

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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

Form 10-Q

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

For the quarterly period ended September 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 November 8, 2012
Common Stock, \$0.01 par value per share	31,000,601 shares

Harris & Harris Group, Inc.

Form 10-Q, September 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.[®] (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**

	September 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Investments, in portfolio securities at value:		
Unaffiliated privately held companies (cost: \$28,812,415 and \$23,794,145, respectively)	\$ 29,279,753	\$ 23,748,247
Unaffiliated rights to milestone payments (adjusted cost basis: \$3,291,750 and \$3,291,750, respectively)	3,400,488	3,362,791
Unaffiliated publicly traded securities (cost: \$11,879,859 and \$12,743,787, respectively)	24,903,100	29,484,527
Non-controlled affiliated privately held companies (cost: \$51,924,083 and \$48,968,029, respectively)	58,722,585	47,601,785
Non-controlled affiliated publicly traded companies (cost: \$2,000,000 and \$2,000,000, respectively)	1,314,667	1,973,334
Controlled affiliated privately held companies (cost: \$14,243,460 and \$12,518,936, respectively)	6,256,363	6,877,566
Total, investments in private portfolio companies, rights to milestone payments and public securities at value (cost: \$112,151,567 and \$103,316,647, respectively)	\$ 123,876,956	\$ 113,048,250
Investments in U.S. Treasury obligations, at value (cost: \$9,999,914 and \$0, respectively)	10,000,000	0
Cash	16,556,886	33,841,394
Restricted funds (Note 3)	2,010,010	1,512,031
Funds held in escrow from sales of investments, at value (Note 3)	588,276	1,064,234
Receivable from portfolio company	49,288	37,331
Receivable from unsettled trade	64,185	0
Interest receivable	13,911	14,635
Prepaid expenses	145,235	398,858
Other assets	391,966	426,920
Total assets	\$ 153,696,713	\$ 150,343,653
LIABILITIES & NET ASSETS		
Post retirement plan liabilities	\$ 1,818,490	\$ 1,660,958
Revolving loan (Note 5)	2,000,000	1,500,000
Accounts payable and accrued liabilities	972,269	906,910
Deferred rent	377,000	378,980
Written call options payable (premiums received: \$1,011,413 and \$315,000, respectively) (Note 7)	364,080	195,000
Debt interest and other payable	4,497	3,398
Total liabilities	5,536,336	4,645,246

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Net assets	\$ 148,160,377	\$ 145,698,407
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 9/30/12 and 12/31/11; 32,829,341 issued at 9/30/12 and 12/31/11	328,294	328,294
Additional paid in capital (Note 8)	212,927,792	210,470,369
Accumulated net operating and realized loss	(74,062,986	) (71,546,328)
Accumulated unrealized appreciation of investments	12,372,808	9,851,603
Treasury stock, at cost (1,828,740 shares at 9/30/12 and 12/31/11)	(3,405,531	) (3,405,531)
Net assets	\$ 148,160,377	\$ 145,698,407
Shares outstanding	31,000,601	31,000,601
Net asset value per outstanding share	\$ 4.78	\$ 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 Sept. 30,		Nine Months Ended Sept. 30,	
	2012	2011	2012	2011
Investment income:				
Interest from:				
Unaffiliated companies	\$ 64,019	\$ 69,569	\$ 185,340	\$ 196,806
Non-controlled affiliated companies	236,695	30,715	86,319	101,412
Controlled affiliated companies	44,042	51,844	111,043	127,574
Cash and U.S. Treasury obligations	5,213	9,490	17,910	31,270
Miscellaneous income	46,277	40,909	128,078	70,115
Total investment income	396,246	202,527	528,690	527,177
Expenses:				
Salaries, benefits and stock-based compensation (Note 8)	1,200,902	1,490,116	5,148,293	4,073,995
Administration and operations	212,917	207,491	795,143	683,292
Professional fees	222,467	413,156	740,106	869,717
Rent	105,705	99,323	303,402	278,323
Directors' fees and expenses	63,015	80,387	240,747	264,559
Custody fees	13,653	4,380	35,635	52,380
Depreciation	15,020	12,729	43,618	37,895
Interest and other debt expense	12,901	13,103	36,741	26,870
Total expenses	1,846,580	2,320,685	7,343,685	6,287,031
Net operating loss	(1,450,334)	(2,118,158)	(6,814,995)	(5,759,854)
Net realized gain (loss):				
Realized gain (loss) from investments:				
Unaffiliated companies	0	(2,017,949)	476,887	5,310,794
Non-Controlled affiliated companies	354	(665,269)	11,775	(2,631,859)
Publicly traded companies	2,695,339	0	3,366,218	0
Written call options	80,573	0	458,911	0
U.S. Treasury obligations/other	(218)	0	(218)	(82)
Realized gain (loss) from investments	2,776,048	(2,683,218)	4,313,573	2,678,853
Income tax expense (Note 9)	7,161	1,250	15,236	3,643
Net realized gain (loss) from investments	2,768,887	(2,684,468)	4,298,337	2,675,210
Net (decrease) increase in unrealized appreciation on investments:				
Change as a result of investment sales	(3,616,482)	2,663,050	(4,287,361)	(2,015,594)
Change on investments held	(2,483,303)	(30,945,031)	6,281,233	(7,888,307)

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Change on written call options	1,111,515	0	527,333	0
Net (decrease) increase in unrealized appreciation on investments	(4,988,270)	(28,281,981)	2,521,205	(9,903,901)
Net realized and unrealized (loss) gain on investments	(2,219,383)	(30,966,449)	6,819,542	(7,228,691)
Net (decrease) increase in net assets resulting from operations:				
Total	\$(3,669,717)	\$(33,084,607)	\$4,547	\$(12,988,545)
Per average basic and diluted outstanding share	\$(0.12)	\$(1.07)	\$0.00	\$(0.42)
Average outstanding shares - basic	31,000,601	31,000,601	31,000,601	30,973,353
Average outstanding shares - diluted	31,000,601	31,000,601	31,000,681	30,973,353

The accompanying 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, 2012	Nine Months Ended September 30, 2011 (Corrected)	
Cash flows used in operating activities:			
Net increase (decrease) in net assets resulting from operations	\$ 4,547	\$ (12,988,545)
Adjustments to reconcile net increase in net assets resulting from operations to net cash (used in) provided by operating activities:			
Net realized (gain) loss and (increase) decrease in unrealized appreciation on investments	(6,834,778	) 7,225,048	
Depreciation of fixed assets, amortization of premium or discount on U.S. government securities, and bridge note interest	(168,346	) (238,886)
Stock-based compensation expense	2,457,423	1,427,321	
Purchase of U.S. government securities	(9,999,356	) (100,032,726)
Sale of U.S. government securities	0	125,682,274	
Purchase of affiliated portfolio companies	(8,242,326	) (12,465,603)
Purchase of unaffiliated portfolio companies	(1,575,514	) (3,732,015)
Principal payments received on debt investments	331,264	1,523,736	
Proceeds from sale of investments	5,062,210	12,804,733	
Proceeds from call option premiums	2,654,935	0	
Payments for call option purchases	(1,367,364	) 0	
Changes in assets and liabilities:			
Restricted funds	(497,979	) (1,262,025)
Receivable from portfolio company	(11,957	) (4,500)
Receivable from unsettled trades	(64,185	) 0	
Interest receivable	165	24,402	
Income tax receivable	7,161	1,185	
Prepaid expenses	253,623	252,393	
Other assets	(525	) 8,366	
Post retirement plan liabilities	157,532	89,733	
Accounts payable and accrued liabilities	66,458	491,235	
Deferred rent	(1,980	) 2,772	
Net cash (used in) provided by operating activities	(17,768,992	) 18,808,898	
Cash flows from investing activities:			
Purchase of fixed assets	(15,516	) (4,071)
Net cash used in investing activities	(15,516	) (4,071)

Cash flows from financing activities:		
Proceeds from stock option exercises	0	491,058
Proceeds from drawdown of credit facility	500,000	1,250,000
Net cash provided by financing activities	500,000	1,741,058
Net increase (decrease) in cash:		
Cash at beginning of the period	33,841,394	3,756,919
Cash at end of the period	16,556,886	24,302,804
Net (decrease) increase in cash	\$ (17,284,508	) \$ 20,545,885
Supplemental disclosures of cash flow information:		
Income taxes paid	\$ 8,075	\$ 2,458
Interest paid	\$ 21,158	\$ 14,303

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

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

	Nine Months Ended September 30, 2012 (Unaudited)	Year Ended December 31, 2011
Changes in net assets from operations:		
Net operating loss	\$ (6,814,995	) \$ (8,338,365)
Net realized gain on investments	4,298,337	2,449,705
Net (decrease) increase in unrealized appreciation on investments as a result of sales	(4,287,361	) 74,649
Net increase in unrealized appreciation on investments held	6,281,233	2,152,648
Net increase in unrealized appreciation on written call options	527,333	120,000
Net increase (decrease) in net assets resulting from operations	4,547	(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	2,457,423	1,894,800
Net increase in net assets resulting from capital stock transactions	2,457,423	2,385,858
Net increase (decrease) in net assets	2,461,970	(1,155,505)
Net Assets:		
Beginning of the period	145,698,407	146,853,912
End of the period	\$ 148,160,377	\$ 145,698,407

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF SEPTEMBER 30, 2012

(Unaudited)

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Investments in Unaffiliated Companies (3) – 38.9% of net assets at value					
Private Placement Portfolio (Illiquid) (4) – 19.8% of net assets at value					
Bridgelux, Inc. (7)(8)		Energy			
Manufacturing high-power light emitting diodes (LEDs) and arrays					
Series B Convertible Preferred Stock	(M)		\$1,000,000	1,861,504	\$1,244,490
Series C Convertible Preferred Stock	(M)		1,352,196	2,130,699	1,776,485
Series D Convertible Preferred Stock	(M)		1,371,622	999,999	1,570,301
Series E Convertible Preferred Stock	(M)		672,599	440,334	858,734
Series E-1 Convertible Preferred Stock	(M)		534,482	399,579	584,309
Warrants for Series C Convertible Preferred Stock expiring 12/31/14	(I)		168,270	163,900	48,013
Warrants for Series D Convertible Preferred Stock expiring 8/26/14	(I)		88,531	124,999	61,111
Warrants for Series D Convertible Preferred Stock expiring 3/10/15	(I)		40,012	41,666	20,370
Warrants for Series E Convertible Preferred Stock expiring 12/31/17	(I)		93,969	170,823	101,019
Warrants for Common Stock expiring 6/1/16	(I)		72,668	132,100	9
Warrant for Common Stock expiring 10/21/18	(I)		18,816	84,846	6
			5,413,165		6,264,847
Cambrios Technologies Corporation (7)(9)(10)		Electronics			
Developing nanowire-enabled electronic materials for the display industry					
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. (7)(9)(11)		Energy			

Developing processes for making bio- butanol
through biomass fermentation

Series C-1 Convertible Preferred Stock	(M)	749,998	352,112	930,400
Series D-1 Convertible Preferred Stock	(M)	122,070	48,828	140,109
Secured Convertible Bridge Note, 10%, acquired 5/25/12	(M)	46,691	\$45,097	46,691
		918,759		1,117,200

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

HARRIS & HARRIS GROUP, INC.

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

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Investments in Unaffiliated Companies (3) – 38.9% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (4) – 19.8% of net assets at value (Cont.)					
Ensemble Therapeutics Corporation (7)(9)(12) Developing DNA-Programmed Chemistry™ for the discovery of new classes of therapeutics		Healthcare			
Series B Convertible Preferred Stock	(M)		\$2,000,000	1,449,275	\$0
Secured Convertible Bridge Note, 8%, acquired 9/11/08	(M)		331,505	\$250,211	1,563,296
Secured Convertible Bridge Note, 8%, acquired 12/10/09	(M)		59,872	\$48,868	300,451
Secured Convertible Bridge Note, 8%, acquired 1/25/12	(M)		115,428	\$109,400	654,006
			2,506,805		2,517,753
GEO Semiconductor Inc. (13)					
Developing programmable, high-performance video and geometry processing solutions Participation Agreement with Montage Capital relating to the following assets:		Electronics			
Senior secured debt, 13.75%, maturing on 11/30/12	(I)		314,769	\$406,851	388,220
Warrants for Series A Pref. Stock expiring on 9/17/17	(I)		66,684	100,000	69,540
Warrants for Series A-1 Pref. Stock expiring on 6/30/18	(I)		23,566	34,500	24,417
Loan and Security Agreement with GEO Semiconductor relating to the following assets:					
Subordinated secured debt, 15.75%, maturing on 11/30/12	(I)		108,587	\$125,000	123,420
Warrants for Series A Pref. Stock expiring on 3/1/18	(I)		7,512	10,000	6,501
Warrants for Series A-1 Pref. Stock expiring on 6/29/18	(I)		7,546	10,000	6,523

		528,664		618,621
Mersana Therapeutics, Inc. (7)(9)(14)				
Developing treatments for cancer based on novel drug delivery polymers				
Series A-1 Convertible Preferred Stock	(M)	316,453	294,019	316,453
Common Stock	(M)	3,875,395	350,539	172,816
		4,191,848		489,269
Molecular Imprints, Inc. (7)(15)				
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

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

HARRIS & HARRIS GROUP, INC.

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

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Investments in Unaffiliated Companies (3) – 38.9% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (4) – 19.8% of net assets at value (Cont.)					
Nanosys, Inc. (7) Developing inorganic nanowires and quantum dots for use in batteries and LED-backlit devices		Energy			
Series C Convertible Preferred Stock	(M)		\$1,500,000	803,428	\$143,903
Series D Convertible Preferred Stock	(M)		3,000,003	1,016,950	2,812,469
Series E Convertible Preferred Stock	(M)		496,573	433,688	698,298
Unsecured Convertible Bridge Note, 4%, acquired 7/16/12	(M)		44,191	\$43,821	248,890
			5,040,767		3,903,560
NanoTerra, Inc. (9) Developing surface chemistry and nano- manufacturing solutions		Energy			
Senior secured debt, 12.0%, maturing on 2/22/14	(I)		201,796	\$258,445	254,360
Senior secured debt, 12.0%, maturing on 2/22/13	(I)		44,597	\$57,117	56,922
Warrants for Series A-2 Pref. Stock expiring on 2/22/21	(I)		69,168	446,248	66,390
			315,561		377,672
Nantero, Inc. (7)(9)(10) Developing a high-density, nonvolatile, random access memory chip, enabled by carbon nanotubes		Electronics			
Series A Convertible Preferred Stock	(M)		489,999	345,070	1,349,224
Series B Convertible Preferred Stock	(M)		323,000	207,051	809,569
Series C Convertible Preferred Stock	(M)		571,329	188,315	736,312
			1,384,328		2,895,105
OHSO Clean, Inc. (16)(17)		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)	595,832	\$697,920	625,800
Warrants for Series C Pref. Stock expiring on 3/30/22	(I)	91,742	1,109,333	90,633
		687,574		716,433
Total Unaffiliated Private Placement Portfolio (cost: \$28,812,415)				\$29,279,753

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

HARRIS & HARRIS GROUP, INC.

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

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Rights to Milestone Payments (Illiquid) (5) – 2.3% of net assets at value					
Amgen, Inc. (7)(10) Rights to Milestone Payments from Acquisition of BioVex Group, Inc.	(I)	Healthcare	\$3,291,750	\$3,291,750	\$3,400,488
Total Unaffiliated Rights to Milestone Payments (cost: \$3,291,750)					\$3,400,488
Publicly Traded Portfolio (6) – 16.8% of net assets at value					
NeoPhotonics Corporation (10)(18) Developing and manufacturing optical devices and components Common Stock	(M)	Electronics	\$7,299,590	450,907	\$2,633,297
Solazyme, Inc. (10)(19) Developing algal biodiesel, industrial chemicals and specialty ingredients using synthetic biology Common Stock	(M)	Energy	4,580,269	1,938,190	22,269,803
Total Unaffiliated Publicly Traded Portfolio (cost: \$11,879,859)					\$24,903,100
Total Investments in Unaffiliated Companies (cost: \$43,984,024)					\$57,583,341

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF SEPTEMBER 30, 2012

(Unaudited)

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 40.5% of net assets at value					
Private Placement Portfolio (Illiquid) (20) – 39.6% of net assets at value					
ABSMaterials, Inc. (7)(9)(10) Developing nano-structured absorbent materials for environmental remediation Series A Convertible Preferred Stock	(M)	Energy	\$435,000	390,000	\$1,170,000
Adesto Technologies Corporation (7)(9)(10) Developing low-power, high-performance memory devices		Electronics			
Series A Convertible Preferred Stock	(M)		2,200,000	6,547,619	6,220,239
Series B Convertible Preferred Stock	(M)		2,200,000	5,952,381	5,654,762
Series C Convertible Preferred Stock	(M)		1,485,531	2,122,187	2,016,078
Series D Convertible Preferred Stock	(M)		1,393,147	1,466,470	1,393,147
			7,278,678		15,284,226
Contour Energy Systems, Inc. (7)(9)(10) Developing batteries using nanostructured materials		Energy			
Series A Convertible Preferred Stock	(M)		2,009,995	2,565,798	1,806,192
Series B Convertible Preferred Stock	(M)		1,300,000	812,500	981,004
Series C Convertible Preferred Stock	(M)		1,200,000	1,148,325	1,050,000
			4,509,995		3,837,196
D-Wave Systems, Inc. (7)(9)(21) Developing high-performance quantum computing systems		Electronics			
Series 1 Class B Convertible Preferred Stock	(M)		1,002,074	1,144,869	1,513,173
Series 1 Class C Convertible Preferred Stock	(M)		487,804	450,450	595,360
Series 1 Class D Convertible Preferred Stock	(M)		748,473	855,131	1,130,227
Series 1 Class E Convertible Preferred Stock	(M)		248,049	269,280	355,907
Series 1 Class F Convertible Preferred Stock	(M)		238,323	258,721	341,952
Series 2 Class D Convertible Preferred Stock	(M)		736,019	678,264	896,462
Series 2 Class E Convertible Preferred Stock	(M)		409,032	317,746	419,965

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Series 2 Class F Convertible Preferred Stock (M)	392,993	305,286	403,496
Warrants for Common Stock expiring 6/30/15 (I)	98,644	153,890	53,058
	4,361,411		5,709,600

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF SEPTEMBER 30, 2012

(Unaudited)

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 40.5% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (20) – 39.6% of net assets at value (Cont.)					
Enumeral Biomedical Corp. (7)(9)(10) Developing therapeutics and diagnostics through functional assaying of single cells		Healthcare			
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
HzO, Inc. (7)(9)(10) Developing novel industrial coatings that protect electronics against damage from liquids		Electronics			
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)(10) Developing semiconductor products using printed electronics and thin-film technologies		Electronics			
Series A' Convertible Preferred Stock	(M)		5,242,993	2,160,000	1,437,286
Series B' Convertible Preferred Stock	(M)		2,006,540	3,015,493	2,006,540
			7,249,533		3,443,826
Metabolon, Inc. (7)(10) Developing service and diagnostic products through the use of a metabolomics, or biochemical, profiling platform		Healthcare			
Series B Convertible Preferred Stock	(M)		2,500,000	371,739	1,951,723
Series B-1 Convertible Preferred Stock	(M)		706,214	148,696	780,689
Series C Convertible Preferred Stock	(M)		1,000,000	1,000,000	1,794,510
Series D Convertible Preferred Stock	(M)		1,499,999	835,882	1,499,999
Warrants for Series B-1 Convertible Preferred Stock expiring 3/25/15	(I)		293,786	74,348	54,886

5,999,999

6,081,807

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF SEPTEMBER 30, 2012

(Unaudited)

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 40.5% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (20) – 39.6% of net assets at value (Cont.)					
Nextreme Thermal Solutions, Inc. (7)(9)(10) Developing thin-film thermoelectric devices for cooling and energy conversion		Energy			
Common Stock	(M)		\$4,384,762	8,080,153	\$0
OpGen, Inc. (7)(10)(16) 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)(10) 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
Senova Systems, Inc. (7)(9)(10) Developing next-generation sensors to measure pH		Healthcare			
Series B Convertible Preferred Stock	(M)		1,218,462	1,350,000	810,000
Warrants for Series B Preferred Stock expiring 7/18/17	(I)		131,538	164,423	98,637
			1,350,000		908,637
SiOnyx, Inc. (7)(9)(10) Developing silicon-based optoelectronic products enabled by its proprietary Black Silicon		Electronics			
Series A Convertible Preferred Stock	(M)		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

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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	60,688
Warrants for Common Stock expiring 3/28/17	(I)	84,207	418,507	38,872
		6,640,523		7,742,693

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

HARRIS & HARRIS GROUP, INC.

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

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 40.5% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (20) – 39.6% of net assets at value (Cont.)					
Ultora, Inc. (7)(9)		Energy			
Developing energy-storage devices enabled by carbon nanotubes					
Series A Convertible Preferred Stock	(M)		\$282,821	282,821	\$282,821
Secured Convertible Bridge Note, 3%, acquired 7/12/12	(M)		65,082	\$64,652	65,082
Secured Convertible Bridge Note, 3%, acquired 9/28/12	(M)		107,780	\$107,753	107,780
			455,683		455,683
Xradia, Inc. (7)(10)		Electronics			
Designing, manufacturing and selling ultra- high resolution 3D x-ray microscopes and fluorescence imaging systems					
Series D Convertible Preferred Stock	(M)		4,000,000	3,121,099	7,968,166
Total Non-Controlled Private Placement Portfolio (cost: \$51,924,083)					\$58,722,585

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF SEPTEMBER 30, 2012

(Unaudited)

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 40.5% of net assets at value (Cont.)					
Publicly Traded Portfolio (Illiquid) (22) – 0.09% of net assets at value					
Champions Oncology, Inc. (10) Developing its TumorGraft™ platform for personalized medicine and drug development Common Stock	(M)	Healthcare	\$2,000,000	2,666,667	\$1,314,667
Total Non-Controlled Affiliated Publicly Traded Portfolio (cost: \$2,000,000)					\$1,314,667
Total Investments in Non-Controlled Affiliated Companies (cost: \$53,924,083)					\$60,037,252
Investments in Controlled Affiliated Companies (3)(23) – 4.2% of net assets at value					
Private Placement Portfolio (Illiquid) – 4.2% of net assets at value					
Ancora Pharmaceuticals Inc. (7)(9) Developing synthetic carbohydrates for pharmaceutical applications Common Stock	(M)	Healthcare	\$2,729,817	57,463	\$1,724
Series A' Convertible Preferred Stock	(M)		4,855,627	4,855,627	3,641,720
Senior Secured Debt, 12.00%, maturing on 12/11/12	(I)		486,635	\$500,000	467,200
					8,072,079
					4,110,644

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF SEPTEMBER 30, 2012

(Unaudited)

	Method of Valuation (1)	Industry (2)	Cost	Shares/ Principal	Value
Investments in Controlled Affiliated Companies (3)(23) – 4.2% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) – 4.2% of net assets at value (Cont.)					
Laser Light Engines, Inc. (7)(9) Manufacturing 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	1,070,140
Secured Convertible Bridge Note, 12%, acquired 10/7/11	(M)		223,671	\$200,000	223,671
Secured Convertible Bridge Note, 12%, acquired 11/17/11	(M)		105,684	\$95,652	105,684
Secured Convertible Bridge Note, 12%, acquired 12/21/11	(M)		90,349	\$82,609	90,349
Secured Convertible Bridge Note, 12%, acquired 3/5/12	(M)		464,802	\$434,784	464,802
Secured Convertible Bridge Note, 12%, acquired 7/26/12	(M)		191,073	\$186,955	191,073
			6,171,381		2,145,719
Total Controlled Private Placement Portfolio (cost: \$14,243,460)					\$6,256,363
Total Investments in Controlled Affiliated Companies (cost: \$14,243,460)					\$6,256,363
Total Private Placement and Publicly Traded Portfolio (cost: \$112,151,567)					\$123,876,956

Method of Valuation (1)	Cost	Shares/ Principal	Value
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U.S. Government Securities (24) – 6.7% of net assets at value

U.S. Treasury Bill — due date 10/04/12	(M)	\$9,999,914	\$10,000,000	\$10,000,000
Total Investments in U.S. Government Securities (cost: \$9,999,914)				\$10,000,000
Total Investments (cost: \$122,151,481)				\$133,876,956

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF SEPTEMBER 30, 2012

(Unaudited)