

HARRIS & HARRIS GROUP INC /NY/
Form 10-Q
May 09, 2016

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 March 31, 2016

.. 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 May 9, 2016
Common Stock, \$0.01 par value per share	30,845,754 shares

Harris & Harris Group, Inc.

Form 10-Q, March 31, 2016

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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.[®] (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, 2015.

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

	March 31, 2016	December 31, 2015
ASSETS		
Investments, in portfolio securities at value:		
Unaffiliated privately held companies (cost: \$15,441,503 and \$18,857,235, respectively)	\$ 4,852,520	\$ 5,376,472
Unaffiliated rights to milestone payments (adjusted cost basis: \$781,863 and \$781,863, respectively)	2,959,769	3,362,051
Unaffiliated publicly traded securities (cost: \$1,623,029 and \$1,623,029, respectively)	944,423	957,544
Non-controlled affiliated privately held companies (cost: \$49,534,373 and \$49,262,921, respectively)	45,290,665	41,909,262
Non-controlled affiliated publicly traded companies (cost: \$23,165,788 and \$23,165,788, respectively)	13,361,800	18,371,105
Controlled affiliated privately held companies (cost: \$23,092,672 and \$23,205,336, respectively)	5,884,419	7,010,534
Equity method privately held company (adjusted cost basis: \$228,133 and \$165,936, respectively)	228,133	165,936
Total, investments in private portfolio companies, rights to milestone payments and public securities at value (cost: \$113,867,361 and \$117,062,108, respectively)	73,521,729	77,152,904
Cash	14,311,324	17,922,630
Funds held in escrow from sales of investments at value (Note 3)	633,921	374,565
Receivable from portfolio company	170,541	13,032
Interest receivable	13,433	10,333
Prepaid expenses	469,754	563,699
Other assets	412,668	424,123
Total assets	\$ 89,533,370	\$ 96,461,286
LIABILITIES & NET ASSETS		
Term loan credit facility (Note 5)	\$ 5,000,000	\$ 5,000,000
Post retirement plan liabilities (Note 8)	1,212,433	1,202,148
Accounts payable and accrued liabilities	550,999	1,268,355
Deferred rent	264,693	279,112
Total liabilities	\$ 7,028,125	\$ 7,749,615
Commitments and contingencies (Note 11)		
Net assets	\$ 82,505,245	\$ 88,711,671

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 3/31/16 and 12/31/15; 33,183,576 issued at 3/31/16 and 12/31/15, respectively	331,836	331,836
Additional paid in capital (Note 9)	215,658,407	215,762,973
Accumulated net operating and realized loss	(88,990,815)	(83,377,629)
Accumulated unrealized depreciation of investments	(40,345,632)	(39,909,204)
Accumulated other comprehensive income (Note 8)	456,974	509,220
Treasury stock, at cost (2,337,822 shares at 3/31/16 and 12/31/15 (Note 12)	(4,605,525)	(4,605,525)
Net assets	\$ 82,505,245	\$ 88,711,671
Shares outstanding	30,845,754	30,845,754
Net asset value per outstanding share	\$ 2.67	\$ 2.88

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 March 31, 2016	Three Months Ended March 31, 2015
Investment income:		
Interest from:		
Unaffiliated companies	\$ 2,618	\$ 11,243
Non-controlled affiliated companies	56,066	52,426
Controlled affiliated companies	90,424	44,426
Cash and U.S. Treasury securities and other	1,432	1,430
Fees for providing managerial assistance to portfolio companies	146,877	7,000
Yield-enhancing fees on debt securities	4,625	26,307
Total investment income	302,042	142,832
Expenses:		
Salaries, benefits and stock-based compensation (Note 9)	603,908	1,078,489
Administration and operations	142,292	101,234
Professional fees	298,822	572,234
Rent (Note 3)	57,220	67,706
Insurance expense	59,575	67,611
Directors' fees and expenses	70,609	119,624
Interest and other debt expense	208,026	143,720
Custody fees	12,061	15,912
Depreciation	11,455	12,647
Total expenses	1,463,968	2,179,177
Net operating loss	(1,161,926	) (2,036,345
Net realized (loss) gain:		
Realized (loss) gain from investments:		
Unaffiliated companies	(3,158,993	) 10,485
Non-controlled affiliated companies	(1,244,955	) (293,786
Realized loss from investments	(4,403,948	) (283,301
Income tax expense (Note 10)	5,830	105
Net realized loss from investments	(4,409,778	) (283,406
Net (increase) decrease in unrealized depreciation on investments:		
Unaffiliated companies	2,891,779	(615,964
Controlled affiliated companies	(1,013,450) 157,117

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Unaffiliated rights to milestone payments	(402,282)	916	
Non-controlled affiliated companies	3,109,951		(1,837,564)
Publicly traded non-controlled affiliated companies	(5,009,305	)	0	
Publicly traded unaffiliated companies	(13,121	)	824,714	
Net increase in unrealized depreciation on investments	(436,428	)	(1,470,781)
Net realized and unrealized loss on investments	(4,846,206	)	(1,754,187)
Share of loss on equity method investment	(41,482	)	(131,506)
Net decrease in net assets resulting from operations:				
Total	\$ (6,049,614	)	\$ (3,922,038)
Per average basic and diluted outstanding share	\$ (0.20	)	\$ (0.13)
Average outstanding shares - basic and diluted	30,845,754		31,280,843	

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 March 31, 2016	Three Months Ended March 31, 2015
Net decrease in net assets resulting from operations	\$ (6,049,614	) \$ (3,922,038
Other comprehensive loss:		
Amortization of prior service cost	(52,246	) (52,246
Other comprehensive loss	(52,246	) (52,246
Comprehensive loss	\$ (6,101,860	) \$ (3,974,284

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

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

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Cash flows used in operating activities:		
Net decrease in net assets resulting from operations	\$ (6,049,614	) \$ (3,922,038
Adjustments to reconcile net decrease in net assets resulting from operations to net cash used in operating activities:		
Net realized loss and change in unrealized depreciation on investments	4,840,376	1,754,082
Depreciation of fixed assets, amortization of prepaid assets and accretion of bridge note interest	(108,842	) (66,312
Share of loss on equity method investment	41,482	131,506
Stock-based compensation (benefit) expense	(104,566	) 212,591
Amortization of prior service cost	(52,246	) (52,246
Funding of operating commitment to equity method investment	(103,680	) (262,215
Purchase of affiliated portfolio companies	(2,150,012	) (1,853,262
Purchase of unaffiliated portfolio companies	0	(499,824
Payments received on debt investments	0	91,736
Proceeds from sale of investments and repayment of bridge notes	863,950	24,000
Changes in assets and liabilities:		
Receivable from portfolio companies	(157,509	) (9,933
Interest receivable	(3,100	) 13,948
Prepaid expenses	93,945	60,524
Other assets	0	378
Post retirement plan liabilities	10,285	13,371
Accounts payable and accrued liabilities	(717,356	) (313,699
Deferred rent	(14,419	) (12,672
Net cash used in operating activities	(3,611,306	) (4,690,065
Cash flows from investing activities:		
Purchase of fixed assets	0	(6,806
Net cash used in investing activities	0	(6,806
Cash flows from financing activities:		
Proceeds from drawdown of loan facility	0	5,000,000
Net cash provided by financing activities	0	5,000,000
Net (decrease) increase in cash	\$ (3,611,306	) \$ 303,129

Cash at beginning of the period	17,922,630	20,748,314
Cash at end of the period	\$ 14,311,324	\$ 21,051,443

Supplemental disclosures of cash flow information:

Income taxes paid	\$ 5,830	\$ 105
Interest paid	\$ 126,389	\$ 0

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)**

	Three Months Ended March 31, 2016	Year Ended December 31, 2015
Changes in net assets from operations:		
Net operating loss	\$ (1,161,926	) \$ (7,162,510
Net realized (loss) gain on investments	(4,409,778	) 4,531,700
Net increase in unrealized depreciation on investments	(436,428	) (17,302,729
Share of loss on equity method investment	(41,482	) (312,291
Net decrease in net assets resulting from operations	(6,049,614	) (20,245,830
Changes in net assets from capital stock transactions:		
Purchase of treasury stock	0	(1,199,994
Acquisition of vested restricted stock awards to pay required employee withholding tax	0	(86,914
Stock-based compensation (benefit) expense	(104,566	) 798,965
Net decrease in net assets resulting from capital stock transactions	(104,566	) (487,943
Changes in net assets from accumulated other comprehensive loss:		
Other comprehensive loss	(52,246	) (208,983
Net decrease in net assets resulting from accumulated other comprehensive loss	(52,246	) (208,983
Net decrease in net assets	(6,206,426	) (20,942,756
Net Assets:		
Beginning of the period	88,711,671	109,654,427
End of the period	\$ 82,505,245	\$ 88,711,671

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 MARCH 31, 2016**(Unaudited)**

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Unaffiliated Companies (3) – 10.6% of net assets at value					
Private Placement Portfolio (Illiquid) (4) – 5.9% of net assets at value					
Bridgelux, Inc. (5)(8)(9)(10)					
Manufacturing high-power light emitting diodes (LEDs) and arrays					
Energy					
Series B Convertible Preferred Stock (acquired 11/29/07)	(M)		\$1,000,000	1,861,504	\$185,847
Series C Convertible Preferred Stock (acquired 7/27/07)	(M)		1,352,196	2,130,699	383,598
Series D Convertible Preferred Stock (acquired (2/25/08-3/10/10)	(M)		1,371,622	999,999	528,700
Series E Convertible Preferred Stock (acquired 6/1/11)	(M)		672,599	440,334	435,848
Series E-1 Convertible Preferred Stock (acquired 3/16/12)	(M)		386,073	399,579	287,397
Warrants for Series E Convertible Preferred Stock expiring 12/31/17 (acquired 1/27/11)	(M)		93,969	170,823	0
Warrants for Common Stock expiring 6/1/16 (acquired 6/1/11)	(M)		72,668	132,100	0
Warrants for Common Stock expiring 8/9/18 (acquired 8/9/13)	(M)		148,409	171,183	0
Warrants for Common Stock expiring 10/21/18 (acquired 10/21/11)	(M)		18,816	84,846	0
			5,116,352		1,821,390
Magic Leap, Inc. (8)(9)(11)					
Developing novel human computing interfaces and software					
Electronics					
Series B Convertible Preferred Stock (acquired 5/1/15)	(M)		338,604	29,291	624,059
Mersana Therapeutics, Inc. (5)(8)(9)					
Life Sciences					

Developing antibody drug conjugates
for cancer therapy

Series A-1 Convertible Preferred Stock (acquired 7/27/12-4/2/14)	(H)	683,538	635,081	614,748
Series B-1 Convertible Preferred Stock (acquired 2/20/15)	(H)	104,521	97,111	105,035
Common Stock (acquired 7/27/12)	(H)	3,875,395	350,539	308,007
		4,663,454		1,027,790

Nanosys, Inc. (5)(8)(9)

Energy

Developing inorganic nanowires and
quantum dots for use in LED-backlit devices

Series C Convertible Preferred Stock (acquired 4/10/03)	(M)	1,500,000	803,428	91,833
Series D Convertible Preferred Stock (acquired 11/7/05)	(M)	3,000,003	1,016,950	483,682
Series E Convertible Preferred Stock (acquired 8/13/10)	(M)	496,573	433,688	424,364
		4,996,576		999,879

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2016**(Unaudited)**

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Unaffiliated Companies (3) – 10.6% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (4) – 5.9% of net assets at value (Cont.)					
Nano Terra, Inc. (5)(8) Developing surface chemistry and nano- manufacturing solutions		Energy			
Warrants for Common Stock expiring on 2/22/21 (acquired 2/22/11)	(M)		\$69,168	4,462	\$1,218
Warrants for Series A-3 Preferred Stock expiring on 11/15/22 (acquired 11/15/12)	(M)		35,403	47,508	67,459
			104,571		68,677
Phylagen, Inc. (5)(8) Developing technology to improve human health and business productivity		Life Sciences			
Secured Convertible Bridge Note, 5%, (acquired 2/5/15)	(M)		211,534	\$200,000	296,148
Secured Convertible Bridge Note, 5%, (acquired 6/5/15)	(M)		10,412	\$10,000	14,577
			221,946		310,725
Total Unaffiliated Private Placement Portfolio (cost: \$15,441,503)					\$4,852,520
Rights to Milestone Payments (Illiquid) (6) – 3.6% of net assets at value					
Amgen, Inc. (8)(9) Rights to Milestone Payments from Acquisition of BioVex Group, Inc. (acquired 3/4/11)	(I)	Life Sciences	\$548,998	\$548,998	\$2,495,696
Laird Technologies, Inc. (8)(9)	(I)	Energy	0	\$0	0

Rights to Milestone Payments from Merger &
Acquisition of Nextreme Thermal Solutions, Inc.
(acquired 2/13/13)

Canon, Inc. (8)(9)	Electronics			
Rights to Milestone Payments from Acquisition of Molecular Imprints, Inc. (acquired (I) 4/18/14)		232,865	\$232,865	464,073
Total Unaffiliated Rights to Milestone Payments (cost: \$781,863)				\$2,959,769

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2016**(Unaudited)**

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Publicly Traded Portfolio (7) – 1.1% of net assets at value					
Champions Oncology, Inc. (5)(9)		Life Sciences			
Developing its TumorGraft™ platform for personalized medicine and drug development Common Stock (acquired 3/24/11-3/11/15)	(M)		\$1,622,629	243,540	\$933,232
Warrants for Common Stock expiring 1/28/19 (acquired 1/28/13)	(I)		400	5,500	11,191
			1,623,029		944,423
Total Unaffiliated Publicly Traded Portfolio (cost: \$1,623,029)					\$944,423
Total Investments in Unaffiliated Companies (cost: \$17,846,395)					\$8,756,712
Investments in Non-Controlled Affiliated Companies (3) – 71.1% of net assets at value					
Private Placement Portfolio (Illiquid) (13) – 54.9% of net assets at value					
ABSMaterials, Inc. (5)(8)(9)		Energy			
Developing nano-structured absorbent materials for water remediation and consumer applications Series A Convertible Preferred Stock (acquired 2/17/10-10/24/11)	(I)		\$435,000	390,000	\$180,984
Series B Convertible Preferred Stock (acquired 11/8/13-6/25/14)	(I)		1,217,644	1,037,751	822,698
Secured Convertible Bridge Note, 8%, (acquired 1/20/16)	(M)		101,578	\$100,000	101,578
			1,754,222		1,105,260
AgBiome, LLC (5)(8)(9)		Life Sciences			

Providing early-stage research and discovery for agriculture and utilizing the crop microbiome to identify products that reduce risk and improve yield

Series A-1 Convertible Preferred Stock (acquired 1/30/13)	(I)	2,000,000	2,000,000	4,147,607
Series A-2 Convertible Preferred Stock (acquired 4/9/13-10/15/13)	(I)	521,740	417,392	921,590
Series B Convertible Preferred Stock (acquired 8/7/15)	(I)	500,006	160,526	586,320
		3,021,746		5,655,517

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2016**(Unaudited)**

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 71.1% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (13) – 54.9% of net assets at value (Cont.)					
D-Wave Systems, Inc. (5)(8)(9)(14) Developing high-performance quantum computing systems		Electronics			
Series 1 Class B Convertible Preferred Stock (acquired 9/30/08)	(H)		\$1,002,074	1,144,869	\$2,518,309
Series 1 Class C Convertible Preferred Stock (acquired 9/30/08)	(H)		487,804	450,450	996,826
Series 1 Class D Convertible Preferred Stock (acquired 9/30/08)	(H)		748,473	855,131	1,892,367
Series 1 Class E Convertible Preferred Stock (acquired 11/24/10)	(H)		248,049	269,280	608,102
Series 1 Class F Convertible Preferred Stock (acquired 11/24/10)	(H)		238,323	258,721	584,257
Series 1 Class H Convertible Preferred Stock (acquired 6/27/14)	(H)		909,088	460,866	1,141,620
Series 2 Class D Convertible Preferred Stock (acquired 9/30/08)	(H)		736,019	678,264	1,500,968
Series 2 Class E Convertible Preferred Stock (acquired 6/1/12-3/22/13)	(H)		659,493	513,900	1,170,770
Series 2 Class F Convertible Preferred Stock (acquired 6/1/12-3/22/13)	(H)		633,631	493,747	1,124,857
Warrants for Common Stock expiring 5/12/19 (acquired 5/12/14)	(I)		26,357	20,415	1,071
			5,689,311		11,539,147
EchoPixel, Inc. (5)(8) Developing virtual reality 3-D visualization software for life sciences and health care applications		Life Sciences			

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Series Seed Convertible Preferred Stock (acquired 6/21/13-6/30/14)	(I)	1,250,000	4,194,630	1,335,447
Series Seed-2 Convertible Preferred Stock (acquired 1/22/16)	(I)	500,000	1,476,668	503,612
		1,750,000		1,839,059
Ensemble Therapeutics Corporation (5)(8)(9)				
Developing DNA-Programmed Chemistry™ for the discovery of new classes of therapeutics				
Series B Convertible Preferred Stock (acquired 6/6/07)	(I)	2,000,000	1,449,275	704,660
Series B-1 Convertible Preferred Stock (acquired 4/21/14)	(I)	679,754	492,575	1,440,730
		2,679,754		2,145,390
HZO, Inc. (5)(8)(9)				
Developing novel industrial coatings that protect electronics against damage from liquids				
Common Stock (acquired 6/23/14)	(I)	666,667	405,729	359,994
Series I Convertible Preferred Stock (acquired 6/23/14)	(I)	5,709,835	2,266,894	4,486,681
Series II Convertible Preferred Stock (acquired 6/23/14-8/3/15)	(I)	2,500,006	674,638	2,571,646
		8,876,508		7,418,321

Life
Sciences

Electronics

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2016

(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 71.1% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (13) – 54.9% of net assets at value (Cont.)					
Laser Light Engines, Inc. (8)(9) Manufactured solid-state light sources for digital cinema and large-venue projection displays		Energy			
Series A Convertible Preferred Stock (acquired 5/6/08)	(M)		\$2,000,000	7,499,062	\$0
Series B Convertible Preferred Stock (acquired 9/17/10)	(M)		3,095,802	13,571,848	0
Secured Convertible Bridge Note, 12%, (acquired 10/7/11)	(M)		200,000	\$200,000	0
Secured Convertible Bridge Note, 12%, (acquired 11/17/11)	(M)		95,652	\$95,652	0
Secured Convertible Bridge Note, 12%, (acquired 12/21/11)	(M)		82,609	\$82,609	0
Secured Convertible Bridge Note, 12%, (acquired 3/5/12)	(M)		434,784	\$434,784	0
Secured Convertible Bridge Note, 12%, (acquired 7/26/12)	(M)		186,955	\$186,955	0
Secured Convertible Bridge Note, 20%, (acquired 4/29/13)	(M)		166,667	\$166,667	0
Secured Convertible Bridge Note, 20%, (acquired 7/22/13)	(M)		166,667	\$166,667	0
Secured Convertible Bridge Note, 10%, (acquired 10/30/13)	(M)		80,669	\$80,669	0
Secured Convertible Bridge Note, 10%, (acquired 2/5/14)	(M)		19,331	\$19,331	0
Secured Convertible Bridge Note, 10%, (acquired 6/24/14)	(M)		13,745	\$13,745	0
			6,542,881		0

Lodo Therapeutics Corporation (5)(8)(9)					Life Sciences
Developing and commercializing novel therapeutics derived from a metagenome-based Natural Product Discovery Platform					
Series A Convertible Preferred Stock (acquired 12/21/15)	(I)	107,900	107,900	107,835	
Metabolon, Inc. (5)(8)(9)					Life Sciences
Developing a biochemical profiling platform for precision medicine					
Series B Convertible Preferred Stock (acquired 6/29/09)	(M)	2,500,000	371,739	2,957,498	
Series B-1 Convertible Preferred Stock (acquired 6/29/09)	(M)	706,214	148,696	1,182,998	
Series C Convertible Preferred Stock (acquired 4/30/09)	(M)	1,000,000	1,000,000	2,711,294	
Series D Convertible Preferred Stock (acquired 8/25/11)	(M)	1,499,999	835,882	2,359,499	
Series E-1 Convertible Preferred Stock (acquired 3/2/15)	(M)	1,225,000	444,404	1,534,395	
Series E-2 Convertible Preferred Stock (acquired 3/2/15)	(M)	299,999	103,277	332,387	
		7,231,212		11,078,071	
ORIG3N, Inc. (5)(8)(9)					Life Sciences
Developing precision medicine applications for induced pluripotent stems cells					
Series 1 Convertible Preferred Stock (acquired 2/5/15-8/5/15)	(I)	500,000	1,195,315	827,622	
Series A Convertible Preferred Stock (acquired 11/25/15)	(I)	750,000	682,333	747,943	
		1,250,000		1,575,565	

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2016

(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 71.1% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (13) – 54.9% of net assets at value (Cont.)					
Petra Pharma Corporation (5)(8)(9)		Life Sciences			
Developing small molecule inhibitors for treatment of cancer and metabolic diseases Series A Convertible Preferred Stock (acquired 12/23/15)	(I)		\$1,025,050	1,025,050	\$1,023,535
Produced Water Absorbents, Inc. (5)(8)(15)		Energy			
Providing integrated process separation solutions to the global oil and gas industries, enabling onsite treatment of produced and flowback water Series A Convertible Preferred Stock (acquired 6/21/11)	(M)		1,000,000	1,000,000	23,123
Series B Convertible Preferred Stock (acquired 6/20/13-3/31/14)	(M)		1,496,865	5,987,460	63,900
Series B-2 Convertible Preferred Stock (acquired 5/12/14)	(M)		1,015,427	4,322,709	46,133
Series B-3 Convertible Preferred Stock (acquired 11/14/13)	(M)		978,641	3,914,564	41,777
Series C Convertible Preferred Stock (acquired 5/26/14)	(M)		1,000,268	2,667,380	22,536
Series D Convertible Preferred Stock (acquired 2/17/15)	(M)		986,066	2,629,510	39,756
Subordinated Secured Debt, 12%, maturing on 6/30/16 (acquired 10/7/14)	(M)		995,259	\$1,000,000	570,491
Subordinated Convertible Bridge Note, 12%, (acquired 6/3/15)	(M)		273,096	\$250,000	27,526
	(M)		269,644	\$250,000	27,179

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Subordinated Convertible Bridge Note, 12%, (acquired 7/15/15)				
Subordinated Convertible Bridge Note, 12%, (acquired 9/28/15)	(M)	263,479	\$250,000	26,557
Subordinated Convertible Bridge Note, 12%, (acquired 10/30/15)	(M)	260,849	\$250,000	26,292
Subordinated Convertible Bridge Note, 12%, (acquired 2/16/16)	(M)	125,945	\$125,000	12,695
Warrants for Series B-2 Preferred Stock expiring upon liquidation event (acquired 5/12/14)	(I)	65,250	300,000	0
Senior Secured Debt, 15% commencing on 4/1/16, maturing on 12/31/19 (acquired 3/9/16)	(M)	875,000	\$875,000	875,000
		9,605,789		\$1,802,965
Total Non-Controlled Private Placement Portfolio (cost: \$49,534,373)				\$45,290,665

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2016

(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Publicly Traded Portfolio (16) – 16.2% of net assets at value					
Adesto Technologies Corporation (5)(8)(9)(17) Developing low-power, high-performance memory devices		Electronics			
Common Stock (acquired 10/27/15)	(M)		\$ 11,482,417	1,769,868	\$ 9,946,658
Enumeral Biomedical Holdings, Inc. (5)(9)(18) Developing therapeutics and diagnostics through functional assaying of single cells		Life Sciences			
Common Stock (acquired 7/31/14)	(M)		4,993,357	7,966,368	1,274,619
Warrants for Common Stock expiring 7/30/19 (acquired 7/31/14)	(I)		540,375	1,500,000	22,563
Warrants for Common Stock expiring 2/2/24 (acquired 7/31/14)	(I)		57,567	255,120	29,540
Options to Purchase Common Stock at \$1.00 expiring 7/30/16 (acquired 8/4/14)	(I)		0	80,000	0
			5,591,299		1,326,722
OpGen, Inc. (5)(9)(19) Developing tools for genomic sequence assembly and analysis		Life Sciences			
Common Stock (acquired 5/5/15)	(M)		5,665,708	1,409,796	1,987,812
Warrants for Common Stock expiring 5/8/20 (acquired 5/5/15)	(M)		425,579	300,833	73,317
Warrants for Common Stock expiring 2/17/25 (acquired 5/5/15)	(I)		785	31,206	27,291
			6,092,072		2,088,420
Total Non-Controlled Affiliated Publicly Traded Portfolio (cost: \$23,165,788)					\$ 13,361,800
Total Investments in Non-Controlled Affiliated Companies (cost: \$72,700,161)					\$ 58,652,465

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2016**(Unaudited)**

	Method of	Primary		Shares/	
	Valuation (1)	Industry (2)	Cost	Principal	Value
Investments in Controlled Affiliated Companies (3) – 7.1% of net assets at value					
Private Placement Portfolio (Illiquid) (20) – 7.1% of net assets at value					
Black Silicon Holdings, Inc. (5)(8)(21)					
Holding company for interest in a company that develops silicon-based optoelectronic products					
Series A Convertible Preferred Stock (acquired 8/4/15)					
(I)		Electronics	\$750,000	233,499	\$0
Series A-1 Convertible Preferred Stock (acquired 8/4/15)					
(I)			890,000	2,966,667	0
Series A-2 Convertible Preferred Stock (acquired 8/4/15)					
(I)			2,445,000	4,207,537	0
Series B-1 Convertible Preferred Stock (acquired 8/4/15)					
(I)			1,169,561	1,892,836	0
Series C Convertible Preferred Stock (acquired 8/4/15)					
(I)			1,171,316	1,674,030	0
Secured Convertible Bridge Note, 8%, (acquired 8/4/15)					
(I)			1,346,922	\$1,278,454	322,123
			7,772,799		322,123
Interome, Inc. (5)(8)(12)					
Developing human tissue models for toxicology and drug discovery applications					
Common Stock (acquired 3/1/16)					
(M)		Life Sciences	10	1,000,000	10
Secured Convertible Bridge Note, 12%, (acquired 3/1/16)					
(M)			300,000	\$300,000	300,000
			300,010		300,010
NGX Bio, Inc. (5)(8)(9)(22)					
Developing translational genomics solutions					
(I)		Life Sciences	500,002	666,667	495,818

Series Seed Convertible Preferred Stock (acquired 6/6/14-1/10/16)				
Series A Convertible Preferred Stock (acquired 8/20/15-9/30/15)	(I)	499,999	329,989	339,761
		1,000,001		835,579
ProMuc, Inc. (5)(8)				
			Life Sciences	
Developing synthetic mucins for the nutritional, food and health care markets				
Common Stock (acquired 12/18/13)	(M)	1	1,000	1
Secured Convertible Bridge Note, 8%, (acquired 12/18/13)	(M)	414,055	\$ 350,000	414,055
Secured Convertible Bridge Note, 8%, (acquired 8/13/14)	(M)	113,085	\$ 100,000	113,085
Secured Convertible Bridge Note, 8%, (acquired 8/5/15)	(M)	78,945	\$ 75,000	78,945
Secured Convertible Bridge Note, 8%, (acquired 12/7/15)	(M)	56,398	\$ 55,000	56,398
		662,484		662,484

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2016**(Unaudited)**

	Method of	Primary		Shares/	
	Valuation (1)	Industry (2)	Cost	Principal	Value
Investments in Controlled Affiliated Companies (3) – 7.1% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (20) – 7.1% of net assets at value (Cont.)					
Senova Systems, Inc. (5)(8)(9)		Life Sciences			
Developing next-generation sensors to measure pH					
Series B Convertible Preferred Stock (acquired 9/9/11-7/18/12)	(I)		\$1,218,462	1,350,000	\$110,357
Series B-1 Convertible Preferred Stock (acquired 8/1/13-1/15/14)	(I)		1,083,960	2,759,902	225,611
Series C Convertible Preferred Stock (acquired 10/24/14-4/1/15)	(I)		1,208,287	1,611,049	938,014
Secured Convertible Bridge Note, 10%, (acquired 1/15/16)	(I)		255,274	\$250,000	255,274
Warrants for Series B Preferred Stock expiring 10/15/17 (acquired 10/15/12)	(I)		131,538	164,423	13,441
Warrants for Series B Preferred Stock expiring 4/24/18 (acquired 4/24/13)	(I)		20,000	25,000	2,044
			3,917,521		1,544,741
SynGlyco, Inc. (5)(8)		Life Sciences			
Developed synthetic carbohydrates for pharmaceutical applications					
Common Stock (acquired 12/13/11)	(I)		2,729,817	57,463	0
Series A' Convertible Preferred Stock (acquired 12/13/11-6/7/12)	(I)		4,855,627	4,855,627	88,088
Secured Convertible Bridge Note, 8%, (acquired 1/23/13)	(I)		68,344	\$67,823	68,344
			7,653,788		156,432
TARA Biosystems, Inc. (5)(8)					

Life
Sciences

Developing human tissue models for toxicology and drug discovery applications				
Common Stock (acquired 8/20/14)	(M)	20	2,000,000	20
Secured Convertible Bridge Note, 8%, (acquired 8/20/14)	(M)	339,978	\$ 300,000	509,967
Secured Convertible Bridge Note, 8%, (acquired 5/18/15)	(M)	213,983	\$ 200,000	320,975
Secured Convertible Bridge Note, 8%, acquired 12/1/15	(M)	1,232,088	\$ 1,200,000	1,232,088
		1,786,069		2,063,050
Total Controlled Private Placement Portfolio (cost: \$23,092,672)				\$5,884,419
Total Investments in Controlled Affiliated Companies (cost: \$23,092,672)				\$5,884,419
Total Private Placement and Publicly Traded Portfolio (cost: \$113,639,228)				\$73,293,596

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2016

(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Equity Method Investments (23) – 0.3% of net assets at value					
Private Placement Portfolio (Illiquid) (23) – 0.3% of net assets at value					
Accelerator IV-New York Corporation (8)(9)(24) Identifying and managing emerging biotechnology companies Series A Common Stock (acquired 7/21/14-1/29/16)	(E)	Life Sciences	\$228,133	581,907	\$228,133
Total Equity Method Investments (cost: \$228,133)					\$228,133
Total Investments (cost: \$113,867,361)					\$73,521,729

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2016

(Unaudited)

Notes to Consolidated Schedule of Investments

- (1) See "Footnote to Consolidated Schedule of Investments" on page 34 for a description of the "Valuation Procedures."

We classify "Energy" companies as those that seek to improve performance, productivity or efficiency, and to reduce environmental impact, waste, cost, energy consumption or raw materials. We classify "Electronics" companies as those that address problems in electronics-related industries, including semiconductors and computing. We classify "Life Sciences" companies as those that address problems in life sciences-related industries, including precision health and precision medicine, biotechnology, agriculture, advanced materials and chemicals, health care, bioprocessing, water, industrial biotechnology, food, nutrition and energy.

Investments in unaffiliated companies consist of investments in which we own less than five percent of the voting shares of the portfolio company. Investments in non-controlled affiliated companies consist of investments in which we own five percent or more, but less than 25 percent, of the voting shares of the portfolio company, or where we hold one or more seats on the portfolio company's board of directors but do not control the company.

(3) Investments in controlled affiliated companies consist of investments in which we own 25 percent or more of the voting shares of the portfolio company or otherwise control the company, including control of a majority of the seats on the board of directors, or more than 25 percent of the seats on the board of directors, with no other entity or person in control of more director seats than us. Among our controlled affiliated companies, ProMuc, Inc., and Interome, Inc., were 100 percent owned by us at March 31, 2016.

The aggregate cost for federal income tax purposes of investments in unaffiliated privately held companies is

(4) \$15,441,503. The gross unrealized appreciation based on the tax cost for these securities is \$374,234. The gross unrealized depreciation based on the tax cost for these securities is \$10,963,217.

(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 \$781,863. The gross unrealized appreciation based on the tax cost for these securities is \$2,177,906. The gross

unrealized depreciation based on the tax cost for these securities is \$0.

The aggregate cost for federal income tax purposes of investments in unaffiliated publicly traded companies is (7) \$1,623,029. The gross unrealized appreciation based on the tax cost for these securities is \$0. The gross unrealized depreciation based on the tax cost for these securities is \$678,606.

(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, Inc., signed a definitive agreement to be acquired by an investment group led by (10) China Electronics Corporation and ChongQing Linkong Development Investment Company. The close of this transaction remains pending as of March 31, 2016.

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2016

(Unaudited)

We received our shares of Magic Leap, Inc., as part of the consideration paid for one of our portfolio companies (11) 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.

(12) Initial investment was made in 2016.

The aggregate cost for federal income tax purposes of investments in non-controlled affiliated privately held (13) companies is \$49,534,373. The gross unrealized appreciation based on the tax cost for these securities is \$12,745,089. The gross unrealized depreciation based on the tax cost for these securities is \$16,988,797.

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 (14) 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.

Produced Water Absorbents, Inc., also does business as ProSep, Inc. On April 1, 2016, the Company's (15) Subordinated Secured Note was reissued as a Senior Secured Note with the same terms as the Senior Secured Note purchased in the first quarter of 2016.

(16) The aggregate cost for federal income tax purposes of investments in non-controlled affiliated publicly traded companies is \$23,165,788. 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 \$9,803,988.

As of March 31, 2016, the Company's shares of Adesto Technologies Corporation were subject to a lock-up agreement that restricted our ability to trade these securities. The lock-up agreement expired on April 25, 2016. A (17) total of 200,000 shares are not qualifying assets under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire non-qualifying assets unless, at the time the acquisition is made, qualifying assets are at least 70 percent of our total assets.

(18) As of December 31, 2015, a portion of the Company's shares and warrants of Enumeral Biomedical Holdings, Inc., were subject to a lock-up agreement that restricts our ability to trade these securities. The lock-up period on

our securities of Enumeral Biomedical Holdings expired on January 31, 2016.

A total of 300,833 shares and 300,833 warrants are not qualifying assets under Section 55(a) of the 1940 Act.
(19) 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
(20) \$23,092,672. The gross unrealized appreciation based on the tax cost for these securities is \$276,981. The gross unrealized depreciation based on the tax cost for these securities is \$17,485,234.

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

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2016

(Unaudited)

(22) 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 (23) \$228,133. 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.

(24) 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, 2015

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	V
Investments in Unaffiliated Companies (3) – 11.0% of net assets at value					
Private Placement Portfolio (Illiquid) (4) – 6.1% of net assets at value					
Bridgelux, Inc. (5)(8)(9)(10)					
Manufacturing high-power light emitting diodes (LEDs) and arrays					
		Energy			
Series B Convertible Preferred Stock (acquired 11/29/07)	(M)		\$1,000,000	1,861,504	\$
Series C Convertible Preferred Stock (acquired 7/27/07)	(M)		1,352,196	2,130,699	
Series D Convertible Preferred Stock (acquired (2/25/08-3/10/10)	(M)		1,371,622	999,999	
Series E Convertible Preferred Stock (acquired 6/1/11)	(M)		672,599	440,334	
Series E-1 Convertible Preferred Stock (acquired 3/16/12)	(M)		386,073	399,579	
Warrants for Series E Convertible Preferred Stock expiring 12/31/17 (acquired 1/27/11)	(M)		93,969	170,823	
Warrants for Common Stock expiring 6/1/16 (acquired 6/1/11)	(M)		72,668	132,100	
Warrants for Common Stock expiring 8/9/18 (acquired 8/9/13)	(M)		148,409	171,183	
Warrants for Common Stock expiring 10/21/18 (acquired 10/21/11)	(M)		18,816	84,846	
			5,116,352		
Cambrios Technologies Corporation (5)(8)(9)(11)					
Developed nanowire-enabled electronic materials for the display industry					
		Electronics			
Series B Convertible Preferred Stock (acquired 11/9/04-2/16/05)	(M)		1,294,025	1,294,025	
Series C Convertible Preferred Stock (acquired 3/21/07)	(M)		1,300,000	1,300,000	
Series D Convertible Preferred Stock (acquired 8/7/09)	(M)		515,756	515,756	
Series D-2 Convertible Preferred Stock (acquired 5/31/11)	(M)		92,400	92,400	
Series D-4 Convertible Preferred Stock (acquired 7/12/12)	(M)		216,168	216,168	
			3,418,349		
Magic Leap, Inc. (8)(9)(12)					
Developing novel human computing interfaces and software					
		Electronics			
Series B Convertible Preferred Stock (acquired 5/1/15)	(I)		338,604	29,291	
Mersana Therapeutics, Inc. (5)(8)(9)					
Developing antibody drug conjugates for cancer therapy					
		Life Sciences			

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Series A-1 Convertible Preferred Stock (acquired 7/27/12-4/2/14)	(H)	683,538	635,081
Series B-1 Convertible Preferred Stock (acquired 2/20/15)	(H)	104,521	97,111
Common Stock (acquired 7/27/12)	(H)	3,875,395	350,539
		4,663,454	

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2015

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Unaffiliated Companies (3) – 11.0% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (4) – 6.1% of net assets at value (Cont.)					
Nanosys, Inc. (5)(8)(9) Developing inorganic nanowires and quantum dots for use in LED-backlit devices		Energy			
Series C Convertible Preferred Stock (acquired 4/10/03) (M)			\$1,500,000	803,428	\$128,853
Series D Convertible Preferred Stock (acquired 11/7/05) (M)			3,000,003	1,016,950	597,334
Series E Convertible Preferred Stock (acquired 8/13/10) (M)			496,573	433,688	452,627
			4,996,576		1,178,814
Nano Terra, Inc. (5)(8) Developing surface chemistry and nano-		Energy			