

HARRIS & HARRIS GROUP INC /NY/
Form 10-Q
May 10, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2012

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

For the transition period from _____ to _____

Commission file number: 0-11576

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

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

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

(212) 582-0900

(Registrant's Telephone Number, Including Area Code)

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

Yes No

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

Yes No

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

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

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

Yes No

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

| Class | Outstanding at May 10, 2012 |
|--|-----------------------------|
| Common Stock, \$0.01 par value per share | 31,000,601 shares |

Harris & Harris Group, Inc.

Form 10-Q, March 31, 2012

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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. 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, 2011.

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

| | March 31, 2012 (Unaudited) | December 31, 2011 |
|---|-------------------------------|-------------------|
| ASSETS | | |
| Investments, in portfolio securities at value: | | |
| Unaffiliated privately held companies (cost: \$24,526,018 and \$23,794,145, respectively) | \$ 23,905,766 | \$ 23,748,247 |
| Unaffiliated rights to milestone payments (adjusted cost basis: \$3,291,750 and \$3,291,750, respectively) | 3,352,886 | 3,362,791 |
| Unaffiliated publicly traded securities (cost: \$12,743,787 and \$12,743,787, respectively) | 35,842,490 | 29,484,527 |
| Non-controlled affiliated privately held companies (cost: \$51,561,364 and \$48,968,029, respectively) | 51,654,833 | 47,601,785 |
| Non-controlled affiliated publicly traded companies (cost: \$2,000,000 and \$2,000,000, respectively) | 1,973,334 | 1,973,334 |
| Controlled affiliated privately held companies (cost: \$12,978,141 and \$12,518,936, respectively) | 7,324,325 | 6,877,566 |
| Total, investments in private portfolio companies, rights to milestone payments and public securities at value (cost: \$107,101,060 and \$103,316,647, respectively) | \$ 124,053,634 | \$ 113,048,250 |
| Cash | 29,826,853 | 33,841,394 |
| Restricted funds (Note 3) | 1,500,000 | 1,512,031 |
| Funds held in escrow from sales of investments, at value (Note 3) | 615,257 | 1,064,234 |
| Receivable from portfolio company | 27,620 | 37,331 |
| Interest receivable | 7,787 | 14,635 |
| Prepaid expenses | 333,745 | 398,858 |
| Other assets | 417,847 | 426,920 |
| Total assets | \$ 156,782,743 | \$ 150,343,653 |
| LIABILITIES & NET ASSETS | | |
| Post retirement plan liabilities | \$ 1,713,595 | \$ 1,660,958 |
| Revolving loan (Note 5) | 1,500,000 | 1,500,000 |
| Accounts payable and accrued liabilities | 917,989 | 906,910 |
| Deferred rent | 371,299 | 378,980 |
| Written call options payable (premiums received: \$454,665 and \$315,000, respectively) (Note 7) | 547,500 | 195,000 |
| Debt interest and other payable | 5,946 | 3,398 |
| Total liabilities | 5,056,329 | 4,645,246 |
| Net assets | \$ 151,726,414 | \$ 145,698,407 |
| 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 3/31/12 and 12/31/11; | 328,294 | 328,294 |
| 32,829,341 issued at 3/31/12 and 12/31/11 | | |
| Additional paid in capital (Note 8) | 210,918,193 | 210,470,369 |
| Accumulated net operating and realized loss | (72,974,281) | (71,546,328) |
| Accumulated unrealized appreciation of investments | 16,859,739 | 9,851,603 |
| Treasury stock, at cost (1,828,740 shares at 3/31/12 and 12/31/11) | (3,405,531) | (3,405,531) |
| Net assets | \$ 151,726,414 | \$ 145,698,407 |
| Shares outstanding | 31,000,601 | 31,000,601 |
| Net asset value per outstanding share | \$ 4.89 | \$ 4.70 |

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

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

| | Three Months Ended March 31, 2012 | Three Months Ended March 31, 2011 |
|--|--------------------------------------|--------------------------------------|
| Investment income: | | |
| Interest from: | | |
| Unaffiliated companies | \$ 50,064 | \$ 45,484 |
| Non-controlled affiliated companies | 42,812 | 28,315 |
| Controlled affiliated companies | 27,342 | 35,507 |
| Cash and U.S. Treasury obligations | 6,312 | 12,471 |
| Miscellaneous income | 34,360 | 15,047 |
| Total investment income | 160,890 | 136,824 |
| Expenses: | | |
| Salaries, benefits and stock-based compensation (Note 8) | 1,389,391 | 1,239,098 |
| Administration and operations | 356,684 | 256,558 |
| Professional fees | 273,343 | 247,848 |
| Rent | 98,443 | 89,500 |
| Directors' fees and expenses | 95,826 | 98,781 |
| Custody fees | 10,855 | 24,000 |
| Depreciation | 13,953 | 12,564 |
| Interest and other debt expense | 11,776 | 3,778 |
| Total expenses | 2,250,271 | 1,972,127 |
| Net operating loss | (2,089,381 |) (1,835,303 |
| Net realized gain (loss): | | |
| Realized gain (loss) from investments: | | |
| Unaffiliated companies | 476,887 | 7,534,340 |
| Non-controlled affiliated companies | 27,616 | 0 |
| Written call options | 165,000 | 0 |
| Realized gain from investments | 669,503 | 7,534,340 |
| Income tax expense (Note 9) | 8,075 | 2,290 |
| Net realized gain from investments | 661,428 | 7,532,050 |
| Net increase (decrease) in unrealized appreciation on investments: | | |
| Change as a result of investment sales | 0 | (7,467,614 |
| Change on investments held | 7,220,971 | 644,708 |
| Change on written call options | (212,835 |) 0 |
| Net increase (decrease) in unrealized appreciation on investments | 7,008,136 | (6,822,906 |
| Net increase (decrease) in net assets resulting from operations: | | |

| | | | |
|---|--------------|---------------|---|
| Total | \$ 5,580,183 | \$ (1,126,159 |) |
| Per average basic and diluted outstanding share | \$ 0.18 | \$ (0.04 |) |
| Average outstanding shares - basic | 31,000,601 | 30,918,981 | |
| Average outstanding shares - diluted | 31,006,926 | 30,918,981 | |

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

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

| | Three Months Ended March 31, 2012 | Three Months Ended March 31, 2011 (Corrected) |
|--|---|--|
| Cash flows (used in) provided by operating activities: | | |
| Net increase (decrease) in net assets resulting from operations | \$5,580,183 | \$(1,126,159) |
| Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash used in operating activities: | | |
| Net realized gain and unrealized appreciation on investments | (7,677,639) | (711,434) |
| Depreciation of fixed assets, amortization of premium or discount on U.S. government securities, and bridge note interest | (56,603) | (69,815) |
| Stock-based compensation expense | 447,824 | 427,314 |
| Changes in assets and liabilities: | | |
| Purchase of U.S. government securities | 0 | (59,188,063) |
| Sale of U.S. government securities | 0 | 58,245,613 |
| Investment in affiliated portfolio companies | (2,985,307) | (272,369) |
| Investment in unaffiliated portfolio companies | (820,473) | (2,262,305) |
| Proceeds from sale of investments | 953,480 | 7,931,470 |
| Proceeds from call option premiums | 454,665 | 0 |
| Payments for call option purchases | (159,000) | 0 |
| Principal payments received on debt investments | 100,922 | 20,876 |
| Restricted funds | 12,031 | (1,250,001) |
| Receivable from unsettled trade | 0 | (115,143) |
| Receivable from portfolio company | 9,711 | (4,500) |
| Interest receivable | 6,848 | 17,198 |
| Prepaid expenses | 65,113 | 57,634 |
| Other assets | 0 | 13,067 |
| Post retirement plan liabilities | 52,637 | 29,409 |
| Accounts payable and accrued liabilities | 11,079 | (167,738) |
| Deferred rent | (7,681) | (5,397) |
| Other liabilities | 2,548 | 0 |
| Net cash (used in) provided by operating activities | (4,009,662) | 1,569,657 |
| Cash flows from investing activities: | | |
| Purchase of fixed assets | (4,879) | 0 |
| Net cash used in investing activities | (4,879) | 0 |

| | | |
|--|--------------|---------------|
| Cash flows from financing activities: | | |
| Proceeds from stock option exercises (Note 8) | 0 | 477,678 |
| Proceeds from drawdown of credit facility (Note 5) | 0 | 1,250,000 |
| Net cash provided by financing activities | 0 | 1,727,678 |
| Net (decrease) increase in cash: | | |
| Cash at beginning of the period | 33,841,394 | 3,756,919 |
| Cash at end of the period | 29,826,853 | 7,054,254 |
| Net (decrease) increase in cash | \$(4,014,541 |) \$3,297,335 |
| Supplemental disclosures of cash flow information: | | |
| Income taxes paid | \$8,075 | \$2,290 |
| Interest paid | \$3,748 | \$0 |

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

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

| | Three Months Ended March 31, 2012 (Unaudited) | Year Ended December 31, 2011 |
|---|---|---------------------------------|
| Changes in net assets from operations: | | |
| Net operating loss | \$ (2,089,381 |) \$ (8,338,365) |
| Net realized gain on investments | 661,428 | 2,449,705 |
| Net increase in unrealized appreciation on investments as a result of sales | 0 | 74,649 |
| Net increase in unrealized appreciation on investments held | 7,220,971 | 2,152,648 |
| Net (decrease) increase in unrealized appreciation on written call options | (212,835 |) 120,000 |
| Net increase (decrease) in net assets resulting from operations | 5,580,183 | (3,541,363) |
| Changes in net assets from capital stock transactions: | | |
| Issuance of common stock upon the exercise of stock options | 0 | 1,224 |
| Additional paid in capital on common stock issued net of offering expenses | 0 | 489,834 |
| Stock-based compensation expense | 447,824 | 1,894,800 |
| Net increase in net assets resulting from capital stock transactions | 447,824 | 2,385,858 |
| Net increase (decrease) in net assets | 6,028,007 | (1,155,505) |
| Net Assets: | | |
| Beginning of the period | 145,698,407 | 146,853,912 |
| End of the period | \$ 151,726,414 | \$ 145,698,407 |

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2012

(Unaudited)

| | Method of Valuation (1) | Industry (2) | Cost | Shares/ Principal | Value |
|--|----------------------------|--------------|-------------|----------------------|-------------|
| Investments in Unaffiliated Companies | | | | | |
| (3)(4)(5)(6) – | | | | | |
| 41.6% of net assets at value | | | | | |
| Private Placement Portfolio (Illiquid) – | | | | | |
| 15.8% of net assets at value | | | | | |
| Bridgelux, Inc. (7)(8) | | | | | |
| Energy | | | | | |
| Manufacturing high-power light emitting diodes (LEDs) and arrays | | | | | |
| Series B Convertible Preferred Stock | (M) | | \$1,000,000 | 1,861,504 | \$2,213,782 |
| Series C Convertible Preferred Stock | (M) | | 1,352,196 | 2,130,699 | 2,721,847 |
| Series D Convertible Preferred Stock | (M) | | 1,371,622 | 999,999 | 1,670,641 |
| Series E Convertible Preferred Stock | (M) | | 730,369 | 440,334 | 824,941 |
| Series E-1 Convertible Preferred Stock | (M) | | 534,482 | 399,579 | 644,518 |
| Warrants for Series C Convertible Preferred Stock expiring 12/31/14 | (I) | | 168,270 | 163,900 | 114,526 |
| Warrants for Series D Convertible Preferred Stock expiring 8/26/14 | (I) | | 88,531 | 124,999 | 81,914 |
| Warrants for Series D Convertible Preferred Stock expiring 3/10/15 | (I) | | 40,012 | 41,666 | 27,304 |
| Warrants for Series E Convertible Preferred Stock expiring 12/31/17 | (I) | | 108,867 | 170,823 | 112,590 |
| Warrant for Common Stock expiring 10/21/18 | (I) | | 18,816 | 84,846 | 2,234 |
| | | | 5,413,165 | | 8,414,297 |
| Cambrios Technologies Corporation (7)(9) | | | | | |
| Electronics | | | | | |
| Developing nanowire-enabled electronic materials for the display industry | | | | | |
| Series B Convertible Preferred Stock | (M) | | 1,294,025 | 1,294,025 | 720,672 |
| Series C Convertible Preferred Stock | (M) | | 1,300,000 | 1,300,000 | 724,000 |
| 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 |
| | | | 3,202,181 | | 2,401,635 |
| Cobalt Technologies, Inc. (7)(9)(10) | | | | | |
| Energy | | | | | |
| Developing processes for making bio- butanol through biomass fermentation | | | | | |

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| | | | | |
|--|-----|---------|---------|---|
| Series C-1 Convertible Preferred Stock | (M) | 749,998 | 352,112 | 0 |
| Series D-1 Convertible Preferred Stock | (M) | 122,070 | 48,828 | 0 |
| | | 872,068 | | 0 |

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2012**(Unaudited)**

| | Method of Valuation (1) | Industry (2) | Cost | Shares/ Principal | Value |
|--|----------------------------|--------------|-------------|----------------------|-----------|
| Investments in Unaffiliated Companies | | | | | |
| (3)(4)(5)(6) – | | | | | |
| 41.6% of net assets at value (Cont.) | | | | | |
| Private Placement Portfolio (Illiquid) – | | | | | |
| 15.8% of net assets at value (Cont.) | | | | | |
| Ensemble Therapeutics Corporation (7)(9)(11) | | | | | |
| Developing DNA-Programmed Chemistry™ for | | | | | |
| the discovery of new classes of therapeutics | | | | | |
| Series B Convertible Preferred Stock (M) | | | | | |
| | | | \$2,000,000 | 1,449,275 | \$0 |
| Secured Convertible Bridge Note, 8%, acquired | | | | | |
| 9/11/08 | (M) | | 321,469 | \$250,211 | 1,052,408 |
| Secured Convertible Bridge Note, 8%, acquired | | | | | |
| 12/10/09 | (M) | | 57,912 | \$48,868 | 200,670 |
| Secured Convertible Bridge Note, 8%, acquired | | | | | |
| 1/25/12 | (M) | | 111,040 | \$109,400 | 430,629 |
| | | | 2,490,421 | | 1,683,707 |
| GEO Semiconductor Inc. (12) | | | | | |
| Developing programmable, high-performance | | | | | |
| video and geometry processing solutions | | | | | |
| Participation Agreement with Montage | | | | | |
| Capital relating to the following assets: | | | | | |
| Senior secured debt, 13.75%, maturing on 4/30/12 (I) | | | | | |
| | | | 377,392 | \$468,950 | 440,750 |
| Warrants for Series A Pref. Stock expiring on | | | | | |
| 9/17/17 | (I) | | 66,684 | 100,000 | 64,792 |
| Warrants for Series A-1 Pref. Stock expiring on | | | | | |
| 6/30/18 | (I) | | 23,566 | 34,500 | 22,737 |
| Loan and Security Agreement with GEO | | | | | |
| Semiconductor | | | | | |
| relating to the following assets: | | | | | |
| Subordinated secured debt, 15.75%, maturing on | | | | | |
| 4/30/12 | (I) | | 109,352 | \$125,000 | 124,665 |
| Warrants for Series A Pref. Stock expiring on | | | | | |
| 3/1/18 | (I) | | 7,512 | 10,000 | 6,064 |
| Warrants for Series A-1 Pref. Stock expiring on | | | | | |
| 6/29/18 | (I) | | 7,546 | 10,000 | 6,083 |

| | | | | |
|--|-----|-----------|-------------|-----------|
| | | 592,052 | | 665,091 |
| Molecular Imprints, Inc. (7)(13) | | | 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 |
| Nanosys, Inc. (7)(14) | | | Energy | |
| Developing inorganic nanowires and quantum dots for use in batteries and LED-backlit devices | | | | |
| Series C Convertible Preferred Stock | (M) | 1,500,000 | 803,428 | 255,503 |
| Series D Convertible Preferred Stock | (M) | 3,000,003 | 1,016,950 | 698,410 |
| Series E Convertible Preferred Stock | (M) | 496,573 | 433,688 | 496,573 |
| | | 4,996,576 | | 1,450,486 |

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2012

(Unaudited)

| | Method of Valuation (1) | Industry (2) | Cost | Shares/ Principal | Value |
|---|----------------------------|--------------|-----------|----------------------|--------------|
| Investments in Unaffiliated Companies (3)(4)(5)(6) – 41.6% of net assets at value (Cont.) | | | | | |
| Private Placement Portfolio (Illiquid) – 15.8% of net assets at value (Cont.) | | | | | |
| NanoTerra, Inc. (9) | | Energy | | | |
| Developing surface chemistry and nano-manufacturing solutions | | | | | |
| Senior secured debt, 12.0%, maturing on 2/22/14 | (I) | | \$288,823 | \$339,713 | \$310,800 |
| Senior secured debt, 12.0%, maturing on 2/22/13 | (I) | | 103,732 | \$122,010 | 116,815 |
| Warrants for Series A-2 Pref. Stock expiring on 2/22/21 | (I) | | 69,168 | 446,248 | 67,395 |
| | | | 461,723 | | 495,010 |
| Nantero, Inc. (7)(9)(14) | | Electronics | | | |
| Developing a high-density, nonvolatile, random access memory chip, enabled by carbon nanotubes | | | | | |
| Series A Convertible Preferred Stock | (M) | | 489,999 | 345,070 | 471,859 |
| Series B Convertible Preferred Stock | (M) | | 323,000 | 207,051 | 287,913 |
| Series C Convertible Preferred Stock | (M) | | 571,329 | 188,315 | 363,432 |
| | | | 1,384,328 | | 1,123,204 |
| OHSO Clean, Inc. (15)(16) | | Healthcare | | | |
| 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 9/30/14 | (I) | | \$615,167 | \$720,000 | 619,650 |
| Warrants for Series C Pref. Stock expiring on 3/30/22 | (I) | | 91,742 | 1,109,333 | 91,742 |
| | | | 706,909 | | 711,392 |
| Total Unaffiliated Private Placement Portfolio (cost: \$24,526,018) | | | | | \$23,905,766 |

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

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HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2012**(Unaudited)**

| | Method of Valuation (1) | Industry (2) | Cost | Shares/ Principal | Value |
|--|----------------------------|--------------|-------------|----------------------|-------------|
| Rights to Milestone Payments (Illiquid) – 2.2% of net assets at value | | | | | |
| Amgen, Inc. (7)(14) Rights to Milestone Payments from Acquisition of BioVex Group, Inc. | (I) | Healthcare | \$3,291,750 | \$3,291,750 | \$3,291,750 |
| Total Unaffiliated Rights to Milestone Payments (cost: \$3,291,750) | | | | | |
| Publicly Traded Portfolio – 23.6% of net assets at value | | | | | |
| NeoPhotonics Corporation (14)(17) Developing and manufacturing optical devices and components Common Stock | (M) | Electronics | \$7,299,590 | 450,907 | \$2,304,149 |
| Solazyme, Inc. (14)(18) Developing algal biodiesel, industrial chemicals and specialty ingredients using synthetic biology Common Stock | (M) | Energy | 5,444,197 | 2,304,149 | \$3,291,750 |
| Total Unaffiliated Publicly Traded Portfolio (cost: \$12,743,787) | | | | | |
| Total Investments in Unaffiliated Companies (cost: \$40,561,555) | | | | | |

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2012

(Unaudited)

| | Method of Valuation (1) | Industry (2) | Cost | Shares/ Principal | Value |
|---|---|--------------|--|---|--|
| Investments in Non-Controlled Affiliated Companies (3)(19) – 35.3% of net assets at value | | | | | |
| Private Placement Portfolio (Illiquid) – 34.0% of net assets at value | | | | | |
| ABSMaterials, Inc. (7)(9)(14) Developing nano-structured absorbent materials for environmental remediation Series A Convertible Preferred Stock | (M) | Energy | \$435,000 | 390,000 | \$1,560,000 |
| Adesto Technologies Corporation (7)(9) Developing low-power, high-performance memory devices Series A Convertible Preferred Stock Series B Convertible Preferred Stock Series C Convertible Preferred Stock | (M) (M) (M) | Electronics | 2,200,000 2,200,000 1,485,531 | 6,547,619 5,952,381 2,122,187 | 3,328,635 3,076,031 1,271,982 |
| | | | 5,885,531 | | 7,676,648 |
| Contour Energy Systems, Inc. (7)(9)(14) Developing batteries using nanostructured materials Series A Convertible Preferred Stock Series B Convertible Preferred Stock Series C Convertible Preferred Stock | (M) (M) (M) | Energy | 2,009,995 1,300,000 1,200,000 | 2,565,798 812,500 1,148,325 | 2,504,488 1,340,672 1,271,099 |
| | | | 4,509,995 | | 5,116,259 |
| D-Wave Systems, Inc. (7)(9)(21) Developing high-performance quantum computing systems Series B Convertible Preferred Stock Series C Convertible Preferred Stock Series D Convertible Preferred Stock Series E Convertible Preferred Stock Series F Convertible Preferred Stock Warrants for Common Stock expiring 6/30/15 | (M) (M) (M) (M) (M) (I) (M) | Electronics | 1,002,074 487,804 1,484,492 248,049 238,323 98,644 353,631 | 1,144,869 450,450 1,533,395 269,280 258,721 153,890 \$337,579 | 1,493,368 587,567 2,000,161 351,249 337,476 35,346 352,785 |

Secured Convertible Bridge Note, 15%, acquired
12/7/11

3,913,017 5,157,952

Enumeral Biomedical Corp. (7)(9)
Developing therapeutics and diagnostics
through functional assaying of single cells
Series A Convertible Preferred Stock

Healthcare

(M)

1,026,832 957,038 1,110,164

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2012

(Unaudited)

| | Method of Valuation (1) | Industry (2) | Cost | Shares/ Principal | Value |
|--|----------------------------|--------------|-----------|----------------------|-----------|
| Investments in Non-Controlled Affiliated Companies (3)(19) – 35.3% of net assets at value (Cont.) | | | | | |
| Private Placement Portfolio (Illiquid) – 34.0% of net assets at value (Cont.) | | | | | |
| HzO, Inc. (7)(9)(14) | | Electronics | | | |
| Developing novel industrial coatings that protect electronics against damage from liquids | | | | | |
| Series A Convertible Preferred Stock | (M) | | \$666,667 | 4,057,294 | \$1,130,3 |
| Series B Convertible Preferred Stock | (M) | | 1,000,000 | 3,947,888 | 1,099,8 |
| | | | 1,666,667 | | 2,230,2 |
| Kovio, Inc. (7)(9)(14) | | Electronics | | | |
| Developing semiconductor products using printed electronics and thin-film technologies | | | | | |
| Series A' Convertible Preferred Stock | (M) | | 5,242,993 | 2,160,000 | 1,437,2 |
| Series B' Convertible Preferred Stock | (M) | | 1,418,540 | 2,131,827 | 1,418,5 |
| | | | 6,661,533 | | 2,855,8 |
| Mersana Therapeutics, Inc. (7)(9) | | Healthcare | | | |
| Developing treatments for cancer based on novel drug delivery polymers | | | | | |
| Series A Convertible Preferred Stock | (M) | | 700,000 | 68,451 | 0 |
| Series B Convertible Preferred Stock | (M) | | 1,542,098 | 866,500 | 0 |
| Unsecured Convertible Bridge Note, 10%, acquired 8/5/08 | (M) | | 274,167 | \$200,000 | 274,16 |
| Unsecured Convertible Bridge Note, 10%, acquired 2/13/09 | (M) | | 263,500 | \$200,000 | 263,50 |
| Unsecured Convertible Bridge Note, 10%, acquired 7/2/09 | (M) | | 319,722 | \$250,000 | 319,72 |
| Unsecured Convertible Bridge Note, 10%, acquired 1/19/10 | (M) | | 107,017 | \$87,500 | 107,01 |
| Unsecured Convertible Bridge Note, 10%, acquired 2/19/10 | (M) | | 102,590 | \$84,475 | 102,59 |
| Unsecured Convertible Bridge Note, 10%, acquired 4/12/11 | (M) | | 328,375 | \$298,900 | 328,37 |
| Unsecured Convertible Bridge Note, 10%, acquired 10/28/11 | (M) | | 26,083 | \$25,000 | 26,083 |
| Unsecured Convertible Bridge Note, 10%, acquired 11/17/11 | (M) | | 25,944 | \$25,000 | 25,944 |
| Unsecured Convertible Bridge Note, 10%, acquired 12/22/11 | (M) | | 25,701 | \$25,000 | 25,701 |
| | | | 3,715,197 | | 1,473,0 |

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2012

(Unaudited)

| | Method of Valuation (1) | Industry (2) | Cost | Shares/ Principal | Value |
|--|----------------------------|--------------|-------------|----------------------|-------------|
| Investments in Non-Controlled Affiliated Companies (3)(19) – 35.3% of net assets at value (Cont.) | | | | | |
| Private Placement Portfolio (Illiquid) – 34.0% of net assets at value (Cont.) | | | | | |
| Metabolon, Inc. (7)(14) Developing service and diagnostic products through the use of a metabolomics, or biochemical, profiling platform | | Healthcare | | | |
| 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 | 54,919 |
| | | | 5,999,999 | | 6,081,840 |
| Nextreme Thermal Solutions, Inc. (7)(9)(14) Developing thin-film thermoelectric devices for cooling and energy conversion | (M) | Energy | 2,192,381 | 22,027 | 0 |
| Series A Convertible Preferred Stock | (M) | | 2,192,381 | 4,039,985 | 0 |
| Common Stock | (M) | | 4,384,762 | | 0 |
| OpGen, Inc. (7)(15) Developing tools for genomic sequence assembly and analysis | (M) | Healthcare | 815,000 | 5,905,797 | 815,000 |
| Series C Convertible Preferred Stock | | | | | |
| Produced Water Absorbents, Inc. (7)(9)(14) Developing nano-structured absorbent materials for environmental remediation of contaminated water in the oil and gas industries | (M) | Energy | 1,000,000 | 1,000,000 | 1,000,000 |
| Series A Convertible Preferred Stock | | | | | |

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2012**(Unaudited)**

| | Method of Valuation (1) | Industry (2) | Cost | Shares/ Principal |
|---|---|--------------|---|---|
| Investments in Non-Controlled Affiliated Companies (3)(19) – 35.3% of net assets at value (Cont.) | | | | |
| Private Placement Portfolio (Illiquid) – 34.0% of net assets at value (Cont.) | | | | |
| Senova Systems, Inc. (7)(9)(14) Developing next-generation sensors to measure pH Series B Convertible Preferred Stock | (M) | Healthcare | \$692,308 | 692,308 |
| SiOnyx, Inc. (7)(9)(14) Developing silicon-based optoelectronic products enabled by its proprietary Black Silicon Series A Convertible Preferred Stock Series A-1 Convertible Preferred Stock Series A-2 Convertible Preferred Stock Series B-1 Convertible Preferred Stock Series C Convertible Preferred Stock Warrants for Series B-1 Convertible Preferred Stock expiring 2/23/17 Warrants for Common Stock expiring 3/28/17 | (M) (M) (M) (M) (M) (I) (I) | Electronics | 750,000 890,000 2,445,000 1,169,561 1,171,316 130,439 84,207 6,640,523 | 233,499 2,966,667 4,207,537 1,892,836 1,674,030 247,350 418,507 |
| Ultora, Inc. (7)(9)(14) Developing energy-storage devices enabled by carbon nanotubes Series A Convertible Preferred Stock | (M) | Energy | 215,000 | 215,000 |
| Xradia, Inc. (7)(14) Designing, manufacturing and selling ultra-high resolution 3D x-ray microscopes and fluorescence imaging systems Series D Convertible Preferred Stock | (M) | Electronics | 4,000,000 | 3,121,099 |
| Total Non-Controlled Private Placement Portfolio (cost: \$51,561,364) | | | | |

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2012

(Unaudited)

| | Method of Valuation (1) | Industry (2) | Cost | Sha Prin |
|--|----------------------------|--------------|-------------|-------------|
| Publicly Traded Portfolio (Illiquid) – 1.3% of net assets at value | | | | |
| Champions Oncology, Inc. (14)(22) Developing its TumorGraft™ platform for personalized medicine and drug development Common Stock | (M) | Healthcare | \$2,000,000 | 2, |
| Total Non-Controlled Affiliated Publicly Traded Portfolio (cost: \$2,000,000) | | | | |
| Total Investments in Non-Controlled Affiliated Companies (cost: \$53,561,364) | | | | |
| Investments in Controlled Affiliated Companies (3)(20) – 4.8% of net assets at value | | | | |
| Private Placement Portfolio (Illiquid) – 4.8% of net assets at value | | | | |
| Ancora Pharmaceuticals Inc. (7)(9) Developing synthetic carbohydrates for pharmaceutical applications Common Stock | (M) | Healthcare | \$2,729,817 | 57 |
| Series A Convertible Preferred Stock | (M) | | 3,855,627 | 3, |
| Senior Secured Debt, 12.00%, maturing on 12/11/12 | (I) | | 461,306 | \$50 |
| | | | 7,046,750 | |

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2012

(Unaudited)

| | Method of Valuation (1) | Industry (2) | Cost | Shares/ Princip |
|---|----------------------------|--------------|-------------|--------------------|
| Investments in Controlled Affiliated Companies (3)(20) – 4.8% of net assets at value (Cont.) | | | | |
| Private Placement Portfolio (Illiquid) – 4.8% of net assets at value (Cont.) | | | | |
| Laser Light Engines, Inc. (7)(9) | | Energy | | |
| Manufacturing solid-state light sources for digital cinema and large-venue projection displays | | | | |
| Series A Convertible Preferred Stock | (M) | | \$2,000,000 | 7,499 |
| Series B Convertible Preferred Stock | (M) | | 3,095,802 | 13,57 |
| Secured Convertible Bridge Note, 12%, acquired 10/7/11 | (M) | | 211,638 | \$200,0 |
| Secured Convertible Bridge Note, 12%, acquired 11/17/11 | (M) | | 99,929 | \$95,65 |
| Secured Convertible Bridge Note, 12%, acquired 12/21/11 | (M) | | 85,379 | \$82,60 |
| Secured Convertible Bridge Note, 12%, acquired 3/5/12 | (M) | | 438,643 | \$434,7 |
| | | | 5,931,391 | |
| Total Controlled Private Placement Portfolio (cost: \$12,978,141) | | | | |
| Total Investments in Controlled Affiliated Companies (cost: \$12,978,141) | | | | |
| Total Private Placement and Publicly Traded Portfolio (cost: \$107,101,060) | | | | |
| Total Investments (cost: \$107,101,060) | | | | |

| | Method of Valuation (1) | Number of Contracts | Value |
|---|----------------------------|------------------------|-------------|
| Written Call Options (15) – (0.4)% of net assets at value | | | |
| Solazyme, Inc. — Strike Price \$15.00, 6/16/12 | (M) | 3,000 | \$(345,000) |
| Solazyme, Inc. — Strike Price \$17.50, 9/22/12 | (M) | 2,000 | (200,000) |
| NeoPhotonics Corporation — Strike Price \$7.50, 8/18/12 | (M) | 250 | (2,500) |
| Total Written Call Options (Premiums Received \$454,665) | | | \$(547,500) |

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2012

(Unaudited)

Notes to Consolidated Schedule of Investments

(1) See "Footnote to Consolidated Schedule of Investments" on page 32 for a description of the "Valuation Procedures."

(2) We classify "Energy" companies as those that seek to improve performance, productivity or efficiency, and to reduce environmental impact, waste, cost, energy consumption or raw materials using nanotechnology-enabled solutions. We classify "Electronics" companies as those that use nanotechnology to address problems in electronics-related industries, including semiconductors. We classify "Healthcare" companies as those that use nanotechnology to address problems in healthcare-related industries, including biotechnology, pharmaceuticals and medical devices.

(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 \$24,526,018. The gross unrealized appreciation based on the tax cost for these securities is \$5,666,290. The gross unrealized depreciation based on the tax cost for these securities is \$6,286,542.

(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 \$61,136. 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 \$12,743,787. The gross unrealized appreciation based on the tax cost for these securities is \$28,265,503. The gross unrealized depreciation based on the tax cost for these securities is \$5,166,800.

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

- (8) With our investment in the Series E round of financing, we received a warrant to purchase shares of common stock of up to 30 percent of the amount invested in the Series E round of financing of Bridgelux, Inc., depending on certain financial performance metrics of the company as of December 31, 2011, at a price per share of \$1.9056. The number of shares able to be purchased and beginning of the period for when this warrant is exercisable will be set upon receipt of the audited financial statements of the company for the 2011 fiscal year or upon the completion of an IPO or sale of the company, whichever comes first. Bridgelux did not complete an IPO or sale of the company as of March 31, 2012. As of March 31, 2012, the audited financials for the company's 2011 fiscal year were not available. This warrant is, therefore, a contingent asset as of March 31, 2012. 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 2012 set upon receipt of the audited financial statements for 2012. Should the company complete a sale or an IPO prior to the end of 2012, the warrant will become void. This warrant is, therefore, a contingent asset as of March 31, 2012.

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2012

(Unaudited)

(9) 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.

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

(11) With our investment in a convertible bridge note issued by Ensemble Therapeutics Corporation, we received a warrant to purchase a number of shares of the class of stock sold in the next financing of Ensemble Therapeutics Corporation equal to \$149,539.57 divided by the price per share of the class of stock sold in the next financing of Ensemble Therapeutics Corporation. The ability to exercise this warrant is, therefore, contingent on Ensemble Therapeutics Corporation 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.

(12) The maturity dates of the senior secured debt and the subordinated secured debt are expected to be extended to the second half of 2012. As such, the notes were not repaid on April 30, 2012.

(13) 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 March 31, 2012.

(14) 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.

(15) Initial investment was made during 2012.

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

(17) A portion of this security is held in connection with written call option contracts: 25,000 shares have been pledged to brokers.

(18) A portion of this security is held in connection with written call option contracts: 500,000 shares have been pledged to brokers.

(19) The aggregate cost for federal income tax purposes of investments in non-controlled affiliated companies is \$51,561,364. The gross unrealized appreciation based on the tax cost for these securities is \$10,806,614. The gross unrealized depreciation based on the tax cost for these securities is \$10,713,145.

(20) The aggregate cost for federal income tax purposes of investments in controlled affiliated companies is \$12,978,814. 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 \$5,653,816.

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2012

(Unaudited)

D-Wave Systems, Inc., is located and is doing business primarily in Canada. We invested in D-Wave Systems, (21) 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."

The aggregate cost for federal income tax purposes of investments in non-controlled affiliated publicly traded (22) companies is \$2,000,000. 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 \$26,666.

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2011

| | Method of Valuation (1) | Industry (2) | Cost | Shares/ Principal | Value |
|--|----------------------------|--------------|--------------|----------------------|--------------|
| Investments in Unaffiliated Companies (3)(4)(5)(6) – 38.8% of net assets at value | | | | | |
| Private Placement Portfolio (Illiquid) – 16.3% of net assets at value | | | | | |
| 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 | \$ 2,245,039 |
| Series C Convertible Preferred Stock | (M) | | 1,352,196 | 2,130,699 | 2,757,625 |
| Series D Convertible Preferred Stock | (M) | | 1,371,622 | 999,999 | 1,687,433 |
| Series E Convertible Preferred Stock | (M) | | 730,369 | 440,334 | 832,335 |
| Warrants for Series C Convertible Preferred Stock expiring 12/31/14 | (I) | | 168,270 | 163,900 | 123,541 |
| Warrants for Series D Convertible Preferred Stock expiring 8/26/14 | (I) | | 88,531 | 124,999 | 93,385 |
| Warrants for Series D Convertible Preferred Stock expiring 3/10/15 | (I) | | 40,012 | 41,666 | 31,128 |
| Warrants for Series E Convertible Preferred Stock expiring 12/31/17 | (I) | | 108,867 | 170,823 | 130,872 |
| Secured Convertible Bridge Note (including interest) | (M) | | 529,697 | \$ 538,945 | 548,513 |
| Warrant for Common Stock expiring 10/21/18 | (I) | | 18,816 | 56,564 | 2,581 |
| | | | 5,408,380 | | 8,452,452 |
| Cambrios Technologies Corporation (7)(9) Developing nanowire-enabled electronic materials for the display industry | | Electronics | | | |
| Series B Convertible Preferred Stock | (M) | | 1,294,025 | 1,294,025 | 720,672 |
| Series C Convertible Preferred Stock | (M) | | 1,300,000 | 1,300,000 | 724,000 |
| 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 |
| | | | 3,202,181 | | 2,401,635 |
| Cobalt Technologies, Inc. (7)(9)(10) Developing processes for making bio-butanol through biomass fermentation | | Energy | | | |
| Series C-1 Convertible Preferred Stock | (M) | | 749,998 | 352,112 | 216,651 |
| Series D-1 Convertible Preferred Stock | (M) | | 122,070 | 48,828 | 33,937 |

| | | | | |
|--|------------|-----------|-----------|-----------|
| | | 872,068 | | 250,588 |
| Ensemble Therapeutics Corporation (7)(9)(11) Developing DNA-Programmed Chemistry™ for the discovery of new classes of therapeutics | Healthcare | | | |
| Series B Convertible Preferred Stock (M) | | 2,000,000 | 1,449,275 | 0 |
| Secured Convertible Bridge Notes (including interest) (M) | | 373,439 | \$299,169 | 1,298,436 |
| | | 2,373,439 | | 1,298,436 |

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2011

| | Method of Valuation (1) | Industry (2) | Cost | Shares/ Principal | Value |
|---|----------------------------|--------------|-----------|----------------------|-----------|
| Investments in Unaffiliated Companies (3)(4)(5)(6) – 38.8% of net assets at value (Cont.) | | | | | |
| Private Placement Portfolio (Illiquid) – 16.3% of net assets at value (Cont.) | | | | | |
| GEO Semiconductor Inc. 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 6/30/12 (I) | | | \$403,732 | \$500,000 | \$476,700 |
| Warrants for Series A Pref. Stock expiring on 9/17/17 (I) | | | 66,684 | 100,000 | 61,814 |
| Warrants for Series A-1 Pref. Stock expiring on 6/30/18 (I) | | | 23,566 | 34,500 | 21,686 |
| Loan and Security Agreement with GEO Semiconductor relating to the following assets: | | | | | |
| Subordinated secured debt, 15.75%, maturing on 1/1/12 (I) | | | 109,942 | \$125,000 | 121,880 |
| Warrants for Series A Pref. Stock expiring on 3/1/18 (I) | | | 7,512 | 10,000 | 5,819 |
| Warrants for Series A-1 Pref. Stock expiring on 6/29/18 (I) | | | | | |