

HARRIS & HARRIS GROUP INC /NY/
Form 10-Q
August 06, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2010

☐ 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
(State or Other Jurisdiction of
Incorporation or Organization)

13-3119827
(I.R.S. Employer Identification No.)

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

10018
(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 ☐

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(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 x

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

Class	Outstanding at August 6, 2010
Common Stock, \$0.01 par value per share	30,864,899 shares

Harris & Harris Group, Inc.
Form 10-Q, June 30, 2010

Page Number

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

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

Harris & Harris Group, Inc.® (the "Company," "us," "our" and "we"), is an internally managed venture capital company that has elected to operate as a business development company ("BDC") under the Investment Company Act of 1940 (the "1940 Act"). Certain information and disclosures normally included in the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted as permitted by Regulation S-X and Regulation S-K. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2009, contained in our Annual Report on Form 10-K for the year ended December 31, 2009.

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

June 30, 2010
(Unaudited)

December 31, 2009

ASSETS

Investments, in portfolio securities at value:

Unaffiliated privately held companies (cost: \$30,719,854 and \$26,977,200, respectively)	\$ 24,677,744	\$ 21,656,436
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Unaffiliated publicly traded securities (cost: \$0 and \$298,827, respectively)	0	226,395
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Non-controlled affiliated privately held companies (cost: \$59,493,753 and \$54,864,948, respectively)	61,463,821	50,297,220
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Controlled affiliated privately held companies (cost: \$7,871,243 and \$10,248,932, respectively)	5,898,432	5,843,430
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Total, investments in privately held and publicly traded securities at value (cost: \$98,084,850 and \$92,389,907, respectively)	\$ 92,039,997	\$ 78,023,481
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Investments, in U.S. Treasury obligations at value (cost: \$45,948,517 and \$55,960,024, respectively)	45,930,735	55,947,581
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Cash	2,553,490	1,611,465
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Restricted funds	2,000	2,000
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Receivable from portfolio company	0	28,247
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Interest receivable	4	25,832
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Prepaid expenses	241,485	94,129
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Other assets	691,725	376,366
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Total assets	\$ 141,459,436	\$ 136,109,101
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LIABILITIES & NET ASSETS

Post retirement plan liabilities	\$ 1,437,413	\$ 1,369,843
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Accounts payable and accrued liabilities	488,544	579,162
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Deferred rent	350,631	1,838
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Total liabilities	2,276,588	1,950,843
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Net assets	\$ 139,182,848	\$ 134,158,258
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Net assets are comprised of:

Preferred stock, \$0.10 par value, 2,000,000 shares authorized; none issued	\$ 0	\$ 0
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Common stock, \$0.01 par value, 45,000,000 shares authorized at 06/30/10 and 12/31/09; 32,693,639 issued at 06/30/10 and 32,688,333 issued at 12/31/09	326,937	326,884
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Additional paid in capital (Note 8)	207,162,971	205,977,117
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Accumulated net operating and realized loss	(58,838,894)	(54,361,343)
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Accumulated unrealized depreciation of investments	(6,062,635)	(14,378,869)
Treasury stock, at cost (1,828,740 shares at 06/30/10 and 12/31/09)	(3,405,531)	(3,405,531)
Net assets	\$ 139,182,848	\$ 134,158,258
Shares outstanding	30,864,899	30,859,593
Net asset value per outstanding share	\$ 4.51	\$ 4.35

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,	
	2010	2009	2010	2009
Investment income:				
Interest from:				
Fixed-income securities and bridge notes (Note 3)	\$ 123,208	\$ 75,084	\$ 196,281	\$ 39,185
Miscellaneous income	6,000	8,750	12,000	21,088
Total investment income	129,208	83,834	208,281	60,273
Expenses:				
Salaries, benefits and stock-based compensation (Note 6)	1,465,520	1,506,597	2,854,797	2,893,937
Administration and operations	228,246	231,161	510,768	521,596
Professional fees	176,866	152,291	420,235	367,541
Rent (Note 3)	89,145	78,998	166,360	157,061
Directors' fees and expenses	85,560	89,100	180,921	173,609
Custody fees	24,000	11,080	48,000	17,942
Depreciation	13,820	12,878	25,789	25,737
Lease termination costs (Note 3)	0	0	68,038	0
Total expenses	2,083,157	2,082,105	4,274,908	4,157,423
Net operating loss	(1,953,949)	(1,998,271)	(4,066,627)	(4,097,150)
Net realized gain (loss):				
Realized gain (loss) from investments:				
Unaffiliated companies	13,218	(1,511,042)	13,218	(1,514,330)
Non-Controlled affiliated companies	(257,007)	0	(257,007)	0
Publicly traded companies	(152,980)	0	(152,980)	0
U.S. Treasury obligations/other	0	0	(11,523)	(325)
Realized loss from investments	(396,769)	(1,511,042)	(408,292)	(1,514,655)
Income tax expense (Note 7)	0	1,729	2,632	2,109
Net realized loss	(396,769)	(1,512,771)	(410,924)	(1,516,764)
Net decrease in unrealized depreciation on investments:				
Change as a result of investment sales	222,319	1,511,042	222,319	1,511,042
Change on investments held	4,279,351	2,421,367	8,093,915	3,572,815
Net decrease in unrealized depreciation on investments	4,501,670	3,932,409	8,316,234	5,083,857
Net increase (decrease) in net assets resulting from operations	\$ 2,150,952	\$ 421,367	\$ 3,838,683	\$ (530,057)
Per average basic and diluted outstanding share	\$ 0.07	\$ 0.02	\$ 0.12	\$ (0.02)
Average outstanding shares	30,864,491	25,859,573	30,862,202	25,859,573

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, 2010	Six Months Ended June 30, 2009
Cash flows used in operating activities:		
Net increase (decrease) in net assets resulting from operations	\$ 3,838,683	\$ (530,057)
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash used in operating activities:		
Net realized and unrealized gain on investments	(7,907,942)	(3,569,202)
Depreciation of fixed assets, amortization of premium or discount on U.S. government securities, and bridge note interest	(142,420)	73,663
Stock-based compensation expense	1,214,938	1,411,917
Changes in assets and liabilities:		
Restricted funds	0	2,586
Receivable from portfolio company	28,247	0
Interest receivable	26,234	4,317
Prepaid expenses	(147,356)	252,454
Other assets	(264,374)	3,312
Post retirement plan liabilities	67,570	60,514
Accounts payable and accrued liabilities	(90,618)	(210,977)
Deferred rent	348,793	(3,151)
Net cash used in operating activities	(3,028,245)	(2,504,624)
Cash flows from investing activities:		
Purchase of U.S. government securities	(58,644,919)	(103,318,117)
Sale of U.S. government securities	68,646,697	109,851,434
Investments in affiliated portfolio companies	(5,469,691)	(3,052,065)
Investments in unaffiliated portfolio companies	(857,473)	(399,484)
Proceeds from conversion of bridge note	1,356	0
Proceeds from sale of investments	407,543	3,250
Purchase of fixed assets	(84,212)	(1,313)
Net cash provided by investing activities	3,999,301	3,083,705
Cash flows from financing activities:		
Proceeds from stock option exercises	19,897	0
Payment of offering costs	(48,928)	0
Net cash used in financing activities	(29,031)	0
Net decrease in cash:		
Cash at beginning of the period	1,611,465	692,309
Cash at end of the period.	2,553,490	1,271,390
Net increase in cash	\$ 942,025	\$ 579,081

Supplemental disclosures of cash flow information:

Income taxes paid	\$	2,632	\$	2,109
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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, 2010 (Unaudited)	Year Ended December 31, 2009
Changes in net assets from operations:		
Net operating loss	\$ (4,066,627)	\$ (8,761,215)
Net realized loss on investments	(410,924)	(11,105,577)
Net decrease in unrealized depreciation on investments as a result of sales	222,319	11,090,579
Net decrease in unrealized depreciation on investments held	8,093,915	8,627,748
Net increase (decrease) in net assets resulting from operations	3,838,683	(148,465)
Changes in net assets from capital stock transactions:		
Issuance of common stock upon the exercise of stock options	53	1,125
Issuance of common stock on offering	0	48,875
Additional paid-in capital on common stock issued and options exercised	(29,084)	21,636,090
Stock-based compensation expense	1,214,938	3,089,520
Net increase in net assets resulting from capital stock transactions	1,185,907	24,775,610
Net increase in net assets	5,024,590	24,627,145
Net assets:		
Beginning of the period	134,158,258	109,531,113
End of the period	\$ 139,182,848	\$ 134,158,258

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2010
(Unaudited)

	Method of Valuation (1)	Shares/ Principal	Value
Investments in Unaffiliated Companies (2)(3) – 17.7% of net assets at value			
Private Placement Portfolio (Illiquid) – 17.7% of net assets at value			
BioVex Group, Inc. (4)(5)(6)(7) — Developing novel biologics for treatment of cancer and infectious disease			
Series E Convertible Preferred Stock	(M)	2,799,552	\$ 1,303,577
Series G Convertible Preferred Stock	(M)	5,425,574	1,139,371
Warrants at \$0.21 expiring 11/5/16	(I)	285,427	24,547
			2,467,495
Bridgelux, Inc. (4)(5) — Manufacturing high-power light emitting diodes (LEDs) and arrays			
Series B Convertible Preferred Stock	(M)	1,861,504	1,759,121
Series C Convertible Preferred Stock	(M)	2,130,699	2,013,511
Series D Convertible Preferred Stock	(M)	999,999	944,998
Warrants at \$0.7136 expiring 12/31/14	(I)	163,900	86,867
Warrants at \$1.50 expiring 8/26/14	(I)	166,665	58,500
			4,862,997
Cobalt Technologies, Inc. (4)(5)(6)(8) — Developing processes for making biobutanol through biomass fermentation			
Series C Convertible Preferred Stock	(M)	352,112	375,000
Ensemble Therapeutics Corporation (4)(5)(9) — Developing DNA- Programmed Chemistry™ for the discovery of new classes of therapeutics			
Series B Convertible Preferred Stock	(M)	1,449,275	2,000,000
Unsecured Convertible Bridge Note (including interest)	(M)	\$ 299,169	337,440
			2,337,440
Molecular Imprints, Inc. (4)(5) — Manufacturing nanoimprint lithography capital equipment			
Series B Convertible Preferred Stock	(M)	1,333,333	2,000,000
Series C Convertible Preferred Stock	(M)	1,250,000	1,875,000
Warrants at \$2.00 expiring 12/31/11	(I)	125,000	78,000
			3,953,000

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2010
(Unaudited)

	Method of Valuation (1)	Shares/ Principal	Value
Investments in Unaffiliated Companies (2)(3) – 17.7% of net assets at value (Cont.)			
Private Placement Portfolio (Illiquid) – 17.7% of net assets at value (Cont.)			
Nanosys, Inc. (4)(5) — Developing inorganic materials and devices based on nanowires and quantum dots			
Series C Convertible Preferred Stock	(M)	803,428	\$ 1,021,835
Series D Convertible Preferred Stock	(M)	1,016,950	1,382,573
			2,404,408
Nantero, Inc. (4)(5)(6) — Developing a high-density, nonvolatile, random access memory chip, enabled by carbon nanotubes			
Series A Convertible Preferred Stock	(M)	345,070	1,046,908
Series B Convertible Preferred Stock	(M)	207,051	628,172
Series C Convertible Preferred Stock	(M)	188,315	571,329
			2,246,409
NeoPhotonics Corporation (4)(5) — Developing and manufacturing optical devices and components			
Common Stock	(M)	1,130,440	759,656
Series 1 Convertible Preferred Stock	(M)	1,831,256	1,230,604
Series 2 Convertible Preferred Stock	(M)	741,898	498,555
Series 3 Convertible Preferred Stock	(M)	2,750,000	1,848,000
Series X Convertible Preferred Stock	(M)	8,923	1,427,680
			5,764,495
Polatis, Inc. (4)(5)(6) — Developing MEMS-based optical networking components			
Common Stock	(M)	16,438	0
Series A-1 Convertible Preferred Stock	(M)	16,775	0
Series A-2 Convertible Preferred Stock	(M)	71,611	0
Series A-4 Convertible Preferred Stock	(M)	4,774	0
			0
PolyRemedy, Inc. (4)(5)(6) — Developing a platform for producing and tracking the use of wound treatment patches			
Series B-1 Convertible Preferred Stock	(M)	287,647	0
Series B-2 Convertible Preferred Stock	(M)	676,147	0
			0

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HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2010
(Unaudited)

	Method of Valuation (1)	Shares/ Principal	Value
Investments in Unaffiliated Companies (2)(3) – 17.7% of net assets at value (Cont.)			
Private Placement Portfolio (Illiquid) – 17.7% of net assets at value (Cont.)			
Siluria Technologies, Inc. (4)(5)(6) — Developing nanomaterials for manufacturing of chemicals			
Series S-2 Convertible Preferred Stock	(M)	612,061	\$ 204,000
TetraVitae Bioscience, Inc. (4)(5)(6)(10) — Developing methods of producing alternative chemicals and fuels through biomass fermentation			
Series B Convertible Preferred Stock	(M)	118,804	62,500
Total Unaffiliated Private Placement Portfolio (cost: \$30,719,854)			\$ 24,677,744
Total Investments in Unaffiliated Companies (cost: \$30,719,854)			\$ 24,677,744

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2010
(Unaudited)

	Method of Valuation (1)	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (2)(11) – 44.2% of net assets at value			
Private Placement Portfolio (Illiquid) – 44.2% of net assets at value			
ABS Materials, Inc. (4)(5)(6)(12) — Developing nano-structured absorbent materials for environmental remediation and for the petroleum industry			
Series A Convertible Preferred Stock	(M)	375,000	\$ 375,000
Adesto Technologies Corporation (4)(5)(6) — Developing low-power, high-performance memory devices			
Series A Convertible Preferred Stock	(M)	6,547,619	2,420,000
Series B Convertible Preferred Stock	(M)	5,952,381	2,200,000
			4,620,000
Cambrios Technologies Corporation (4)(5)(6) — Developing nanowire-enabled electronic materials for the display industry			
Series B Convertible Preferred Stock	(M)	1,294,025	647,013
Series C Convertible Preferred Stock	(M)	1,300,000	650,000
Series D Convertible Preferred Stock	(M)	515,756	257,878
			1,554,891
Contour Energy Systems, Inc. (4)(5)(6)(13) — Developing batteries using nanostructured materials			
Series A Convertible Preferred Stock	(M)	2,565,798	2,822,378
Series B Convertible Preferred Stock	(M)	812,500	1,300,000
			4,122,378
Crystal IS, Inc. (4)(5) — Developing single-crystal aluminum nitride substrates for light-emitting diodes			
Common Stock	(M)	3,994,468	0
Warrants at \$0.78 expiring 05/05/13	(I)	15,231	0
Warrants at \$0.78 expiring 05/12/13	(I)	2,350	0
Warrants at \$0.78 expiring 08/08/13	(I)	4,396	0
			0

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2010
(Unaudited)

	Method of Valuation (1)	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (2)(11) – 44.2% of net assets at value (Cont.)			
Private Placement Portfolio (Illiquid) – 44.2% of net assets at value (Cont.)			
D-Wave Systems, Inc. (4)(5)(6)(14) — Developing high- performance quantum computing systems			
Series B Convertible Preferred Stock	(M)	1,144,869	\$ 1,209,783
Series C Convertible Preferred Stock	(M)	450,450	475,991
Series D Convertible Preferred Stock	(M)	1,533,395	1,620,339
			3,306,113
Enumeral Technologies, Inc. (4)(5)(6) — Developing therapeutics and diagnostics through functional assaying of single cells			
Unsecured Convertible Bridge Note (including interest)	(M)	\$ 250,000	260,411
Innovalight, Inc. (4)(5)(6) — Developing silicon-based nanomaterials for use in the solar energy industry			
Series B Convertible Preferred Stock	(M)	16,666,666	2,969,667
Series C Convertible Preferred Stock	(M)	5,810,577	1,276,457
Series D Convertible Preferred Stock	(M)	4,046,974	721,090
			4,967,214
Kovio, Inc. (4)(5) — Developing semiconductor products using printed electronics and thin-film technologies			
Series A' Convertible Preferred Stock	(M)	2,686,225	1,343,113
Mersana Therapeutics, Inc. (4)(5)(6) — Developing treatments for cancer based on novel drug delivery polymers			
Series A Convertible Preferred Stock	(M)	68,451	136,902
Series B Convertible Preferred Stock	(M)	866,500	1,733,000
Unsecured Convertible Bridge Note (including interest)	(M)	\$ 821,975	919,514
Warrants at \$2.00 expiring 10/21/10	(I)	91,625	42,972
			2,832,388

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2010
(Unaudited)

	Method of Valuation (1)	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (2)(11) – 44.2% of net assets at value (Cont.)			
Private Placement Portfolio (Illiquid) – 44.2% of net assets at value (Cont.)			
Metabolon, Inc. (4)(5) — Developing service and diagnostic products through the use of a metabolomics, or biochemical, profiling platform			
Series B Convertible Preferred Stock	(M)	371,739	\$ 1,087,870
Series B-1 Convertible Preferred Stock	(M)	148,696	435,149
Series C Convertible Preferred Stock	(M)	1,000,000	1,000,000
Warrants at \$1.15 expiring 3/25/15	(I)	74,348	106,394
			2,629,413
NanoGram Corporation (4)(5)(15) — Developed solar power products enabled by silicon-based nanomaterials			
Common Stock	(M)	2,988,437	0
			0
Nextreme Thermal Solutions, Inc. (4)(5) — Developing thin-film thermoelectric devices for cooling and energy conversion			
Series A Convertible Preferred Stock	(M)	17,500	437,500
Series B Convertible Preferred Stock	(M)	4,870,244	663,814
			1,101,314
Questech Corporation (4)(5) — Manufacturing and marketing proprietary metal and stone products for home decoration			
Common Stock	(M)	655,454	363,121
SiOnyx, Inc. (4)(5)(6) — Developing silicon-based optoelectronic products enabled by its proprietary "Black Silicon"			
Series A Convertible Preferred Stock	(M)	233,499	160,367
Series A-1 Convertible Preferred Stock	(M)	2,966,667	2,037,507
Series A-2 Convertible Preferred Stock	(M)	4,207,537	2,889,736
Series B-1 Convertible Preferred Stock	(M)	1,892,836	1,300,000
Warrants at \$0.6868 expiring 2/23/17	(I)	247,350	143,463
			6,531,073

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2010
(Unaudited)

	Method of Valuation (1)	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (2)(11) – 44.2% of net assets at value (Cont.)			
Private Placement Portfolio (Illiquid) – 44.2% of net assets at value (Cont.)			
Solazyme, Inc. (4)(5)(6) — Developing algal biodiesel, industrial chemicals and specialty ingredients using synthetic biology			
Series A Convertible Preferred Stock	(M)	988,204	\$ 8,750,744
Series B Convertible Preferred Stock	(M)	495,246	4,385,502
Series C Convertible Preferred Stock	(M)	651,309	5,767,471
Series D Convertible Preferred Stock	(M)	169,390	1,499,991
			20,403,708
Xradia, Inc. (4)(5) — Designing, manufacturing and selling ultra-high resolution 3D x-ray microscopes and fluorescence imaging systems			
Series D Convertible Preferred Stock	(M)	3,121,099	7,053,684
Total Non-Controlled Private Placement Portfolio (cost: \$59,493,753)			\$ 61,463,821
Total Investments in Non-Controlled Affiliated Companies (cost: \$59,493,753)			\$ 61,463,821

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2010
(Unaudited)

	Method of Valuation (1)	Shares/ Principal	Value
Investments in Controlled Affiliated Companies (2)(16) – 4.2% of net assets at value			
Private Placement Portfolio (Illiquid) – 4.2% of net assets at value			
Ancora Pharmaceuticals Inc. (4)(5)(6) — Developing synthetic carbohydrates for pharmaceutical applications			
Series B Convertible Preferred Stock	(M)	1,663,808	\$ 17,374
Series C Convertible Preferred Stock	(M)	2,066,051	1,239,632
Secured Convertible Bridge Note (including interest)	(M)	\$ 1,100,000	1,126,630
			2,383,636
Laser Light Engines, Inc. (4)(5)(6) — Manufacturing solid-state light sources for digital cinema and large-venue projection displays			
Series A Convertible Preferred Stock	(M)	7,499,062	1,500,000
Secured Convertible Bridge Note (including interest)	(M)	\$ 1,890,000	2,014,796
			3,514,796
Total Controlled Private Placement Portfolio (cost: \$7,871,243)			\$ 5,898,432
Total Investments in Controlled Affiliated Companies (cost: \$7,871,243)			\$ 5,898,432
Total Private Placement Portfolio (cost: \$98,084,850)			\$ 92,039,997

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2010
(Unaudited)

	Method of Valuation (1)	Shares/ Principal	Value
U.S. Government Securities (17) – 33.0% of net assets at value			
U.S. Treasury Bill — due date 10/07/10	(M)	\$ 7,700,000	\$ 7,696,689
U.S. Treasury Bill — due date 01/13/11	(M)	38,275,000	38,234,046
Total Investments in U.S. Government Securities (cost: \$45,948,517)			
			\$ 45,930,735
Total Investments (cost: \$144,033,367)			\$ 137,970,732

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2010
(Unaudited)

Notes to Consolidated Schedule of Investments

- (1) See Footnote to Consolidated Schedule of Investments on page 28 for a description of the Valuation Procedures.
- (2) 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.
- (3) The aggregate cost for federal income tax purposes of investments in unaffiliated privately held companies is \$30,719,854. The gross unrealized appreciation based on the tax cost for these securities is \$1,704,447. The gross unrealized depreciation based on the tax cost for these securities is \$7,746,557.
- (4) We are subject to legal restrictions on the sale of this investment.
- (5) Represents a non-income producing security. Equity investments that have not paid dividends within the last 12 months are considered to be non-income producing.
- (6) These investments are development-stage companies. A development-stage company is defined as a company that is devoting substantially all of its efforts to establishing a new business, and either it has not yet commenced its planned principal operations, or it has commenced such operations but has not realized significant revenue from them.
- (7) With our purchase of Series E Convertible Preferred Stock of BioVex, we received a warrant to purchase a number of shares of common stock of BioVex as determined by dividing 624,999.99 by the price per share at which the common stock is offered and sold to the public in connection with the initial public offering ("IPO"). The ability to exercise this warrant is therefore contingent on BioVex completing successfully an IPO before the expiration date of the warrant on September 27, 2012. The exercise price of this warrant shall be 110 percent of the IPO price.
- (8) Cobalt Technologies, Inc., also does business as Cobalt Biofuels.
- (9) On June 9, 2010, Ensemble Discovery Corporation changed its name to Ensemble Therapeutics Corporation. With our investment in a convertible bridge note issued by Ensemble Therapeutics, we received a warrant to purchase a number of shares of the class of stock sold in the next financing of Ensemble Therapeutics equal to \$149,539.57 divided by the price per share of the class of stock sold in the next financing of Ensemble Therapeutics. The ability to exercise this warrant is, therefore, contingent on Ensemble Therapeutics completing successfully a subsequent round of financing. This warrant shall expire and no longer be exercisable on September 10, 2015. The cost basis of this warrant is \$89.86.

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2010
(Unaudited)

- (10) With our purchase of the Series B Convertible Preferred Stock of TetraVita Bioscience, Inc., we received the right to purchase, at a price of \$2.63038528 per share, a number of shares in the Series C financing equal to the number of shares of Series B Preferred Stock purchased. The ability to exercise this right is contingent on TetraVita Bioscience completing successfully a subsequent round of financing.
- (11) The aggregate cost for federal income tax purposes of investments in non-controlled affiliated companies is \$59,493,753. The gross unrealized appreciation based on the tax cost for these securities is \$20,523,394. The gross unrealized depreciation based on the tax cost for these securities is \$18,553,326.
- (12) Initial investment was made during 2010.
- (13) On February 28, 2008, Lifco, Inc., merged with CFX Battery, Inc. The surviving entity was CFX Battery, Inc. On February 24, 2010, CFX Battery, Inc., changed its name to Contour Energy Systems, Inc.
- (14) D-Wave Systems, Inc., is located and is doing business primarily in Canada. We invested in D-Wave Systems, Inc., through D-Wave USA, 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."
- (15) On July 11, 2010, NanoGram was acquired for an undisclosed amount. Holders of common stock did not receive any proceeds from this transaction.
- (16) The aggregate cost for federal income tax purposes of investments in controlled affiliated companies is \$7,871,243. 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 \$1,972,811.
- (17) The aggregate cost for federal income tax purposes of our U.S. government securities is \$45,948,517. The gross unrealized appreciation on the tax cost for these securities is \$0. The gross unrealized depreciation on the tax cost of these securities is \$17,782.

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2009

	Method of Valuation (1)	Shares/ Principal	Value
Investments in Unaffiliated Companies (2)(3)(4) – 16.3% of net assets at value			
Private Placement Portfolio (Illiquid) – 16.1% of net assets at value			
BioVex Group, Inc. (5)(6)(7)(8) — Developing novel biologics for treatment of cancer and infectious disease			
Series E Convertible Preferred Stock	(M)	2,799,552	\$ 1,042,862
Series G Convertible Preferred Stock	(M)	3,738,004	627,985
Warrants at \$0.21 expiring 11/5/16	(I)	285,427	20,836
			1,691,683
Cobalt Technologies, Inc. (5)(6)(7)(9) — Developing processes for making biobutanol through biomass fermentation			
Series C Convertible Preferred Stock	(M)	352,112	375,000
D-Wave Systems, Inc. (5)(6)(7)(10) — Developing high-performance quantum computing systems			
Series B Convertible Preferred Stock	(M)	1,144,869	907,612
Series C Convertible Preferred Stock	(M)	450,450	357,101
Series D Convertible Preferred Stock	(M)	1,533,395	1,215,622
			2,480,335
Molecular Imprints, Inc. (5)(6) — Manufacturing nanoimprint lithography capital equipment			
Series B Convertible Preferred Stock	(M)	1,333,333	2,999,999
Series C Convertible Preferred Stock	(M)	1,250,000	2,812,500
Warrants at \$2.00 expiring 12/31/11	(I)	125,000	163,625
			5,976,124
Nanosys, Inc. (5)(6) — Developing zero and one-dimensional inorganic nanometer-scale materials and devices			
Series C Convertible Preferred Stock	(M)	803,428	1,185,056
Series D Convertible Preferred Stock	(M)	1,016,950	1,500,001
			2,685,057

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2009

	Method of Valuation (1)	Shares/ Principal	Value
Investments in Unaffiliated Companies (2)(3)(4) – 16.3% of net assets at value (Cont.)			
Private Placement Portfolio (Illiquid) – 16.1% of net assets at value (Cont.)			
Nantero, Inc. (5)(6)(7) — Developing a high-density, nonvolatile, random access memory chip, enabled by carbon nanotubes			
Series A Convertible Preferred Stock	(M)	345,070	\$ 1,046,908
Series B Convertible Preferred Stock	(M)	207,051	628,172
Series C Convertible Preferred Stock	(M)	188,315	571,329
			2,246,409
NeoPhotonics Corporation (5)(6)(11) — Developing and manufacturing optical devices and components			
Common Stock	(M)	1,100,013	739,209
Series 1 Convertible Preferred Stock	(M)	1,831,256	1,230,604
Series 2 Convertible Preferred Stock	(M)	741,898	498,555
Series 3 Convertible Preferred Stock	(M)	2,750,000	1,848,000
Series X Convertible Preferred Stock	(M)	8,923	1,427,680
Warrants at \$0.15 expiring 01/26/10	(I)	16,364	11,291
Warrants at \$0.15 expiring 12/05/10	(I)	14,063	9,703
			5,765,042
Polatis, Inc. (5)(6)(7) — Developing MEMS-based optical networking components			
Series A-1 Convertible Preferred Stock	(M)	16,775	0
Series A-2 Convertible Preferred Stock	(M)	71,611	0
Series A-4 Convertible Preferred Stock	(M)	4,774	0
Series A-5 Convertible Preferred Stock	(M)	16,438	0
			0
PolyRemedy, Inc. (5)(6)(7) — Developing a robotic manufacturing platform for wound treatment patches			
Series B-1 Convertible Preferred Stock	(M)	287,647	46,933
Series B-2 Convertible Preferred Stock	(M)	676,147	60,853
			107,786

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2009

	Method of Valuation (1)	Shares/ Principal	Value
Investments in Unaffiliated Companies (2)(3)(4) – 16.3% of net assets at value (Cont.)			
Private Placement Portfolio (Illiquid) – 16.1% of net assets at value (Cont.)			
Siluria Technologies, Inc. (5)(6)(7) — Developing next-generation nanomaterials			
Series S-2 Convertible Preferred Stock	(M)	612,061	\$ 204,000
TetraVitae Bioscience, Inc. (5)(6)(7)(12) — Developing methods of producing alternative chemicals and fuels through biomass fermentation			
Series B Convertible Preferred Stock	(M)	118,804	125,000
Total Unaffiliated Private Placement Portfolio (cost: \$26,977,200)			\$ 21,656,436
Publicly Traded Portfolio (Liquid) – 0.2% of net assets at value			
Orthovita, Inc. (6)(13) — Developing materials and devices for orthopedic medical implant applications			
Common Stock	(M)	64,500	226,395
Total Unaffiliated Publicly Traded Portfolio (cost: \$298,827)			\$ 226,395
Total Investments in Unaffiliated Companies (cost: \$27,276,027)			\$ 21,882,831

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2009

	Method of Valuation (1)	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (2)(14) – 37.5% of net assets at value			
Private Placement Portfolio (Illiquid) – 37.5% of net assets at value			
Adesto Technologies Corporation (5)(6)(7) — Developing low-power, high-performance memory devices			
Series A Convertible Preferred Stock	(M)	6,547,619	\$ 2,420,000
Series B Convertible Preferred Stock	(M)	5,952,381	2,200,000
			4,620,000
Bridgelux, Inc. (5)(6) — Manufacturing high-power light emitting diodes (LEDs) and arrays			
Series B Convertible Preferred Stock	(M)	1,861,504	1,804,914
Series C Convertible Preferred Stock	(M)	2,130,699	2,065,926
Series D Convertible Preferred Stock	(M)	833,333	807,999
Warrants at \$0.7136 expiring 12/31/14	(I)	163,900	98,995
Warrants at \$1.50 expiring 8/26/14	(I)	124,999	55,375
			4,833,209
Cambrios Technologies Corporation (5)(6)(7) — Developing nanowire-enabled electronic materials for the display industry			
Series B Convertible Preferred Stock	(M)	1,294,025	647,013
Series C Convertible Preferred Stock	(M)	1,300,000	650,000
Series D Convertible Preferred Stock	(M)	515,756	257,878
			1,554,891
CFX Battery, Inc. (5)(6)(7)(15) — Developing batteries using nanostructured materials			
Series A Convertible Preferred Stock	(M)	2,565,798	2,822,378
Series B Convertible Preferred Stock	(M)	812,500	1,300,000
			4,122,378
Crystal IS, Inc. (5)(6) — Developing single-crystal aluminum nitride substrates for light-emitting diodes			
Common Stock	(M)	2,585,657	0
Warrants at \$0.78 expiring 05/05/13	(I)	15,231	0
Warrants at \$0.78 expiring 05/12/13	(I)	2,350	0
Warrants at \$0.78 expiring 08/08/13	(I)	4,396	0
			0

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2009

	Method of Valuation (1)	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (2)(14) – 37.5% of net assets at value (Cont.)			
Private Placement Portfolio (Illiquid) – 37.5% of net assets at value (Cont.)			
Ensemble Discovery Corporation (5)(6)(16) — Developing DNA- Programmed Chemistry™ for the discovery of new classes of therapeutics and bioassays			
Series B Convertible Preferred Stock	(M)	1,449,275	\$ 1,500,000
Unsecured Convertible Bridge Note (including interest)	(M)	\$ 299,169	325,506
			1,825,506
Enumeral Technologies, Inc. (5)(6)(7)(13) — Developing high-value opportunities in immunology including therapeutic discovery, immune profiling and personalized medicine			
Unsecured Convertible Bridge Note (including interest)	(M)	\$ 250,000	250,438
Innovalight, Inc. (5)(6)(7) — Developing solar power products enabled by silicon-based nanomaterials			
Series B Convertible Preferred Stock	(M)	16,666,666	2,969,667
Series C Convertible Preferred Stock	(M)	5,810,577	1,276,457
Series D Convertible Preferred Stock	(M)	4,046,974	721,090
			4,967,214
Kovio, Inc. (5)(6) — Developing semiconductor products using printed electronics and thin-film technologies			
Series C Convertible Preferred Stock	(M)	2,500,000	609,943
Series D Convertible Preferred Stock	(M)	800,000	195,182
Series E Convertible Preferred Stock	(M)	1,200,000	1,500,000
Warrants at \$1.25 expiring 12/31/12	(I)	355,880	291,466
			2,596,591
Mersana Therapeutics, Inc. (5)(6)(7) — Developing treatments for cancer based on novel drug delivery polymers			
Series A Convertible Preferred Stock	(M)	68,451	68,451
Series B Convertible Preferred Stock	(M)	866,500	866,500
Unsecured Convertible Bridge Note (including interest)	(M)	\$ 650,000	708,165
Warrants at \$2.00 expiring 10/21/10	(I)	91,625	16,218
			1,659,334

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2009

	Method of Valuation (1)	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (2)(14) – 37.5% of net assets at value (Cont.)			
Private Placement Portfolio (Illiquid) – 37.5% of net assets at value (Cont.)			
Metabolon, Inc. (5)(6) — Developing service and diagnostic products through the use of a metabolomics, or biochemical, profiling platform			
Series B Convertible Preferred Stock	(M)	371,739	\$ 1,034,061
Series B-1 Convertible Preferred Stock	(M)	148,696	413,625
Series C Convertible Preferred Stock	(M)	1,000,000	1,000,000
Warrants at \$1.15 expiring 3/25/15	(I)	74,348	112,092
			2,559,778
NanoGram Corporation (5)(6) — Developing solar power products enabled by silicon-based nanomaterials			
Series I Convertible Preferred Stock	(M)	63,210	0
Series II Convertible Preferred Stock	(M)	1,250,904	0
Series III Convertible Preferred Stock	(M)	1,242,144	0
Series IV Convertible Preferred Stock	(M)	432,179	0
			0
Nextreme Thermal Solutions, Inc. (5)(6) — Developing thin-film thermoelectric devices for cooling and energy conversion			
Series A Convertible Preferred Stock	(M)	17,500	1,750,000
Series B Convertible Preferred Stock	(M)	4,870,244	2,655,257
			4,405,257
Questech Corporation (5)(6) — Manufacturing and marketing proprietary metal and stone decorative tiles			
Common Stock	(M)	655,454	425,390
Solazyme, Inc. (5)(6)(7) — Developing algal biodiesel, industrial chemicals and special ingredients based on synthetic biology			
Series A Convertible Preferred Stock	(M)	988,204	4,978,157
Series B Convertible Preferred Stock	(M)	495,246	2,494,841
Series C Convertible Preferred Stock	(M)	651,309	3,281,021
			10,754,019

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2009

	Method of Valuation (1)	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (2)(14) – 37.5% of net assets at value (Cont.)			
Private Placement Portfolio (Illiquid) – 37.5% of net assets at value (Cont.)			
Xradia, Inc. (5)(6) — Designing, manufacturing and selling ultra-high resolution 3D x-ray microscopes and fluorescence imaging systems			
Series D Convertible Preferred Stock	(M)	3,121,099	\$ 5,723,215
Total Non-Controlled Private Placement Portfolio (cost: \$54,864,948)			
			\$ 50,297,220
Total Investments in Non-Controlled Affiliated Companies (cost: \$54,864,948)			
			\$ 50,297,220

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2009

Method of Valuation (1)	Shares/ Principal	Value
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