.

On August 3, 2015, SiOnyx, Inc., reorganized its corporate structure to become a subsidiary of a new company, (23) Black Silicon Holdings, Inc. Our security holdings of SiOnyx converted into securities of Black Silicon Holdings. SiOnyx was then acquired by an undisclosed buyer. Black Silicon Holdings owns a profit interest in the undisclosed buyer.

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

The aggregate cost for federal income tax purposes of investments in privately held equity method investments is (25) \$228,379. Under the equity method, investments are carried at cost, plus or minus the Company's equity in the increases and decreases in the investee's net assets after the date of acquisition and certain other adjustments.

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

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

## HARRIS &amp; 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)					
Manufacturing high-power light emitting diodes (LEDs) and arrays					
	(M)	Energy	\$1,000,000	1,861,504	\$607,692
Series B Convertible Preferred Stock	(M)		1,352,196	2,130,699	826,294
Series C Convertible Preferred Stock	(M)		1,371,622	999,999	787,915
Series D Convertible Preferred Stock	(M)		672,599	440,334	724,344
Series E Convertible Preferred Stock	(M)		386,073	399,579	499,686
Series E-1 Convertible Preferred Stock	(M)				
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)					
Developing nanowire-enabled electronic materials for the display industry					
	(I)	Electronics	1,294,025	1,294,025	41,829
Series B Convertible Preferred Stock	(I)		1,300,000	1,300,000	42,022
Series C Convertible Preferred Stock	(I)		515,756	515,756	358,416
Series D Convertible Preferred Stock	(I)		92,400	92,400	32,361
Series D-2 Convertible Preferred Stock	(I)		216,168	216,168	75,708
Series D-4 Convertible Preferred Stock	(I)		3,418,349		550,336
Cobalt Technologies, Inc. (5)(8)(9)(10)					
Developing processes for making bio- butanol through biomass fermentation					
Series C-1 Convertible Preferred Stock	(M)	Energy	749,998	352,112	0

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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.

HARRIS &amp; 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.





## HARRIS &amp; 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)					\$13,854,900
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 & Acquisition of Nextreme Thermal Solutions, Inc.					
	( I )		0	\$0	0
Canon, Inc. (8)(9)		Electronics			
	( I )		629,670	\$629,670	628,948

Rights to Milestone Payments from  
Acquisition of Molecular Imprints, Inc.

Total Unaffiliated Rights to Milestone Payments (cost: \$2,387,278)	\$3,193,865
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The accompanying notes are an integral part of these consolidated financial statements.

HARRIS &amp; 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) Developing algal biodiesel, industrial chemicals and specialty ingredients using synthetic biology Common Stock	(M)	Energy	\$ 118,099	50,000	\$ 129,000
Champions Oncology, Inc. (5)(9) Developing its TumorGraft™ platform for personalized medicine and drug development Common Stock	(M)	Life Sciences	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.

## HARRIS &amp; 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)					
Developing nano-structured absorbent materials for environmental remediation					
Series A Convertible Preferred Stock	(I)	Energy	\$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)					
Identifying and managing emerging biotechnology companies					
Series A Common Stock	(I)	Life Sciences	216,012	216,012	51,627
Adesto Technologies Corporation (5)(8)(9)(17)					
Developing low-power, high-performance memory devices					
Series A Convertible Preferred Stock	(H)	Electronics	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)					
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)	Life Sciences	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.

## HARRIS &amp; 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) Developing high-performance quantum computing systems		Electronics			
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) Developing algorithms and software to improve visualization of data for life science and healthcare applications		Life Sciences			
Series Seed Convertible Preferred Stock	(I)		1,250,000	4,194,630	1,312,425
Ensemble Therapeutics Corporation (5)(8) Developing DNA-Programmed Chemistry™ for the discovery of new classes of therapeutics		Life Sciences			
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) Developing novel industrial coatings that protect electronics against damage from liquids		Electronics			

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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.



## HARRIS &amp; 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					
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					
Series B Convertible Preferred Stock	(H)		2,500,000	371,739	2,781,3
Series B-1 Convertible Preferred Stock	(H)		706,214	148,696	1,158,6
Series C Convertible Preferred Stock	(H)		1,000,000	1,000,000	2,535,5
Series D Convertible Preferred Stock	(H)		1,499,999	835,882	2,179,0
Series E Convertible Preferred Stock	(H)		1,225,000	444,404	1,556,8
Warrants for Series B-1 Convertible Preferred Stock expiring 3/25/15	(I)		293,786	74,348	484,53
			7,224,999		10,696
OpGen, Inc. (8)(19)					
Developing tools for genomic sequence assembly and analysis					

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Series A Convertible Preferred Stock	(H)	610,017	610,017	606,25
Common Stock	(H)	3,260,000	29,883	22,752
Secured Convertible Bridge Note, 8%, acquired 7/11/14	(H)	216,991	\$209,020	273,90
Secured Convertible Bridge Note, 8%, acquired 10/16/14	(H)	254,278	\$250,000	256,57
Secured Convertible Bridge Note, 8%, acquired 11/14/14	(H)	202,133	\$200,000	203,63
Secured Convertible Bridge Note, 8%, acquired 12/29/14	(H)	100,067	\$100,000	100,56
		4,643,486		1,463,6

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

## HARRIS &amp; 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.

## HARRIS &amp; 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)					
Developing energy-storage devices enabled by carbon nanotubes					
Series A Convertible Preferred Stock	(I)	Energy	\$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)					\$58,470,800
Publicly Traded Portfolio (20) – 7.7% of net assets at value					
Enumeral Biomedical Holdings, Inc. (5)(21)					
Developing therapeutics and diagnostics through functional assaying of single cells					
Common Stock	(M)	Life Sciences	\$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)					\$66,855,500

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



## HARRIS &amp; 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)					
Developing synthetic mucins for the nutritional, food and healthcare markets					
Common Stock	(M)	Life Sciences	\$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)					
Developing next-generation sensors to measure pH					
Series B Convertible Preferred Stock	(I)	Life Sciences	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)					
Developed synthetic carbohydrates for pharmaceutical applications					
Common Stock	(I)	Life Sciences	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
Secured Convertible Bridge Note, 8%, acquired 4/25/13	(I)		341,825	\$300,000	172,220
			8,757,787		1,197,102
TARA Biosystems, Inc. (5)(8)(15)					
Developing human tissue models for toxicology and drug discovery applications					
Common Stock	(M)	Life Sciences	20	2,000,000	20
Secured Convertible Bridge Note, 8%, acquired 8/20/14	(M)		308,811	\$300,000	308,811

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