

HARRIS & HARRIS GROUP INC /NY/  
Form 10-Q  
August 08, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2012

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

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

Commission file number: 0-11576

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

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

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

(212) 582-0900

(Registrant's Telephone Number, Including Area Code)

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

Yes  No

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

Yes  No

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

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

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

Yes  No

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

Class	Outstanding at August 8, 2012
Common Stock, \$0.01 par value per share	31,000,601 shares

**Harris & Harris Group, Inc.**

**Form 10-Q, June 30, 2012**

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PART I. FINANCIAL INFORMATION

**Item 1. Consolidated Financial Statements**

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

Harris & Harris Group, Inc.<sup>®</sup> (the "Company," "us," "our" and "we"), is an internally managed venture capital company that has elected to operate as a business development company ("BDC") under the Investment Company Act of 1940 (the "1940 Act"). Certain information and disclosures normally included in the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted as permitted by Regulation S-X and Regulation S-K. Accordingly, they do not include all information and disclosures necessary for a fair presentation of our financial position, results of operations and cash flows in conformity with GAAP. The results of operations for any interim period are not necessarily indicative of the results for the full year. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2011.

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

	June 30, 2012 (Unaudited)	December 31, 2011
<b>ASSETS</b>		
Investments, in portfolio securities at value:		
Unaffiliated privately held companies (cost: \$24,479,403 and \$23,794,145, respectively)	\$26,300,391	\$ 23,748,247
Unaffiliated rights to milestone payments (adjusted cost basis: \$3,291,750 and \$3,291,750, respectively)	3,386,224	3,362,791
Unaffiliated publicly traded securities (cost: \$12,535,134 and \$12,743,787, respectively)	33,027,782	29,484,527
Non-controlled affiliated privately held companies (cost: \$52,751,538 and \$48,968,029, respectively)	53,874,397	47,601,785
Non-controlled affiliated publicly traded companies (cost: \$2,000,000 and \$2,000,000, respectively)	1,973,334	1,973,334
Controlled affiliated privately held companies (cost: \$14,014,759 and \$12,518,936, respectively)	8,335,716	6,877,566
Total, investments in private portfolio companies, rights to milestone payments and public securities at value (cost: \$109,072,584 and \$103,316,647, respectively)	\$126,897,844	\$ 113,048,250
Cash	27,734,326	33,841,394
Restricted funds (Note 3)	2,010,005	1,512,031
Funds held in escrow from sales of investments, at value (Note 3)	587,923	1,064,234
Receivable from portfolio company	26,341	37,331
Interest receivable	7,800	14,635
Prepaid expenses	185,467	398,858
Other assets	414,364	426,920
Total assets	\$157,864,070	\$ 150,343,653
<b>LIABILITIES &amp; NET ASSETS</b>		
Post retirement plan liabilities	\$1,766,206	\$ 1,660,958
Revolving loan (Note 5)	2,000,000	1,500,000
Accounts payable and accrued liabilities	982,657	906,910
Deferred rent	363,276	378,980
Written call options payable (premiums received: \$914,245 and \$315,000, respectively) (Note 7)	1,391,092	195,000
Debt interest and other payable	3,049	3,398
Total liabilities	6,506,280	4,645,246
Net assets	\$151,357,790	\$ 145,698,407

Net assets are comprised of:

Preferred stock, \$0.10 par value,

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2,000,000 shares authorized; none issued	\$0	\$ 0
Common stock, \$0.01 par value, 45,000,000 shares authorized at 6/30/12 and 12/31/11; 32,829,341 issued at 6/30/12 and 12/31/11	328,294	328,294
Additional paid in capital (Note 8)	212,455,488	210,470,369
Accumulated net operating and realized loss	(75,381,539 )	(71,546,328 )
Accumulated unrealized appreciation of investments	17,361,078	9,851,603
Treasury stock, at cost (1,828,740 shares at 6/30/12 and 12/31/11)	(3,405,531 )	(3,405,531 )
Net assets	\$151,357,790	\$ 145,698,407
Shares outstanding	31,000,601	31,000,601
Net asset value per outstanding share	\$4.88	\$ 4.70

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Investment (loss) income:				
Interest from:				
Unaffiliated companies	\$ 71,257	\$ 81,762	\$ 121,321	\$ 127,237
Non-controlled affiliated companies	(193,188 )	42,382	(150,376 )	70,697
Controlled affiliated companies	39,658	40,223	67,000	75,730
Cash and U.S. Treasury obligations	6,387	9,300	12,699	21,780
Miscellaneous income	47,440	14,159	81,800	29,206
Total investment (loss) income	(28,446 )	187,826	132,444	324,650
Expenses:				
Salaries, benefits and stock-based compensation (Note 8)	2,558,000	1,344,781	3,947,391	2,583,879
Administration and operations	225,542	219,243	582,226	475,801
Professional fees	244,296	208,713	517,639	456,561
Rent	99,254	89,500	197,697	179,000
Directors' fees and expenses	81,906	85,391	177,732	184,172
Custody fees	11,127	24,000	21,982	48,000
Depreciation	14,645	12,602	28,598	25,166
Interest and other debt expenses	12,064	9,989	23,840	13,767
Total expenses	3,246,834	1,994,219	5,497,105	3,966,346
Net operating loss	(3,275,280 )	(1,806,393 )	(5,364,661 )	(3,641,696 )
Net realized gain (loss):				
Realized gain (loss) from investments:				
Unaffiliated companies	0	(205,597 )	476,887	7,328,743
Non-Controlled affiliated companies	(16,195 )	(1,966,590 )	11,421	(1,966,590 )
Publicly traded companies	670,879	0	670,879	0
Written call options	213,338	0	378,338	0
U.S. Treasury obligations/other	0	(82 )	0	(82 )
Realized gain (loss) from investments	868,022	(2,172,269 )	1,537,525	5,362,071
Income tax expense (Note 9)	0	103	8,075	2,393
Net realized gain (loss) from investments	868,022	(2,172,372 )	1,529,450	5,359,678
Net increase (decrease) in unrealized appreciation on investments:				
Change as a result of investment sales	(670,879 )	2,006,126	(670,879 )	(5,522,992 )



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Change on investments held	1,543,565	23,194,860	8,764,536	23,901,072
Change on written call options	(371,347 )	0	(584,182 )	0
Net increase in unrealized appreciation on investments	501,339	25,200,986	7,509,475	18,378,080
Net realized and unrealized gains on investments	1,369,361	23,028,614	9,038,925	23,737,758
Net (decrease) increase in net assets resulting from operations:				
Total	\$(1,905,919 )	\$21,222,221	\$3,674,264	\$20,096,062
Per average basic and diluted outstanding share	\$(0.06 )	\$0.68	\$0.12	\$0.65
Average outstanding shares - basic	31,000,601	30,999,579	31,000,601	30,959,503
Average outstanding shares - diluted	31,000,601	31,017,329	31,000,700	30,977,558

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

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

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011 (Corrected)
Cash flows used in operating activities:		
Net increase in net assets resulting from operations	\$ 3,674,264	\$ 20,096,062
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:		
Net realized gain and unrealized appreciation on investments	(9,047,000 )	(23,740,151 )
Depreciation of fixed assets, amortization of premium or discount on U.S. government securities, and bridge note interest	103,547	(158,484 )
Stock-based compensation expense	1,985,119	985,120
Changes in assets and liabilities:		
Purchase of U.S. government securities	0	(84,283,377 )
Sale of U.S. government securities	0	90,337,925
Investments in affiliated portfolio companies	(5,368,669 )	(6,860,821 )
Investments in unaffiliated portfolio companies	(874,530 )	(3,795,265 )
Principal payments received on debt investments	203,962	109,763
Proceeds from sale of investments	1,844,152	8,257,334
Proceeds from call option premiums	2,324,314	0
Payments for call option purchases	(1,334,370 )	0
Restricted funds	(497,974 )	(2,562,023 )
Receivable from portfolio company	10,990	(5,879 )
Interest receivable	6,835	4,459
Prepaid expenses	213,391	140,929
Other assets	(525 )	8,698
Post retirement plan liabilities	105,248	59,571
Accounts payable and accrued liabilities	75,398	(75,261 )
Deferred rent	(15,704 )	(11,496 )
Net cash used in operating activities	(6,591,552 )	(1,492,896 )
Cash flows from investing activities:		
Purchase of fixed assets	(15,516 )	(3,746 )
Net cash used in investing activities	(15,516 )	(3,746 )
Cash flows from financing activities:		
Proceeds from stock option exercises	0	491,058
Proceeds from drawdown of credit facility	500,000	2,550,000
Net cash provided by financing activities	500,000	3,041,058

Net (decrease) increase in cash:		
Cash at beginning of the period	33,841,394	3,756,919
Cash at end of the period.	27,734,326	5,301,335
Net (decrease) increase in cash	\$ (6,107,068	) \$ 1,544,416
Supplemental disclosures of cash flow information:		
Income taxes paid	\$ 8,075	\$ 2,393
Interest paid	\$ 13,405	\$ 0

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

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

	Six Months Ended June 30, 2012 (Unaudited)	Year Ended December 31, 2011
Changes in net assets from operations:		
Net operating loss	\$ (5,364,661	) \$ (8,338,365
Net realized gain on investments	1,529,450	2,449,705
Net (decrease) increase in unrealized appreciation on investments as a result of sales	(670,879	) 74,649
Net increase in unrealized appreciation on investments held	8,764,536	2,152,648
Net (decrease) increase in unrealized appreciation on written call options	(584,182	) 120,000
Net increase (decrease) in net assets resulting from operations	3,674,264	(3,541,363
Changes in net assets from capital stock transactions:		
Issuance of common stock upon the exercise of stock options	0	1,224
Additional paid in capital on common stock issued net of offering expenses	0	489,834
Stock-based compensation expense	1,985,119	1,894,800
Net increase in net assets resulting from capital stock transactions	1,985,119	2,385,858
Net increase (decrease) in net assets	5,659,383	(1,155,505
Net Assets:		
Beginning of the period	145,698,407	146,853,912
End of the period	\$ 151,357,790	\$ 145,698,407

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

HARRIS &amp; HARRIS GROUP, INC.

**CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2012****(Unaudited)**

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Investments in Unaffiliated Companies (3) – 41.4% of net assets at value					
Private Placement Portfolio (Illiquid) (4) – 17.4% of net assets at value					
Bridgelux, Inc. (7)(8)					
Manufacturing high-power light emitting diodes (LEDs) and arrays					
Energy					
Series B Convertible Preferred Stock	(M)		\$1,000,000	1,861,504	\$2,213,782
Series C Convertible Preferred Stock	(M)		1,352,196	2,130,699	2,721,847
Series D Convertible Preferred Stock	(M)		1,371,622	999,999	1,670,641
Series E Convertible Preferred Stock	(M)		672,599	440,334	824,941
Series E-1 Convertible Preferred Stock	(M)		534,482	399,579	644,518
Warrants for Series C Convertible Preferred Stock expiring 12/31/14	(I)		168,270	163,900	106,875
Warrants for Series D Convertible Preferred Stock expiring 8/26/14	(I)		88,531	124,999	69,706
Warrants for Series D Convertible Preferred Stock expiring 3/10/15	(I)		40,012	41,666	23,235
Warrants for Series E Convertible Preferred Stock expiring 12/31/17	(I)		93,969	170,823	92,518
Warrants for Common Stock expiring 6/1/16	(I)		72,668	132,100	337
Warrant for Common Stock expiring 10/21/18	(I)		18,816	84,846	216
			5,413,165		8,368,616
Cambrios Technologies Corporation (7)(9)(14)					
Developing nanowire-enabled electronic materials for the display industry					
Electronics					
Series B Convertible Preferred Stock	(M)		1,294,025	1,294,025	1,165,383
Series C Convertible Preferred Stock	(M)		1,300,000	1,300,000	1,170,764
Series D Convertible Preferred Stock	(M)		515,756	515,756	773,634
Series D-2 Convertible Preferred Stock	(M)		92,400	92,400	92,400
			3,202,181		3,202,181
Cobalt Technologies, Inc. (7)(9)(10)					
Developing processes for making bio-butanol through biomass fermentation					
Energy					

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Series C-1 Convertible Preferred Stock	(M)	749,998	352,112	435,580
Series D-1 Convertible Preferred Stock	(M)	122,070	48,828	65,595
Secured Convertible Bridge Note, 10%, acquired 5/25/12	(M)	45,554	\$45,097	45,554
		917,622		546,729

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

HARRIS &amp; HARRIS GROUP, INC.

**CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2012****(Unaudited)**

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Investments in Unaffiliated Companies (3) – 41.4% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (4) – 17.4% of net assets at value (Cont.)					
Ensemble Therapeutics Corporation (7)(9)(11)					
Developing DNA-Programmed Chemistry™ for the discovery of new classes of therapeutics					
Series B Convertible Preferred Stock (M)					
			\$2,000,000	1,449,275	\$46,667
Secured Convertible Bridge Note, 8%, acquired 9/11/08 (M)					
			326,460	\$250,211	1,547,663
Secured Convertible Bridge Note, 8%, acquired 12/10/09 (M)					
			58,887	\$48,868	297,398
Secured Convertible Bridge Note, 8%, acquired 1/25/12 (M)					
			113,222	\$109,400	647,170
			2,498,569		2,538,898
GEO Semiconductor Inc. (12)					
Developing programmable, high-performance video and geometry processing solutions					
Participation Agreement with Montage Capital relating to the following assets:					
Senior secured debt, 13.75%, maturing on 7/15/12 (I)					
			347,428	\$437,900	402,350
Warrants for Series A Pref. Stock expiring on 9/17/17 (I)					
			66,684	100,000	67,813
Warrants for Series A-1 Pref. Stock expiring on 6/30/18 (I)					
			23,566	34,500	23,796
Loan and Security Agreement with GEO Semiconductor relating to the following assets:					
Subordinated secured debt, 15.75%, maturing on 7/15/12 (I)					
			109,630	\$125,000	119,760
Warrants for Series A Pref. Stock expiring on 3/1/18 (I)					
			7,512	10,000	6,380
Warrants for Series A-1 Pref. Stock expiring on 6/29/18 (I)					
			7,546	10,000	6,400
			562,366		626,499

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Molecular Imprints, Inc. (7)(13)		Electronics		
Manufacturing nanoimprint lithography capital equipment				
Series B Convertible Preferred Stock	(M)	2,000,000	1,333,333	1,789,108
Series C Convertible Preferred Stock	(M)	2,406,595	1,285,071	2,138,498
Non-Convertible Bridge Note	(I)	0	0	3,033,338
		4,406,595		6,960,944
Nanosys, Inc. (7)(14)		Energy		
Developing inorganic nanowires and quantum dots for use in batteries and LED-backlit devices				
Series C Convertible Preferred Stock	(M)	1,500,000	803,428	0
Series D Convertible Preferred Stock	(M)	3,000,003	1,016,950	474,663
Series E Convertible Preferred Stock	(M)	496,573	433,688	744,859
		4,996,576		1,219,522

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



HARRIS &amp; HARRIS GROUP, INC.

**CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2012****(Unaudited)**

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Investments in Unaffiliated Companies (3) – 41.4% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (4) – 17.4% of net assets at value (Cont.)					
NanoTerra, Inc. (9)					
Energy					
Developing surface chemistry and nano-manufacturing solutions					
Senior secured debt, 12.0%, maturing on 2/22/14	( I )		\$246,499	\$299,685	\$277,190
Senior secured debt, 12.0%, maturing on 2/22/13	( I )		74,066	\$90,048	87,210
Warrants for Series A-2 Pref. Stock expiring on 2/22/21	( I )		69,168	446,248	66,819
			389,733		431,219
Nantero, Inc. (7)(9)(14)					
Electronics					
Developing a high-density, nonvolatile, random access memory chip, enabled by carbon nanotubes					
Series A Convertible Preferred Stock	(M)		489,999	345,070	746,422
Series B Convertible Preferred Stock	(M)		323,000	207,051	451,501
Series C Convertible Preferred Stock	(M)		571,329	188,315	486,884
			1,384,328		1,684,807
OHSO Clean, Inc. (15)(16)					
Healthcare					
Developing natural, hypoallergenic household cleaning products enabled by nanotechnology-enabled formulations of thyme oil					
Participation Agreement with Montage Capital relating to the following assets:					
Senior secured debt, 13.00%, maturing on 9/30/14	( I )		616,526	\$712,640	629,900
Warrants for Series C Pref. Stock expiring on 3/30/22	( I )		91,742	1,109,333	91,076
			708,268		720,976
					\$26,300,391

Total Unaffiliated Private Placement Portfolio  
(cost: \$24,479,403)

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

## HARRIS &amp; HARRIS GROUP, INC.

**CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2012****(Unaudited)**

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Rights to Milestone Payments (Illiquid) (5) – 2.2% of net assets at value					
Amgen, Inc. (7)(14) Rights to Milestone Payments from Acquisition of BioVex Group, Inc.	(I)	Healthcare	\$3,291,750	\$3,291,750	\$3,386,224
Total Unaffiliated Rights to Milestone Payments (cost: \$3,291,750)					\$3,386,224
Publicly Traded Portfolio (6) – 21.8% of net assets at value					
NeoPhotonics Corporation (14)(17) Developing and manufacturing optical devices and components Common Stock	(M)	Electronics	\$7,299,590	450,907	\$2,227,481
Solazyme, Inc. (14)(18) Developing algal biodiesel, industrial chemicals and specialty ingredients using synthetic biology Common Stock	(M)	Energy	5,235,544	2,215,849	30,800,301
Total Unaffiliated Publicly Traded Portfolio (cost: \$12,535,134)					\$33,027,782
Total Investments in Unaffiliated Companies (cost: \$40,306,287)					\$62,714,397

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

## HARRIS &amp; HARRIS GROUP, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2012

(Unaudited)

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 36.9% of net assets at value					
Private Placement Portfolio (Illiquid) (19) – 35.6% of net assets at value					
ABSMaterials, Inc. (7)(9)(14) Developing nano-structured absorbent materials for environmental remediation		Energy			
Series A Convertible Preferred Stock	(M)		\$435,000	390,000	\$1,170,000
Adesto Technologies Corporation (7)(9) Developing low-power, high-performance memory devices		Electronics			
Series A Convertible Preferred Stock	(M)		2,200,000	6,547,619	4,583,333
Series B Convertible Preferred Stock	(M)		2,200,000	5,952,381	4,166,667
Series C Convertible Preferred Stock	(M)		1,485,531	2,122,187	1,485,531
			5,885,531		10,235,531
Contour Energy Systems, Inc. (7)(9)(14) Developing batteries using nanostructured materials		Energy			
Series A Convertible Preferred Stock	(M)		2,009,995	2,565,798	2,504,488
Series B Convertible Preferred Stock	(M)		1,300,000	812,500	1,340,672
Series C Convertible Preferred Stock	(M)		1,200,000	1,148,325	1,271,099
			4,509,995		5,116,259
D-Wave Systems, Inc. (7)(9)(20) Developing high-performance quantum computing systems		Electronics			
Class 1 Series B Convertible Preferred Stock	(M)		1,002,074	1,144,869	1,455,815
Class 1 Series C Convertible Preferred Stock	(M)		487,804	450,450	572,792
Class 1 Series D Convertible Preferred Stock	(M)		1,484,492	1,533,395	1,949,866
Class 1 Series E Convertible Preferred Stock	(M)		248,049	269,280	342,416
Class 1 Series F Convertible Preferred Stock	(M)		238,323	258,721	328,990
Class 2 Series E Convertible Preferred Stock	(M)		409,032	317,746	404,046
Class 2 Series F Convertible Preferred Stock	(M)		392,993	305,286	388,201
Warrants for Common Stock expiring 6/30/15	(I)		98,644	153,890	46,573

		4,361,411		5,488,699
Enumeral Biomedical Corp. (7)(9)(14)			Healthcare	
Developing therapeutics and diagnostics through functional assaying of single cells				
Series A Convertible Preferred Stock	(M)	1,026,832	957,038	1,325,507
Series A-1 Convertible Preferred Stock	(M)	750,000	576,923	750,000
		1,776,832		2,075,507

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

## HARRIS &amp; HARRIS GROUP, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2012

(Unaudited)

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 36.9% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (19) – 35.6% of net assets at value (Cont.)					
HzO, Inc. (7)(9)(14)		Electronics			
Developing novel industrial coatings that protect electronics against damage from liquids					
Series A Convertible Preferred Stock	(M)		\$666,667	4,057,294	\$1,130,362
Series B Convertible Preferred Stock	(M)		1,000,000	3,947,888	1,099,882
			1,666,667		2,230,244
Kovio, Inc. (7)(9)(14)		Electronics			
Developing semiconductor products using printed electronics and thin-film technologies					
Series A' Convertible Preferred Stock	(M)		5,242,993	2,160,000	1,437,286
Series B' Convertible Preferred Stock	(M)		1,418,540	2,131,827	1,418,539
			6,661,533		2,855,825
Mersana Therapeutics, Inc. (7)(9)		Healthcare			
Developing treatments for cancer based on novel drug delivery polymers					
Series A Convertible Preferred Stock	(M)		700,000	68,451	6,434
Series B Convertible Preferred Stock	(M)		1,542,098	866,500	81,451
Unsecured Convertible Bridge Note, 10%, acquired 8/5/08	(M)		219,570	\$200,000	19,570
Unsecured Convertible Bridge Note, 10%, acquired 2/13/09	(M)		216,935	\$200,000	16,935
Unsecured Convertible Bridge Note, 10%, acquired 7/2/09	(M)		268,784	\$250,000	18,784
Unsecured Convertible Bridge Note, 10%, acquired 1/19/10	(M)		92,868	\$87,500	5,368
Unsecured Convertible Bridge Note, 10%, acquired 2/19/10	(M)		89,478	\$84,475	5,003
Unsecured Convertible Bridge Note, 10%, acquired 4/12/11	(M)		308,047	\$298,900	9,147

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Unsecured Convertible Bridge Note, 10%, acquired 10/28/11	(M)	25,424	\$25,000	424
Unsecured Convertible Bridge Note, 10%, acquired 11/17/11	(M)	25,389	\$25,000	389
Unsecured Convertible Bridge Note, 10%, acquired 12/22/11	(M)	25,329	\$25,000	329
Unsecured Convertible Bridge Note, 10%, acquired 4/11/12	(M)	125,234	\$124,542	692
		3,639,156		164,526

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## HARRIS &amp; HARRIS GROUP, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2012

(Unaudited)

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 36.9% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (19) – 35.6% of net assets at value (Cont.)					
Metabolon, Inc. (7)(14) Developing service and diagnostic products through the use of a metabolomics, or biochemical, profiling platform		Healthcare			
Series B Convertible Preferred Stock	(M)		\$2,500,000	371,739	\$1,951,723
Series B-1 Convertible Preferred Stock	(M)		706,214	148,696	780,689
Series C Convertible Preferred Stock	(M)		1,000,000	1,000,000	1,794,510
Series D Convertible Preferred Stock	(M)		1,499,999	835,882	1,499,999
Warrants for Series B-1 Convertible Preferred Stock expiring 3/25/15	(I)		293,786	74,348	71,232
			5,999,999		6,098,153
Nextreme Thermal Solutions, Inc. (7)(9)(14) Developing thin-film thermoelectric devices for cooling and energy conversion		Energy			
Series A Convertible Preferred Stock	(M)		2,192,381	22,027	0
Common Stock	(M)		2,192,381	4,039,985	0
			4,384,762		0
OpGen, Inc. (7)(14)(15) Developing tools for genomic sequence assembly and analysis		Healthcare			
Series C Convertible Preferred Stock	(M)		815,000	5,905,797	815,000
Produced Water Absorbents, Inc. (7)(9)(14) Developing nano-structured absorbent materials for environmental remediation of contaminated water in the oil and gas industries		Energy			
Series A Convertible Preferred Stock	(M)		1,000,000	1,000,000	1,000,000



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

HARRIS &amp; HARRIS GROUP, INC.

**CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2012****(Unaudited)**

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 36.9% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (19) – 35.6% of net assets at value (Cont.)					
Senova Systems, Inc. (7)(9)(14) Developing next-generation sensors to measure pH Series B Convertible Preferred Stock	(M)	Healthcare	\$692,308	692,308	\$553,846
SiOnyx, Inc. (7)(9)(14) Developing silicon-based optoelectronic products enabled by its proprietary Black Silicon Series A Convertible Preferred Stock	(M)	Electronics	750,000	233,499	160,367
Series A-1 Convertible Preferred Stock	(M)		890,000	2,966,667	2,037,507
Series A-2 Convertible Preferred Stock	(M)		2,445,000	4,207,537	2,889,736
Series B-1 Convertible Preferred Stock	(M)		1,169,561	1,892,836	1,300,000
Series C Convertible Preferred Stock	(M)		1,171,316	1,674,030	1,255,523
Warrants for Series B-1 Convertible Preferred Stock expiring 2/23/17	( I )		130,439	247,350	128,290
Warrants for Common Stock expiring 3/28/17	( I )		84,207	418,507	82,729
			6,640,523		7,854,152
Ultora, Inc. (7)(9)(14) Developing energy-storage devices enabled by carbon nanotubes Series A Convertible Preferred Stock	(M)	Energy	282,821	282,821	282,821
Xradia, Inc. (7)(14) Designing, manufacturing and selling ultra-high resolution 3D x-ray microscopes and fluorescence imaging systems Series D Convertible Preferred Stock		Electronics			