

HARRIS & HARRIS GROUP INC /NY/
Form 10-Q
November 10, 2014

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, 2014

.. 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 November 10, 2014
Common Stock, \$0.01 par value per share	31,245,664 shares

Harris & Harris Group, Inc.

Form 10-Q, September 30, 2014

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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, 2013.

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

	September 30, 2014	December 31, 2013
ASSETS		
Investments, in portfolio securities at value:		
Unaffiliated privately held companies (cost: \$22,530,919 and \$29,277,213, respectively)	\$ 12,986,116	\$ 29,199,564
Unaffiliated rights to milestone payments (adjusted cost basis: \$2,387,278 and \$3,291,750, respectively)	3,180,287	3,489,433
Unaffiliated publicly traded securities (cost: \$1,741,128 and \$2,451,410, respectively)	2,253,701	5,570,796
Non-controlled affiliated privately held companies (cost: \$68,332,012 and \$71,843,448, respectively)	64,927,112	54,287,040
Non-controlled affiliated publicly traded securities (cost: \$5,591,299 and \$0, respectively)	10,389,092	0
Controlled affiliated privately held companies (cost: \$10,078,252 and \$9,065,972, respectively)	2,935,127	1,352,626
Total, investments in private portfolio companies, rights to milestone payments and public securities at value (cost: \$110,660,888 and \$115,929,793, respectively)	\$ 96,671,435	\$ 93,899,459
Investments, in U.S. Treasury securities at value (cost: \$0 and \$18,999,765, respectively)	0	18,999,810
Cash	22,450,225	8,538,548
Receivable from rights to milestone payments (Note 3)	2,070,955	0
Receivable from sales of investments (Note 3)	21,420	448,886
Funds held in escrow from sales of investments at value (Note 3)	305,965	1,786,390
Receivable from portfolio company	0	54,160
Interest receivable	20,076	22,804
Prepaid expenses (Note 3)	622,767	991,409
Other assets	288,763	322,480
Total assets	\$ 122,451,606	\$ 125,063,946
LIABILITIES & NET ASSETS		
Post retirement plan liabilities (Note 8)	\$ 1,169,038	\$ 1,120,262
Accounts payable and accrued liabilities	781,364	785,608
Deferred rent	342,230	353,001
Written call options payable (premiums received: \$0 and \$112,382, respectively) (Note 7)	0	103,500
Total liabilities	2,292,632	2,362,371

Commitments and contingencies (Note 12)

Net assets	\$ 120,158,974	\$ 122,701,575
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 9/30/14 and 12/31/13; 33,074,404 and 33,026,178 issued at 9/30/14 and 12/31/13, respectively	330,744	330,262
Additional paid in capital (Note 9)	214,992,370	214,320,241
Accumulated net operating and realized loss	(78,539,604	) (67,449,176)
Accumulated unrealized depreciation of investments	(13,989,453	) (22,021,407)
Accumulated other comprehensive income (Note 8)	770,448	927,186
Treasury stock, at cost (1,828,740 shares at 9/30/14 and 12/31/13)	(3,405,531	) (3,405,531)
Net assets	\$ 120,158,974	\$ 122,701,575
Shares outstanding	31,245,664	31,197,438
Net asset value per outstanding share	\$ 3.85	\$ 3.93

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,	
	2014	2013	2014	2013
Investment income:				
Interest from:				
Unaffiliated companies	\$ 21,555	\$ 58,363	\$ 108,237	\$ 190,209
Non-controlled affiliated companies	(27,703)	9,187	55,668	111,957
Controlled affiliated companies	40,382	28,441	111,715	72,377
Cash and U.S. Treasury securities and other	1,796	3,115	8,274	12,148
Fees for providing managerial assistance to portfolio companies	37,500	0	37,500	0
Yield-enhancing fees on debt securities	19,843	15,919	52,105	43,387
Rental income from sublease	0	20,000	0	80,000
Total investment income	93,373	135,025	373,499	510,078
Expenses:				
Salaries, benefits and stock-based compensation (Note 9)	1,127,028	1,305,405	3,786,814	4,065,804
Administration and operations	108,908	125,003	446,348	429,045
Professional fees	365,557	311,428	962,780	974,296
Interest and other debt expense	94,831	9,885	282,827	21,590
Directors' fees and expenses	91,875	53,687	278,283	184,563
Rent	69,389	98,539	217,480	301,240
Insurance expense	84,006	96,179	251,946	268,482
Custody fees	16,200	13,919	45,219	41,693
Depreciation	13,182	13,774	39,632	41,670
Total expenses	1,970,976	2,027,819	6,311,329	6,328,383
Net operating loss	(1,877,603)	(1,892,794)	(5,937,830)	(5,818,305)
Net realized (loss) gain:				
Realized (loss) gain from investments:				
Unaffiliated companies	15,475	0	3,962,313	105,313
Unaffiliated rights to milestone payments	536,813	0	536,813	0
Non-Controlled affiliated companies	(4,488,575)	10,006,915	(11,199,638)	5,770,882
Publicly traded companies	0	2,845,191	1,333,497	11,389,252
Written call options	145,426	42,049	232,079	(84,713)
Purchased put options	0	0	0	(72,209)
Realized (loss) gain from investments	(3,790,861)	12,894,155	(5,134,936)	17,108,525
Income tax expense (Note 10)	1,676	3,343	17,662	25,514

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Net realized (loss) gain from investments	(3,792,537)	12,890,812	(5,152,598)	17,083,011
Net decrease (increase) in unrealized depreciation on investments:				
Investments	4,857,214	(13,424,568)	8,040,836	(11,371,863)
Written call options	(97,926)	330,388	(8,882)	55,564
Net decrease (increase) in unrealized depreciation on investments	4,759,288	(13,094,180)	8,031,954	(11,316,299)
Net realized and unrealized gain (loss) on investments	966,751	(203,368)	2,879,356	5,766,712
Net decrease in net assets resulting from operations:				
Total	\$ (910,852)	\$ (2,096,162)	\$ (3,058,474)	\$ (51,593)
Per average basic and diluted outstanding share	\$ (0.03)	\$ (0.07)	\$ (0.10)	\$ (0.00)
Average outstanding shares – basic and diluted	31,245,664	31,159,256	31,215,069	31,131,654

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

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

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2014	2013	2014	2013
Net decrease resulting from operations	\$ (910,852)	\$ (2,096,162)	\$ (3,058,474)	\$ (51,593)
Other comprehensive income (loss):				
Prior service cost (Note 8)	0	0	0	1,101,338
Amortization of prior service cost	(52,246)	(43,538)	(156,738)	(130,614)
Other comprehensive (loss) income	(52,246)	(43,538)	(156,738)	970,724
Comprehensive (loss) income	\$ (963,098)	\$ (2,139,700)	\$ (3,215,212)	\$ 919,131

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, 2014	Nine Months Ended September 30, 2013
Cash flows provided by (used in) operating activities:		
Net decrease in net assets resulting from operations	\$ (3,058,474	) \$ (51,593
Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided by (used in) operating activities:		
Net realized gain (loss) and change in unrealized depreciation on investments	(2,897,018	) (5,792,226
Depreciation of fixed assets, amortization of premium or discount on U.S. government securities and prepaid assets and accretion of bridge note interest	(145,502	) (172,361
Stock-based compensation expense	741,483	939,979
Amortization of prior service cost	(156,738	) 970,724
Purchase of U.S. government securities	(19,999,044	) (115,598,392
Sale of U.S. government securities	38,998,052	129,599,974
Purchase of affiliated portfolio companies	(12,056,559	) (10,200,939
Purchase of unaffiliated portfolio companies	(240,500	) (818,880
Payments received on debt investments	865,071	726,059
Proceeds from sale of investments and conversion of bridge notes	10,929,061	29,290,630
Proceeds from call option premiums	338,229	1,027,127
Payments for put and call option purchases	(218,352	) (403,863
Changes in assets and liabilities:		
Restricted funds	0	(13
Receivable from funds held in escrow from sales of investments	0	(116,326
Receivable from portfolio company	54,160	19,670
Receivable from sales of investments	427,466	(22,799,975
Interest receivable	2,728	33,944
Prepaid expenses	368,642	(729,606
Other assets	(621	) 1,337
Post retirement plan liabilities	48,776	(937,494
Accounts payable and accrued liabilities	(4,244	) 233,728
Deferred rent	(10,771	) (6,321
Net cash provided by operating activities	13,985,845	5,215,183
Cash flows from investing activities:		
Purchase of fixed assets	(5,296	) (3,909
Net cash used in investing activities	(5,296	) (3,909

Cash flows from financing activities:

Payment of withholdings related to net settlement of restricted stock	(68,872	)	(61,917)
Net cash used in financing activities	(68,872	)	(61,917)
Net increase in cash	\$ 13,911,677		\$ 5,149,357	
Cash at beginning of the period	8,538,548		8,379,111	
Cash at end of the period	\$ 22,450,225		\$ 13,528,468	
Supplemental disclosures of cash flow information:				
Income taxes paid	\$ 17,662		\$ 25,514	
Supplemental schedule of non-cash activities:				
Impact of plan amendment on post-retirement plan liabilities	\$ (156,738	)	\$ 970,724	

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

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

	Nine Months Ended September 30, 2014	Year Ended December 31, 2013
Changes in net assets from operations:		
Net operating loss	\$ (5,937,830	) \$ (8,022,206
Net realized (loss) gain on investments	(5,152,598	) 18,516,268
Net decrease (increase) in unrealized depreciation on investments	8,040,836	(18,284,402
Net (decrease) increase in unrealized appreciation on written call options	(8,882	) 1,382
Net decrease in net assets resulting from operations	(3,058,474	) (7,788,958
Changes in net assets from capital stock transactions:		
Acquisition of vested restricted stock awards to pay required employee withholding tax	(68,872	) (123,183
Stock-based compensation expense	741,483	1,249,756
Net increase in net assets resulting from capital stock transactions	672,611	1,126,573
Changes in net assets from accumulated other comprehensive income:		
Other comprehensive (loss) income	(156,738	) 927,186
Net (decrease) increase in net assets resulting from accumulated other comprehensive income	(156,738	) 927,186
Net decrease in net assets	(2,542,601	) (5,735,199
Net Assets:		
Beginning of the period	122,701,575	128,436,774
End of the period	\$ 120,158,974	\$ 122,701,575

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, 2014**(Unaudited)**

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Unaffiliated Companies (3) – 15.3% of net assets at value					
Private Placement Portfolio (Illiquid) (4) – 10.8% of net assets at value					
Bridgelux, Inc. (5)(8)(9)					
Manufacturing high-power light emitting diodes (LEDs) and arrays					
Series B Convertible Preferred Stock	(M)		\$1,000,000	1,861,504	\$516,056
Series C Convertible Preferred Stock	(M)		1,352,196	2,130,699	716,290
Series D Convertible Preferred Stock	(M)		1,371,622	999,999	731,122
Series E Convertible Preferred Stock	(M)		672,599	440,334	715,524
Series E-1 Convertible Preferred Stock	(M)		386,073	399,579	489,682
Warrants for Series C Convertible Preferred Stock expiring 8/31/15	(I)		168,270	163,900	26,430
Warrants for Series D Convertible Preferred Stock expiring 8/31/15	(I)		128,543	166,665	28,444
Warrants for Series E Convertible Preferred Stock expiring 12/31/17	(I)		93,969	170,823	29,487
Warrants for Common Stock expiring 6/1/16	(I)		72,668	132,100	4,131
Warrants for Common Stock expiring 8/9/18	(I)		148,409	171,183	21,987
Warrants for Common Stock expiring 10/21/18	(I)		18,816	84,846	2,654
			5,413,165		3,281,807
Cambrios Technologies Corporation (5)(8)(9)					
Developing nanowire-enabled electronic materials for the display industry					
Series B Convertible Preferred Stock	(I)		1,294,025	1,294,025	69,839
Series C Convertible Preferred Stock	(I)		1,300,000	1,300,000	70,161
Series D Convertible Preferred Stock	(I)		515,756	515,756	356,316
Series D-2 Convertible Preferred Stock	(I)		92,400	92,400	32,535
Series D-4 Convertible Preferred Stock	(I)		216,168	216,168	76,114
			3,418,349		604,965
Cobalt Technologies, Inc. (5)(8)(9)(10)					
Developing processes for making bio- butanol through biomass fermentation					

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Series C-1 Convertible Preferred Stock	(M)	749,998	352,112	0
Series D-1 Convertible Preferred Stock	(M)	122,070	48,828	0
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 unaudited notes are an integral part of these consolidated financial statements.

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF SEPTEMBER 30, 2014**(Unaudited)**

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Unaffiliated Companies (3) – 15.3% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (4) – 10.8% of net assets at value (Cont.)					
GEO Semiconductor Inc. (5)					
Developing programmable, high-performance video and geometry processing solutions Participation Agreement with Montage Capital relating to the following assets:					
Warrants for Series A Pref. Stock expiring on 9/17/17	(I)		\$66,684	100,000	\$109,768
Warrants for Series A-1 Pref. Stock expiring on 6/30/18	(I)		23,566	34,500	41,657
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	10,180
Warrants for Series A-1 Pref. Stock expiring on 6/29/18	(I)		7,546	10,000	11,198
			105,308		172,803
Mersana Therapeutics, Inc. (5)(8)(9)(11)					
Developing antibody drug conjugates for cancer therapy					
Series A-1 Convertible Preferred Stock	(I)		683,538	635,081	699,669
Common Stock	(I)		3,875,395	350,539	219,683
			4,558,933		919,352
Molecular Imprints, Inc. (5)(8)(9)(12)					
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)				
Developing inorganic nanowires and quantum dots for use in LED-backlit devices				
Series C Convertible Preferred Stock	(M)	1,500,000	803,428	790,222
Series D Convertible Preferred Stock	(M)	3,000,003	1,016,950	2,263,901
Series E Convertible Preferred Stock	(M)	496,573	433,688	793,274
Unsecured Convertible Bridge Note, 4%, acquired 7/16/12	(M)	47,696	\$43,821	74,793
		5,044,272		3,922,190

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, 2014**(Unaudited)**

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Unaffiliated Companies (3) – 15.3% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (4) – 10.8% 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)		\$438,892	\$474,295	\$4
Warrants for Series A-2 Pref. Stock expiring on 2/22/21	(I)		69,168	446,248	1
Warrants for Series C Pref. Stock expiring on 11/15/22	(I)		35,403	241,662	6
			543,463		5
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
Series B Convertible Preferred Stock	(I)		323,000	207,051	6
Series C Convertible Preferred Stock	(I)		571,329	188,315	7
Series D Convertible Preferred Stock	(I)		139,075	35,569	1
			1,523,403		2
Total Unaffiliated Private Placement Portfolio (cost: \$22,530,919)					
Rights to Milestone Payments (Illiquid) (6) – 2.6% 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
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			
Rights to Milestone Payments from Acquisition of Molecular Imprints, Inc.	(I)		629,670	\$629,670	6
Total Unaffiliated Rights to Milestone Payments (cost: \$2,387,278)					\$3

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, 2014**(Unaudited)**

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Publicly Traded Portfolio (7) – 1.9% of net assets at value					
Solazyme, Inc. (5)(9) Developing algal biodiesel, industrial chemicals and specialty ingredients using synthetic biology Common Stock	(M)	Energy	\$ 118,099	50,000	\$ 373
Champions Oncology, Inc. (5)(9) Developing its TumorGraft™ platform for personalized medicine and drug development Common Stock	(M)	Life Sciences	1,622,629	2,523,895	1,86
Warrants for Common Stock expiring 1/29/18	(I)		400	40,000	13,0
			1,623,029		1,88
Total Unaffiliated Publicly Traded Portfolio (cost: \$1,741,128)					\$2,25
Total Investments in Unaffiliated Companies (cost: \$26,659,325)					\$18,4

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, 2014

(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 62.7% of net assets at value					
Private Placement Portfolio (Illiquid) (13) – 54.0% of net assets at value					
ABSMaterials, Inc. (5)(8)(9)					
Developing nano-structured absorbent materials for environmental remediation					
Series A Convertible Preferred Stock	(I)	Energy	\$435,000	390,000	\$291,345
Series B Convertible Preferred Stock	(I)		1,217,644	1,037,751	1,252,869
			1,652,644		1,544,214
Accelerator IV-New York Corporation (5)(8)(9)(14)(15)					
Identifying and managing emerging biotechnology companies					
Series A Common Stock	(I)	Life Sciences	216,012	216,012	216,012
Adesto Technologies Corporation (5)(8)(9)(16)					
Developing low-power, high-performance memory devices					
Series A Convertible Preferred Stock	(M)	Electronics	2,200,000	6,547,619	1,036,361
Series B Convertible Preferred Stock	(M)		2,200,000	5,952,381	1,362,517
Series C Convertible Preferred Stock	(M)		1,485,531	2,122,187	652,739
Series D Convertible Preferred Stock	(M)		1,393,147	1,466,470	914,887
Series D-1 Convertible Preferred Stock	(M)		703,740	987,706	463,438
Series E Convertible Preferred Stock	(M)		2,499,999	3,508,771	12,739,974
			10,482,417		17,169,916
AgBiome, LLC (5)(8)(9)					
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	2,360,000
Series A-2 Convertible Preferred Stock	(I)	521,740	417,392	567,654
		2,521,740		2,927,654

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, 2014

(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 62.7% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (13) – 54.0% of net assets at value (Cont.)					
D-Wave Systems, Inc. (8)(17)					
Developing high-performance quantum computing systems					
Series 1 Class B Convertible Preferred Stock	(H)		\$1,002,074	1,144,869	\$1,765,295
Series 1 Class C Convertible Preferred Stock	(H)		487,804	450,450	697,974
Series 1 Class D Convertible Preferred Stock	(H)		748,473	855,131	1,325,030
Series 1 Class E Convertible Preferred Stock	(H)		248,049	269,280	441,979
Series 1 Class F Convertible Preferred Stock	(H)		238,323	258,721	424,648
Series 1 Class H Convertible Preferred Stock	(H)		909,088	460,866	893,434
Series 2 Class D Convertible Preferred Stock	(H)		736,019	678,264	1,050,973
Series 2 Class E Convertible Preferred Stock	(H)		659,493	513,900	853,097
Series 2 Class F Convertible Preferred Stock	(H)		633,631	493,747	819,643
Warrants for Common Stock expiring 6/30/15	(I)		98,644	153,890	114,922
Warrants for Common Stock expiring 5/12/19	(I)		26,357	20,415	6,592
			5,787,955		8,393,587
EchoPixel, Inc. (5)(8)(9)					
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	1,258,389
Ensemble Therapeutics Corporation (5)(8)					
Developing DNA-Programmed Chemistry™ for the discovery of new classes of therapeutics					
Series B Convertible Preferred Stock	(I)		2,000,000	1,449,275	1,194,742
Series B-1 Convertible Preferred Stock	(I)		679,754	492,575	1,476,905
			2,679,754		2,671,647
HZO, Inc. (5)(8)(9)					
Developing novel industrial coatings that protect electronics against damage from liquids					

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Common Stock	(H)	666,667	405,729	908,852
Series I Convertible Preferred Stock	(H)	5,709,835	2,266,894	6,303,795
Series II Convertible Preferred Stock	(H)	2,000,003	539,710	2,020,980
		8,376,505		9,233,627

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, 2014

(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 62.7% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (13) – 54.0% of net assets at value (Cont.)					
Laser Light Engines, Inc. (5)(8) Manufactured solid-state light sources for digital cinema and large-venue projection displays		Energy			
Series A Convertible Preferred Stock	(M)		\$2,000,000	7,499,062	\$0
Series B Convertible Preferred Stock	(M)		3,095,802	13,571,848	0
Secured Convertible Bridge Note, 12%, acquired 10/7/11	(M)		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	2,793,965
Series B-1 Convertible Preferred Stock	(H)	706,214	148,696	1,141,884
Series C Convertible Preferred Stock	(H)	1,000,000	1,000,000	2,569,929
Series D Convertible Preferred Stock	(H)	1,499,999	835,882	2,175,430
Series E Convertible Preferred Stock	(H)	1,225,000	444,404	1,549,169
Warrants for Series B-1 Convertible Preferred Stock expiring 3/25/15	(I)	293,786	74,348	129,063
		7,224,999		10,359,440

OpGen, Inc. (8)

Life Sciences

Developing tools for genomic sequence assembly and analysis

Series A Convertible Preferred Stock	(H)	610,017	610,017	608,056
Common Stock	(H)	3,260,000	29,883	22,872
Secured Convertible Bridge Note, 8%, acquired 7/11/14	(H)	212,777	\$209,020	321,425
		4,082,794		952,353

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, 2014**(Unaudited)**

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 62.7% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (13) – 54.0% of net assets at value (Cont.)					
Produced Water Absorbents, Inc. (5)(8) Developing nano-structured absorbent materials for environmental remediation of contaminated water in the oil and gas industries		Energy			
Series A Convertible Preferred Stock	(I)		\$1,000,000	1,000,000	\$540,000
Series B Convertible Preferred Stock	(I)		1,496,865	5,987,460	2,873,981
Series B-2 Convertible Preferred Stock	(I)		1,015,427	4,322,709	2,074,900
Series B-3 Convertible Preferred Stock	(I)		978,641	3,914,564	1,878,991
Series C Convertible Preferred Stock	(I)		1,000,268	2,667,380	1,000,268
Warrants for Series B-2 Preferred Stock expiring upon liquidation event	(I)		65,250	300,000	69,000
			5,556,451		8,437,140
Senova Systems, Inc. (5)(8) Developing next-generation sensors to measure pH		Life Sciences			
Series B Convertible Preferred Stock	(I)		1,218,462	1,350,000	430,944
Series B-1 Convertible Preferred Stock	(I)		1,083,960	2,759,902	892,478
Secured Convertible Bridge Note, 10%, acquired 6/25/14	(I)		256,712	\$250,000	256,712
Warrants for Series B Preferred Stock expiring 10/15/17	(I)		131,538	164,423	52,486
Warrants for Series B Preferred Stock expiring 4/24/18	(I)		20,000	25,000	7,980
			2,710,672		1,640,600
SiOnyx, Inc. (5)(8) Developing silicon-based optoelectronic products enabled by its proprietary Black Silicon		Electronics			
Series A Convertible Preferred Stock	(M)		750,000	233,499	0

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Series A-1 Convertible Preferred Stock	(M)	890,000	2,966,667	0
Series A-2 Convertible Preferred Stock	(M)	2,445,000	4,207,537	0
Series B-1 Convertible Preferred Stock	(M)	1,169,561	1,892,836	0
Series C Convertible Preferred Stock	(M)	1,171,316	1,674,030	0
Secured Convertible Bridge Note, 8%, acquired 1/31/14	(M)	1,281,125	\$1,281,125	0
Secured Convertible Bridge Note, 8%, acquired 5/9/14	(M)	79,994	\$93,976	72,721
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
		8,018,652		72,721

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, 2014**(Unaudited)**

	Method of Valuation (1)	Primary Industry (2)	Cost	Sha Prim
Investments in Non-Controlled Affiliated Companies (3) – 62.7% of net assets at value (Cont.)				
Private Placement Portfolio (Illiquid) (13) – 54.0% of net assets at value (Cont.)				
Ultora, Inc. (5)(8)		Energy		
Developing energy-storage devices enabled by carbon nanotubes				
Series A Convertible Preferred Stock	(M)		\$886,830	17
Series B Convertible Preferred Stock	(M)		236,603	2,3
Secured Convertible Bridge Note, 5%, acquired 5/7/14	(M)		87,795	\$86
Secured Convertible Bridge Note, 5%, acquired 8/20/14	(M)		17,308	\$17
			1,228,536	
Total Non-Controlled Private Placement Portfolio (cost: \$68,332,012)				
Publicly Traded Portfolio (18) – 8.7% of net assets at value				
Enumeral Biomedical Holdings, Inc. (5)(8)(19)		Life Sciences		
Developing therapeutics and diagnostics through functional assaying of single cells				
Common Stock	(M)		\$4,993,357	7,9
Warrants for Common Stock expiring 7/30/19	(I)		540,375	1,5
Warrants for Common Stock expiring 2/2/24	(I)		57,567	25
Options to Purchase Common Stock at \$1.00 expiring 8/4/24	(I)		0	56
			5,591,299	
Total Non-Controlled Publicly Traded Portfolio (cost: \$5,591,299)				
Total Investments in Non-Controlled Affiliated Companies (cost: \$73,923,311)				

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, 2014

(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Princip
Investments in Controlled Affiliated Companies (3) – 2.4% of net assets at value				
Private Placement Portfolio (Illiquid) (20) – 2.4% 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
Secured Convertible Bridge Note, 8%, acquired 12/18/13	(M)		372,016	\$350,0
Secured Convertible Bridge Note, 8%, acquired 8/13/14	(M)		101,074	\$100,0
			473,091	
SynGlyco, Inc. (5)(8)		Life Sciences		
Developed synthetic carbohydrates for pharmaceutical applications				
Common Stock	(I)		2,729,817	57,46
Series A' Convertible Preferred Stock	(I)		4,855,627	4,855
Senior Secured Debt, 12.00%, maturing on 12/11/14	(I)		482,849	\$500,0
Secured Convertible Bridge Note, 8%, acquired 1/23/13	(I)		398,795	\$350,0
Secured Convertible Bridge Note, 8%, acquired 4/25/13	(I)		335,291	\$300,0
			8,802,379	
TARA Biosystems, Inc. (5)(8)(14)		Life Sciences		
Developing human tissue models for toxicology and drug discovery applications				
Common Stock	(M)		\$20	2,000
Secured Convertible Bridge Note, 8%, acquired 8/20/14	(M)		302,762	\$300,0
			302,782	
UberSeq, Inc. (5)(8)(9)(14)				

		Life Sciences	
Developing translational genomics solutions Series Seed Convertible Preferred Stock	(I)	500,000	500,0
Total Controlled Private Placement Portfolio (cost: \$10,078,252)			
Total Investments in Controlled Affiliated Companies (cost: \$10,078,252)			
Total Private Placement and Publicly Traded Portfolio (cost: \$110,660,888)			
Total Investments (cost: \$110,660,888)			

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, 2014

(Unaudited)

Notes to Consolidated Schedule of Investments

(1) See "Footnote to Consolidated Schedule of Investments" on page 31 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 \$22,530,919. The gross unrealized appreciation based on the tax cost for these securities is \$1,161,225. The gross unrealized depreciation based on the tax cost for these securities is \$10,706,028.

(5) All or a portion of the investments or instruments are pledged as collateral under our loan facility.

(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 \$794,869. The gross unrealized depreciation based on the tax cost for these securities is \$1,860.

(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 \$512,573. The gross unrealized depreciation based on the tax cost for these securities is \$0.

(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) 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 September 30, 2014, and, therefore, this warrant is a contingent asset as of that date. The warrant will expire on July 27, 2022.

(12) 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.

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF SEPTEMBER 30, 2014

(Unaudited)

The aggregate cost for federal income tax purposes of investments in non-controlled affiliated privately held (13) companies is \$68,332,012. The gross unrealized appreciation based on the tax cost for these securities is \$8,633,756. The gross unrealized depreciation based on the tax cost for these securities is \$12,038,656.

(14) Initial investment was made in 2014.

(15) As part of our initial investment in Accelerator IV-New York Corporation, the Company made an additional operating and investment commitment. See "Note 12. Commitments and Contingencies."

(16) 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.

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 (17) 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.

The aggregate cost for federal income tax purposes of investments in non-controlled affiliated publicly traded (18) companies is \$5,591,299. The gross unrealized appreciation based on the tax cost for these securities is \$4,797,793. The gross unrealized depreciation based on the tax cost for these securities is \$0.

The Company's shares of Enumeral Biomedical Holdings, Inc., are subject to restrictions on transfer, and we are (19) 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.

The aggregate cost for federal income tax purposes of investments in controlled affiliated companies is (20) \$10,078,252. The gross unrealized appreciation based on the tax cost for these securities is \$5,263. The gross unrealized depreciation based on the tax cost for these securities is \$7,148,388.

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2013

(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Unaffiliated Companies (3) – 31.2% of net assets at value					
Private Placement Portfolio (Illiquid) (4) – 23.8% of net assets at value					
Bridgelux, Inc. (5)(8)(10) Manufacturing high-power light emitting diodes (LEDs) and arrays		Energy			
Series B Convertible Preferred Stock	(M)		\$1,000,000	1,861,504	\$318,898
Series C Convertible Preferred Stock	(M)		1,352,196	2,130,699	365,014
Series D Convertible Preferred Stock	(M)		1,371,622	999,999	1,070,897
Series E Convertible Preferred Stock	(M)		672,599	440,334	704,760
Series E-1 Convertible Preferred Stock	(M)		386,073	399,579	468,606
Warrants for Series C Convertible Preferred Stock expiring 12/31/14	(I)		168,270	163,900	2,762
Warrants for Series D Convertible Preferred Stock expiring 8/26/14	(I)		88,531	124,999	40,686
Warrants for Series D Convertible Preferred Stock expiring 3/10/15	(I)		40,012	41,666	19,466
Warrants for Series E Convertible Preferred Stock expiring 12/31/17	(I)		93,969	170,823	190,679
Warrants for Common Stock expiring 6/1/16	(I)		72,668	132,100	1,656
Warrants for Common Stock expiring 8/9/18	(I)		148,409	171,183	13,538
Warrants for Common Stock expiring 10/21/18	(I)		18,816	84,846	3,680
			5,413,165		3,200,642
Cambrios Technologies Corporation (5)(8)(10) 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
Series D-4 Convertible Preferred Stock	(M)		216,168	216,168	216,168
			3,418,349		3,418,349
Cobalt Technologies, Inc. (5)(8)(9)(11)		Energy			

Developing processes for making bio-butanol through biomass fermentation				
Series C-1 Convertible Preferred Stock	(M)	749,998	352,112	704,400
Series D-1 Convertible Preferred Stock	(M)	122,070	48,828	106,152
Series E-1 Convertible Preferred Stock	(M)	114,938	46,089	84,634
Warrants for Series E-1 Pref. Stock expiring on 10/9/22	(I)	2,781	1,407	2,163
Warrants for Series E-1 Pref. Stock expiring on 3/11/23	(I)	5,355	2,707	4,209
		995,142		901,558

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2013**(Unaudited)**

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Unaffiliated Companies (3) – 31.2% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (4) – 23.8% of net assets at value (Cont.)					
Ensemble Therapeutics Corporation (5)(8)(9)(12) Developing DNA-Programmed Chemistry™ for the discovery of new classes of therapeutics		Life Sciences			
Series B Convertible Preferred Stock	(H)		\$2,000,000	1,449,275	\$1,419,855
Secured Convertible Bridge Note, 8%, acquired 9/11/08	(H)		356,567	\$250,211	1,321,657
Secured Convertible Bridge Note, 8%, acquired 12/10/09	(H)		64,767	\$48,868	253,257
Secured Convertible Bridge Note, 8%, acquired 1/25/12	(H)		126,386	\$109,400	548,354
Secured Convertible Bridge Note, 8%, acquired 3/28/13	(H)		78,121	\$73,598	361,996
Secured Convertible Bridge Note, 8%, acquired 6/24/13	(H)		26,845	\$25,759	126,201
Secured Convertible Bridge Note, 8%, acquired 7/8/13	(H)		14,530	\$13,983	68,467
			2,667,216		4,099,787
GEO Semiconductor Inc. (5) Developing programmable, high-performance video and geometry processing solutions Participation Agreement with Montage Capital relating to the following assets:		Electronics			
Warrants for Series A Pref. Stock expiring on 9/17/17	(I)		66,684	100,000	82,270
Warrants for Series A-1 Pref. Stock expiring on 6/30/18	(I)		23,566	34,500	32,132
Loan and Security Agreement with GEO Semiconductor relating to the following assets:	(I)		7,512	10,000	8,007

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Warrants for Series A Pref. Stock expiring on 3/1/18				
Warrants for Series A-1 Pref. Stock expiring on 6/29/18	(I)	7,546	10,000	8,478
		105,308		130,887
Mersana Therapeutics, Inc. (5)(8)(9)(10)(13)				
Developing antibody drug conjugates for cancer therapy				
Series A-1 Convertible Preferred Stock	(M)	443,038	411,630	443,038
Common Stock	(M)	3,875,395	350,539	108,667
		4,318,433		551,705
Molecular Imprints, Inc. (5)(8)(10)(14)(15)				
Manufacturing nanoimprint lithography capital equipment				
Series B Convertible Preferred Stock	(I)	2,000,000	1,333,333	1,876,501
Series C Convertible Preferred Stock	(I)	2,406,595	1,285,071	2,359,061
Non-Convertible Bridge Note	(I)	0	\$0	4,043,381
		4,406,595		8,278,943

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2013**(Unaudited)**

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Unaffiliated Companies (3) – 31.2% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (4) – 23.8% of net assets at value (Cont.)					
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	\$ 1,098,762
Series D Convertible Preferred Stock	(M)		3,000,003	1,016,950	2,196,781
Series E Convertible Preferred Stock	(M)		496,573	433,688	705,827
Unsecured Convertible Bridge Note, 4%, acquired 7/16/12	(M)		46,385	\$43,821	127,016
			5,042,961		4,128,386
Nano Terra, Inc. (5)(9)		Energy			