HARRIS & HARRIS GROUP INC /NY/
Form 10-Q
November 09, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2015

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

For the transition period from ____________ to _____________

Commission file number: 0-11576

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

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

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 x 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 x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	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 November 9, 2015
Common Stock, $0.01 par value per share	30,903,501 shares

Harris & Harris Group, Inc.

Form 10-Q, September 30, 2015

PART II. OTHER INFORMATION

PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

In the opinion of management, these financial statements reflect all adjustments, consisting of valuation adjustments and normal recurring accruals, necessary for a fair statement of our financial position, results of operations and cash flows for such periods.

Harris & Harris Group, Inc.® (the "Company," "us," "our" and "we"), is an internally managed, non-diversified management investment company that has elected to operate as a business development company ("BDC") under the Investment Company Act of 1940 (the "1940 Act"). Certain information and disclosures normally included in the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted as permitted by Regulation S-X and Regulation S-K. Accordingly, they do not include all information and disclosures necessary for a fair presentation of our financial position, results of operations and cash flows in conformity with GAAP. The results of operations for any interim period are not necessarily indicative of the results for the full year. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2014.

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

(Unaudited)

	September 30, 2015	December 31, 2014
ASSETS		
Investments, in portfolio securities at value:		
Unaffiliated privately held companies		
(cost: $19,916,279 and $22,304,047, respectively)	$ 5,689,722	$ 13,854,906
Unaffiliated rights to milestone payments		
(adjusted cost basis: $2,387,278 and $2,387,278, respectively)	5,058,083	3,193,865
Unaffiliated publicly traded securities		
(cost: $1,623,029 and $1,741,128, respectively)	1,605,704	1,398,085
Non-controlled affiliated privately held companies		
(cost: $57,473,883 and $67,236,533, respectively)	45,339,625	58,470,864
Non-controlled affiliated publicly traded companies		
(cost: $11,683,371 and $5,591,299, respectively)	7,285,825	8,384,641
Controlled affiliated privately held companies		
(cost: $21,879,303 and $13,111,030, respectively)	6,258,526	4,462,479
Equity method privately held company		
(adjusted cost basis: $228,379 and $0, respectively)	228,379	0
Total, investments in private portfolio companies, rights to milestone payments, public securities at value		
(cost: $115,191,522 and $112,371,315, respectively)	$ 71,465,864	$ 89,764,840
Cash	21,427,019	20,748,314
Funds held in escrow from sales of investments at value (Note 3)	374,851	306,802
Receivable from portfolio company	0	160,877
Interest receivable	11,020	62,482
Prepaid expenses	420,654	754,856
Other assets	458,600	296,690
Total assets	$ 94,158,008	$ 112,094,861
LIABILITIES & NET ASSETS		
Term loan credit facility (Note 5)	$ 5,000,000	$ 0
Post-retirement plan liabilities (Note 8)	1,307,680	1,267,615
Accounts payable and accrued liabilities	583,980	841,915
Deferred rent	292,152	330,904
Total liabilities	$ 7,183,812	$ 2,440,434
Commitments and contingencies (Note 12)		
Net assets	$ 86,974,196	$ 109,654,427

Net assets are comprised of:		
Preferred stock, $0.10 par value,		
2,000,000 shares authorized; none issued	$ 0	$ 0
Common stock, $0.01 par value, 45,000,000 shares		
authorized at 9/30/15 and 12/31/14; 33,150,425 and		
33,109,583 shares issued at 9/30/15 and 12/31/14, respectively	331,504	331,096
Additional paid in capital (Note 9)	215,621,582	215,051,662
Accumulated net operating and realized loss	(81,671,504)	(80,434,528)
Accumulated unrealized depreciation of investments	(43,725,658)	(22,606,475)
Accumulated other comprehensive income (Note 8)	561,465	718,203
Treasury stock, at cost (2,127,559 shares at 9/30/15 and		
1,828,740 shares at 12/31/14) (Note 13)	(4,143,193)	(3,405,531)
Net assets	$ 86,974,196	$ 109,654,427
Shares outstanding	31,022,866	31,280,843
Net asset value per outstanding share	$ 2.80	$ 3.51

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2015	2014	2015	2014
Investment income:				
Interest from:				
Unaffiliated companies	$6,785	$21,555	$27,561	$108,237
Non-controlled affiliated companies	44,886	(27,703)	299,208	55,668
Controlled affiliated companies	72,759	40,382	164,392	111,715
Cash and U.S. Treasury securities and other	4,599	1,796	9,347	8,274
Fees for providing managerial assistance to portfolio companies	71,359	37,500	84,859	37,500
Yield-enhancing fees on debt securities	44,014	19,843	90,062	52,105
Total investment income	244,402	93,373	675,429	373,499
Expenses:				
Salaries, benefits and stock-based compensation (Note 9)	955,900	1,127,028	3,012,078	3,786,814
Administration and operations	105,120	108,908	341,214	446,348
Professional fees	278,654	365,557	1,165,673	962,780
Rent	83,308	69,389	218,772	217,480
Insurance expense	73,768	84,006	215,103	251,946
Directors’ fees and expenses	98,218	91,875	286,743	278,283
Interest and other debt expense	209,831	94,831	561,577	282,827
Custody fees	15,701	16,200	47,317	45,219
Depreciation	11,710	13,182	36,412	39,632
Total expenses	1,832,210	1,970,976	5,884,889	6, 311,329
Net operating loss	(1,587,808)	(1,877,603)	(5,209,460)	(5,937,830)
Net realized gain (loss):				
Realized gain (loss) from investments:				
Unaffiliated companies	(294,797)	15,475	3,005,039	3,962,313
Controlled affiliated companies	1,559,235	0	1,559,235	0
Unaffiliated rights to milestone payments	0	536,813	0	536,813
Non-Controlled affiliated companies	0	(4,488,575)	(392,430)	(11,199,638)
Publicly traded companies	11,158	0	52,569	1,333,497
Written call options	0	145,426	0	232,079
Realized gain (loss) from investments	1,275,596	(3,790,861)	4,224,413	(5,134,936)
Income tax expense (Note 10)	376	1,676	2,081	17,662
Net realized gain (loss) from investments	1,275,220	(3,792,537)	4,222,332	(5,152,598)

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

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

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HARRIS & HARRIS GROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited)

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

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Cash flows (used in) provided by operating activities:		
Net decrease in net assets resulting from operations	$ (22,356,159)	$ (3,058,474)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash (used in) provided by operating activities:		
Net realized loss (gain) and change in unrealized depreciation (appreciation) on investments	16,894,770	(2,897,018)
Depreciation of fixed assets, amortization of prepaid assets and accretion of bridge note interest	(381,204)	(145,502)
Share of loss on equity method investee	249,848	0
Stock-based compensation expense	617,972	741,483
Amortization of prior service cost	(156,738)	(156,738)
Purchase of U.S. government securities	0	(19,999,044)
Sale of U.S. government securities	0	38,998,052
Purchase of equity method investment	(262,215)	0
Purchase of affiliated portfolio companies	(6,690,532)	(12,056,559)
Purchase of unaffiliated portfolio companies	(509,824)	(240,500)
Payments received on debt investments	783,418	865,071
Proceeds from sale of investments and conversion of bridge notes	8,183,453	10,929,061
Proceeds from call option premiums	0	338,229
Payments for put and call option purchases	0	(218,352)
Changes in assets and liabilities:		
Receivable from portfolio company	160,877	54,160
Receivable from sales of investments	0	427,466
Interest receivable	51,462	2,728
Prepaid expenses	334,202	368,642
Other assets	(191,891)	(621)
Post-retirement plan liabilities	40,065	48,776
Accounts payable and accrued liabilities	(257,935)	(4,244)
Deferred rent	(38,752)	(10,771)
Net cash (used in) provided by operating activities	(3,529,183)	13,985,845
Cash flows from investing activities:		
Purchase of fixed assets	(6,806)	(5,296)
Net cash used in investing activities	(6,806)	(5,296)

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

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

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HARRIS & HARRIS GROUP, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(Unaudited)

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

End of the period	$ 86,974,196	$ 109,654,427

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

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HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF SEPTEMBER 30, 2015

(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Unaffiliated Companies (3) – 14.2% of net assets at value					
Private Placement Portfolio (Illiquid) (4) – 6.5% of net assets at value					
Bridgelux, Inc. (5)(8)(9)(10)		Energy			
Manufacturing high-power light emitting diodes (LEDs) and arrays					
Series B Convertible Preferred Stock	(M)		$1,000,000	1,861,504	$259,350
Series C Convertible Preferred Stock	(M)		1,352,196	2,130,699	535,587
Series D Convertible Preferred Stock	(M)		1,371,622	999,999	738,177
Series E Convertible Preferred Stock	(M)		672,599	440,334	608,537
Series E-1 Convertible Preferred Stock	(M)		386,073	399,579	401,267
Warrants for Series E Convertible Preferred Stock expiring 12/31/17	(M)		93,969	170,823	0
Warrants for Common Stock expiring 6/1/16	(M)		72,668	132,100	0
Warrants for Common Stock expiring 8/9/18	(M)		148,409	171,183	0
Warrants for Common Stock expiring 10/21/18	(M)		18,816	84,846	0
			5,116,352		2,542,918
Cambrios Technologies Corporation (5)(8)(9)		Electronics			
Developing nanowire-enabled electronic materials for the display industry					
Series B Convertible Preferred Stock	(I)		1,294,025	1,294,025	9,176
Series C Convertible Preferred Stock	(I)		1,300,000	1,300,000	9,218
Series D Convertible Preferred Stock	(I)		515,756	515,756	192,940
Series D-2 Convertible Preferred Stock	(I)		92,400	92,400	17,338
Series D-4 Convertible Preferred Stock	(I)		216,168	216,168	40,563
			3,418,349		269,235
Cobalt Technologies, Inc. (8)(9)(11)		Energy			
Developed processes for making bio-butanol through biomass fermentation					
Series C-1 Convertible Preferred Stock	(M)		749,998	352,112	0
Series D-1 Convertible Preferred Stock	(M)		122,070	48,828	0
Series E-1 Convertible Preferred Stock	(M)		114,938	46,089	0

Warrants for Series E-1 Pref. Stock expiring on 10/9/22	(I)		2,781	1,407	0
Warrants for Series E-1 Pref. Stock expiring on 3/11/23	(I)		5,355	2,707	0
			995,142		0
Magic Leap, Inc. (8)(9)(12)		Electronics			
Developing novel human computing interfaces and software					
Series B Convertible Preferred Stock	(I)		338,604	29,291	323,677

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

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HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF SEPTEMBER 30, 2015

(Unaudited)

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

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

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

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HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF SEPTEMBER 30, 2015

(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Rights to Milestone Payments (Illiquid) (6) – 5.8% of net assets at value					
Amgen, Inc. (8)(9)		Life Sciences			
Rights to Milestone Payments from Acquisition of BioVex Group, Inc.	(I)		$1,757,608	$1,757,608	$3,794,540
Laird Technologies, Inc. (8)(9)		Energy			
Rights to Milestone Payments from Merger & Acquisition of Nextreme Thermal Solutions, Inc.	(I)		0	$0	0
Canon, Inc. (8)(9)(14)		Electronics			
Rights to Milestone Payments from Acquisition of Molecular Imprints, Inc.	(I)		629,670	$629,670	1,263,543
Total Unaffiliated Rights to Milestone Payments (cost: $2,387,278)					$5,058,083
Publicly Traded Portfolio (7) – 1.9% of net assets at value					
Champions Oncology, Inc. (5)(9)		Life Sciences			
Developing its TumorGraft™ platform for personalized medicine and drug development					
Common Stock	(M)		$1,622,629	2,922,492	$1,579,284
Warrants for Common Stock expiring 1/28/19	(I)		400	66,000	26,420
			1,623,029		1,605,704
Total Unaffiliated Publicly Traded Portfolio (cost: $1,623,029)					$1,605,704
Total Investments in Unaffiliated Companies (cost: $23,926,586)					$12,353,509

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

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HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF SEPTEMBER 30, 2015

(Unaudited)

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

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

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF SEPTEMBER 30, 2015

(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 60.5% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (15) – 52.1% of net assets at value (Cont.)					
EchoPixel, Inc. (5)(8)(9)		Life Sciences			
Developing algorithms and software to improve visualization of data for life science and healthcare applications					
Series Seed Convertible Preferred Stock	(I)		$1,250,000	4,194,630	$1,348,754
Ensemble Therapeutics Corporation (5)(8)(9)		Life Sciences			
Developing DNA-Programmed Chemistry™ for the discovery of new classes of therapeutics					
Series B Convertible Preferred Stock	(I)		2,000,000	1,449,275	752,423
Series B-1 Convertible Preferred Stock	(I)		679,754	492,575	1,461,514
			2,679,754		2,213,937
HZO, Inc. (5)(8)(9)		Electronics			
Developing novel industrial coatings that protect electronics against damage from liquids					
Common Stock	(I)		666,667	405,729	318,269
Series I Convertible Preferred Stock	(I)		5,709,835	2,266,894	4,181,907
Series II Convertible Preferred Stock	(I)		2,500,006	674,638	2,503,470
			8,876,508		7,003,646
Laser Light Engines, Inc. (8)(9)		Energy			
Manufactured solid-state light sources for digital cinema and large-venue projection displays					
Series A Convertible Preferred Stock	(M)		2,000,000	7,499,062	0
Series B Convertible Preferred Stock	(M)		3,095,802	13,571,848	0
Secured Convertible Bridge Note, 12%, acquired 10/7/11	(M)		200,000	$200,000	0

Secured Convertible Bridge Note, 12%, acquired 11/17/11	(M)	95,652	$95,652	0
Secured Convertible Bridge Note, 12%, acquired 12/21/11	(M)	82,609	$82,609	0
Secured Convertible Bridge Note, 12%, acquired 3/5/12	(M)	434,784	$434,784	0
Secured Convertible Bridge Note, 12%, acquired 7/26/12	(M)	186,955	$186,955	0
Secured Convertible Bridge Note, 20%, acquired 4/29/13	(M)	166,667	$166,667	0
Secured Convertible Bridge Note, 20%, acquired 7/22/13	(M)	166,667	$166,667	0
Secured Convertible Bridge Note, 10%, acquired 10/30/13	(M)	80,669	$80,669	0
Secured Convertible Bridge Note, 10%, acquired 2/5/14	(M)	19,331	$19,331	0
Secured Convertible Bridge Note, 10%, acquired 6/24/14	(M)	13,745	$13,745	0
		6,542,881		0

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

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HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF SEPTEMBER 30, 2015

(Unaudited)

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

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

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

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HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF SEPTEMBER 30, 2015

(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	**Shares/** Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 60.5% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (15) – 52.1% of net assets at value (Cont.)					
Ultora, Inc. (5)(8)		Energy			
Developed energy-storage devices enabled by carbon nanotubes					
Series A Convertible Preferred Stock	(M)		$886,830	17,736	$0
Series B Convertible Preferred Stock	(M)		236,603	2,347,254	0
Secured Convertible Bridge Note, 5%, acquired 5/7/14	(M)		86,039	$86,039	0
Secured Convertible Bridge Note, 5%, acquired 8/20/14	(M)		17,208	$17,208	0
Secured Convertible Bridge Note, 5%, acquired 10/14/14	(M)		10,750	$10,750	0
Secured Convertible Bridge Note, 5%, acquired 3/30/15	(M)		7,525	$7,525	0
			1,244,955		0
Total Non-Controlled Private Placement Portfolio (cost: $57,473,883)					$45,339,625
Publicly Traded Portfolio (19) – 8.4% of net assets at value					
Enumeral Biomedical Holdings, Inc. (5)(9)(20)		Life Sciences			
Developing therapeutics and diagnostics through functional assaying of single cells					
Common Stock	(M)		$4,993,357	7,966,368	$3,160,681
Warrants for Common Stock expiring 7/30/19	(I)		540,375	1,500,000	195,549
Warrants for Common Stock expiring 2/2/24	(I)		57,567	255,120	87,482
Options to Purchase Common Stock at $1.00 expiring 7/30/16	(I)		0	80,000	1,875
			5,591,299		3,445,587

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

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF SEPTEMBER 30, 2015

(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	**Shares/** Principal	Value
Investments in Controlled Affiliated Companies (3) – 7.2% of net assets at value					
Private Placement Portfolio (Illiquid) (22) – 7.2% of net assets at value					
Black Silicon Holdings, Inc. (5)(8)(23)		Electronics			
Developing silicon-based optoelectronic products enabled by its proprietary Black Silicon					
Series A Convertible Preferred Stock	(I)		$750,000	233,499	$0
Series A-1 Convertible Preferred Stock	(I)		890,000	2,966,667	0
Series A-2 Convertible Preferred Stock	(I)		2,445,000	4,207,537	0
Series B-1 Convertible Preferred Stock	(I)		1,169,561	1,892,836	0
Series C Convertible Preferred Stock	(I)		1,171,316	1,674,030	0
Secured Convertible Bridge Note, 8%, acquired 8/4/15	(I)		1,294,931	$1,278,454	318,738
			7,720,808		318,738
NGX Bio, Inc. (5)(8)(9)(24)		Life Sciences			
Developing translational genomics solutions					
Series Seed Convertible Preferred Stock	(I)		375,000	500,000	585,214
Series A Convertible Preferred Stock	(I)		499,999	329,989	504,882
Warrants for Series Seed Preferred Stock expiring 6/6/19	(I)		125,000	166,667	195,070
			999,999		1,285,166
ProMuc, Inc. (5)(8)		Life Sciences			
Developing synthetic mucins for the nutritional, food and healthcare markets					
Common Stock	(M)		1	1,000	1
Secured Convertible Bridge Note, 8%, acquired 12/18/13	(M)		400,016	$350,000	400,016
Secured Convertible Bridge Note, 8%, acquired 8/13/14	(M)		109,074	$100,000	109,074
	(M)		75,937	$75,000	75,937

Secured Convertible Bridge Note, 8%, acquired 8/5/15			585,028		585,028
Senova Systems, Inc. (5)(8)		Life Sciences			
Developing next-generation sensors to measure pH					
Series B Convertible Preferred Stock	(I)		1,218,462	1,350,000	465,021
Series B-1 Convertible Preferred Stock	(I)		1,083,960	2,759,902	879,999
Series C Convertible Preferred Stock	(I)		1,208,287	1,611,049	1,210,089
Warrants for Series B Preferred Stock expiring 10/15/17	(I)		131,538	164,423	56,637
Warrants for Series B Preferred Stock expiring 4/24/18	(I)		20,000	25,000	8,611
			3,662,247		2,620,357

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF SEPTEMBER 30, 2015

(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Controlled Affiliated Companies (3) – 7.2% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (22) – 7.2% of net assets at value (Cont.)					
SynGlyco, Inc. (5)(8)		Life Sciences			
Developed synthetic carbohydrates for pharmaceutical applications					
Common Stock	(I)		$2,729,817	57,463	$0
Series A' Convertible Preferred Stock	(I)		4,855,627	4,855,627	123,460
Secured Convertible Bridge Note, 8%, acquired 1/23/13	(I)		430,699	$350,000	430,699
Secured Convertible Bridge Note, 8%, acquired 4/25/13	(I)		362,114	$300,000	362,114
			8,378,257		916,273
TARA Biosystems, Inc. (5)(8)		Life Sciences			
Developing human tissue models for toxicology and drug discovery applications					
Common Stock	(M)		20	2,000,000	20
Secured Convertible Bridge Note, 8%, acquired 8/20/14	(M)		326,983	$300,000	326,983
Secured Convertible Bridge Note, 8%, acquired 5/18/15	(M)		205,961	$200,000	205,961
			532,964		532,964
Total Controlled Private Placement Portfolio (cost: $21,879,303)					$6,258,526
Total Investments in Controlled Affiliated Companies (cost: $21,879,303)					$6,258,526
					$71,237,485

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

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

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HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF SEPTEMBER 30, 2015

(Unaudited)

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

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF SEPTEMBER 30, 2015

(Unaudited)

Notes to Consolidated Schedule of Investments

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

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

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

(4) The aggregate cost for federal income tax purposes of investments in unaffiliated privately held companies is $19,916,279. The gross unrealized appreciation based on the tax cost for these securities is $0. The gross unrealized depreciation based on the tax cost for these securities is $14,226,557.

(5) All or a portion of the investments or instruments are pledged as collateral under our Loan Facility with Orix Corporate Capital, Inc.

(6) The aggregate cost for federal income tax purposes of investments in unaffiliated rights to milestone payments is $2,387,278. The gross unrealized appreciation based on the tax cost for these securities is $2,670,805. The gross unrealized depreciation based on the tax cost for these securities is $0.

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

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

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

(9) Represents a non-income producing security. Investments that have not paid dividends or interest within the last 12 months are considered to be non-income producing.

(10) On July 21, 2015, Bridgelux signed a definitive agreement to be acquired by an investment group led by China Electronics Corporation and ChongQing Linkong Development Investment Company. The close of this transaction is subject to customary regulatory approvals.

(11) Cobalt Technologies, Inc., also did business as Cobalt Biofuels. Cobalt is in the process of liquidating its assets for the benefit of creditors.

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

(13) Initial investment was made in 2015.

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF SEPTEMBER 30, 2015

(Unaudited)

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

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

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

(17) D-Wave Systems, Inc., is located and is doing business primarily in Canada. We invested in D-Wave through Parallel Universes, Inc., a Delaware company. Our investment is denominated in Canadian dollars and is subject to foreign currency translation. See "Note 3. Summary of Significant Accounting Policies." D-Wave is not a qualifying asset under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire non-qualifying assets unless, at the time the acquisition is made, qualifying assets are at least 70 percent of our total assets.

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

(19) The aggregate cost for federal income tax purposes of investments in non-controlled affiliated publicly traded companies is $11,683,371. The gross unrealized appreciation based on the tax cost for these securities is $0. The gross unrealized depreciation based on the tax cost for these securities is $4,397,546.

(20) A portion of the Company's shares and warrants of Enumeral Biomedical Holdings, Inc., are subject to restrictions on transfer**,** and we are also subject to a lock-up agreement that restricts our ability to trade these shares, exclusive of the general restriction on the transfer of unregistered securities. The lock-up period on our 7,966,368 shares of Enumeral Biomedical Holdings expires on January 31, 2016.

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

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

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

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

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

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

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

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

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HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2014

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Unaffiliated Companies (3) – 16.8% of net assets at value					
Private Placement Portfolio (Illiquid) (4) – 12.6% of net assets at value					
Bridgelux, Inc. (5)(8)(9)		Energy			
Manufacturing high-power light emitting diodes (LEDs) and arrays					
Series B Convertible Preferred Stock	(M)		$1,000,000	1,861,504	$607,692
Series C Convertible Preferred Stock	(M)		1,352,196	2,130,699	826,294
Series D Convertible Preferred Stock	(M)		1,371,622	999,999	787,915
Series E Convertible Preferred Stock	(M)		672,599	440,334	724,344
Series E-1 Convertible Preferred Stock	(M)		386,073	399,579	499,686
Warrants for Series C Convertible Preferred Stock expiring 8/31/15	(I)		168,270	163,900	32,815
Warrants for Series D Convertible Preferred Stock expiring 8/31/15	(I)		128,543	166,665	35,139
Warrants for Series E Convertible Preferred Stock expiring 12/31/17	(I)		93,969	170,823	36,448
Warrants for Common Stock expiring 6/1/16	(I)		72,668	132,100	6,562
Warrants for Common Stock expiring 8/9/18	(I)		148,409	171,183	29,966
Warrants for Common Stock expiring 10/21/18	(I)		18,816	84,846	4,215
			5,413,165		3,591,076
Cambrios Technologies Corporation (5)(8)(9)		Electronics			
Developing nanowire-enabled electronic materials for the display industry					
Series B Convertible Preferred Stock	(I)		1,294,025	1,294,025	41,829
Series C Convertible Preferred Stock	(I)		1,300,000	1,300,000	42,022
Series D Convertible Preferred Stock	(I)		515,756	515,756	358,416
Series D-2 Convertible Preferred Stock	(I)		92,400	92,400	32,361
Series D-4 Convertible Preferred Stock	(I)		216,168	216,168	75,708
			3,418,349		550,336
Cobalt Technologies, Inc. (5)(8)(9)(10)		Energy			
Developing processes for making bio-butanol through biomass fermentation					
Series C-1 Convertible Preferred Stock	(M)		749,998	352,112	0

Series D-1 Convertible Preferred Stock	(M)	122,070	48,828	0
Series E-1 Convertible Preferred Stock	(M)	114,938	46,089	0
Warrants for Series E-1 Pref. Stock expiring on 10/9/22	(I)	2,781	1,407	0
Warrants for Series E-1 Pref. Stock expiring on 3/11/23	(I)	5,355	2,707	0
		995,142		0

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

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HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2014

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Unaffiliated Companies (3) – 16.8% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (4) – 12.6% of net assets at value (Cont.)					
GEO Semiconductor Inc. (5)(11)		Electronics			
Developing programmable, high-performance video and geometry processing solutions					
Loan and Security Agreement with GEO Semiconductor relating to the following assets:					
Warrants for Series A Pref. Stock expiring on 3/1/18	(I)		$7,512	10,000	$10,919
Warrants for Series A-1 Pref. Stock expiring on 6/29/18	(I)		7,546	10,000	12,010
			15,058		22,929
Mersana Therapeutics, Inc. (5)(8)(9)(12)		Life Sciences			
Developing antibody drug conjugates for cancer therapy					
Series A-1 Convertible Preferred Stock	(I)		683,538	635,081	434,387
Common Stock	(I)		3,875,395	350,539	138,048
			4,558,933		572,435
Molecular Imprints, Inc. (5)(8)(9)(13)		Electronics			
Manufacturing nanoimprint lithography capital equipment for non-semiconductor manufacturing markets					
Series A Convertible Preferred Stock	(M)		928,884	928,884	928,884
Nanosys, Inc. (5)(8)		Energy			
Developing inorganic nanowires and quantum dots for use in LED-backlit devices					
Series C Convertible Preferred Stock	(M)		1,500,000	803,428	932,035
Series D Convertible Preferred Stock	(M)		3,000,003	1,016,950	2,530,003
Series E Convertible Preferred Stock	(M)		496,573	433,688	844,004
			4,996,576		4,306,042

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

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HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2014

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Unaffiliated Companies (3) – 16.8% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (4) – 12.6% of net assets at value (Cont.)					
Nano Terra, Inc. (5)		Energy			
Developing surface chemistry and nano-manufacturing solutions					
Senior secured debt, 12.0%, maturing on 12/1/15	(I)		$349,966	$385,369	$383,180
Warrants for Series A-2 Pref. Stock expiring on 2/22/21	(I)		69,168	446,248	13
Warrants for Series C Pref. Stock expiring on 11/15/22	(I)		35,403	241,662	66,673
			454,537		449,866
Nantero, Inc. (5)(8)(9)		Electronics			
Developing a high-density, nonvolatile, random access memory chip, enabled by carbon nanotubes					
Series A Convertible Preferred Stock	(I)		489,999	345,070	1,440,529
Series B Convertible Preferred Stock	(I)		323,000	207,051	871,532
Series C Convertible Preferred Stock	(I)		571,329	188,315	941,639
Series D Convertible Preferred Stock	(I)		139,075	35,569	179,638
			1,523,403		3,433,338
Total Unaffiliated Private Placement Portfolio (cost: $22,304,047)					$13,854,90[illegible]
Rights to Milestone Payments (Illiquid) (6) – 2.9% of net assets at value					
Amgen, Inc. (8)(9)		Life Sciences			
Rights to Milestone Payments from Acquisition of BioVex Group, Inc.	(I)		$1,757,608	$1,757,608	$2,564,917
Laird Technologies, Inc. (8)(9)		Energy			
Rights to Milestone Payments from Merger & Acquisition of Nextreme Thermal Solutions, Inc.	(I)		0	$0	0
Canon, Inc. (8)(9)		Electronics			
	(I)		629,670	$629,670	628,948

Rights to Milestone Payments from Acquisition of Molecular Imprints, Inc.	
Total Unaffiliated Rights to Milestone Payments (cost: $2,387,278)	$3,193,865

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2014

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Publicly Traded Portfolio (7) – 1.3% of net assets at value					
Solazyme, Inc. (5)(9)		Energy			
Developing algal biodiesel, industrial chemicals and specialty ingredients using synthetic biology					
Common Stock	(M)		$118,099	50,000	$129,000
Champions Oncology, Inc. (5)(9)		Life Sciences			
Developing its TumorGraft™ platform for personalized medicine and drug development					
Common Stock	(M)		1,622,629	2,523,895	1,261,695
Warrants for Common Stock expiring 1/29/18	(I)		400	40,000	7,390
			1,623,029		1,269,085
Total Unaffiliated Publicly Traded Portfolio (cost: $1,741,128)					$1,398,085
Total Investments in Unaffiliated Companies (cost: $26,432,453)					$18,446,856

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2014

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 61.0% of net assets at value					
Private Placement Portfolio (Illiquid) (14) – 53.3% of net assets at value					
ABSMaterials, Inc. (5)(8)(9)		Energy			
Developing nano-structured absorbent materials for environmental remediation					
Series A Convertible Preferred Stock	(I)		$435,000	390,000	$291,875
Series B Convertible Preferred Stock	(I)		1,217,644	1,037,751	1,255,717
			1,652,644		1,547,592
Accelerator IV-New York Corporation (8)(9)(15)(16)		Life Sciences			
Identifying and managing emerging biotechnology companies					
Series A Common Stock	(I)		216,012	216,012	51,627
Adesto Technologies Corporation (5)(8)(9)(17)		Electronics			
Developing low-power, high-performance memory devices					
Series A Convertible Preferred Stock	(H)		2,200,000	6,547,619	1,652,609
Series B Convertible Preferred Stock	(H)		2,200,000	5,952,381	1,527,457
Series C Convertible Preferred Stock	(H)		1,485,531	2,122,187	632,526
Series D Convertible Preferred Stock	(H)		1,393,147	1,466,470	612,462
Series D-1 Convertible Preferred Stock	(H)		703,740	987,706	356,159
Series E Convertible Preferred Stock	(H)		2,499,999	3,508,771	10,042,110
			10,482,417		14,823,323
AgBiome, LLC (5)(8)(9)		Life Sciences			
Providing early-stage research and discovery for agriculture and utilizing the crop microbiome to identify products that reduce risk and improve yield					
Series A-1 Convertible Preferred Stock	(I)		2,000,000	2,000,000	2,406,210
Series A-2 Convertible Preferred Stock	(I)		521,740	417,392	583,494
			2,521,740		2,989,704

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2014

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 61.0% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (14) – 53.3% of net assets at value (Cont.)					
D-Wave Systems, Inc. (8)(18)		Electronics			
Developing high-performance quantum computing systems					
Series 1 Class B Convertible Preferred Stock	(H)		$1,002,074	1,144,869	$1,766,715
Series 1 Class C Convertible Preferred Stock	(H)		487,804	450,450	699,457
Series 1 Class D Convertible Preferred Stock	(H)		748,473	855,131	1,327,843
Series 1 Class E Convertible Preferred Stock	(H)		248,049	269,280	435,260
Series 1 Class F Convertible Preferred Stock	(H)		238,323	258,721	418,193
Series 1 Class H Convertible Preferred Stock	(H)		909,088	460,866	870,998
Series 2 Class D Convertible Preferred Stock	(H)		736,019	678,264	1,053,205
Series 2 Class E Convertible Preferred Stock	(H)		659,493	513,900	839,844
Series 2 Class F Convertible Preferred Stock	(H)		633,631	493,747	806,909
Warrants for Common Stock expiring 6/30/15	(I)		98,644	153,890	108,479
Warrants for Common Stock expiring 5/12/19	(I)		26,357	20,415	8,351
			5,787,955		8,335,254
EchoPixel, Inc. (5)(8)(9)		Life Sciences			
Developing algorithms and software to improve visualization of data for life science and healthcare applications					
Series Seed Convertible Preferred Stock	(I)		1,250,000	4,194,630	1,312,425
Ensemble Therapeutics Corporation (5)(8)		Life Sciences			
Developing DNA-Programmed Chemistry™ for the discovery of new classes of therapeutics					
Series B Convertible Preferred Stock	(I)		2,000,000	1,449,275	1,060,023
Series B-1 Convertible Preferred Stock	(I)		679,754	492,575	1,833,862
			2,679,754		2,893,885
HZO, Inc. (5)(8)(9)		Electronics			
Developing novel industrial coatings that protect electronics against damage from liquids					

Common Stock	(I)	666,667	405,729	322,832
Series I Convertible Preferred Stock	(I)	5,709,835	2,266,894	4,482,097
Series II Convertible Preferred Stock	(I)	2,000,003	539,710	2,113,002
		8,376,505		6,917,931

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2014

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 61.0% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (14) – 53.3% of net assets at value (Cont.)					
Laser Light Engines, Inc. (5)(8)		Energy			
Manufactured solid-state light sources for digital cinema and large-venue projection displays					
Series A Convertible Preferred Stock	(M)		$2,000,000	7,499,062	$0
Series B Convertible Preferred Stock	(M)		3,095,802	13,571,848	0
Secured Convertible Bridge Note, 12%, acquired 10/7/11	(M)		200,000	$200,000	0
Secured Convertible Bridge Note, 12%, acquired 11/17/11	(M)		95,652	$95,652	0
Secured Convertible Bridge Note, 12%, acquired 12/21/11	(M)		82,609	$82,609	0
Secured Convertible Bridge Note, 12%, acquired 3/5/12	(M)		434,784	$434,784	0
Secured Convertible Bridge Note, 12%, acquired 7/26/12	(M)		186,955	$186,955	0
Secured Convertible Bridge Note, 20%, acquired 4/29/13	(M)		166,667	$166,667	0
Secured Convertible Bridge Note, 20%, acquired 7/22/13	(M)		166,667	$166,667	0
Secured Convertible Bridge Note, 10%, acquired 10/30/13	(M)		80,669	$80,669	0
Secured Convertible Bridge Note, 10%, acquired 2/5/14	(M)		19,331	$19,331	0
Secured Convertible Bridge Note, 10%, acquired 6/24/14	(M)		13,745	$13,745	0
			6,542,881		0
Metabolon, Inc. (5)(8)(9)		Life Sciences			
Developing service and diagnostic products through the use of a metabolomics, or biochemical, profiling platform					
Series B Convertible Preferred Stock	(H)		2,500,000	371,739	2,781,3
Series B-1 Convertible Preferred Stock	(H)		706,214	148,696	1,158,6
Series C Convertible Preferred Stock	(H)		1,000,000	1,000,000	2,535,5
Series D Convertible Preferred Stock	(H)		1,499,999	835,882	2,179,6
Series E Convertible Preferred Stock	(H)		1,225,000	444,404	1,556,8
Warrants for Series B-1 Convertible Preferred Stock expiring 3/25/15	(I)		293,786	74,348	484,53
			7,224,999		10,696
OpGen, Inc. (8)(19)		Life Sciences			
Developing tools for genomic sequence assembly and analysis					

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

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

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HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2014

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 61.0% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (14) – 53.3% of net assets at value (Cont.)					
Produced Water Absorbents, Inc. (5)(8)		Energy			
Developing nano-structured absorbent materials for environmental remediation of contaminated water in the oil and gas industries					
Series A Convertible Preferred Stock	(M)		$1,000,000	1,000,000	$300,215
Series B Convertible Preferred Stock	(M)		1,496,865	5,987,460	2,188,272
Series B-2 Convertible Preferred Stock	(M)		1,015,427	4,322,709	1,579,844
Series B-3 Convertible Preferred Stock	(M)		978,641	3,914,564	1,430,677
Series C Convertible Preferred Stock	(M)		1,000,268	2,667,380	755,130
Subordinated Secured Debt, 12%, maturing on 6/30/15	(M)		979,253	$1,000,000	979,450
Warrants for Series B-2 Preferred Stock expiring upon liquidation event	(I)		65,250	300,000	44,014
			6,535,704		7,277,602
SiOnyx, Inc. (5)(8)		Electronics			
Developing silicon-based optoelectronic products enabled by its proprietary Black Silicon					
Series A Convertible Preferred Stock	(I)		750,000	233,499	0
Series A-1 Convertible Preferred Stock	(I)		890,000	2,966,667	0
Series A-2 Convertible Preferred Stock	(I)		2,445,000	4,207,537	0
Series B-1 Convertible Preferred Stock	(I)		1,169,561	1,892,836	0
Series C Convertible Preferred Stock	(I)		1,171,316	1,674,030	0
Secured Convertible Bridge Note, 8%, acquired 1/31/14	(I)		1,281,125	$1,281,125	0
Secured Convertible Bridge Note, 8%, acquired 5/9/14	(I)		76,966	$93,976	0
Secured Convertible Bridge Note, 10%, acquired 12/12/14	(I)		69,382	$68,999	161,285
Warrants for Series B-1 Convertible Preferred Stock expiring 2/23/17	(I)		130,439	247,350	0
Warrants for Common Stock expiring 3/28/17	(I)		84,207	418,507	0
Warrants for Common Stock expiring 5/9/19	(I)		17,010	3,208	0
			8,085,006		161,285

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2014

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 61.0% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (14) – 53.3% of net assets at value (Cont.)					
Ultora, Inc. (5)(8)		Energy			
Developing energy-storage devices enabled by carbon nanotubes					
Series A Convertible Preferred Stock	(I)		$886,830	17,736	$0
Series B Convertible Preferred Stock	(I)		236,603	2,347,254	0
Secured Convertible Bridge Note, 5%, acquired 5/7/14	(I)		86,039	$86,039	0
Secured Convertible Bridge Note, 5%, acquired 8/20/14	(I)		17,208	$17,208	0
Secured Convertible Bridge Note, 5%, acquired 10/14/14	(I)		10,750	$10,750	0
			1,237,430		0
Total Non-Controlled Private Placement Portfolio (cost: $67,236,533)					$58,470,86
Publicly Traded Portfolio (20) – 7.7% of net assets at value					
Enumeral Biomedical Holdings, Inc. (5)(21)		Life Sciences			
Developing therapeutics and diagnostics through functional assaying of single cells					
Common Stock	(M)		$4,993,357	7,966,368	$7,251,178
Warrants for Common Stock expiring 7/30/19	(I)		540,375	1,500,000	874,594
Warrants for Common Stock expiring 2/2/24	(I)		57,567	255,120	208,179
Options to Purchase Common Stock at $1.00 expiring 8/4/24	(I)		0	56,667	50,690
			5,591,299		8,384,641
Total Non-Controlled Publicly Traded Portfolio (cost: $5,591,299)					$8,384,641
Total Investments in Non-Controlled Affiliated Companies (cost: $72,827,832)					$66,855,50

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2014

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Controlled Affiliated Companies (3) – 4.1% of net assets at value					
Private Placement Portfolio (Illiquid) (22) – 4.1% of net assets at value					
ProMuc, Inc. (5)(8)		Life Sciences			
Developing synthetic mucins for the nutritional, food and healthcare markets					
Common Stock	(M)		$1	1,000	$1
Secured Convertible Bridge Note, 8%, acquired 12/18/13	(M)		379,074	$350,000	379,074
Secured Convertible Bridge Note, 8%, acquired 8/13/14	(M)		103,090	$100,000	103,090
			482,165		482,165
Senova Systems, Inc. (5)(8)		Life Sciences			
Developing next-generation sensors to measure pH					
Series B Convertible Preferred Stock	(I)		1,218,462	1,350,000	403,123
Series B-1 Convertible Preferred Stock	(I)		1,083,960	2,759,902	899,187
Series C Convertible Preferred Stock	(I)		608,287	811,049	609,349
Warrants for Series B Preferred Stock expiring 10/15/17	(I)		131,538	164,423	49,098
Warrants for Series B Preferred Stock expiring 4/24/18	(I)		20,000	25,000	7,465
			3,062,247		1,968,222
SynGlyco, Inc. (5)(8)		Life Sciences			
Developed synthetic carbohydrates for pharmaceutical applications					
Common Stock	(I)		2,729,817	57,463	0
Series A' Convertible Preferred Stock	(I)		4,855,627	4,855,627	0
Senior Secured Debt, 12.00%, maturing on 12/11/14	(I)		424,101	$500,000	820,119
Secured Convertible Bridge Note, 8%, acquired 1/23/13	(I)		406,417	$350,000	204,763
Secured Convertible Bridge Note, 8%, acquired 4/25/13	(I)		341,825	$300,000	172,220
			8,757,787		1,197,102
TARA Biosystems, Inc. (5)(8)(15)		Life Sciences			
Developing human tissue models for toxicology and drug discovery applications					
Common Stock	(M)		20	2,000,000	20
Secured Convertible Bridge Note, 8%, acquired 8/20/14	(M)		308,811	$300,000	308,811

308,831	308,831

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 DECEMBER 31, 2014

	Method of Valuation (1)	Primary Industry (2)	Cost	**Shares/** Principal	Value
Investments in Controlled Affiliated Companies (3) – 4.1% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (22) – 4.1% of net assets at value (Cont.)					
UberSeq, Inc. (5)(8)(9)(15)		Life Sciences			
Developing translational genomics solutions					
Series Seed Convertible Preferred Stock	(I)		$500,000	500,000	$506,159
Total Controlled Private Placement Portfolio (cost: $13,111,030)					$4,462,479
Total Investments in Controlled Affiliated Companies (cost: $13,111,030)					$4,462,479
Total Private Placement and Publicly Traded Portfolio (cost: $112,371,315)					$89,764,840
Total Investments (cost: $112,371,315)					$89,764,840

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2014

Notes to Consolidated Schedule of Investments

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

(2) We classify "Energy" companies as those that seek to improve performance, productivity or efficiency, and to reduce environmental impact, waste, cost, energy consumption or raw materials. We classify "Electronics" companies as those that address problems in electronics-related industries, including semiconductors. 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 $22,304,047. The gross unrealized appreciation based on the tax cost for these securities is $7,872. The gross unrealized depreciation based on the tax cost for these securities is $8,457,013.

(5) All or a portion of the investments or instruments are pledged as collateral under our Loan Facility with Orix Corporate Capital, Inc.

(6) The aggregate cost for federal income tax purposes of investments in unaffiliated rights to milestone payments is $2,387,278. The gross unrealized appreciation based on the tax cost for these securities is $807,309. The gross unrealized depreciation based on the tax cost for these securities is $722.

(7) The aggregate cost for federal income tax purposes of investments in unaffiliated publicly traded companies is $1,741,128. The gross unrealized appreciation based on the tax cost for these securities is $10,901. The gross unrealized depreciation based on the tax cost for these securities is $353,944.

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

(9) Represents a non-income producing security. Investments that have not paid dividends or interest within the last 12 months are considered to be non-income producing.

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

(11) On March 11, 2015, we submitted notice to exercise our put option for our remaining warrants of GEO Semiconductor, Inc.

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2014

(12) 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 December 31, 2014, and, therefore, this warrant is a contingent asset as of that date. In January 2015, the holders of these warrants, including the Company, elected to cancel them owing to the milestones being impossible to achieve.

(13) Upon the closing of Canon, Inc.'s acquisition of Molecular Imprints, Inc.'s semiconductor lithography equipment business, a new spin-out company, which retained the name Molecular Imprints, Inc., was formed. These shares represent our investment in the new company.

(14) The aggregate cost for federal income tax purposes of investments in non-controlled affiliated privately held companies is $67,236,533. The gross unrealized appreciation based on the tax cost for these securities is $11,846,184. The gross unrealized depreciation based on the tax cost for these securities is $20,611,853.

(15) Initial investment was made in 2014.

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

(17) Adesto Technologies Corporation's Series E shares have certain rights and preferences in a sale or IPO that are not ascribed to the other classes of stock.

(18) D-Wave Systems, Inc., is located and is doing business primarily in Canada. We invested in D-Wave through Parallel Universes, Inc., a Delaware company. Our investment is denominated in Canadian dollars and is subject to foreign currency translation. See "Note 2. Summary of Significant Accounting Policies." D-Wave is not a qualifying asset under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire non-qualifying assets unless, at the time the acquisition is made, qualifying assets are at least 70 percent of our total assets.

(19) On March 3, 2015, OpGen, Inc., filed a registration statement on Form S-1 to seek an IPO. There can be no assurances if or when such IPO will occur or if it will be successful.

(20) The aggregate cost for federal income tax purposes of investments in non-controlled affiliated publicly traded companies is $5,591,299. The gross unrealized appreciation based on the tax cost for these securities is $2,793,342. The gross unrealized depreciation based on the tax cost for these securities is $0.

(21) The Company's shares of Enumeral Biomedical Holdings, Inc., are subject to restrictions on transfer**,** and we are also subject to a lock-up agreement that restricts our ability to trade these shares, exclusive of the general restriction on the transfer of unregistered securities. The lock-up period on our 7,966,368 shares of Enumeral Biomedical Holdings expires on January 31, 2016.

(22) The aggregate cost for federal income tax purposes of investments in controlled affiliated companies is \$13,111,030. The gross unrealized appreciation based on the tax cost for these securities is \$6,159. The gross unrealized depreciation based on the tax cost for these securities is \$8,654,710.

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

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HARRIS & HARRIS GROUP, INC.

FOOTNOTE TO CONSOLIDATED SCHEDULE OF INVESTMENTS

VALUATION PROCEDURES

I. Determination of Net Asset Value

The 1940 Act requires periodic valuation of each investment in the portfolio of the Company to determine its net asset value. Under the 1940 Act, unrestricted securities with readily available market quotations are to be valued at the current market value; all other assets must be valued at "fair value" as determined in good faith by or under the direction of the Board of Directors.

The Board of Directors is also responsible for (1) determining overall valuation guidelines and (2) ensuring that the investments of the Company are valued within the prescribed guidelines.

The Valuation Committee, comprised of all of the independent Board members, is responsible for determining the valuation of the Company's assets within the guidelines established by the Board of Directors. The Valuation Committee receives information and recommendations from management. An independent valuation firm also reviews select portfolio company valuations. The independent valuation firm does not provide proposed valuations.

The fair values assigned to these investments are based on available information and do not necessarily represent amounts that might ultimately be realized when that investment is sold, as such amounts depend on future circumstances and cannot reasonably be determined until the individual investments are actually liquidated or become readily marketable.

The deal team meets at the end of each quarter to discuss portfolio companies and propose fair valuations for all privately held securities, restricted publicly traded securities and publicly traded securities without reliable market quotations. The Valuation Committee book is prepared with the use of data from primary sources whenever reasonably practicable. Proposed valuations for each portfolio company are communicated to the Valuation Committee in the Valuation Committee book and at the Valuation Committee meeting after the end of each quarter. The Valuation Committee determines the fair value of each private security and publicly traded securities without reliable market quotations. All valuations are then reported to the full Board of Directors along with the Chief Financial Officer's calculation of net asset value.

II. Approaches to Determining Fair Value

Accounting Standards Codification Topic 820, "Fair Value Measurements and Disclosures," ("ASC 820") defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). It applies fair value terminology to all valuations whereas the 1940 Act applies market value terminology to readily marketable assets and fair value terminology to other assets.

The main approaches to measuring fair value utilized are the market approach, the income approach and the hybrid approach.

- Market Approach (M): The market approach may use quantitative inputs such as prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities and the values of market multiples derived from a set of comparable companies. The market approach may also use qualitative inputs such as progress toward milestones, the long-term potential of the business, current and future financing requirements and the rights and preferences of certain securities versus those of other securities. The selection of the relevant inputs used to derive value under the market approach requires judgment considering factors specific to the significance and relevance of each input to deriving value.

- Income Approach (I): The income approach uses valuation techniques to convert future amounts (for example, revenue, cash flows or earnings) to a single present value amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts. Those valuation techniques include present value techniques; option-pricing models, such as the Black-Scholes-Merton formula (a closed-form model) and a binomial model (a lattice model), which incorporate present value techniques; and the multi-period excess earnings method, which is used to measure the fair value of certain assets.

- Hybrid Approach (H): The hybrid approach uses elements of both the market approach and the income approach. The hybrid approach calculates values using the market and income approach, individually. The resulting values are then distributed among the share classes based on probability of exit outcomes.

ASC Topic 820 classifies the inputs used to measure fair value by these approaches into the following hierarchy:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;

- Level 2: Quoted prices in active markets for similar assets or liabilities, or quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Level 2 inputs are in those markets for which there are few transactions, the prices are not current, little public information exists or instances where prices vary substantially over time or among brokered market makers; and

- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs are those inputs that reflect our own assumptions that market participants would use to price the asset or liability based upon the best available information.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement and are not necessarily an indication of risks associated with the investment.

III. Investment Categories

The Company's investments can be classified into five broad categories for valuation purposes:

- Equity-related securities;
- Long-term fixed-income securities;
- Short-term fixed-income securities;
- Investments in intellectual property, patents, research and development in technology or product development; and
- All other securities.

The Company applies the methods for determining fair value discussed above to the valuation of investments in each of these five broad categories as follows:

A. EQUITY-RELATED SECURITIES

Equity-related securities, including options or warrants, are fair valued using the market, income or hybrid approaches. The following factors may be considered to fair value these types of securities:

§ Readily available public market quotations;

§ The cost of the Company's investment;

§

Transactions in a company's securities or unconditional firm offers by responsible parties as a factor in determining valuation;

- § The financial condition and operating results of the company;
- § The company's progress towards milestones;
- § The long-term potential of the business and technology of the company;
- § The values of similar securities issued by companies in similar businesses;

§ Multiples to revenue, net income or EBITDA that similar securities issued by companies in similar businesses receive;

§ Estimated time to exit;

§ Volatility of similar securities in similar businesses;

§ The proportion of the company's securities we own and the nature of any rights to require the company to register restricted securities under applicable securities laws; and

§ The rights and preferences of the class of securities we own as compared with other classes of securities the portfolio company has issued.

When the income approach is used to value warrants, the Company uses the Black-Scholes-Merton formula.

B. LONG-TERM FIXED-INCOME SECURITIES

1. **Readily Marketable.** Long-term fixed-income securities for which market quotations are readily available are valued using the most recent bid quotations when available.

2. **Not Readily Marketable**. Long-term fixed-income securities for which market quotations are not readily available are fair valued using the income approach. The factors that may be considered when valuing these types of securities by the income approach include:

· Credit quality;

· Interest rate analysis;

· Quotations from broker-dealers;

· Prices from independent pricing services that the Board believes are reasonably reliable; and

· Reasonable price discovery procedures and data from other sources.

C. SHORT-TERM FIXED-INCOME SECURITIES

Short-term fixed-income securities are valued in the same manner as long-term fixed-income securities until the remaining maturity is 60 days or less, after which time such securities may be valued at amortized cost if there is no concern over payment at maturity.

D. INVESTMENTS IN INTELLECTUAL PROPERTY, PATENTS, RESEARCH AND DEVELOPMENT IN TECHNOLOGY OR PRODUCT DEVELOPMENT

Such investments are fair valued using the market approach. The Company may consider factors specific to these types of investments when using the market approach including:

- The cost of the Company's investment;
- Investments in the same or substantially similar intellectual property or patents or research and development in technology or product development or offers by responsible third parties;
- The results of research and development;
- Product development and milestone progress;
- Commercial prospects;
- Term of patent;
- Projected markets; and
- Other subjective factors.

E. ALL OTHER SECURITIES

All other securities are reported at fair value as determined in good faith by the Valuation Committee using the approaches for determining valuation as described above.

For all other securities, the reported values shall reflect the Valuation Committee's judgment of fair values as of the valuation date using the outlined basic approaches of valuation discussed in Section II. They do not necessarily represent an amount of money that would be realized if we had to sell such assets in an immediate liquidation. Thus, valuations as of any particular date are not necessarily indicative of amounts that we may ultimately realize as a result of future sales or other dispositions of investments we hold.

IV. Frequency of Valuation

The Valuation Committee shall value the Company's investment assets (i) as of the end of each calendar quarter at the time sufficiently far in advance of filing of the Company's reports on Form 10-Q and Form 10-K to enable preparation thereof, (ii) as of within 48 hours of pricing any common stock of the Company by the Company (exclusive of Sundays and holidays) unless the proposed sale price is at least 200 percent of any reasonable net asset value of such shares, and (iii) as of any other time requested by the Board of Directors.

V. Regular Review

The Chief Operating Officer and Chief Financial Officer shall review these Valuation Procedures on an annual basis to determine the continued appropriateness and accuracy of the methodologies used in valuing the Company's investment assets, and will report any proposed modifications to these Valuation Procedures to the Board of Directors for consideration and approval.

The Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer and the individuals responsible for preparing the Valuation Committee book shall meet quarterly before each Valuation Committee meeting to review the methodologies for the valuation of each security, and will highlight any changes to the Valuation Committee.

VI. Other Assets

Non-investment assets, such as fixtures and equipment, shall be valued using the cost approach less accumulated depreciation at rates determined by management and reviewed by the Audit Committee. Valuation of such assets is not the responsibility of the Valuation Committee.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1. THE COMPANY

Harris & Harris Group, Inc. (the "Company," "us," "our" and "we"), is a non-diversified management investment company operating as a business development company ("BDC") under the Investment Company Act of 1940 (the "1940 Act") that specializes in making investments in companies commercializing and integrating products enabled by disruptive technologies predominantly in the life sciences. We operate as an internally managed investment company whereby our officers and employees, under the general supervision of our Board of Directors, conduct our operations.

H&H Ventures Management, Inc.SM ("Ventures") is a 100 percent wholly owned subsidiary of the Company. Ventures is taxed under Subchapter C (a "C Corporation") of the Internal Revenue Code of 1986 (the "Code"). Harris Partners I, L.P, is a limited partnership and, from time to time, may be used to hold certain interests in portfolio companies. The partners of Harris Partners I, L.P., are Ventures (sole general partner) and the Company (sole limited partner). Ventures pays taxes on income generated by its operations as well as on any non-passive investment income generated by Harris Partners I, L.P. For the period ended September 30, 2015, there was no non-passive investment income generated by Harris Partners I, L.P. Ventures, as the sole general partner, consolidates Harris Partners I, L.P. The Company consolidates its wholly owned subsidiary, Ventures, for financial reporting purposes.

NOTE 2. INTERIM FINANCIAL STATEMENTS

Our interim financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to interim financial information. Accordingly, the information presented on our interim financial statements does 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 for annual financial statements. In the opinion of management, these financial statements reflect all adjustments, consisting of valuation adjustments and normal recurring accruals, necessary for a fair statement of our financial position, results of operations and cash flows for such periods. The results of operations for any interim period are not necessarily indicative of the results for the full year. These financial statements should be read in conjunction with the financial statements and notes thereto contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed in the preparation of the consolidated financial statements:

Principles of Consolidation. The consolidated financial statements have been prepared in accordance with GAAP and include the accounts of the Company and its wholly owned subsidiary. The Company is an investment company following accounting and reporting guidance in Accounting Standards Codification 946. In accordance with GAAP and Regulation S-X, the Company may only consolidate its interests in investment company subsidiaries and controlled operating companies whose business consists of providing services to the Company. Our wholly owned subsidiary, Ventures, is a controlled operating company that provides services to us and is, therefore, consolidated. All significant inter-company accounts and transactions have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform to the current period presentation.

Use of Estimates. The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from these estimates, and the differences could be material. The most significant estimates relate to the fair valuations of our investments.

Portfolio Investment Valuations. Investments are stated at "value" as defined in the 1940 Act and in the applicable regulations of the Securities and Exchange Commission ("SEC") and in accordance with GAAP. Value, as defined in Section 2(a)(41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) the fair value as determined in good faith by, or under the direction of, the Board of Directors for all other assets. (See "Valuation Procedures" in the "Footnote to Consolidated Schedule of Investments.") As of September 30, 2015, our financial statements include venture capital investments fair valued by the Board of Directors at $64,465,395 and one venture capital investment valued under the equity method at $228,379. The fair values and equity method value were determined in good faith by, or under the direction of, the Board of Directors. The fair value amount includes the values of our privately held investments as well as the securities of Champions Oncology, Inc., and certain warrants, options and restricted securities of Enumeral Biomedical Holdings, Inc., and the warrants of OpGen, Inc., which are publicly traded companies. Our investment in Accelerator-New York IV is accounted for under the equity method of accounting as it represents a non-controlling interest in an operating entity that provides investment advisory services to the Company. Under the equity method, investments are carried at cost, plus or minus the Company's equity in the increases and decreases in the investee's net assets after the date of acquisition and certain other adjustments. The Company's share of the net income or loss of the investee is included in "Equity in earnings/(loss) from equity method investees" on the Company's "Consolidated Statements of Operations." Upon sale of investments, the values that are ultimately realized may be different from the fair value presented in the Company's financial statements. The difference could be material.

Cash. Cash includes demand deposits. Cash is carried at cost, which approximates fair value.

Unaffiliated Rights to Milestone Payments. At September 30, 2015, and December 31, 2014, the outstanding potential milestone payments from Amgen, Inc.'s acquisition of BioVex Group, Inc., were valued at $3,794,540 and $2,564,917, respectively. The milestone payments are derivatives and valued using the probability-adjusted, present value of proceeds from future payments that would be due upon successful completion of certain regulatory and sales milestones. On November 17, 2014, the Company received a payment of $2,070,955 owing to the achievement of the first milestone. If all the remaining milestones are met, we would receive $7,455,438. There can be no assurance as to how much of this amount we will ultimately realize or when it will be realized, if at all. At September 30, 2015, and December 31, 2014, the outstanding potential milestone payments from Canon, Inc.'s acquisition of Molecular Imprints, Inc., were valued at $1,263,543 and $628,948, respectively. On October 1, 2015, the Company received a payment of $795,567 owing to the achievement of the first milestone. If all the remaining milestones are met, we would receive an additional $938,926. There can be no assurance as to how much of this amount we will ultimately realize or when it will be realized, if at all. At September 30, 2015, and December 31, 2014, the outstanding potential milestone payments from Laird Technologies, Inc.’s acquisition of Nextreme Thermal Solutions, Inc., were valued at $0. If all the remaining milestones are met, we would receive approximately $400,000. There can be no assurance as to how much of this amount we will ultimately realize or when it will be realized, if at all.

Funds Held in Escrow from Sale of Investment. At September 30, 2015, and December 31, 2014, there were funds held in escrow fair valued at $311,411 and $306,802, respectively, relating to the sale of Molecular Imprints, Inc.'s semiconductor lithography equipment business to Canon, Inc., that are expected to be released in April of 2016 and April of 2017, net of settlement of any indemnity claims and expenses related to the transaction. If the funds held in escrow for this transaction are released in full, we would receive $625,000 and realize a gain of $313,589. At September 30, 2015, and December 31, 2014, there were funds held in escrow fair valued at $63,440 and $0, respectively, relating to the sale of Molecular Imprints' non-semiconductor business to Magic Leap, Inc., that are expected to be released in May of 2016, net of settlement of any indemnity claims and expenses related to the transaction. If the funds held in escrow for this transaction are released in full, we would receive $126,972 and realize a gain of $63,532.

Prepaid Expenses. We include prepaid insurance premiums and deferred financing charges in "Prepaid expenses." Prepaid insurance premiums are recognized over the term of the insurance contract and are included in "Insurance expense" in the Consolidated Statements of Operations. Deferred financing charges consist of fees and expenses paid in connection with the closing of loan facilities and are capitalized at the time of payment. Deferred financing charges are amortized over the term of the loan facility discussed in "Note 5. Debt." Amortization of the financing charges is included in "Interest and other debt expense" in the Consolidated Statements of Operations.

Property and Equipment. Property and equipment are included in "Other assets" and are carried at $189,749 and $219,729 at September 30, 2015, and December 31, 2014, respectively, representing cost, less accumulated depreciation of $433,807 and $399,373, respectively. Depreciation is provided using the straight-line method over the estimated useful lives of the property and equipment. We estimate the useful lives to be five to ten years for furniture and fixtures, three years for computer equipment, and the lesser of ten years or the remaining life of the lease for leasehold improvements. All of our fixed assets are pledged as collateral under the Company's four-year $20,000,000 Multi-Draw Term Loan Facility Credit Agreement, by and among the Company, as borrower, Orix Corporate Capital, Inc., as administrative agent and lender and the other lenders party thereto from time to time (the "Loan Facility").

Post-Retirement Plan Liabilities. The Company provides a Retiree Medical Benefit Plan for employees who meet certain eligibility requirements. Until it was terminated on May 5, 2011, the Company also provided an Executive Mandatory Retirement Benefit Plan for certain individuals employed by us in a bona fide executive or high policy-making position. The net periodic post-retirement benefit cost for the year includes service cost for the year and interest on the accumulated post-retirement benefit obligation. Unrecognized actuarial gains and losses are recognized as net periodic benefit cost pursuant to the Company's historical accounting policy. The impact of plan amendments is amortized over the employee's average service period as a reduction of net periodic benefit cost. Unamortized plan amendments are included in "Accumulated other comprehensive income" in the Consolidated Statements of Assets and Liabilities.

Interest Income Recognition. Interest income, including amortization of premium and accretion of discount, is recorded on an accrual basis. When accrued interest is determined not to be recoverable, the Company ceases accruing interest and writes off any previously accrued interest. Securities are deemed to be non-income producing if, on their last interest or dividend date, no cash was paid or no cash or in-kind dividends were declared. These write-offs are reversed through interest income. During the three months and nine months ended September 30, 2015, the Company earned $46,070 and $158,559, respectively, in interest on senior secured debt, subordinated secured debt, non-convertible promissory notes and interest-bearing accounts. During the three months and nine months ended September 30, 2014, the Company earned $58,087 and $202,679, respectively, in interest on U.S. government securities, senior secured debt, participation agreements, subordinated secured debt, non-convertible promissory notes and interest-bearing accounts. During the three months and nine months ended September 30, 2015, the Company recorded, on a net basis, $82,959 and $341,949, respectively, of bridge note interest. The total for the nine months ended September 30, 2015, includes a partial write-off of previously accrued bridge note interest of $1,427. During the three months and nine months ended September 30, 2014, the Company recorded, on a net basis, $(2,214) and $133,320, respectively, of bridge note interest. The total for the nine months ended September 30, 2014, includes a partial write-off of previously accrued bridge note interest of $70,946.

Yield-Enhancing Fees on Debt Securities. Yield-enhancing fees received in connection with our venture debt investments are deferred. The unearned fee income is accreted into income based on the effective interest method over the life of the investment. For the three months and nine months ended September 30, 2015, total yield-enhancing fees accreted into investment income were $44,014 and $90,062, respectively. For the three months and nine months ended September 30, 2014, total yield-enhancing fees accreted into investment income were $19,843 and $52,105, respectively.

Fees for Providing Managerial Assistance to Portfolio Companies. For the three months and nine months ended September 30, 2015, the Company earned income of $71,359 and $84,859, respectively, owing to certain of its employees providing managerial assistance to certain portfolio companies. For the three months and nine months ended September 30, 2014, the Company earned income of $37,500 owing to one of its employees providing managerial assistance to one of its portfolio companies.

Call Options. The Company writes covered call options on publicly traded securities with the intention of earning option premiums. Option premiums may increase the Company's realized gains and, therefore, may help increase distributable income, but may limit the realized gains on the security. When a company writes (sells) an option, an amount equal to the premium received by the Company is recorded in the Consolidated Statements of Assets and Liabilities as a liability. The amount of the liability is subsequently marked-to-market to reflect the current market value of the option written. When an option expires, the Company realizes a gain on the option to the extent of the premiums received. Premiums received from writing options that are exercised or closed are added to the proceeds or offset against the amount paid on the transaction to determine the realized gain or loss. Previously recorded unrealized gains and losses on expired, exercised or closed options are reversed at the time of such transactions. At September 30, 2015, and December 31, 2014, the Company did not have shares covered by call option contracts.

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Stock-Based Compensation. The Company has a stock-based employee compensation plan. The Company accounts for the Amended and Restated Harris & Harris Group, Inc. 2012 Equity Incentive Plan (the "Stock Plan") by determining the fair value of all share-based payments to employees, including the fair value of grants of employee stock options and restricted stock awards, and records these amounts as an expense in the Consolidated Statements of Operations over the vesting period with a corresponding increase to our additional paid-in capital. For the three months and nine months ended September 30, 2015, and September 30, 2014, the increase to our operating expenses was offset by the increase to our additional paid-in capital, resulting in no net impact to our net asset value. Additionally, the Company does not record the potential tax benefits associated with the expensing of stock options or restricted stock because the Company currently intends to qualify as a regulated investment company ("RIC") under Subchapter M of the Code, and the deduction attributable to such expensing, therefore, is unlikely to provide any additional tax savings. The amount of non-cash, stock-based compensation expense recognized in the Consolidated Statements of Operations is based on the fair value of the awards the Company expects to vest, recognized over the vesting period on a straight-line basis for each award, and adjusted for actual awards vested and pre-vesting forfeitures. The forfeiture rate is estimated at the time of grant and revised, if necessary, in subsequent periods if the actual forfeiture rate differs from the estimated rate and is accounted for in the current period and prospectively. See "Note 9. Stock-Based Compensation" for further discussion.

Rent expense. Our lease at 1450 Broadway, New York, New York, commenced on January 21, 2010. The lease expires on December 31, 2019. The base rent is $36 per square foot with a 2.5 percent increase per year over the 10 years of the lease, subject to a full abatement of rent for four months and a rent credit for six months throughout the lease term. We apply these rent abatements, credits, escalations and landlord payments on a straight-line basis in the determination of rent expense over the lease term. Certain leasehold improvements were also paid for on our behalf by the landlord, the cost of which is accounted for as property and equipment and "Deferred rent" in the accompanying Consolidated Statements of Assets and Liabilities. These leasehold improvements are depreciated over the lease term. We also currently lease office space in California and leased office space in North Carolina until December 31, 2014.

Realized Gain or Loss and Unrealized Appreciation or Depreciation of Portfolio Investments. Realized gain or loss is recognized when an investment is disposed of and is computed as the difference between the Company's cost basis in the investment at the disposition date and the net proceeds received from such disposition. Realized gains and losses on investment transactions are determined by specific identification. Unrealized appreciation or depreciation is computed as the difference between the fair value of the investment and the cost basis of such investment.

Income Taxes. As we currently intend to continue to qualify as a RIC under Subchapter M of the Code and distribute any ordinary income, the Company does not accrue for income taxes. The Company has capital loss carryforwards that can be used to offset net realized capital gains. The Company recognizes interest and penalties in income tax expense. We pay federal, state and local income taxes on behalf of our wholly owned subsidiary, Ventures, which is a C corporation. See "Note 10. Income Taxes" for further discussion.

Foreign Currency Translation. The accounting records of the Company are maintained in U.S. dollars. All assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the rate of exchange of such currencies against U.S. dollars on the date of valuation. The Company does not isolate the portion of the results of operations that arises from changes in foreign currency rates on investments held on its Consolidated Statements of Operations.

Securities Transactions. Securities transactions are accounted for on the date the transaction for the purchase or sale of the securities is entered into by the Company (i.e., trade date).

Concentration of Credit Risk. The Company places its cash and cash equivalents with financial institutions and, at times, cash held in depository accounts may exceed the Federal Deposit Insurance Corporation insured limit.

Recent Accounting Pronouncements. In April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2015-03, “Simplifying the Presentation of Debt Issuance Costs” (“ASU 2015-03”), which changes the presentation of debt issuance costs in financial statements. ASU 2015-03 requires an entity to present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. It is effective for annual reporting periods beginning after December 15, 2016. Early adoption is permitted. The new guidance will be applied retrospectively to each prior period presented. The adoption of ASU 2015-03 is not anticipated to have a material impact on the Company's consolidated financial statements.

NOTE 4. BUSINESS RISKS AND UNCERTAINTIES

We invest primarily in privately held companies, the securities of which are inherently illiquid. We also have investments in small publicly traded companies. Although these companies are publicly traded, their stock may not trade at high volumes, which may restrict our ability to sell our positions and prices can be volatile. We may also be subject to restrictions on transfer and/or other lock-up provisions after these companies initially go public. These privately held and publicly traded businesses tend to not have attained profitability, and many of these businesses also lack management depth and have limited or no history of operations. Because of the speculative nature of our investments and the lack of a liquid market for and restrictions on transfers of privately held investments, there is greater risk of loss relative to traditional marketable investment securities.

We do not choose investments based on a strategy of diversification. We also do not rebalance the portfolio should one of our portfolio companies increase in value substantially relative to the rest of the portfolio. Therefore, the value of our portfolio may be more vulnerable to microeconomic events affecting a single sector, industry or portfolio company and to general macroeconomic events that may be unrelated to our portfolio companies. These factors may subject the value of our portfolio to greater volatility than a company that follows a diversification strategy. As of September 30, 2015, and December 31, 2014, our largest 10 investments by value accounted for approximately 79 percent and 82 percent, respectively, of the value of our equity-focused venture capital portfolio. Our largest three investments, by value, Metabolon, Inc., Adesto Technologies Corporation and D-Wave Systems, Inc., accounted for approximately 15 percent, 11 percent and 11 percent, respectively, of our equity-focused venture capital portfolio at September 30, 2015. Our largest three investments, by value, Adesto Technologies Corporation, Metabolon, Inc., and Enumeral Biomedical Holdings, Inc., accounted for approximately 17 percent, 12 percent and 10 percent, respectively, of our equity-focused venture capital portfolio at December 31, 2014. Metabolon, Adesto Technologies and D-Wave Systems are privately held portfolio companies. Enumeral Biomedical Holdings is a publicly traded portfolio company.

Approximately 89 percent of the portion of our equity-focused venture capital portfolio that was fair valued was comprised of securities of 25 privately held companies, the securities of publicly traded Champions Oncology, Inc., the warrants of OpGen, Inc., and certain warrants and restricted securities of Enumeral Biomedical Holdings, Inc. Approximately 0.3 percent of the portion of our equity-focused venture capital portfolio that was valued according to the equity method was comprised of one privately held company. Because there is typically no public or readily ascertainable market for our interests in the small privately held companies in which we invest, the valuation of the securities in that portion of our portfolio is determined in good faith by our Valuation Committee, which is comprised of all of the independent members of our Board of Directors. The values are determined in accordance with our Valuation Procedures and are subject to significant estimates and judgments. The fair value of the securities in our portfolio may differ significantly from the values that would be placed on these securities if a ready market for the securities existed. Any changes in valuation are recorded in our Consolidated Statements of Operations as "Net decrease (increase) in unrealized depreciation on investments." Changes in valuation of any of our investments in privately held companies from one period to another may be significant.

NOTE 5. DEBT

The Company has a Loan Facility with Orix Corporate Capital, Inc., which may be used to fund investments in portfolio companies. The Loan Facility, among other things, matures on September 30, 2017, and bears interest at 10 percent per annum in cash. The Company has the option to have interest accrue at a rate of 13.5 percent per annum if the Company decides not to pay interest in cash monthly. The Company currently plans to pay interest in cash if and when any borrowings are outstanding. The Loan Facility also requires payment of a draw fee on each borrowing equal to 1.0 percent of such borrowing and an unused commitment fee of 1.0 percent per annum. Fee payments under the Loan Facility are made quarterly in arrears. The Company may prepay the loans or reduce the aggregate commitments under the Loan Facility at any time prior to the maturity date, as long as certain conditions are met, including payment of required prepayment or termination fees. The Loan Facility is secured by all of the assets of the Company and its wholly owned subsidiaries, subject to certain customary exclusions. The Loan Facility contains certain affirmative and negative covenants, including without limitation: (a) maintenance of certain minimum liquidity requirements; (b) maintenance of an eligible asset leverage ratio of not less than 4.0:1.0; (c) limitations on liens; (d) limitations on the incurrence of additional indebtedness; and (e) limitations on structural changes, mergers and disposition of assets (other than in the normal course of our business activities).

At September 30, 2015, and December 31, 2014, the Company had outstanding debt of $5,000,000 and $0, respectively. The weighted average annualized interest rate for the three months and nine months ended September 30, 2015, was 10 percent, exclusive of amortization of closing fees and other expenses. We had no debt outstanding during 2014, and, therefore, there was no applicable interest rate for that period. The weighted average debt outstanding for the three months and nine months ended September 30, 2015, was $5,000,000 and $3,369,963, respectively. The remaining capacity under the Loan Facility was $15,000,000 at September 30, 2015. Unamortized fees and expenses of $349,760 and $480,921 related to establishing the Loan Facility are included as "Prepaid expenses" in the Consolidated Statements of Assets and Liabilities as of September 30, 2015, and December 31, 2014, respectively. These amounts are amortized over the term of the Loan Facility, and $131,160 was amortized in the nine months ended September 30, 2015, and in the nine months ended September 30, 2014. The Company paid $38,333 and $126,250 in non-utilization fees during the three months and nine months ended September 30, 2015, respectively. The Company paid $51,111 and $151,667 in non-utilization fees during the three months and nine months ended September 30, 2014, respectively. During the nine months ended September 30, 2015, the Company paid a $50,000 utilization fee associated with a drawdown of the Loan Facility. At September 30, 2015, the Company was in compliance with all covenants required by the Loan Facility.

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NOTE 6. FAIR VALUE OF INVESTMENTS

At September 30, 2015, our financial assets valued at fair value were categorized as follows in the fair value hierarchy:

		Fair Value Measurement at Reporting Date Using:		
Description	September 30, 2015	Unadjusted Quoted Prices in Active Markets for Identical **Assets (Level 1)**	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Privately Held Portfolio Companies:				
Preferred Stock	$52,119,263	$ 0	$ 0	$ 52,119,263
Bridge Notes	3,212,725	0	0	3,212,725
Warrants	837,502	0	0	837,502
Rights to Milestone Payments	5,058,083	0	0	5,058,083
Common Stock	561,773	0	0	561,773
Senior Secured Debt	100,975	0	0	100,975
Subordinated Secured Debt	968,050	0	0	968,050
Options	1,875			1,875
Publicly Traded Portfolio Companies:				
Common Stock	$8,377,239	$ 6,772,090	$ 1,579,284	$ 25,865
Total Investments:	$71,237,485	$ 6,772,090	$ 1,579,284	$ 62,886,111
Funds Held in Escrow From Sales of Investments:	$374,851	$ 0	$ 0	$ 374,851
Total Financial Assets:	$71,612,336	$ 6,772,090	$ 1,579,284	$ 63,260,962

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Financial Instruments Disclosed, but not Carried, at Fair Value

The following table presents the carrying value and the fair value of the Company's financial liabilities disclosed, but not carried, at fair value as of September 30, 2015, and the level of each financial liability within the fair value hierarchy:

Description	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Term Loan Credit Facility[1]	$ 5,000,000	$5,000,000	$ 0	$ 0	$5,000,000
Total	$ 5,000,000	$5,000,000	$ 0	$ 0	$5,000,000

(1) Fair value of the Term Loan Credit Facility is equal to the carrying amount of this credit facility.

Significant Unobservable Inputs

The table below presents the valuation technique and quantitative information about the significant unobservable inputs utilized by the Company in the fair value measurements of Level 3 assets. Unobservable inputs are those inputs for which little or no market data exists and, therefore, require an entity to develop its own assumptions.

	Fair Value at September 30, 2015	**Valuation Technique(s)**	Unobservable Input	**Range (Weighted Average[a])**
Preferred Stock	$ 7,824,156	Hybrid Approach	Private Offering Price Volatility Time to Exit	$1.08 - $2.17 ($2.08) 46.8% - 97.1% (51.07%) 1.75 - 2 Years (1.77)
Preferred Stock	22,176,766	Income Approach	Private Offering Price Non-Performance Risk Volatility Time to Exit	$0 - $11.56 ($2.47) 0% - 75% (0.91%) 50.7% - 116.4% (64.08%) 1.25 - 4.5 Years (2.72)
Preferred Stock	22,118,341	Market Approach		

			Private Offering Price	\$0 - \$2.90 (\$1.57)
			Volatility	0% - 50% (26.16%)
			Revenue Multiples	0 - 4.6 (2.24)
			Time to Exit	0.25 - 2 Years (1.02)
			Discount for Lack of Marketability	0% - 16.6% (11.8%)
Bridge Notes	1,111,551	Income Approach	Private Offering Price	\$1.00 (\$1.00)
Bridge Notes	2,101,174	Market Approach	Private Offering Price	\$1.00 (\$1.00)

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	Fair Value at September 30, 2015	**Valuation Technique(s)**	Unobservable Input	**Range (Weighted Average[(a)])**
Common Stock	243,483	Hybrid Approach	Private Offering Price Volatility Time to Exit	\$1.08 (\$1.08) 97.1% (97.1%) 2 Years (2)
Common Stock	318,269	Income Approach	Private Offering Price Volatility Time to Exit	\$3.71 (\$3.71) 50.7% (50.7%) 3 Years (3)
Common Stock	21	Market Approach	Private Offering Price	\$0.0001 - \$0.001 (\$0.0001)
Warrants	174,033	Market Approach	Volume Weighted Average Price	0.58 (0.58)
Warrants	663,469	Income Approach	Stock Price Volatility Expected Term	\$0 - \$6.48 (\$1.12) 33.7% - 111.61% (73.53%) 1.25 - 9.39 Years (4.65)
Rights to Milestone Payments	5,058,083	Probability Weighted Discounted Cash Flow	Probability of Achieving Independent Milestones Probability of Achieving Dependent Milestones	0% - 100% (45%) 0% - 100% (60%)
Subordinated Secured Debt	968,050	Income Approach	Effective Yield	18.1% (18.1%)
Senior Secured Debt	100,975	Income Approach	Effective Yield	15.8% (15.8%)
Funds Held in Escrow From Sales of Investments	374,851	Market Approach	Escrow Discount	50% (50%)
Options	1,875	Income Approach	Stock Price Volatility Expected Term	\$0.40 (\$0.40) 81.4% (81.4%) 0.83 Years (0.83)
OTC Traded Common Stock	25,865	Market Approach	Stock Price Discount for Lack of	\$0.40 (\$0.40) 50% (50%)

Marketability

Total	$63,260,962

(a) Weighted average based on fair value at September 30, 2015.

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<u>Valuation Methodologies and Inputs for Level 3 Assets</u>

The following sections describe the valuation techniques and significant unobservable inputs used to measure Level 3 assets.

Preferred Stock, Bridge Notes and Common Stock

Preferred stock, bridge notes and common stock are valued by either a market, income or hybrid approach using internal models with inputs, most of which are not market observable. Common inputs for valuing Level 3 preferred stock, bridge note and private common stock investments include prices from recently executed private transactions in a company's securities or unconditional firm offers, revenue multiples of comparable publicly traded companies, merger and acquisition ("M&A") transactions consummated by comparable companies, discounts for lack of marketability, rights and preferences of the class of securities we own as compared with other classes of securities the portfolio company has issued, particularly related to potential liquidity scenarios of an initial public offering ("IPO") or an acquisition transaction, estimated time to exit, volatilities of comparable publicly traded companies and management's best estimate of risk attributable to non-performance risk. Certain securities are valued using the present value of future cash flows. We define non-performance risk as the risk that the price per share (or implied valuation of a portfolio company) or the effective yield of a debt security of a portfolio company, as applicable, does not appropriately represent the risk that a portfolio company with negative cash flow will be: (a) unable to raise capital, will need to be shut down and will not return our invested capital; or (b) able to raise capital, but at a valuation significantly lower than the implied post-money valuation of the last round of financing. We assess non-performance risk for each private portfolio company quarterly. Our assessment of non-performance risk typically includes an evaluation of the financial condition and operating results of the company, the company's progress towards milestones, and the long-term potential of the business and technology of the company and how this potential may or may not affect the value of the shares owned by us. An increase to the non-performance risk or a decrease in the private offering price of a future round of financing from that of the most recent round would result in a lower fair value measurement and/or a change in the distribution of value among the classes of securities we own. An increase in the volatility assumption generally increases the enterprise value calculated in an option pricing model. An increase in the time to exit assumption also generally increases the enterprise value calculated in an option pricing model. Variations in the expected time to exit or expected volatility assumptions have a significant impact on fair value. We may also consider changes in market values for sets of comparable companies when recent private transaction information is not available.

Option pricing models place a high weighting on liquidation preferences, which means that small differences in how the preferences are structured can have a material effect on the fair value of our securities at the time of valuation and also on future valuations should additional rounds of financing occur with senior preferences. As such, valuations calculated by option pricing models may not increase if 1) rounds of financing occur at higher prices per share, 2) liquidation preferences include multiples on investment, 3) the amount of invested capital is small and/or 4) liquidation preferences are senior to prior rounds of financing.

Bridge notes commonly contain terms that provide for the conversion of the full amount of principal, and sometimes interest, into shares of preferred stock at a defined price per share and/or the price per share of the next round of financing. The use of a discount for non-performance risk in the valuation of bridge notes would indicate the potential for conversion of only a portion of the principal, plus interest when applicable, into shares of preferred stock or the potential that a conversion event will not occur and that the likely outcome of a liquidation of assets would result in payment of less than the remaining principal outstanding of the note. An increase in non-performance risk would result in a lower fair value measurement.

Warrants and Options

We use the Black-Scholes-Merton option-pricing model to determine the fair value of warrants and options held in our portfolio unless there is a publicly traded active market for such warrants and options or another indication of value such as a sale of the portfolio company. Option pricing models, including the Black-Scholes-Merton model, require the use of subjective input assumptions, including expected volatility, expected life, expected dividend rate, and expected risk-free rate of return. In the Black-Scholes-Merton model, variations in the expected volatility or expected term assumptions have a significant impact on fair value. Because certain securities underlying the warrants in our portfolio are not publicly traded, many of the required input assumptions are more difficult to estimate than they would be if a public market for the underlying securities existed.

An input to the Black-Scholes-Merton option-pricing model is the value per share of the type of stock for which the warrant is exercisable as of the date of valuation. This input is derived according to the methodologies discussed in "Preferred Stock, Bridge Notes and Common Stock."

Rights to Milestone Payments

Rights to milestone payments are valued using a probability-weighted discounted cash flow model. As part of Amgen Inc.’s acquisition of our former portfolio company, BioVex Group, Inc., we are entitled to potential future milestone payments based upon the achievement of certain regulatory and sales milestones. We are also entitled to future milestone payments from Laird Technologies Inc.'s acquisition of our former portfolio company, Nextreme Thermal Solutions, Inc., and from Canon, Inc.'s acquisition of Molecular Imprints, Inc. We assign probabilities to the achievements of the various milestones. Milestones identified as independent milestones can be achieved irrespective of the achievement of other contractual milestones. Dependent milestones are those that can only be achieved after another, or series of other, milestones are achieved. The interest rates used in these models are observable inputs from sources such as the published interest rates for corporate bonds of the acquiring or comparable companies.

Subordinated Secured Debt and Senior Secured Debt

We invest in venture debt investments through subordinated secured debt and senior secured debt. We value these securities using an income approach. The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present value amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts. Common inputs for valuing Level 3 debt investments include: the effective yield of the debt investment or, in the case where we have received warrant coverage, the warrant-adjusted effective yield of the security, adjustments for changes in the yields of comparable publicly traded high-yield debt funds and risk-free interest rates and an assessment of non-performance risk. For venture debt investments, an increase in yields would result in a lower fair value measurement. Furthermore, yields would decrease, and value would increase, if the company is exceeding targets and risk has been substantially reduced from the level of risk that existed at the time of investment. Yields would increase, and values would decrease, if the company is failing to meet its targets and risk has been increased from the level of risk that existed at the time of investment. Historically, we also invested in venture debt through participation agreements. As of December 31, 2014, the amounts held in participation agreements consisted solely of warrants. These warrants are valued using the Black-Scholes-Merton pricing model as discussed in "Warrants and Options." The participation agreements were sold in 2015.

The following chart shows the components of change in the financial assets categorized as Level 3 for the three months ended September 30, 2015.

	Beginning Balance 7/1/2015	**Total Realized Gains (Losses) Included in Changes in Net Assets**	Transfers	**Total Unrealized (Depreciation) Appreciation Included in Changes in Net Assets**	**Investments in Portfolio Companies, Interest on Bridge Notes, and Amortization of Loan Fees, Net**	**Disposals and Settlements**	**Ending Balance 9/30/2015**	**Amount of Total (Depreciati Appreciati for the Period Included in Changes in Net Assets Attributab to the Change in Unrealized Gains or Losses Relating to Assets Still Held at the Reporting Date**
Preferred Stock	$63,882,805	$0	$0	$(13,513,549)	$1,750,007	$0	$52,119,263	$(13,513,54
Bridge Notes	5,194,358	1,790,891	0	(2,090,749)	747,427	(2,429,202)	3,212,725	(3,356,93
Common Stock	452,129	0	0	109,644	0	0	561,773	109,644
Warrants	1,023,104	(528,469)	201,558	141,309	0	0	837,502	82,935

Rights to Milestone Payments	3,181,183	0	0	1,876,900	0	0	5,058,083	1,876,900
Subordinated Secured Debt	987,025	0	0	(20,537)	1,562	0	968,050	(20,537
Senior Secured Debt	764,253	0	0	(108,422)	42,453	(597,309)	100,975	(108,422
Funds Held in Escrow From Sales of Investments	372,835	2,016	0	0	0	0	374,851	0
Options	38,536	0	0	(36,661)	0	0	1,875	(36,661
OTC Traded Common Stock	7,707,262	0	(7,698,444)	17,047	0	0	25,865	521,145
Total	$83,603,490	$1,264,438	$(7,496,886)	$(13,625,018)	$2,541,449	$(3,026,511)	$63,260,962	$(14,445,4

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We elected to use the beginning of period values to recognize transfers in and out of Level 2 and Level 3 investments. For the three months ended September 30, 2015, there were transfers out of Level 3 investments totaling $7,496,886. Certain of our shares of Enumeral Biomedical Holdings, Inc., and OpGen, Inc., transferred from Level 3 investments owing to the use of their unadjusted closing share price on their respective stock exchanges on September 30, 2015, to derive their value.

The following chart shows the components of change in the financial assets categorized as Level 3 for the nine months ended September 30, 2015.

Beginning Balance 1/1/2015	**Total Realized Gains (Losses) Included in Changes in Net Assets**	Transfers	**Total Unrealized (Depreciation) Appreciation Included in Changes in Net Assets**	**Investments in Portfolio Companies, Interest on Bridge Notes, and Amortization of Loan Fees, Net**	**Disposals and Settlements**	**Ending Balance 9/30/2015**	**Amount o Total (Deprecia Appreciat for the Period Included i Changes i Net Assets Attributal to the Change in Unrealize Gains or Losses Relating t Assets Stil Held at the Reporting Date**
$70,969,603	$3,351,833	$(231,361)[1]	$(20,121,000)	$3,684,034	$(5,533,846)	$52,119,263	$(18,211,(

Preferred Stock								
Bridge Notes	2,163,916	1,790,891	(1,630,121)	653,728	2,663,513	(2,429,202)	3,212,725	(612,460
Common Stock	535,280	0	(74,379)	100,872	0	0	561,773	100,872
Warrants	2,026,864	(911,957)	0	(525,754)	272,349	(24,000)	837,502	(777,815
Rights to Milestone Payments	3,193,865	0	0	1,864,218	0	0	5,058,083	1,864,21
Senior Secured Debt	1,203,299	0	0	(394,805)	75,899	(783,418)	100,975	(394,805
Subordinated Secured Debt	979,450	0	0	(25,563)	14,163	0	968,050	(25,563
Funds Held in Escrow From Sales of Investments	306,802	(58,923)	126,972 [1]	0	0	0	374,851	0
Options	50,690	0	0	(48,815)	0	0	1,875	(48,815
OTC Traded Common Stock	7,251,178	0	(8,020,281)	(87,684)	882,652	0	25,865	(87,684
Total	$88,680,947	$4,171,844	$(9,829,170)	$(18,584,803)	$7,592,610	$(8,770,466)	$63,260,962	$(18,193,1

[1]There was a $126,972 transfer from "Preferred Stock" into "Funds Held in Escrow From Sales of Investments" owing to the sale of Molecular Imprints, Inc.

For the nine months ended September 30, 2015, there were transfers out of Level 3 investments totaling $9,829,170. Our shares of Accelerator IV-New York Corporation transferred from a Level 3 investment owing to its qualification as an equity method investment. Certain of our shares of Enumeral Biomedical Holdings, Inc., and OpGen, Inc., transferred from Level 3 investments owing to the use of their unadjusted closing share price on their respective stock exchanges on September 30, 2015, to derive their value.

At December 31, 2014, our financial assets were categorized as follows in the fair value hierarchy:

	Fair Value Measurement at Reporting Date Using:			
Description	December 31, 2014	**Unadjusted Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Privately Held Portfolio Companies:				
Preferred Stock	$ 70,969,603	$ 0	$ 0	$ 70,969,603
Bridge Notes	2,163,916	0	0	2,163,916
Warrants	2,026,864	0	0	2,026,864
Rights to Milestone Payments	3,193,865	0	0	3,193,865
Common Stock	535,280	0	0	535,280
Senior Secured Debt	1,203,299	0	0	1,203,299
Subordinated Secured Debt	979,450	0	0	979,450
Options	50,690	0	0	50,690
Publicly Traded Portfolio Companies:				
Common Stock	$ 8,641,873	$ 1,390,695	$ 0	$ 7,251,178
Total Investments:	$ 89,764,840	$ 1,390,695	$ 0	$ 88,374,145
Funds Held in Escrow From Sales of Investments:	$ 306,802	$ 0	$ 0	$ 306,802
Total Financial Assets:	$ 90,071,642	$ 1,390,695	$ 0	$ 88,680,947

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The following chart shows the components of change in the financial assets categorized as Level 3 for the year ended December 31, 2014.

	Beginning Balance 1/1/2014	**Total Realized (Losses) Gains Included in Changes in Net Assets**	Transfers	**Total Unrealized Appreciation (Depreciation) Included in Changes in Net Assets**	**Investments in Portfolio Companies, Interest on Bridge Notes, and Amortization of Loan Fees, Net**	**Disposals and Settlements**	**Ending Balance 12/31/2014**	**Amou Total (Depre Appre for the Period Includ Chang Net Assets Attribu to the Chang Unreal Gains Losses Relatin Assets Held a the Report Date**
Preferred Stock	$71,577,059	$(7,472,760)	$(371,644)[1,2]	$5,555,721	$8,191,037	$(6,509,810)	$70,969,603	$(6,28
Bridge Notes	6,044,114	(50,000)	(4,968,041)[1]	(2,253,312)	3,434,976	(43,821)	2,163,916	(2,30
Common Stock	108,668	0	1,130,362[1]	(919,782)	216,032	0	535,280	(919,7
Warrants	800,487	0	65,250[1]	519,818	641,309	0	2,026,864	519,8

Rights to Milestone Payments	3,489,433	536,813	629,670	608,904	0	(2,070,955)	3,193,865	608,9
Participation Agreements	777,195	84,371	0	(68,196)	5,892	(799,262)	0	0
Senior Secured Debt	1,511,828	0	0	17,364	(12,536)	(313,357)	1,203,299	17,36
Subordinated Secured Debt	0	0	0	197	979,253	0	979,450	197
Funds Held in Escrow From Sales of Investments	1,786,390	270,241	625,000 [2]	0	0	(2,374,829)	306,802	0
Options	0	0	0	50,690	0	0	50,690	50,69
OTC Traded Common Stock	0	0	2,889,403 [1]	3,402,150	959,625	0	7,251,178	3,402
Total	$86,095,174	$(6,631,335)	$0	$6,913,554	$14,415,588	$(12,112,034)	$88,680,947	$(4,90

[1]Transfers among asset classes are owing to conversions at financing events. These do not represent transfers in or out of Level 3.

[2] There was a $625,000 transfer from "Preferred Stock" into "Funds Held in Escrow From Sales of Investments" owing to the sale of Molecular Imprints, Inc., to Canon, Inc.

There were no transfers out of Level 3 investments during the year ended December 31, 2014.

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The following chart shows the components of change in the financial assets categorized as Level 3 for the three months ended September 30, 2014.

	Beginning Balance 7/1/2014	**Total Realized (Losses) Gains Included in Changes in Net Assets**	Transfers	**Total Unrealized Appreciation (Depreciation) Included in Changes in Net Assets**	**Investments in Portfolio Companies, Interest on Bridge Notes, and Amortization of Loan Fees, Net**	**Disposals and Settlements**	**Ending Balance 9/30/2014**	**Amount of Total Appreciati (Depreciat for the Period Included in Changes in Net Assets Attributab to the Change in Unrealized Gains or Losses Relating to Assets Still Held at the Reporting Date**
Preferred Stock	$82,918,390	$(4,488,575)	$(3,376,258)[1]	$267,065	$0	$(21,420)[2]	$75,299,202	$(4,242,92
Bridge Notes	2,514,976	0	(206,902)[1]	(646,690)	624,016	0	2,285,400	(646,690
Common Stock	546,767	0	693,757 [1]	(89,116)	216,032	0	1,367,440	(89,116

Warrants	921,633	0	0	602,860	540,375	0	2,064,868	602,860
Rights to Milestone Payments	4,127,104	536,813	0	587,325	0	(2,070,955)[3]	3,180,287	587,325
Participation Agreements	675,165	16,000	0	11,209	3,291	(554,240)	151,425	16,100
Senior Secured Debt	1,305,901	0	0	(74,590)	16,552	(86,121)	1,161,742	(74,590
Funds Held in Escrow From Sales of Investments	1,447,933	(2,454)	0	0	0	(1,139,514)	305,965	0
Options	0	0	0	62,945	0	0	62,945	62,945
OTC Traded Common Stock	0	0	2,889,403 [1]	5,008,416	959,625	0	8,857,444	5,008,416
Total	$94,457,869	$(3,938,216)	$0	$5,729,424	$2,359,891	$(3,872,250)	$94,736,718	$1,224,321

[1]Transfers among asset classes are owing to conversions at financing events. These do not represent transfers in or out of Level 3.

[2]Represents a settlement of $21,420 from the disposal of Contour Energy Systems, Inc. This was a receivable as of September 30, 2014.

[3]Represents a settlement of $2,070,955 from the achievement of the first milestone associated with Amgen's acquisition of BioVex Group, Inc. This was a receivable as of September 30, 2014.

There were no transfers out of Level 3 investments during the three months ended September 30, 2014.

The following chart shows the components of change in the financial assets categorized as Level 3 for the nine months ended September 30, 2014.

	Beginning Balance 1/1/2014	**Total Realized (Losses) Gains Included in Changes in Net Assets**	Transfers	**Total Unrealized Appreciation (Depreciation) Included in Changes in Net Assets**	**Investments in Portfolio Companies, Interest on Bridge Notes, and Amortization of Loan Fees, Net**	**Disposals and Settlements**	**Ending Balance 9/30/2014**	**Amou Total Appro (Depr for the Pe Incluc in Cha in Net Assets Attrib to the Chang Unrea Gains Losse Relati Assets Held a the Repor Date**
Preferred Stock	$71,577,059	$(7,474,688)	$(629,931)[1,2]	$10,493,609	$7,841,034	$(6,507,881)[3]	$75,299,202	$(1,34
Bridge Notes	6,044,114	(50,000)	(4,709,754)[1]	(1,771,015)	2,772,055	0	2,285,400	(1,82
Common Stock	108,668	0	1,130,362[1]	(87,622)	216,032	0	1,367,440	(87,6

Warrants	800,487	0	65,250 [1]	557,822	641,309	0	2,064,868	557,8
Rights to Milestone Payments	3,489,433	536,813	629,670	595,326	0	(2,070,955)[4]	3,180,287	595,3
Participation Agreements	777,195	16,000	0	(7,022)	5,892	(640,640)	151,425	37,0
Senior Secured Debt	1,511,828	0	0	(171,866)	46,212	(224,432)	1,161,742	(171
Funds Held in Escrow From Sales of Investments	1,786,390	269,404	625,000 [2]	0	0	(2,374,829)	305,965	0
Options	0	0	0	62,945	0	0	62,945	62,9
OTC Traded Common Stock	0	0	2,889,403 [1]	5,008,416	959,625	0	8,857,444	5,00
Total	$86,095,174	$(6,702,471)	$0	$14,680,593	$12,482,159	$(11,818,737)	$94,736,718	$2,83

[1]Transfers among asset classes are owing to conversions at financing events. These do not represent transfers in or out of Level 3.

[2] There was a $625,000 transfer from "Preferred Stock" into "Funds Held in Escrow From Sales of Investments" owing to the sale of Molecular Imprints, Inc., to Canon, Inc.

[3]Includes a settlement of $21,420 from the disposal of Contour Energy Systems, Inc. This was a receivable as of September 30, 2014.

[4]Represents a settlement of $2,070,955 from the achievement of the first milestone associated with Amgen's acquisition of BioVex Group, Inc. This was a receivable as of September 30, 2014.

There were no transfers out of Level 3 investments during the nine months ended September 30, 2014.

NOTE 7. DERIVATIVES

At September 30, 2015, and December 31, 2014, we had rights to milestone payments from Amgen, Inc.'s acquisition of our former portfolio company, BioVex Group, Inc. These milestone payments were fair valued at $3,794,540 and $2,564,917 as of September 30, 2015, and December 31, 2014, respectively. At September 30, 2015, and December 31, 2014, we had rights to milestone payments from Laird Technologies, Inc.'s acquisition of our former portfolio company, Nextreme Thermal Solutions, Inc. These milestone payments were fair valued at $0 as of September 30, 2015, and December 31, 2014. At September 30, 2015, and December 31, 2014, we had rights to milestone payments from Canon, Inc.'s acquisition of our former portfolio company, Molecular Imprints, Inc. These milestone payments were fair valued at $1,263,543 and $628,948 as of September 30, 2015, and December 31, 2014, respectively. These milestone payments are contingent upon certain milestones being achieved in the future.

The following tables present the value of derivatives held at September 30, 2015, and the effect of derivatives held during the three months ended September 30, 2015, along with the respective location in the financial statements.

Statements of Assets and Liabilities:

	Assets		Liabilities	
Derivatives	Location	Fair Value	Location	Fair Value
Amgen, Inc. Rights to Milestone Payments from Acquisition of BioVex Group, Inc.	Investments	$3,794,540	—	—
Laird Technologies, Inc. Rights to Milestone Payments from Acquisition of Nextreme Thermal Solutions, Inc.	Investments	$0	—	—
Canon, Inc. Rights to Milestone Payments from Acquisition of Molecular Imprints, Inc.	Investments	$1,263,543	—	—

Statements of Operations for

the Three Months Ended

September 30, 2015:

Derivatives	Location	**Realized Gain/(Loss)**	**Change in unrealized Appreciation**
Amgen, Inc. Rights to Milestone Payments from Acquisition of BioVex Group, Inc.	Net Realized and Unrealized Gain (Loss)	$ 0	$ 1,245,279
Laird Technologies, Inc. Rights to Milestone Payments from Acquisition of Nextreme Thermal Solutions, Inc.	Net Realized and Unrealized Gain (Loss)	$ 0	$ 0
Canon, Inc. Rights to Milestone Payments from Acquisition of Molecular Imprints, Inc.	Net Realized and Unrealized Gain (Loss)	$ 0	$ 631,621

Statements of Operations for

the Nine Months Ended

September 30, 2015:

Derivatives	Location	**Realized Gain/(Loss)**	**Change in unrealized Appreciation**
Amgen, Inc. Rights to Milestone Payments from Acquisition of BioVex Group, Inc.	Net Realized and Unrealized Gain (Loss)	$ 0	$ 1,229,623
Laird Technologies, Inc. Rights to Milestone Payments from Acquisition of Nextreme Thermal Solutions, Inc.	Net Realized and Unrealized Gain (Loss)	$ 0	$ 0
	Net Realized and Unrealized Gain (Loss)	$ 0	$ 634,595

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

The following tables present the value of derivatives held at December 31, 2014, and the effect of derivatives held during the year ended December 31, 2014, along with the respective location in the financial statements.

Statements of Assets and Liabilities:

	Assets		Liabilities	
Derivatives	Location	Fair Value	Location	Fair Value
Equity Contracts	—	—	Written call options payable	$ 0
Amgen, Inc. Rights to Milestone Payments from Acquisition of BioVex Group, Inc.	Investments	$2,564,917	—	—
Laird Technologies, Inc. Rights to Milestone Payments from Acquisition of Nextreme Thermal Solutions, Inc.	Investments	$0	—	—
Canon, Inc. Rights to Milestone Payments from Acquisition of Molecular Imprints, Inc.	Investments	$628,948	—	—

Statements of Operations:

Derivatives	Location	**Realized Gain/(Loss)**	**Change in unrealized (Depreciation)/ Appreciation**
Equity Contracts	Net Realized and Unrealized (Loss) Gain	$ 232,079	$ (8,882)
Amgen, Inc. Rights to Milestone Payments from Acquisition of BioVex Group, Inc.	Net Realized and Unrealized (Loss) Gain	$ 536,813	$ 609,626
Laird Technologies, Inc. Rights to Milestone Payments from Acquisition of Nextreme Thermal Solutions, Inc.	Net Realized and Unrealized (Loss) Gain	$ 0	$ 0
Canon, Inc. Rights to Milestone Payments from Acquisition of Molecular Imprints, Inc.	Net Realized and Unrealized (Loss) Gain	$ 0	$ (722)

NOTE 8. EMPLOYEE BENEFITS

We administer a plan to provide medical and dental insurance for retirees and their spouses who, at the time of their retirement, have 10 years of service with us and have attained 50 years of age or have attained 45 years of age and have 15 years of service with us (the "Medical Benefit Retirement Plan"). On March 7, 2013, the Board of Directors amended the Medical Benefit Retirement Plan. The amendment limits the medical benefit to $10,000 per year for a period of ten years. The amendment does not affect benefits accrued by former employees or one current employee who is grandfathered under the former terms of the plan.

Our accumulated post-retirement benefit obligation was re-measured as of the plan amendment date, which resulted in a $1,101,338 decrease in our liability. A deferred gain of $1,101,338 owing to this amendment was included in "Accumulated other comprehensive income" as of March 31, 2013. This amount is being amortized over a service period of 5.27 years. During the three months and nine months ended September 30, 2015, a total of $52,246 and $156,738, respectively, was amortized and included as a reduction of "Salaries, benefits and stock-based compensation" on our Consolidated Statements of Operations.

NOTE 9. STOCK-BASED COMPENSATION

The Company maintains the Stock Plan, which provides for the grant of equity-based awards of stock options to our officers and employees and restricted stock to our officers, employees and non-employee directors subject to compliance with the 1940 Act and an exemptive order granted on April 3, 2012, by the SEC permitting us to award shares of restricted stock (the "Exemptive Order").

Stock Option Awards

During the nine months ended September 30, 2015, and the year ended December 31, 2014, the Compensation Committee of the Board of Directors of the Company did not grant any stock options.

The stock options outstanding are fully vested and have, therefore, been fully expensed.

For the three months and nine months ended September 30, 2014, the Company recognized $0 and $92,758, respectively, of compensation expense in the Consolidated Statements of Operations related to stock options.

For the nine months ended September 30, 2015, and September 30, 2014, no options were exercised.

A summary of the changes in outstanding stock options for the nine months ended September 30, 2015, is as follows:

		Weighted	Weighted Average

	Shares	Weighted Average Exercise Price	Average Grant Date Fair Value	Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Options Outstanding at January 1, 2015	1,423,912	$ 9.77	$ 6.28	1.68	$ 0
Granted	0	0	0	0	
Exercised	0	0	0	0	
Forfeited or Expired	(21,000)	4.80	2.21	0	
Options Outstanding and Exercisable at September 30, 2015	1,402,912	$ 9.85	$ 6.34	0.96	$ 0

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The aggregate intrinsic value in the table above with respect to outstanding options is calculated as the difference between the Company's closing stock price of $2.14 on September 30, 2015, and the exercise price, multiplied by the number of in-the-money options. This amount represents the total pre-tax intrinsic value that would have been received by the option holders had all option holders exercised their awards on September 30, 2015.

Restricted Stock

For the three months and nine months ended September 30, 2015, we recognized $185,991 and $617,972, respectively, of compensation expense related to restricted stock awards. As of September 30, 2015, there was unrecognized compensation cost of $1,255,133 related to restricted stock awards. This cost is expected to be recognized over a remaining weighted average period of approximately 1.1 years.

Non-vested restricted stock awards as of September 30, 2015, and changes during the nine months ended September 30, 2015, were as follows:

	Shares	Weighted-Average Grant Date Fair Value Per Share	
Outstanding at January 1, 2015	1,165,495	$	2.73
Granted	10,000		2.72
Vested based on service	(40,842)		3.39
Shares withheld related to net share settlement of restricted stock	(17,325)		3.37
Forfeited	(3,999)		3.44
Outstanding at September 30, 2015	1,113,329	$	2.69

Non-vested restricted stock awards as of September 30, 2014, and changes during the nine months ended September 30, 2014, were as follows:

	Shares	Weighted-Average Grant Date Fair Value Per Share

Outstanding at January 1, 2014	1,504,518	$	2.78
Granted	40,360		3.01
Vested based on service	(48,226)		3.32
Shares withheld related to net share settlement of restricted stock	(21,658)		3.37
Forfeited	(144,000)		2.75
Outstanding at September 30, 2014	1,330,994	$	2.76

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Under net settlement procedures currently applicable to our outstanding restricted stock awards for current employees, upon each settlement date, restricted stock awards are withheld to cover the required withholding tax, which is based on the value of the restricted stock award on the settlement date as determined by the closing price of our common stock on the vesting date. The remaining amounts are delivered to the recipient as shares of our common stock. During the nine months ended September 30, 2015, 58,167 restricted stock awards vested, of which 49,500 restricted stock awards were net settled by withholding 17,325 shares, which represented the employees' minimum statutory obligation for each such employee's applicable income and other employment taxes and remitted cash totaling $47,644 to the appropriate tax authorities. During the nine months ended September 30, 2014, 69,884 restricted stock awards vested, of which 61,880 restricted stock awards were net settled by withholding 21,658 shares, which represented the employees' minimum statutory obligation for each such employee's applicable income and other employment taxes and remitted cash totaling $68,872 to the appropriate tax authorities. The amount remitted to the tax authorities for the employees' tax obligation was reflected as a financing activity within our Consolidated Statements of Cash Flows. The shares withheld by us as a result of the net settlement of restricted stock awards are not considered issued and outstanding, thereby reducing our shares outstanding used to calculate net asset value per share.

NOTE 10. INCOME TAXES

We have elected to be treated as a RIC under the Code and operate in a manner so as to qualify for the tax treatment applicable to RICs.

In order to qualify as a RIC, we must, in general, (1) annually, derive at least 90 percent of our gross income from dividends, interest, gains from the sale of securities and similar sources; (2) quarterly, meet certain investment diversification requirements; and (3) annually, distribute at least 90 percent of our investment company taxable income as a dividend. We may either distribute or retain our net capital gain from investments, but any net capital gain not distributed will be subject to corporate income tax and the excise tax described below to the extent not offset by the capital loss carryforward. We currently intend to consider designating net capital gains for distribution as "cash dividends," "designated undistributed capital gains" or "deemed dividends" or some combination thereof. We will be subject to a four percent excise tax to the extent we fail to distribute at least 98 percent of our annual net ordinary income and 98.2 percent of our capital gain net income and would be subject to income tax to the extent we fail to distribute 100 percent of our investment company taxable income. As of January 1, 2015, we had capital loss carryforwards of $9,775,492, which we intend to use to offset current year capital gains, if any. During the nine months ended September 30, 2015, we realized net capital gains of $4,224,413.

Because of the specialized nature of our investment portfolio, we generally can satisfy the diversification requirements under the Code if we receive a certification from the SEC pursuant to Section 851(e) of the Code that we are "principally engaged in the furnishing of capital to other corporations which are principally engaged in the development or exploitation of inventions, technological improvements, new processes, or products not previously generally available."

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We have received SEC certification since 1999, including for 2014, pursuant to Section 851(e) of the Code. There can be no assurance that we will qualify for or receive certification for 2015 or subsequent years (to the extent we need additional certification) or that we will actually qualify for Subchapter M treatment in subsequent years. In addition, under certain circumstances, even if we qualified for Subchapter M treatment in a given year, we might take action in a subsequent year to ensure that we would be taxed in that subsequent year as a C Corporation, rather than as a RIC.

For the three months ended September 30, 2015, and September 30, 2014, we paid $376 and $1,676, respectively, in federal, state and local taxes. For the nine months ended September 30, 2015, and September 30, 2014, we paid $2,081 and $17,662, respectively, in federal, state and local taxes. At September 30, 2015, and September 30, 2014, we had $0 accrued for federal, state and local taxes payable by the Company.

We pay federal, state and local taxes primarily related to sublease income generated by Ventures, which is taxed as a C Corporation. For the three months ended September 30, 2015, and 2014, our income tax expense for Ventures was $325 and $1,676, respectively. For the nine months ended September 30, 2015, and 2014, our income tax expense for Ventures was $1,125 and $16,733, respectively.

NOTE 11. CHANGE IN NET ASSETS PER SHARE

The following table sets forth the computation of basic and diluted per share net increases (decreases) in net assets resulting from operations for the three months and nine months ended September 30, 2015, and September 30, 2014.

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2015	2014	2015	2014
Numerator for decrease in net assets per share resulting from operations	$(16,904,625)	$(910,852)	$(22,356,159)	$(3,058,474)
Denominator for basic weighted average shares	31,251,950	31,245,664	31,272,790	31,215,069
Basic net decrease in net assets per share resulting from operations	$(0.54)	$(0.03)	$(0.71)	$(0.10)
Denominator for diluted weighted average shares	31,251,950	31,245,664	31,272,790	31,215,069
Diluted net decrease in net assets per share resulting from operations[1]	$(0.54)	$(0.03)	$(0.71)	$(0.10)

Anti-dilutive shares by type:				
Stock Options	1,402,912	1,425,372	1,402,912	1,425,372
Restricted Stock	220,329	353,994	220,329	345,935
Total anti-dilutive shares	1,623,241	1,779,366	1,623,241	1,771,307

[1]A total of 839,000 and 973,000 performance-based shares of restricted stock were outstanding at September 30, 2015, and September 30, 2014, respectively. These shares vest when the volume-weighted stock price is at or above pre-determined stock price targets over a 30-day period. These pre-determined stock price targets range from $5.00 per share to $9.00 per share. These shares were not included in the computation of diluted net asset value per share because as of the end of the reporting period none of the pre-determined stock price targets were met.

For the nine months ended September 30, 2015, and September 30, 2014, the calculation of net decrease in net assets resulting from operations per diluted share did not include stock options or shares of restricted stock because such shares were anti-dilutive. Stock options and restricted stock awards may be dilutive in future periods in which there are both a net increase in net assets resulting from operations and either significant increases in our average stock price or significant decreases in the amount of unrecognized compensation cost during the period.

NOTE 12. COMMITMENTS AND CONTINGENCIES

On July 21, 2014, the Company made an investment in Accelerator IV-New York Corporation ("Accelerator") for a 9.6 percent interest in the company. This investment was diluted to 9.0 percent through follow-on financings by Accelerator in which the Company did not participate. Accelerator will be identifying emerging biotechnology companies for the Company to invest in directly over a five-year period. If the Company defaults on these commitments, the other investors may purchase the Company's shares of Accelerator for $0.001 per share. In the event of default, the Company would still be required to contribute the remaining operating commitment.

The Company's aggregate operating and investment commitments in Accelerator amounted to $666,667 and $3,333,333, respectively. During the nine months ended September 30, 2015, $262,215 in capital was called, all of which related to the operating commitment. As of September 30, 2015, the Company had remaining unfunded commitments of $188,440 and $3,333,333, or approximately 28.3 percent and 100 percent, of the total operating and investment commitments, respectively. The withdrawal of contributed capital is not permitted. The transfer or assignment of capital is subject to approval by Accelerator.

NOTE 13. SHARE REPURCHASE PROGRAM

On August 6, 2015, our Board of Directors authorized a repurchase of up $2.5 million of the Company’s common stock in the open market within a six-month period. Under the repurchase program, we may, but we are not obligated to, repurchase our outstanding common stock in the open market from time to time provided that we comply with the prohibitions under our Insider Trading Policies and Procedures and the guidelines specified in Rule 10b-18 of the Securities Exchange Act of 1934, as amended, including certain price, market volume and timing constraints. In addition, any repurchases will be conducted in accordance with the 1940 Act. During the quarter ended September 30, 2015, we repurchased 298,819 shares at an average price of approximately $2.47 per share, inclusive of commissions. This represents a discount of approximately 11.8 percent of the net asset value per share at September 30, 2015. The total dollar amount of shares repurchased in this period is $737,662, leaving a maximum of $1,762,338 available for future program purchases.

NOTE 14. SUBSEQUENT EVENTS

On October 1, 2015, the Company received proceeds of $795,567 upon the achievement of the first milestone associated with the sale of Molecular Imprints, Inc., to Canon, Inc.

On October 27, 2015, Adesto Technologies Corporation completed an IPO priced at $5.00 per share, trading on the NASDAQ Capital Market under the symbol "IOTS." The Company invested $1,000,000 in the offering. On November 6, 2015, the closing price of Adesto's shares of common stock was $5.41.

On October 30, 2015, the Company made a $250,000 follow-on investment in Produced Water Absorbents, Inc., a privately held portfolio company.

During October of 2015, the Company repurchased an additional 119,365 shares of its stock at an average price of $2.20 inclusive of commissions. There is a maximum of $1,500,003 available for future program purchases.

On November 3, 2015, the initial U.S. sales milestone associated with Amgen, Inc.'s acquisition of BioVex Group, Inc., was achieved. The Company will receive proceeds of $2,070,955 related to this achievement on or before December 18, 2015.

HARRIS & HARRIS GROUP, INC.

FINANCIAL HIGHLIGHTS

(Unaudited)

	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2015	2014	2015	2014
Per Share Operating Performance				
Net asset value per share, beginning of period	$ 3.34	$ 3.87	$ 3.51	$ 3.93
Net operating loss*	(0.05)	(0.06)	(0.17)	(0.19)
Net realized gain (loss) on investments*	0.04	(0.12)	0.14	(0.16)
Net (increase) decrease in unrealized depreciation on investments and written call options* (1)	(0.53)	0.15	(0.67)	0.26
Share of loss on equity method investment(2)	0.00	0.00	(0.01)	0.00
Total from investment operations*	(0.54)	(0.03)	(0.71)	(0.09)
Net increase as a result of stock-based compensation expense*	0.01	0.01	0.02	0.02
Net decrease as a result of acquisition of vested restricted stock awards related to employee withholding(2)	(0.01)	0.00	(0.01) &	