

HARRIS & HARRIS GROUP INC /NY/  
Form 10-Q  
August 09, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2013

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 0-11576

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

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

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

(212) 582-0900

(Registrant's Telephone Number, Including Area Code)

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

Yes  No

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

Yes  No

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

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

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

Yes  No

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

Class	Outstanding at August 8, 2013
Common Stock, \$0.01 par value per share	31,159,256 shares

**Harris & Harris Group, Inc.**

**Form 10-Q, June 30, 2013**

	<b>Page Number</b>
<b>PART I. FINANCIAL INFORMATION</b>	
<b>Item 1. Consolidated Financial Statements</b>	1
Consolidated Statements of Assets and Liabilities	2
Consolidated Statements of Operations	3
Consolidated Statements of Comprehensive Income (Loss)	4
Consolidated Statements of Cash Flows	5
Consolidated Statements of Changes in Net Assets	6
Consolidated Schedule of Investments	7
Notes to Consolidated Financial Statements	38
Financial Highlights	61
<b>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</b>	62
Background	62
Overview	62
Maturity of Current Equity-Focused Venture Capital Portfolio	64
Investment Objective and Strategy	65
Involvement with Portfolio Companies	66
Investments and Current Investment Pace	67
Our Sources of Liquid Capital	68
Potential Pending Liquidity Events from our Portfolio as of June 30, 2013	69
Strategy for Managing Publicly Traded Positions	70

Portfolio Company Revenue	71
Current Business Environment	71
Valuation of Investments	72
Results of Operations	75
Financial Condition	84
Liquidity	85
Borrowings	87
Contractual Obligations	87
Critical Accounting Policies	87
Recent Developments – Portfolio Companies	91
Cautionary Statement Regarding Forward-Looking Statements	92
<b>Item 3. Quantitative and Qualitative Disclosures About Market Risk</b>	93
<b>Item 4. Controls and Procedures</b>	94
<b>PART II. OTHER INFORMATION</b>	
<b>Item 1A. Risk Factors</b>	95
<b>Item 6. Exhibits</b>	96
<b>Signatures</b>	97
<b>Exhibit Index</b>	98

PART I. FINANCIAL INFORMATION

**Item 1. Consolidated Financial Statements**

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

Harris & Harris Group, Inc.<sup>®</sup> (the "Company," "us," "our" and "we"), is an internally managed venture capital company that has elected to operate as a business development company ("BDC") under the Investment Company Act of 1940 (the "1940 Act"). Certain information and disclosures normally included in the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted as permitted by Regulation S-X and Regulation S-K. Accordingly, they do not include all information and disclosures necessary for a fair presentation of our financial position, results of operations and cash flows in conformity with GAAP. The results of operations for any interim period are not necessarily indicative of the results for the full year. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2012.

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

	June 30, 2013 (Unaudited)	December 31, 2012
<b>ASSETS</b>		
Investments, in portfolio securities at value:		
Unaffiliated privately held companies (cost: \$29,344,862 and \$29,365,558, respectively)	\$ 29,448,686	\$ 24,949,756
Unaffiliated rights to milestone payments (adjusted cost basis: \$3,291,750 and \$3,291,750, respectively)	3,383,720	3,400,734
Unaffiliated publicly traded securities (cost: \$3,570,595 and \$5,070,447, respectively)	10,416,633	14,422,261
Non-controlled affiliated privately held companies (cost: \$59,055,188 and \$57,789,263, respectively)	61,485,282	60,792,397
Non-controlled affiliated publicly traded companies (cost: \$0 and \$2,000,000, respectively)	0	1,348,227
Controlled affiliated privately held companies (cost: \$15,156,205 and \$14,233,804, respectively)	3,991,102	3,088,816
Total, investments in private portfolio companies, rights to milestone payments and public securities at value (cost: \$110,418,600 and \$111,750,822, respectively)	\$ 108,725,423	\$ 108,002,191
Investments, in U.S. Treasury obligations at value (cost: \$13,999,865 and \$13,996,136, respectively)	13,999,860	13,998,880
Cash	8,194,919	8,379,111
Receivable from sales of investments (Note 3)	3,783,586	0
Restricted funds (Note 3)	10,025	10,015
Funds held in escrow from sales of investments at value	0	1,052,345
Receivable from portfolio company	4,160	23,830
Interest receivable	16,126	49,068
Prepaid expenses	241,333	97,410
Other assets	353,413	377,400
Total assets	\$ 135,328,845	\$ 131,990,250
<b>LIABILITIES &amp; NET ASSETS</b>		
Accounts payable and accrued liabilities	\$ 1,339,064	\$ 1,262,202
Post retirement plan liabilities (Note 8)	826,082	1,876,447
Deferred rent	350,018	368,977
Written call options payable (premiums received: \$478,676 and \$50,000, respectively) (Note 7)	746,000	42,500
Debt interest and other payable	3,792	3,350

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Total liabilities	3,264,956	3,553,476
Net assets	\$ 132,063,889	\$ 128,436,774
Net assets are comprised of:		
Preferred stock, \$0.10 par value, 2,000,000 shares authorized; none issued	\$0	\$ 0
Common stock, \$0.01 par value, 45,000,000 shares authorized at 6/30/13 and 12/31/12; 32,987,996 issued at 6/30/13 and 32,945,621 issued at 12/31/12	329,880	329,456
Additional paid in capital (Note 9)	213,762,334	213,194,474
Accumulated net operating and realized loss	(77,676,550 )	(77,943,238 )
Accumulated unrealized depreciation of investments	(1,960,506 )	(3,738,387 )
Accumulated other comprehensive income (Note 8)	1,014,262	0
Treasury stock, at cost (1,828,740 shares at 6/30/13 and 12/31/12)	(3,405,531 )	(3,405,531 )
Net assets	\$ 132,063,889	\$ 128,436,774
Shares outstanding	31,159,256	31,116,881
Net asset value per outstanding share	\$4.24	\$ 4.13

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Investment income (loss):				
Interest from:				
Unaffiliated companies	\$ 56,851	\$ 71,257	\$ 131,846	\$ 121,321
Non-controlled affiliated companies	22,207	(193,188 )	37,512	(150,376 )
Controlled affiliated companies	62,390	39,658	109,194	67,000
Cash and U.S. Treasury obligations and other	3,374	6,387	9,033	12,699
Miscellaneous income	45,141	47,440	87,468	81,800
Total investment income (loss)	189,963	(28,446 )	375,053	132,444
Expenses:				
Salaries, benefits and stock-based compensation (Note 9)	1,442,714	2,558,000	2,760,399	3,947,391
Administration and operations	266,130	225,542	476,345	582,226
Professional fees	277,138	244,296	662,868	517,639
Rent (Note 3)	101,486	99,254	202,701	197,697
Directors' fees and expenses	58,406	81,906	130,876	177,732
Custody fees	13,981	11,127	27,774	21,982
Depreciation	14,172	14,645	27,896	28,598
Interest and other debt expenses	5,874	12,064	11,705	23,840
Total expenses	2,179,901	3,246,834	4,300,564	5,497,105
Net operating loss	(1,989,938 )	(3,275,280 )	(3,925,511 )	(5,364,661 )
Net realized gain (loss):				
Realized gain (loss) from investments:				
Unaffiliated companies	105,313	0	105,313	476,887
Non-Controlled affiliated companies	0	(16,195 )	(4,236,033 )	11,421
Publicly traded companies	7,651,057	670,879	8,544,061	670,879
Written call options	(150,710 )	213,338	(126,762 )	378,338
Purchased put options	(15,127 )	0	(72,209 )	0
Realized gain from investments	7,590,533	868,022	4,214,370	1,537,525
Income tax expense (Note 10)	161	0	22,171	8,075
Net realized gain from investments	7,590,372	868,022	4,192,199	1,529,450
Net increase (decrease) in unrealized appreciation on investments:				
Change as a result of investment sales	(5,417,562 )	(670,879 )	(1,883,212 )	(670,879 )



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Change on investments held	4,322,073	1,543,565	3,935,917	8,764,536
Change on written call options	(400,184 )	(371,347 )	(274,824 )	(584,182 )
Net (decrease) increase in unrealized appreciation on investments	(1,495,673 )	501,339	1,777,881	7,509,475
Net realized and unrealized gains on investments	6,094,699	1,369,361	5,970,080	9,038,925
Net increase (decrease) in net assets resulting from operations:				
Total	\$ 4,104,761	\$ (1,905,919 )	\$ 2,044,569	\$ 3,674,264
Per average basic and diluted outstanding share	\$ 0.13	\$ (0.06 )	\$ 0.07	\$ 0.12
Average outstanding shares – basic and diluted	31,118,358	31,000,601	31,117,624	31,000,601

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

**HARRIS & HARRIS GROUP, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net increase (decrease) resulting from operations	\$ 4,104,761	\$ (1,905,919 )	\$ 2,044,569	\$ 3,674,264
Other comprehensive income:				
Prior service cost (Note 8)	0	0	1,101,338	0
Amortization of prior service cost	(43,538 )	0	(87,076 )	0
Other comprehensive (loss) income	(43,538 )	0	1,014,262	0
Comprehensive income (loss)	\$ 4,061,223	\$ (1,905,919 )	\$ 3,058,831	\$ 3,674,264

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

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

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Cash flows used in operating activities:		
Net increase in net assets resulting from operations	\$ 2,044,569	\$ 3,674,264
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:		
Net realized gain and unrealized appreciation on investments	(5,992,251 )	(9,047,000 )
Depreciation of fixed assets, amortization of premium or discount on U.S. government securities, and bridge note interest	(138,475 )	103,547
Stock-based compensation expense	630,201	1,985,119
Purchase of U.S. government securities	(55,998,943 )	0
Sale of U.S. government securities	56,000,000	0
Purchase of affiliated portfolio companies	(6,429,843 )	(5,368,669 )
Purchase of unaffiliated portfolio companies	(678,307 )	(874,530 )
Principal payments received on debt investments	627,773	203,962
Proceeds from sale of investments	13,161,839	1,844,152
Proceeds from call option premiums	844,498	2,324,314
Payments for put and call option purchases	(309,578 )	(1,334,370 )
Changes in assets and liabilities:		
Restricted funds	(10 )	(497,974 )
Receivable from sales of investments	(3,783,586 )	0
Receivable from portfolio company	19,670	10,990
Interest receivable	32,942	6,835
Prepaid expenses	(143,923 )	213,391
Other assets	0	(525 )
Post retirement plan liabilities	(36,103 )	105,248
Accounts payable and accrued liabilities	50,120	75,398
Deferred rent	(18,959 )	(15,704 )
Net cash used in operating activities	(118,366 )	(6,591,552 )
Cash flows from investing activities:		
Purchase of fixed assets	(3,909 )	(15,516 )
Net cash used in investing activities	(3,909 )	(15,516 )
Cash flows from financing activities:		
Payment of withholdings related to net settlement of restricted stock	(61,917 )	0
Proceeds from drawdown of credit facility	0	500,000

Net cash (used in) provided by financing activities	(61,917	)	500,000
Net decrease in cash	\$ (184,192	)	\$ (6,107,068 )
Cash at beginning of the period	8,379,111		33,841,394
Cash at end of the period	\$ 8,194,919		\$ 27,734,326
Supplemental disclosures of cash flow information:			
Income taxes paid	\$ 22,171		\$ 8,075
Interest paid	\$ 0		\$ 13,405

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

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

	Six Months Ended June 30, 2013 (Unaudited)	Year Ended December 31, 2012
Changes in net assets from operations:		
Net operating loss	\$ (3,925,511	) \$ (8,803,343
Net realized gain on investments	4,192,199	2,406,433
Net decrease in unrealized appreciation on investments as a result of sales	(1,883,212	) (1,427,730
Net increase (decrease) in unrealized appreciation on investments held	3,935,917	(12,049,760
Net decrease in unrealized appreciation on written call options	(274,824	) (112,500
Net increase (decrease) in net assets resulting from operations	2,044,569	(19,986,900
Changes in net assets from capital stock transactions:		
Acquisition of vested restricted stock awards to pay required employee withholding	(61,917	) (203,676
Stock-based compensation expense	630,201	2,928,943
Net increase in net assets resulting from capital stock transactions	568,284	2,725,267
Changes in net assets from accumulated other comprehensive income:		
Other comprehensive income	1,014,262	0
Net increase in net assets resulting from accumulated other comprehensive income	1,014,262	0
Net increase (decrease) in net assets	3,627,115	(17,261,633
Net Assets:		
Beginning of the period	128,436,774	145,698,407
End of the period	\$ 132,063,889	\$ 128,436,774

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



**HARRIS & HARRIS GROUP, INC.**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2013**  
**(Unaudited)**

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Unaffiliated Companies (3) – 32.7% of net assets at value					
Private Placement Portfolio (Illiquid) (4) – 22.3% of net assets at value					
Bridgelux, Inc. (7)(8)(10)					
Manufacturing high-power light emitting diodes (LEDs) and arrays					
Series B Convertible Preferred Stock	(M)		\$1,000,000	1,861,504	\$1,494,464
Series C Convertible Preferred Stock	(M)		1,352,196	2,130,699	1,898,508
Series D Convertible Preferred Stock	(M)		1,371,622	999,999	1,284,225
Series E Convertible Preferred Stock	(M)		672,599	440,334	654,788
Series E-1 Convertible Preferred Stock	(M)		534,482	399,579	480,234
Warrants for Series C Convertible Preferred Stock expiring 12/31/14	(I)		168,270	163,900	79,600
Warrants for Series D Convertible Preferred Stock expiring 8/26/14	(I)		88,531	124,999	63,010
Warrants for Series D Convertible Preferred Stock expiring 3/10/15	(I)		40,012	41,666	25,498
Warrants for Series E Convertible Preferred Stock expiring 12/31/17	(I)		93,969	170,823	182,578
Warrants for Common Stock expiring 6/1/16	(I)		72,668	132,100	4,095
Warrants for Common Stock expiring 10/21/18	(I)		18,816	84,846	5,051
			5,413,165		6,172,051
Cambrios Technologies Corporation (7)(9)(10)					
Developing nanowire-enabled electronic materials for the display industry					
Series B Convertible Preferred Stock	(M)		1,294,025	1,294,025	700,454
Series C Convertible Preferred Stock	(M)		1,300,000	1,300,000	703,688
Series D Convertible Preferred Stock	(M)		515,756	515,756	870,338
Series D-2 Convertible Preferred Stock	(M)		92,400	92,400	86,625
Series D-4 Convertible Preferred Stock	(M)		216,168	216,168	202,658
			3,418,349		2,563,763
Cobalt Technologies, Inc. (7)(9)(11)					
Developing processes for making bio-butanol through biomass fermentation					
Series C-1 Convertible Preferred Stock	(M)		749,998	352,112	939,188

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Series D-1 Convertible Preferred Stock	(M)	122,070	48,828	141,538
Series E-1 Convertible Preferred Stock	(M)	114,938	46,089	112,843
Warrants for Series E-1 Pref. Stock expiring on 10/9/22	(I)	2,781	1,407	3,112
Warrants for Series E-1 Pref. Stock expiring on 3/11/23	(I)	5,355	2,707	6,040
		995,142		1,202,721

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



**HARRIS & HARRIS GROUP, INC.**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2013**  
**(Unaudited)**

	Method of Valuation (1)	Primary Industry (2)	Shares/ Cost	Principal	Value
Investments in Unaffiliated Companies (3) – 32.7% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (4) – 22.3% of net assets at value (Cont.)					
Ensemble Therapeutics Corporation (7)(9)(12) Developing DNA-Programmed Chemistry™ for the discovery of new classes of therapeutics					
Series B Convertible Preferred Stock	(M)	Life Sciences	\$2,000,000	1,449,275	\$192,899
Secured Convertible Bridge Note, 8%, acquired 9/11/08	(M)		346,477	\$250,211	1,592,052
Secured Convertible Bridge Note, 8%, acquired 12/10/09	(M)		62,796	\$48,868	306,067
Secured Convertible Bridge Note, 8%, acquired 1/25/12	(M)		121,974	\$109,400	666,579
Secured Convertible Bridge Note, 8%, acquired 3/28/13	(M)		75,152	\$73,598	441,530
Secured Convertible Bridge Note, 8%, acquired 6/24/13	(M)		25,807	\$25,759	154,039
			2,632,206		3,353,166
GEO Semiconductor Inc.					
Developing programmable, high-performance video and geometry processing solutions Participation Agreement with Montage Capital relating to the following assets:					
Warrants for Series A Pref. Stock expiring on 9/17/17	(I)	Electronics	66,684	100,000	85,257
Warrants for Series A-1 Pref. Stock expiring on 6/30/18	(I)		23,566	34,500	29,979
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	8,239
Warrants for Series A-1 Pref. Stock expiring on 6/29/18	(I)		7,546	10,000	8,268
			105,308		131,743
Mersana Therapeutics, Inc. (7)(9)(13)					
		Life Sciences			

Developing treatments for cancer based on novel drug delivery polymers

Series A-1 Convertible Preferred Stock	(M)	316,453	294,019	316,453
Common Stock	(M)	3,875,395	350,539	108,667
		4,191,848		425,120

Molecular Imprints, Inc. (7)(10)(14)

Electronics

Manufacturing nanoimprint lithography capital equipment

Series B Convertible Preferred Stock	(M)	2,000,000	1,333,333	1,789,108
Series C Convertible Preferred Stock	(M)	2,406,595	1,285,071	2,138,498
Non-Convertible Bridge Note	( I )	0	\$0	3,033,338
		4,406,595		6,960,944

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

**HARRIS & HARRIS GROUP, INC.**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2013**  
**(Unaudited)**

	Method of Valuation (1)	Primary Industry (2)	Shares/ Cost	Principal	Value
Investments in Unaffiliated Companies (3) – 32.7% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (4) – 22.3% of net assets at value (Cont.)					
Nanosys, Inc. (7)		Energy			
Developing inorganic nanowires and quantum dots for use in LED-backlit devices					
Series C Convertible Preferred Stock	(M)		\$ 1,500,000	803,428	\$ 185,701
Series D Convertible Preferred Stock	(M)		3,000,003	1,016,950	2,815,752
Series E Convertible Preferred Stock	(M)		496,573	433,688	699,113
Unsecured Convertible Bridge Note, 4%, acquired 7/16/12	(M)		45,502	\$43,821	249,595
			5,042,078		3,950,161
Nano Terra, Inc. (9)		Energy			
Developing surface chemistry and nano-manufacturing solutions					
Senior secured debt, 12.0%, maturing on 12/1/15	(I)		844,991	\$ 880,394	861,700
Warrants for Series A-2 Pref. Stock expiring on 2/22/21	(I)		69,168	446,248	65,351
Warrants for Series C Pref. Stock expiring on 11/15/22	(I)		35,403	241,662	34,909
			949,562		961,960
Nantero, Inc. (7)(9)(10)		Electronics			
Developing a high-density, nonvolatile, random access memory chip, enabled by carbon nanotubes					
Series A Convertible Preferred Stock	(M)		489,999	345,070	1,349,224
Series B Convertible Preferred Stock	(M)		323,000	207,051	809,569
Series C Convertible Preferred Stock	(M)		571,329	188,315	736,312
Series D Convertible Preferred Stock	(M)		139,075	35,569	139,075
			1,523,403		3,034,180
OHSO Clean, Inc. (15)		Life Sciences			
Developing natural, hypoallergenic household cleaning products enabled by					

nanotechnology-enabled formulations of thyme  
oil

Participation Agreement with Montage Capital  
relating to the following assets:

Senior secured debt, 13.00%, maturing on 3/31/15	( I )	575,464	\$675,840	624,200
Warrants for Series C Pref. Stock expiring on 3/30/22	( I )	91,742	1,109,333	68,677
		667,206		692,877
Total Unaffiliated Private Placement Portfolio (cost: \$29,344,862)				\$29,448,686

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

**HARRIS & HARRIS GROUP, INC.**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2013**  
**(Unaudited)**

	Method of Valuation (1)	Primary Industry (2)	Shares/ Cost	Principal	Value
Rights to Milestone Payments (Illiquid) (5) – 2.6% of net assets at value					
Amgen, Inc. (7)(10)		Life Sciences			
Rights to Milestone Payments from Acquisition of BioVex Group, Inc.	(I)		\$3,291,750	\$3,291,750	\$3,383,720
Laird Technologies, Inc. (7)(10)		Energy			
Rights to Milestone Payments from Merger & Acquisition of Nextreme Thermal Solutions, Inc.	(I)		0	0	0
Total Unaffiliated Rights to Milestone Payments (cost: \$3,291,750)					\$3,383,720
Publicly Traded Portfolio (6) – 7.9% of net assets at value					
Solazyme, Inc. (10)(16)		Energy			
Developing algal biodiesel, industrial chemicals and specialty ingredients using synthetic biology					
Common Stock	(M)		\$1,370,595	580,000	\$6,797,600
Champions Oncology, Inc. (10)(17)		Life Sciences			
Developing its TumorGraft™ platform for personalized medicine and drug development					
Common Stock	(M)		2,199,600	3,293,190	3,601,207
Warrants for Common Stock expiring 1/29/18	(I)		400	40,000	17,826
			2,200,000		3,619,033
Total Unaffiliated Publicly Traded Portfolio (cost: \$3,570,595)					\$10,416,633
Total Investments in Unaffiliated Companies (cost: \$36,207,207)					\$43,249,039

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



## HARRIS &amp; HARRIS GROUP, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2013

(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 46.6% of net assets at value					
Private Placement Portfolio (Illiquid) (18) – 46.6% of net assets at value					
ABSMaterials, Inc. (7)(9)					
Developing nano-structured absorbent materials for environmental remediation					
Series A Convertible Preferred Stock	(M)	Energy	\$435,000	390,000	\$143,364
Unsecured Convertible Bridge Note, 8%, acquired 10/1/12	(M)		211,967	\$200,000	235,470
			646,967		378,834
Adesto Technologies Corporation (7)(9)					
Developing low-power, high-performance memory devices					
Series A Convertible Preferred Stock	(M)	Electronics	2,200,000	6,547,619	4,474,625
Series B Convertible Preferred Stock	(M)		2,200,000	5,952,381	4,117,841
Series C Convertible Preferred Stock	(M)		1,485,531	2,122,187	1,643,416
Series D Convertible Preferred Stock	(M)		1,393,147	1,466,470	1,227,285
Subordinated Convertible Bridge Note, 8%, acquired 1/17/13	(M)		696,375	\$672,070	696,375
			7,975,053		12,159,542
AgBiome, LLC (formerly AgInnovation, LLC) (7)(9)(10)(19)					
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	(M)	Life Sciences	2,000,000	2,000,000	2,500,000
Series A-2 Convertible Preferred Stock	(M)		260,870	208,696	260,870
			2,260,870		2,760,870

Contour Energy Systems, Inc. (7)(9)(10)		Energy		
Developing batteries using nano-structured materials				
Series A Convertible Preferred Stock	(M)	2,009,995	2,565,798	41,895
Series B Convertible Preferred Stock	(M)	1,300,000	812,500	19,297
Series C Convertible Preferred Stock	(M)	1,200,000	1,148,325	578,342
		4,509,995		639,534

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



## HARRIS &amp; HARRIS GROUP, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2013

(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 46.6% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (18) – 46.6% of net assets at value (Cont.)					
D-Wave Systems, Inc. (7)(9)(10)(20) Developing high-performance quantum computing systems		Electronics			
Series 1 Class B Convertible Preferred Stock	(M)		\$ 1,002,074	1,144,869	\$ 1,414,829
Series 1 Class C Convertible Preferred Stock	(M)		487,804	450,450	556,666
Series 1 Class D Convertible Preferred Stock	(M)		748,473	855,131	1,056,771
Series 1 Class E Convertible Preferred Stock	(M)		248,049	269,280	332,776
Series 1 Class F Convertible Preferred Stock	(M)		238,323	258,721	319,727
Series 2 Class D Convertible Preferred Stock	(M)		736,019	678,264	838,199
Series 2 Class E Convertible Preferred Stock	(M)		659,493	513,900	635,078
Series 2 Class F Convertible Preferred Stock	(M)		633,631	493,747	610,172
Warrants for Common Stock expiring 6/30/15	( I )		98,644	153,890	45,794
			4,852,510		5,810,012
EchoPixel, Inc. (7)(9)(10)(21) Developing algorithms and software to improve visualization of data for life science and healthcare applications		Life Sciences			
Series Seed Convertible Preferred Stock	(M)		750,000	2,516,778	750,000
Enumeral Biomedical Corp. (7)(9)(10) Developing therapeutics and diagnostics through functional assaying of single cells		Life Sciences			
Series A Convertible Preferred Stock	(M)		1,026,832	957,038	1,478,450
Series A-1 Convertible Preferred Stock	(M)		750,000	576,923	836,538
Series A-2 Convertible Preferred Stock	(M)		750,000	517,241	750,000
			2,526,832		3,064,988
HzO, Inc. (7)(9)		Electronics			

Developing novel industrial coatings that protect electronics against damage from liquids

Series A Convertible Preferred Stock	(M)	666,667	4,057,294	1,027,713
Series B Convertible Preferred Stock	(M)	3,565,338	14,230,331	3,604,543
		4,232,005		4,632,256

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

## HARRIS &amp; HARRIS GROUP, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2013

(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 46.6% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (18) – 46.6% of net assets at value (Cont.)					
Kovio, Inc. (7)(9)					
Developing semiconductor products using printed electronics and thin-film technologies					
Series A' Convertible Preferred Stock	(M)		\$5,242,993	2,160,000	\$89,830
Series B' Convertible Preferred Stock	(M)		2,006,540	3,015,493	183,417
Secured Subordinated Convertible Bridge Note, 7%, acquired 6/7/13	(M)		50,230	\$50,000	162,730
			7,299,763		435,977
Metabolon, Inc. (7)(10)					
Developing service and diagnostic products through the use of a metabolomics, or biochemical, profiling platform					
Series B Convertible Preferred Stock	(M)		2,500,000	371,739	1,951,723
Series B-1 Convertible Preferred Stock	(M)		706,214	148,696	780,689
Series C Convertible Preferred Stock	(M)		1,000,000	1,000,000	1,794,510
Series D Convertible Preferred Stock	(M)		1,499,999	835,882	1,499,999
Warrants for Series B-1 Convertible Preferred Stock expiring 3/25/15	(I)		293,786	74,348	71,217
			5,999,999		6,098,138
OpGen, Inc. (7)(10)					
Developing tools for genomic sequence assembly and analysis					
Series C Convertible Preferred Stock	(M)		3,260,000	23,623,188	407,500

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Produced Water Absorbents, Inc. (7)(9)(10)		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	132,738
Series B Convertible Preferred Stock	(M)		648,000	2,592,000	765,262
			1,648,000		898,000
Senova Systems, Inc. (7)(9)		Life Sciences			
Developing next-generation sensors to measure pH					
Series B Convertible Preferred Stock	(M)		1,218,462	1,350,000	540,000
Secured Convertible Bridge Note, 10%, acquired 4/24/13	(M)		81,863	\$80,000	101,863
Secured Convertible Bridge Note, 10%, acquired 6/20/13	(M)		113,978	\$113,636	113,978
Warrants for Series B Preferred Stock expiring 10/15/17	(I)		131,538	164,423	65,753
Warrants for Series B Preferred Stock expiring 4/24/18	(I)		20,000	25,000	9,997
			1,565,841		831,591

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

HARRIS &amp; HARRIS GROUP, INC.

**CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2013****(Unaudited)**

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 46.6% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (18) – 46.6% of net assets at value (Cont.)					
SiOnyx, Inc. (7)(9)(10)		Electronics			
Developing silicon-based optoelectronic products enabled by its proprietary Black Silicon					
Series A Convertible Preferred Stock	(M)		\$750,000	233,499	\$160,367
Series A-1 Convertible Preferred Stock	(M)		890,000	2,966,667	2,037,507
Series A-2 Convertible Preferred Stock	(M)		2,445,000	4,207,537	2,889,736
Series B-1 Convertible Preferred Stock	(M)		1,169,561	1,892,836	1,300,000
Series C Convertible Preferred Stock	(M)		1,171,316	1,674,030	1,255,523
Warrants for Series B-1 Convertible Preferred Stock expiring 2/23/17	(I)		130,439	247,350	50,110
Warrants for Common Stock expiring 3/28/17	(I)		84,207	418,507	32,096
			6,640,523		7,725,339
Ultora, Inc. (7)(9)		Energy			
Developing energy-storage devices enabled by carbon nanotubes					
Series A Convertible Preferred Stock	(M)		886,830	886,830	886,830
Xradia, Inc. (7)(10)(22)		Electronics			
Designing, manufacturing and selling ultra- high resolution 3D x-ray microscopes and fluorescence imaging systems					
Series D Convertible Preferred Stock	(M)		4,000,000	3,121,099	14,005,871
Total Non-Controlled Private Placement Portfolio (cost: \$59,055,188)					\$61,485,282
Total Investments in Non-Controlled Affiliated Companies (cost: \$59,055,188)					\$61,485,282

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

## HARRIS &amp; HARRIS GROUP, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2013

(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Controlled Affiliated Companies (3) – 3.0% of net assets at value					
Private Placement Portfolio (Illiquid) (23) – 3.0% of net assets at value					
Ancora Pharmaceuticals Inc. (7)(9)					
Developing synthetic carbohydrates for pharmaceutical applications					
Life Sciences					
Common Stock	(I)		\$2,729,817	57,463	\$0
Series A' Convertible Preferred Stock	(I)		4,855,627	4,855,627	1,321,993
Senior Secured Debt, 12.00%, maturing on 12/11/13	(I)		470,604	\$500,000	583,554
Secured Convertible Bridge Note, 8%, acquired 1/23/13	(M)		362,197	\$350,000	406,265
Secured Convertible Bridge Note, 8%, acquired 4/25/13	(M)		304,405	\$300,000	341,537
			8,722,650		2,653,349
Laser Light Engines, Inc. (7)(9)					
Manufacturing solid-state light sources for digital cinema and large-venue projection displays					
Energy					
Series A Convertible Preferred Stock	(M)		2,000,000	7,499,062	0
Series B Convertible Preferred Stock	(M)		3,095,802	13,571,848	0
Secured Convertible Bridge Note, 12%, acquired 10/7/11	(M)		241,622	\$200,000	241,622
Secured Convertible Bridge Note, 12%, acquired 11/17/11	(M)		114,269	\$95,652	114,269
Secured Convertible Bridge Note, 12%, acquired 12/21/11	(M)		97,764	\$82,609	97,764
Secured Convertible Bridge Note, 12%, acquired 3/5/12	(M)		503,825	\$434,784	503,825
Secured Convertible Bridge Note, 12%, acquired 7/26/12	(M)		207,853	\$186,955	207,853
Secured Convertible Bridge Note, 20%, acquired 4/29/13	(M)		172,420	\$166,667	172,420

Total Controlled Private Placement Portfolio (cost: \$15,156,205)	6,433,555	1,337,753
Total Investments in Controlled Affiliated Companies (cost: \$15,156,205)		\$3,991,102
Total Private Placement and Publicly Traded Portfolio (cost: \$110,418,600)		\$108,725,423

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



## HARRIS &amp; HARRIS GROUP, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2013

(Unaudited)

	Method of Valuation (1)	Cost	Shares/ Principal	Value
U.S. Government Securities (24) – 10.6% of net assets at value				
U.S. Treasury Bill — due date 07/18/13	(M)	\$13,999,865	\$14,000,000	\$13,999,860
Total Investments in U.S. Government Securities (cost: \$13,999,865)				\$13,999,860
Total Investments (cost: \$124,418,465)				\$122,725,283

	Method of Valuation (1)	Number of Contracts	Value
Written Call Options (21) – (0.06)% of net assets at value			
Solazyme, Inc. — Strike Price \$10.00, September 21, 2013	(M)	3,300	\$(627,000)
Solazyme, Inc. — Strike Price \$12.50, September 21, 2013	(M)	1,500	(99,000 )
Solazyme, Inc. — Strike Price \$15.00, September 21, 2013	(M)	1,000	(20,000 )
Total Written Call Options (Premiums Received \$478,676)			\$(746,000)

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2013

(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."

(2) We classify "Energy" companies as those that seek to improve performance, productivity or efficiency, and to reduce environmental impact, waste, cost, energy consumption or raw materials using nanotechnology-enabled solutions. We classify "Electronics" companies as those that use nanotechnology to address problems in electronics-related industries, including semiconductors. We classify "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 \$29,344,862. The gross unrealized appreciation based on the tax cost for these securities is \$5,817,055. The gross unrealized depreciation based on the tax cost for these securities is \$5,713,231.

(5) The aggregate cost for federal income tax purposes of investments in unaffiliated rights to milestone payments is \$3,291,750. The gross unrealized appreciation based on the tax cost for these securities is \$91,970. The gross unrealized depreciation based on the tax cost for these securities is \$0.

(6) The aggregate cost for federal income tax purposes of investments in unaffiliated publicly traded companies is \$3,570,595. The gross unrealized appreciation based on the tax cost for these securities is \$6,846,038. The gross unrealized depreciation based on the tax cost for these securities is \$0.

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

With the conversion of our bridge note into shares of Series E-1 Preferred Stock, we received a warrant to purchase shares of common stock at \$0.25 per share. The number of shares is determined by certain financial targets for (8) 2012 set upon receipt of the audited financial statements for 2012. While the audited financial statements have been issued, there is a 30-day notice period before the warrants can be issued. The notice period expired on August 7, 2013. Therefore, the warrant remained contingent as of June 30, 2013.

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

(10) 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.

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2013

(Unaudited)

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

(12) With our investments in convertible bridge notes issued by Ensemble Therapeutics Corporation, we received warrants to purchase a number of shares of the class of stock sold in the next financing of Ensemble Therapeutics Corporation equal to \$128,813 divided by the price per share of the class of stock sold in the next financing of Ensemble Therapeutics Corporation. The ability to exercise these warrants is, therefore, contingent on Ensemble Therapeutics Corporation completing successfully a subsequent round of financing. These warrants shall expire and no longer be exercisable on dates ranging from September 10, 2015, through June 24, 2020. The cost basis of these warrants is \$152.59.

(13) With our investment in the Mersana Therapeutics, Inc., Series A-1 financing, we received a warrant to purchase 277,760 shares of Series A-2 Convertible Preferred Stock. The ability to exercise the warrant is contingent upon Mersana's achievement of certain milestones. Mersana has not achieved those milestones as of June 30, 2013, and, therefore, this warrant is a contingent asset as of that date. The warrant will expire on July 27, 2022.

(14) As part of a loan the Company made to Molecular Imprints in the second quarter of 2011, we received a liquidation preference payable upon a sale of the company equal to three times the principal of the loan, or \$4,044,450. This preference is senior to the preferences of the outstanding preferred stock. While the loan has since been repaid, this liquidation preference remains outstanding as of June 30, 2013.

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

(16) A portion of this security is held in connection with written call option contracts: 580,000 shares, having a fair value of \$6,675,000, have been pledged to brokers.

(17) As of June 30, 2013, we owned a total of 3,293,190 shares of Champions Oncology, Inc.; 626,523 of these shares are subject to legal restrictions on their sale. Our remaining 2,666,667 shares of common stock of Champions are not subject to legal restrictions on their sale.

(18) The aggregate cost for federal income tax purposes of investments in non-controlled affiliated privately held companies is \$59,055,188. The gross unrealized appreciation based on the tax cost for these securities is \$17,769,224. The gross unrealized depreciation based on the tax cost for these securities is \$15,339,130.

(19) On January 29, 2013, AgInnovation, LLC, changed its name to AgBiome, LLC.

D-Wave Systems, Inc., is located and is doing business primarily in Canada. We invested in D-Wave Systems, (20) Inc., through Parallel Universes, Inc., a Delaware company. Our investment is denominated in Canadian dollars and is subject to foreign currency translation. See "Note 3. Summary of Significant Accounting Policies."

(21) Initial investment was made in 2013.

On July 12, 2013, Xradia was acquired by Carl Zeiss AG, and on July 19, 2013, we received an initial payment of (22) \$12,838,244 from this sale. Additional proceeds of \$2,374,827 are held in escrow to be released in whole, or in part, in January and July of 2014. The amounts held in escrow would be reduced by any claims submitted during the escrow period. See "Note 13. Subsequent Events."

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2013

(Unaudited)

The aggregate cost for federal income tax purposes of investments in controlled affiliated companies is (23) \$15,156,205. 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 \$11,165,103.

The aggregate cost for federal income tax purposes of our U.S. government securities is \$13,999,865. The gross (24) unrealized appreciation on the tax cost for these securities is \$0. The gross unrealized depreciation on the tax cost of these securities is \$5.

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

HARRIS &amp; HARRIS GROUP, INC.

**CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2012**

	<b>Method of Valuation (1)</b>	<b>Primary Industry (2)</b>	<b>Shares/ Cost</b>	<b>Principal</b>	<b>Value</b>
<b>Investments in Unaffiliated Companies (3)</b>					
—					
<b>33.3% of net assets at value</b>					
<b>Private Placement Portfolio (Illiquid) (4) –</b>					
<b>19.4% of net assets at value</b>					
Bridgelux, Inc. (7)(8)					
Manufacturing high-power light emitting diodes (LEDs) and arrays					
Energy					
Series B Convertible Preferred Stock	(M)		\$1,000,000	1,861,504	\$426,744
Series C Convertible Preferred Stock	(M)		1,352,196	2,130,699	488,456
Series D Convertible Preferred Stock	(M)		1,371,622	999,999	356,865
Series E Convertible Preferred Stock	(M)		672,599	440,334	520,495
Series E-1 Convertible Preferred Stock	(M)		534,482	399,579	368,251
Warrants for Series C Convertible Preferred Stock expiring 12/31/14	(I)		168,270	163,900	11,210
Warrants for Series D Convertible Preferred Stock expiring 8/26/14	(I)		88,531	124,999	8,295
Warrants for Series D Convertible Preferred Stock expiring 3/10/15	(I)		40,012	41,666	3,976
Warrants for Series E Convertible Preferred Stock expiring 12/31/17	(I)		93,969	170,823	144,181
Warrants for Common Stock expiring 6/1/16	(I)		72,668	132,100	3,308
Warrants for Common Stock expiring 10/21/18	(I)		18,816	84,846	3,800
			5,413,165		2,335,581
Cambrios Technologies Corporation					
(7)(9)(10)					
Developing nanowire-enabled electronic materials for the display industry					
Electronics					
Series B Convertible Preferred Stock	(M)		1,294,025	1,294,025	700,454
Series C Convertible Preferred Stock	(M)		1,300,000	1,300,000	703,688
Series D Convertible Preferred Stock	(M)		515,756	515,756	870,338
Series D-2 Convertible Preferred Stock	(M)		92,400	92,400	86,625
Series D-4 Convertible Preferred Stock	(M)		216,168	216,168	202,658
			3,418,349		2,563,763

Cobalt Technologies, Inc. (7)(9)(11) Developing processes for making bio- butanol through biomass fermentation		Energy			
Series C-1 Convertible Preferred Stock	(M)		749,998	352,112	933,802
Series D-1 Convertible Preferred Stock	(M)		122,070	48,828	140,664
Series E-1 Convertible Preferred Stock	(M)		42,328	16,890	41,143
Secured Convertible Bridge Note, 10%, acquired 5/25/12	(M)		47,828	\$45,097	47,828
Warrants for Series E-1 Pref. Stock expiring on 10/9/22	(I)		2,781	1,407	3,116
			965,005		1,166,553

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, 2012**

	<b>Method of Valuation (1)</b>	<b>Primary Industry (2)</b>	<b>Cost</b>	<b>Shares/ Principal</b>	<b>Value</b>
<b>Investments in Unaffiliated Companies</b>					
<b>(3) –</b>					
<b>33.3% of net assets at value (Cont.)</b>					
<b>Private Placement Portfolio (Illiquid) (4) –</b>					
<b>19.4% of net assets at value (Cont.)</b>					
Ensemble Therapeutics Corporation (7)(9)(12) Developing DNA-Programmed Chemistry™ for the discovery of new classes of therapeutics		Life Sciences			
Series B Convertible Preferred Stock	(M)		\$2,000,000	1,449,275	\$0
Secured Convertible Bridge Note, 8%, acquired 9/11/08	(M)		336,550	\$250,211	1,563,344
Secured Convertible Bridge Note, 8%, acquired 12/10/09	(M)		60,858	\$48,868	300,461
Secured Convertible Bridge Note, 8%, acquired 1/25/12	(M)		117,634	\$109,400	654,027
			2,515,042		2,517,832
GEO Semiconductor Inc. (13) Developing programmable, high-performance video and geometry processing solutions Participation Agreement with Montage Capital relating to the following assets:		Electronics			
Senior secured debt, 13.75%, maturing on 1/15/13	(I)		285,125	\$375,801	347,830
Warrants for Series A Pref. Stock expiring on 9/17/17	(I)		66,684	100,000	79,796
Warrants for Series A-1 Pref. Stock expiring on 6/30/18	(I)		23,566	34,500	28,013
Loan and Security Agreement with GEO Semiconductor relating to the following assets:					
Subordinated secured debt, 15.75%, maturing on 1/15/13	(I)		109,574	\$125,000	120,410
Warrants for Series A Pref. Stock expiring on 3/1/18	(I)		7,512	10,000	7,511

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Warrants for Series A-1 Pref. Stock expiring on 6/29/18	( I )	7,546	10,000	7,535
		500,007		591,095
Mersana Therapeutics, Inc. (7)(9)(14)				
Developing treatments for cancer based on novel drug delivery polymers				
Series A-1 Convertible Preferred Stock	(M)	316,453	294,019	316,453
Common Stock	(M)	3,875,395	350,539	108,667
		4,191,848		425,120
Molecular Imprints, Inc. (7)(10)(15)				
Manufacturing nanoimprint lithography capital equipment				
Series B Convertible Preferred Stock	(M)	2,000,000	1,333,333	1,789,108
Series C Convertible Preferred Stock	(M)	2,406,595	1,285,071	2,138,498
Non-Convertible Bridge Note	( I )	0	\$0	3,033,338
		4,406,595		6,960,944

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, 2012**

	<b>Method of Valuation (1)</b>	<b>Primary Industry (2)</b>	<b>Cost</b>	<b>Shares/ Principal</b>	<b>Value</b>
<b>Investments in Unaffiliated Companies</b>					
<b>(3) –</b>					
<b>33.3% of net assets at value (Cont.)</b>					
<b>Private Placement Portfolio (Illiquid) (4)</b>					
<b>–</b>					
<b>19.4% of net assets at value (Cont.)</b>					
Nanosys, Inc. (7)					
Developing inorganic nanowires and quantum dots for use in LED-backlit devices					
Series C Convertible Preferred Stock	(M)	Energy	\$1,500,000	803,428	\$186,032
Series D Convertible Preferred Stock	(M)		3,000,003	1,016,950	2,814,423
Series E Convertible Preferred Stock	(M)		496,573	433,688	698,783
Unsecured Convertible Bridge Note, 4%, acquired 7/16/12	(M)		44,633	\$43,821	249,067
			5,041,209		3,948,305
Nano Terra, Inc. (9)					
Developing surface chemistry and nano-manufacturing solutions					
Senior secured debt, 12.0%, maturing on 12/1/15	(I)	Energy	614,597	\$650,000	622,600
Warrants for Series A-2 Pref. Stock expiring on 2/22/21	(I)		69,168	446,248	66,003
Warrants for Series C Pref. Stock expiring on 11/15/22	(I)		35,403	241,662	35,271
			719,168		723,874
Nantero, Inc. (7)(9)(10)					
Developing a high-density, nonvolatile, random access memory chip, enabled by carbon nanotubes					
Series A Convertible Preferred Stock	(M)	Electronics	489,999	345,070	1,349,224
Series B Convertible Preferred Stock	(M)		323,000	207,051	809,569
Series C Convertible Preferred Stock	(M)		571,329	188,315	736,312
Series D Convertible Preferred Stock	(M)		139,075	35,569	139,075

		1,523,403		3,034,180
OHSO Clean, Inc. (16)(17)			Life Sciences	
Developing natural, hypoallergenic household cleaning products enabled by nanotechnology- enabled formulations of thyme oil				
Participation Agreement with Montage Capital relating to the following assets:				
Senior secured debt, 13.00%, maturing on 3/31/15	( I )	580,025	\$683,200	615,750
Warrants for Series C Pref. Stock expiring on 3/30/22	( I )	91,742	1,109,333	66,759
		671,767		682,509
<b>Total Unaffiliated Private Placement Portfolio (cost: \$29,365,558)</b>				<b>\$24,949,756</b>

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, 2012**

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Rights to Milestone Payments (Illiquid) (5) – 2.7% of net assets at value					
Amgen, Inc. (7)(10) Rights to Milestone Payments from Acquisition of BioVex Group, Inc.	(I)	Life Sciences	\$3,291,750	\$3,291,750	\$3,400,734
Total Unaffiliated Rights to Milestone Payments (cost: \$3,291,750)					\$3,400,734
Publicly Traded Portfolio (6) – 11.2% of net assets at value					
NeoPhotonics Corporation (10)(18) Developing and manufacturing optical devices and components Common Stock	(M)	Electronics	\$821,971	50,807	\$291,632
Solazyme, Inc. (10)(19) Developing algal biodiesel, industrial chemicals and specialty ingredients using synthetic biology Common Stock	(M)	Energy	4,248,476	1,797,790	14,130,629
Total Unaffiliated Publicly Traded Portfolio (cost: \$5,070,447)					