HARRIS & HARRIS GROUP INC /NY/
Form 10-Q
November 09, 2016

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, 2016

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

For the transition period from ____________ to _____________

Commission file number: 0-11576

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

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

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

(212) 582-0900
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes ¨ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No x

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

Class	Shares outstanding at November 8, 2016
Common Stock, $0.01 par value per share	30,880,829 shares

Harris & Harris Group, Inc.
Form 10-Q, September 30, 2016

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, 2015.

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

	September 30, 2016	December 31, 2015
ASSETS		
Investments, in portfolio securities at value:		
Unaffiliated privately held companies (cost: $10,878,510 and $18,857,235, respectively)	$4,715,016	$5,376,472
Unaffiliated rights to milestone payments (adjusted cost basis: $781,863 and $781,863, respectively)	3,442,745	3,362,051
Unaffiliated publicly traded securities (cost: $2,664,644 and $1,623,029, respectively)	922,605	957,544
Non-controlled affiliated privately held companies (cost: $51,750,473 and $49,262,921, respectively)	45,985,741	41,909,262
Non-controlled affiliated publicly traded companies (cost: $17,073,716 and $23,165,788, respectively)	5,431,815	18,371,105
Controlled affiliated privately held companies (cost: $24,382,537 and $23,205,336, respectively)	7,247,421	7,010,534
Equity method privately held companies (adjusted cost basis: $251,244 and $165,936, respectively)	251,244	165,936
Total, investments in private portfolio companies, rights to milestone payments and public securities at value (cost: $107,782,987 and $117,062,108, respectively)	67,996,587	77,152,904
Cash	13,384,820	17,922,630
Funds held in escrow from sales of investments at value (Note 3)	116,872	374,565
Receivable from portfolio companies	26,081	13,032
Receivable from sale of investments (Note 3)	53,162	0
Interest receivable	189,512	10,333
Prepaid expenses	274,586	563,699
Other assets	381,054	424,123
Total assets	$82,422,674	$96,461,286
LIABILITIES & NET ASSETS		
Term loan credit facility (Note 5)	$5,000,000	$5,000,000
Post retirement plan liabilities (Note 8)	1,231,910	1,202,148
Accounts payable and accrued liabilities	632,715	1,268,355
Deferred rent	235,100	279,112
Total liabilities	$7,099,725	$7,749,615
Commitments and contingencies (Note 11)		
Net assets	$75,322,949	$88,711,671
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 9/30/16 and 12/31/15; 33,218,651 and 33,183,576 issued at 9/30/16 and 12/31/15, respectively	332,186	331,836
Additional paid in capital (Note 9)	215,787,335	215,762,973
Accumulated net operating and realized loss	(96,757,129)	(83,377,629)
Accumulated unrealized depreciation of investments	(39,786,400)	(39,909,204)
Accumulated other comprehensive income (Note 8)	352,482	509,220
Treasury stock, at cost (2,337,822 shares at 9/30/16 and 12/31/15) (Note 12)	(4,605,525)	(4,605,525)

Net assets	$75,322,949	$88,711,671
Shares outstanding	30,880,829	30,845,754
Net asset value per outstanding share	$2.44	$2.88

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		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Investment income:				
Interest from:				
Unaffiliated companies	$5,319	$6,785	$11,629	$27,561
Non-controlled affiliated companies	105,572	44,886	258,444	299,208
Controlled affiliated companies	103,558	72,759	289,700	164,392
Cash and U.S. Treasury securities and other	478	4,599	2,827	9,347
Fees for providing managerial assistance to portfolio companies (Note 14)	315,250	71,359	685,103	84,859
Yield-enhancing fees on debt securities	35,975	44,014	80,533	90,062
Total investment income	566,152	244,402	1,328,236	675,429
Expenses:				
Salaries, benefits and stock-based compensation (Note 9)	618,070	955,900	1,839,577	3,012,078
Administration and operations	65,763	105,120	318,175	341,214
Professional fees	286,930	278,654	935,495	1,165,673
Rent (Note 3)	75,266	83,308	189,707	218,772
Insurance expense	66,184	73,768	193,297	215,103
Directors' fees and expenses	79,519	98,218	224,279	286,743
Interest and other debt expenses	209,831	209,831	625,882	561,577
Custody fees	10,008	15,701	34,698	47,317
Depreciation	11,346	11,710	34,123	36,412
Total expenses	1,422,917	1,832,210	4,395,233	5,884,889
Net operating loss	(856,765)	(1,587,808)	(3,066,997)	(5,209,460)
Net realized (loss) gain:				
Realized (loss) gain from investments:				
Unaffiliated companies	(2,926,711)	(294,797)	(5,852,173)	3,005,039
Controlled affiliated companies	0	1,559,235	0	1,559,235
Non-controlled affiliated companies	0	0	(1,244,955)	(392,430)
Publicly traded companies	(3,042,478)	11,158	(3,042,463)	52,569
Realized (loss) gain from investments	(5,969,189)	1,275,596	(10,139,591)	4,224,413
Income tax expense (Note 10)	50	376	4,541	2,081
Net realized (loss) gain from investments	(5,969,239)	1,275,220	(10,144,132)	4,222,332
Net decrease (increase) in unrealized depreciation on investments:				
Unaffiliated companies	2,947,500	(1,371,570)	7,317,270	(5,777,416)
Controlled affiliated companies	249,748	(2,057,974)	(940,313)	951,492
Unaffiliated rights to milestone payments	448,888	1,876,900	80,694	1,864,218
Non-controlled affiliated companies	(3,923,811)	(11,672,922)	1,588,925	(14,472,165)
Publicly traded non-controlled affiliated companies	(2,027,026)	(3,409,275)	(10,710,083)	(4,011,079)
Publicly traded unaffiliated companies	3,191,640	102,816	2,786,311	325,767
Net decrease (increase) in unrealized depreciation on investments	886,939	(16,532,025)	122,804	(21,119,183)
Net realized and unrealized (loss) gain on investments	(5,082,300)	(15,256,805)	(10,021,328)	(16,896,851)
Share of loss on equity method investments	(82,972)	(60,012)	(168,371)	(249,848)

Net decrease in net assets resulting from operations:				
Total	$(6,022,037)	$(16,904,625)	$(13,256,696)	$(22,356,159)
Per average basic and diluted outstanding share	$(0.20)	$(0.54)	$(0.43)	$(0.71)
Average outstanding shares - basic and diluted	30,880,829	31,251,950	30,859,267	31,272,790

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

3

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

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Net decrease in net assets resulting from operations	$(6,022,037)	$(16,904,625)	$(13,256,696)	$(22,356,159)
Other comprehensive loss:				
Amortization of prior service (benefit)	(52,246)	(52,246)	(156,738)	(156,738)
Other comprehensive loss	(52,246)	(52,246)	(156,738)	(156,738)
Comprehensive loss	$(6,074,283)	$(16,956,871)	$(13,413,434)	$(22,512,897)

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, 2016	Nine Months Ended September 30, 2015
Cash flows used in operating activities:		
Net decrease in net assets resulting from operations	$(13,256,696)	$(22,356,159)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash used in operating activities:		
Net realized loss and change in unrealized depreciation on investments	10,016,787	16,894,770
Depreciation of fixed assets, amortization of prepaid assets and accretion of bridge note interest	(353,331)	(381,204)
Share of loss on equity method investments	168,371	249,848
Stock-based compensation expense	47,027	617,972
Amortization of prior service (benefit)	(156,738)	(156,738)
Funding of operating commitment to equity method investments	(253,680)	(262,215)
Purchase of affiliated portfolio companies	(5,517,052)	(6,690,532)
Purchase of unaffiliated portfolio companies	(698,300)	(509,824)
Payments received on debt investments	0	783,418
Proceeds from repayment of bridge notes of affiliated portfolio companies	113,950	39,757
Proceeds from repayment of bridge notes of controlled affiliated portfolio companies	869,242	0
Proceeds from repayment of bridge notes of non-controlled affiliated portfolio companies	0	2,415,188
Proceeds from sale of investments of unaffiliated portfolio companies	3,094,171	5,557,846
Proceeds from sale of investments of publicly traded unaffiliated portfolio companies	2,007,980	170,662
Changes in assets and liabilities:		
Receivable from portfolio companies	(13,049)	160,877
Receivable from sale of investments	(53,162)	0
Interest receivable	(179,179)	51,462
Prepaid expenses	289,113	334,202
Other assets	10,379	(191,891)
Post retirement plan liabilities	29,762	40,065
Accounts payable and accrued liabilities	(635,640)	(257,935)
Deferred rent	(44,012)	(38,752)
Net cash used in operating activities	(4,514,057)	(3,529,183)
Cash flows from investing activities:		
Purchase of fixed assets	(1,438)	(6,806)
Net cash used in investing activities	(1,438)	(6,806)
Cash flows from financing activities:		
Proceeds from drawdown of loan facility	0	5,000,000
Purchase of treasury stock	0	(737,662)
Payment of withholdings related to net settlement of restricted stock	(22,315)	(47,644)
Net cash (used in) provided by financing activities	(22,315)	4,214,694
Net (decrease) increase in cash	$(4,537,810)	$678,705
Cash at beginning of the period	17,922,630	20,748,314
Cash at end of the period	$13,384,820	$21,427,019

Supplemental disclosures of cash flow information:		
Income taxes paid	$4,541	$2,081
Interest paid	$380,556	$304,167

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, 2016	Year Ended December 31, 2015
Changes in net assets from operations:		
Net operating loss	$(3,066,997)	$(7,162,510)
Net realized (loss) gain on investments	(10,144,132)	4,531,700
Net decrease (increase) in unrealized depreciation on investments	122,804	(17,302,729)
Share of loss on equity method investments	(168,371)	(312,291)
Net decrease in net assets resulting from operations	(13,256,696)	(20,245,830)
Changes in net assets from capital stock transactions:		
Purchase of treasury stock	0	(1,199,994)
Acquisition of vested restricted stock awards to pay required employee withholding tax	(22,315)	(86,914)
Stock-based compensation expense	47,027	798,965
Net increase (decrease) in net assets resulting from capital stock transactions	24,712	(487,943)
Changes in net assets from accumulated other comprehensive loss:		
Other comprehensive loss	(156,738)	(208,983)
Net decrease in net assets resulting from accumulated other comprehensive loss	(156,738)	(208,983)
Net decrease in net assets:	(13,388,722)	(20,942,756)
Net Assets:		
Beginning of the period	88,711,671	109,654,427
End of the period	$75,322,949	$88,711,671

The accompanying unaudited notes are an integral part of these consolidated financial statements.
6

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF
INVESTMENTS AS OF SEPTEMBER 30, 2016
(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Unaffiliated Companies (3) - 12.1% of net assets at value					
Private Placement Portfolio (Illiquid) (4) - 6.3% of net assets at value					
Fleet Health Alliance, LLC (5)(8)(9)(10)		Life Sciences			
Developing software for information transfer amongst healthcare providers and consumers					
Unsecured Convertible Bridge Note, 0%, (acquired 4/22/16)	(M)		$225,000	$225,000	$225,000
Mersana Therapeutics, Inc. (5)(8)(9)		Life Sciences			
Developing antibody drug conjugates for cancer therapy					
Common Stock (acquired 7/27/12)	(H)		3,875,395	350,539	717,186
Series A-1 Convertible Preferred Stock (acquired 7/27/12-4/2/14)	(H)		683,538	635,081	1,336,199
Series B-1 Convertible Preferred Stock (acquired 2/20/15-6/14/16)	(H)		365,820	339,887	731,555
			4,924,753		2,784,940
Muses Labs, Inc. (5)(8)(10)		Life Sciences			
Developing a data analytics platform for precision medicine					
Unsecured Convertible Bridge Note, 5%, (acquired 5/25/16)	(M)		215,746	$212,000	215,746
Nanosys, Inc. (5)(8)(9)		Energy			
Developing inorganic nanowires and quantum dots for use in LED-backlit devices					
Series C Convertible Preferred Stock (acquired 4/10/03)	(M)		1,500,000	803,428	128,149
Series D Convertible Preferred Stock (acquired 11/7/05)	(M)		3,000,003	1,016,950	436,897
Series E Convertible Preferred Stock (acquired 8/13/10)	(M)		496,573	433,688	323,784
			4,996,576		888,830
Nano Terra, Inc. (5)(8)		Energy			
Developing surface chemistry and nano-manufacturing solutions					
Warrants for Common Stock expiring on 2/22/21 (acquired 2/22/11)	(I)		69,168	4,462	407
Warrants for Series A-3 Preferred Stock expiring on 11/15/22 (acquired 11/15/12)	(I)		35,403	47,508	97,345
			104,571		97,752

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

7

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF
INVESTMENTS AS OF SEPTEMBER 30, 2016
(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Unaffiliated Companies (3) - 12.1% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (4) - 6.3% of net assets at value (Cont.)					
Phylagen, Inc. (5)(8)		Life Sciences			
Developing technology to improve human health and business productivity					
Secured Convertible Bridge Note, 5%, (acquired 2/5/15)	(M)		$216,548	$200,000	$303,167
Secured Convertible Bridge Note, 5%, (acquired 6/5/15)	(M)		10,663	$10,000	14,928
			227,211		318,095
Xenio Corp. (5)(8)(11)		Electronics			
Developing a smart platform for LED lighting that enables local intelligence and communication capabilities					
Common Stock (acquired 8/1/16)	(M)		184,653	221,938	184,653
Total Unaffiliated Private Portfolio (cost: $10,878,510)					$4,715,016
Rights to Milestone Payments (Illiquid) (6) - 4.6% of net assets at value					
Amgen, Inc. (8)(9)		Life Sciences			
Rights to Milestone Payments from Acquisition of BioVex Group, Inc. (acquired 3/4/11)	(I)		$548,998	$548,998	$2,975,353
Canon, Inc. (8)(9)		Electronics			
Rights to Milestone Payments from Acquisition of Molecular Imprints, Inc. (acquired 4/18/14)	(I)		232,865	$232,865	467,392
Laird Technologies, Inc. (8)(9)		Energy			
Rights to Milestone Payments from Merger & Acquisition of Nextreme Thermal Solutions, Inc. (acquired 2/13/13)	(I)		0	$0	0
Total Unaffiliated Rights to Milestone Payments (cost: $781,863)					$3,442,745

The accompanying unaudited notes are an integral part of these consolidated financial statements.
8

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF
INVESTMENTS AS OF SEPTEMBER 30, 2016
(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Publicly Traded Portfolio (7) - 1.2% of net assets at value					
Champions Oncology, Inc. (5)(9)		Life Sciences			
Developing its TumorGraft™ platform for personalized medicine and drug development					
Common Stock (acquired 3/24/11-3/11/15)	(M)		$966,588	145,075	$243,726
Warrants for Common Stock expiring 1/28/19 (acquired 1/28/13)	(I)		400	5,500	2,281
			966,988		246,007
OpGen, Inc. (5)(9)(12)		Life Sciences			
Developing tools for genomic sequence assembly and analysis					
Common Stock (acquired 5/5/15)	(M)		1,271,292	316,335	518,789
Warrants for the Purchase of Common Stock expiring 5/8/20 (acquired 5/5/15)	(M)		425,579	300,833	118,197
Warrants for the Purchase of Common Stock expiring 2/17/25 (acquired 5/5/15)	(I)		785	31,206	39,612
			1,697,656		676,598
Total Unaffiliated Publicly Traded Portfolio (cost: $2,664,644)					$922,605
Total Investments in Unaffiliated Companies (cost: $14,325,017)					$9,080,366
Investments in Non-Controlled Affiliated Companies (3) - 68.3% of net assets at value					
Private Placement Portfolio (Illiquid) (13) - 61.1% of net assets at value					
ABSMaterials, Inc. (5)(8)		Energy			
Developing nano-structured absorbent materials for water remediation and consumer applications					
Series A Convertible Preferred Stock (acquired 2/17/10-10/24/11)	(I)		$435,000	390,000	$240,482
Series B Convertible Preferred Stock (acquired 11/8/13-6/25/14)	(I)		1,217,644	1,037,751	852,557
Secured Convertible Bridge Note, 8%, (acquired 1/20/16)	(M)		105,589	$100,000	105,589
			1,758,233		1,198,628

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, 2016
(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) - 68.3% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (13) - 61.1% of net assets at value (Cont.)					
AgBiome, LLC (5)(8)(9)		Life Sciences			
Providing early-stage research and discovery for agriculture and utilizing the crop microbiome to identify products that reduce risk and improve yield					
Series A-1 Convertible Preferred Stock (acquired 1/30/13)	(I)		$2,000,000	2,000,000	$5,877,743
Series A-2 Convertible Preferred Stock (acquired 4/9/13-10/15/13)	(I)		521,740	417,392	1,273,672
Series B Convertible Preferred Stock (acquired 8/7/15)	(I)		500,006	160,526	686,576
			3,021,746		7,837,991
D-Wave Systems, Inc. (5)(8)(9)(14)		Electronics			
Developing high-performance quantum computing systems					
Series 1 Class B Convertible Preferred Stock (acquired 9/30/08)	(H)		1,002,074	1,144,869	2,520,573
Series 1 Class C Convertible Preferred Stock (acquired 9/30/08)	(H)		487,804	450,450	995,955
Series 1 Class D Convertible Preferred Stock (acquired 9/30/08)	(H)		748,473	855,131	1,890,714
Series 1 Class E Convertible Preferred Stock (acquired 11/24/10)	(H)		248,049	269,280	603,580
Series 1 Class F Convertible Preferred Stock (acquired 11/24/10)	(H)		238,323	258,721	579,913
Series 1 Class H Convertible Preferred Stock (acquired 6/27/14)	(H)		909,088	460,866	1,119,022
Series 2 Class D Convertible Preferred Stock (acquired 9/30/08)	(H)		736,019	678,264	1,499,657
Series 2 Class E Convertible Preferred Stock (acquired 6/1/12-3/22/13)	(H)		659,493	513,900	1,159,038
Series 2 Class F Convertible Preferred Stock (acquired 6/1/12-3/22/13)	(H)		633,631	493,747	1,113,585
Warrants for Common Stock expiring 5/12/19 (acquired 5/12/14)	(I)		26,357	20,415	16,154
			5,689,311		11,498,191

The accompanying unaudited notes are an integral part of these consolidated financial statements.
10

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF
INVESTMENTS AS OF SEPTEMBER 30, 2016
(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) - 68.3% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (13) - 61.1% of net assets at value (Cont.)					
EchoPixel, Inc. (5)(8)		Life Sciences			
Developing virtual reality 3-D visualization software for life sciences and health care applications					
Series Seed Convertible Preferred Stock (acquired 6/21/13-6/30/14)	(I)		$1,250,000	4,194,630	$920,842
Series Seed-2 Convertible Preferred Stock (acquired 1/22/16)	(I)		500,000	1,476,668	329,089
Unsecured Convertible Bridge Note, 0%, (acquired 7/12/16)	(M)		350,000	$350,000	437,500
			2,100,000		1,687,431
Ensemble Therapeutics Corporation (5)(8)(9)		Life Sciences			
Developing DNA-Programmed Chemistry™ for the discovery of new classes of therapeutics					
Series B Convertible Preferred Stock (acquired 6/6/07)	(I)		2,000,000	1,449,275	0
Series B-1 Convertible Preferred Stock (acquired 4/21/14)	(I)		679,754	492,575	1,201,610
			2,679,754		1,201,610
Genome Profiling, LLC (5)(8)(10)		Life Sciences			
Developing a platform to analyze and understand the epigenome					
Unsecured Convertible Bridge Note, 8%, (acquired 8/4/16)	(M)		230,000	$230,000	230,000
HZO, Inc. (5)(8)		Electronics			
Developing novel industrial coatings that protect electronics against damage from liquids					
Common Stock (acquired 6/23/14)	(M)		666,667	405,729	378,952
Series I Convertible Preferred Stock (acquired 6/23/14)	(M)		5,709,835	2,266,894	3,538,876
Series II Convertible Preferred Stock (acquired 6/23/14-8/3/15)	(M)		2,500,006	674,638	1,568,988
Series II-A Convertible Preferred Stock (acquired 9/9/16)	(M)		226,070	69,053	245,009
Warrants for Series II-A Convertible Preferred Stock expiring 7/15/23 (acquired 7/15/16)	(I)		29,820	6,577	23,274
			9,132,398		5,755,099

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, 2016
(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) - 68.3% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (13) - 61.1% of net assets at value (Cont.)					
Laser Light Engines, Inc. (8)(9)(15)		Energy			
Manufactured solid-state light sources for digital cinema and large-venue projection displays					
Series A Convertible Preferred Stock (acquired 5/6/08)	(M)		$2,000,000	7,499,062	$ 0
Series B Convertible Preferred Stock (acquired 9/17/10)	(M)		3,095,802	13,571,848	0
Secured Convertible Bridge Note, 12%, (acquired 10/7/2011)	(M)		200,000	$ 200,000	0
Secured Convertible Bridge Note, 12%, (acquired 11/17/2011)	(M)		95,652	$ 95,652	0
Secured Convertible Bridge Note, 12%, (acquired 12/21/2011)	(M)		82,609	$ 82,609	0
Secured Convertible Bridge Note, 12%, (acquired 3/5/2012)	(M)		434,784	$ 434,784	0
Secured Convertible Bridge Note, 12%, (acquired 7/26/2012)	(M)		186,955	$ 186,955	0
Secured Convertible Bridge Note, 20%, (acquired 4/29/2013)	(M)		166,667	$ 166,667	0
Secured Convertible Bridge Note, 20%, (acquired 7/22/2013)	(M)		166,667	$ 166,667	0
Secured Convertible Bridge Note, 10%, (acquired 10/30/2013)	(M)		80,669	$ 80,669	0
Secured Convertible Bridge Note, 10%, (acquired 2/5/2014)	(M)		19,331	$ 19,331	0
Secured Convertible Bridge Note, 10%, (acquired 6/24/2014)	(M)		13,745	$ 13,745	0
			6,542,881		0
Lodo Therapeutics Corporation (5)(8)(9)		Life Sciences			
Developing and commercializing novel therapeutics derived from a metagenome-based Natural Product Discovery Platform					
Series A Convertible Preferred Stock (acquired 12/21/15-4/22/16)	(I)		658,190	658,190	658,993

The accompanying unaudited notes are an integral part of these consolidated financial statements.
12

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF
INVESTMENTS AS OF SEPTEMBER 30, 2016
(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) - 68.3% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (13) - 61.1% of net assets at value (Cont.)					
Metabolon, Inc. (5)(8)(9)		Life Sciences			
Developing a biochemical profiling platform for precision medicine					
Series B Convertible Preferred Stock (acquired 6/29/09)	(M)		$2,500,000	371,739	$2,924,040
Series B-1 Convertible Preferred Stock (acquired 6/29/09)	(M)		706,214	148,696	1,169,615
Series C Convertible Preferred Stock (acquired 4/30/09)	(M)		1,000,000	1,000,000	2,678,510
Series D Convertible Preferred Stock (acquired 8/25/11)	(M)		1,499,999	835,882	2,272,335
Series E-1 Convertible Preferred Stock (acquired 3/2/15)	(M)		1,225,000	444,404	1,439,068
Series E-2 Convertible Preferred Stock (acquired 3/2/15)	(M)		299,999	103,277	312,755
			7,231,212		10,796,323
ORIG3N, Inc. (5)(8)(9)		Life Sciences			
Developing precision medicine applications for induced pluripotent stems cells					
Series 1 Convertible Preferred Stock (acquired 2/5/15-8/5/15)	(I)		500,000	1,195,315	1,165,150
Series A Convertible Preferred Stock (acquired 11/25/15-9/7/16)	(I)		1,500,000	1,364,666	1,504,222
			2,000,000		2,669,372
Petra Pharma Corporation (5)(8)(9)		Life Sciences			
Developing small molecule inhibitors for treatment of cancer and metabolic diseases					
Series A Convertible Preferred Stock (acquired 12/23/15)	(I)		1,025,050	1,025,050	1,027,353

The accompanying unaudited notes are an integral part of these consolidated financial statements.
13

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF
INVESTMENTS AS OF SEPTEMBER 30, 2016
(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) - 68.3% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (13) - 61.1% of net assets at value (Cont.)					
Produced Water Absorbents, Inc. (5)(8)(16)		Energy			
Providing integrated process separation solutions to the global oil and gas industries, enabling onsite treatment of produced and flowback water					
Common Stock (acquired 4/30/16)	(M)		$7,670,281	50,243,350	$0
Warrants for Common Stock expiring upon liquidation event (acquired 4/30/16)	(I)		65,250	450,000	0
Senior Secured Debt, 15% commencing on 4/1/16, maturing on 12/31/19 (acquired 4/1/16)	(I)		1,946,167	$2,533,766	1,424,750
			9,681,698		1,424,750
Total Non-Controlled Affiliated Private Portfolio (cost: $51,750,473)					$45,985,741
Publicly Traded Portfolio (17) - 7.2% of net assets at value					
Adesto Technologies Corporation (5)(9)(18)		Electronics			
Developing low-power, high-performance memory devices					
Common Stock (acquired 10/27/15)	(M)		$11,482,417	1,769,868	$3,929,107
Enumeral Biomedical Holdings, Inc. (5)(9)		Life Sciences			
Developing therapeutics and diagnostics through functional assaying of single cells					
Common Stock (acquired 7/31/14)	(M)		4,993,357	7,966,368	1,441,913
Warrants to purchase Common Stock expiring 2/2/2024 (acquired 7/31/14)	(I)		57,567	255,120	34,631
Warrants to purchase Common Stock expiring 7/30/2019 (acquired 7/31/14)	(I)		540,375	1,500,000	26,164
			5,591,299		1,502,708
Total Non-Controlled Affiliated Publicly Traded Portfolio (cost: $17,073,716)					$5,431,815
Total Investments in Non-Controlled Affiliated Companies (cost: $68,824,189)					$51,417,556

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, 2016
(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Controlled Affiliated Companies (3) - 9.6% of net assets at value					
Private Placement Portfolio (Illiquid) (19) - 9.6% of net assets at value					
Black Silicon Holdings, Inc. (5)(8)(15)(20)		Electronics			
Holding company for interest in a company that develops silicon-based optoelectronic products					
Series A Convertible Preferred Stock (acquired 8/4/15)	(I)		$750,000	233,499	$ 0
Series A-1 Convertible Preferred Stock (acquired 8/4/15)	(I)		890,000	2,966,667	0
Series A-2 Convertible Preferred Stock (acquired 8/4/15)	(I)		2,445,000	4,207,537	0
Series B-1 Convertible Preferred Stock (acquired 8/4/15)	(I)		1,169,561	1,892,836	0
Series C Convertible Preferred Stock (acquired 8/4/15)	(I)		1,171,316	1,674,030	0
Secured Convertible Bridge Note, 8%, (acquired 8/25/16)	(I)		1,279,593	$1,269,158	300,690
			7,705,470		300,690
Interome, Inc. (5)(8)(10)		Life Sciences			
Developing a platform to facilitate precision health and medicine					
Common Stock (acquired 3/1/16)	(M)		10	1,000,000	10
Secured Convertible Bridge Note, 12%, (acquired 3/1/16)	(M)		300,000	$300,000	300,000
Secured Convertible Bridge Note, 12%, (acquired 7/12/16)	(M)		300,000	$300,000	300,000
Secured Convertible Bridge Note, 12%, (acquired 9/14/16)	(M)		50,000	$50,000	50,000
Secured Convertible Bridge Note, 12%, (acquired 9/29/16)	(M)		350,000	$350,000	350,000
			1,000,010		1,000,010
NGX Bio, Inc. (5)(8)(21)		Life Sciences			
Developing translational genomics solutions					
Series Seed Convertible Preferred Stock (acquired 6/6/14-1/10/16)	(I)		500,002	666,667	514,217
Series A Convertible Preferred Stock (acquired 8/20/15-9/30/15)	(I)		499,999	329,989	343,920
Unsecured Convertible Bridge Note, 6% (acquired 4/6/16)	(M)		514,630	$500,000	514,630
			1,514,631		1,372,767

The accompanying unaudited notes are an integral part of these consolidated financial statements.
15

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF
INVESTMENTS AS OF SEPTEMBER 30, 2016
(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Controlled Affiliated Companies (3) - 9.6% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (19) - 9.6% of net assets at value (Cont.)					
ProMuc, Inc. (5)(8)		Life Sciences			
Developing synthetic mucins for the nutritional, food and health care markets					
Common Stock (acquired 12/18/13)	(M)		$ 1	1,000	$ 1
Secured Convertible Bridge Note, 8%, (acquired 12/18/13)	(M)		428,093	$350,000	228,093
Secured Convertible Bridge Note, 8%, (acquired 8/13/14)	(M)		117,096	$100,000	62,390
Secured Convertible Bridge Note, 8%, (acquired 8/5/15)	(M)		81,953	$75,000	43,666
Secured Convertible Bridge Note, 8%, (acquired 12/7/15)	(M)		58,604	$55,000	31,225
			685,747		365,375
Senova Systems, Inc. (5)(8)(22)		Life Sciences			
Developing next-generation sensors to measure pH					
Series B Convertible Preferred Stock (acquired 9/9/11-7/18/12)	(I)		1,218,462	1,350,000	0
Series B-1 Convertible Preferred Stock (acquired 8/1/13-1/15/14)	(I)		1,083,960	2,759,902	0
Series C Convertible Preferred Stock (acquired 10/24/14-4/1/15)	(I)		1,208,287	1,611,049	621,188
Warrants for Series B Preferred Stock expiring 10/15/17 (acquired 10/15/12)	(I)		131,538	164,423	0
Warrants for Series B Preferred Stock expiring 4/24/18 (acquired 4/24/13)	(I)		20,000	25,000	0
Secured Convertible Bridge Note, 10%, (acquired 1/15/16)	(I)		267,808	$250,000	267,808
Secured Convertible Bridge Note, 10%, (acquired 8/12/16)	(I)		21,541	$21,250	21,541
Secured Convertible Bridge Note, 10%, (acquired 9/30/16)	(I)		15,504	$15,500	15,504
			3,967,100		926,041

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, 2016
(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Controlled Affiliated Companies (3) - 9.6% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (19) - 9.6% of net assets at value (Cont.)					
SynGlyco, Inc. (5)(8)(15)		Life Sciences			
Developed synthetic carbohydrates for pharmaceutical applications					
Common Stock (acquired 12/13/11)	(I)		$2,729,817	57,463	$0
Series A' Convertible Preferred Stock (acquired 12/13/11-6/7/12)	(I)		4,855,627	4,855,627	0
Secured Convertible Bridge Note, 8%, (acquired 2/26/16)	(I)		71,064	$67,823	59,150
			7,656,508		59,150
TARA Biosystems, Inc. (5)(8)		Life Sciences			
Developing human tissue models for toxicology and drug discovery applications					
Common Stock (acquired 8/20/14)	(I)		20	2,000,000	921,647
Secured Convertible Bridge Note, 8%, (acquired 8/20/14)	(M)		350,827	$300,000	487,260
Secured Convertible Bridge Note, 8%, (acquired 5/18/15)	(M)		222,005	$200,000	308,341
Secured Convertible Bridge Note, 8%, (acquired 12/1/15)	(M)		1,280,219	$1,200,000	1,506,140
			1,853,071		3,223,388
Total Controlled Private Placement Portfolio (cost: $24,382,537)					$7,247,421
Total Investments in Controlled Affiliated Companies (cost: $24,382,537)					$7,247,421
Total Investments in Private Placement and Publicly Traded Portfolio (cost: $107,531,743)					$67,745,343

The accompanying unaudited notes are an integral part of these consolidated financial statements.
17

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF
INVESTMENTS AS OF SEPTEMBER 30, 2016
(Unaudited)

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Equity Method Investments (23) - 0.3% of net assets at value					
Private Placement Portfolio (Illiquid) (23) - 0.3% of net assets at value					
Accelerator IV-New York Corporation (8)(9)(24)		Life Sciences			
Identifying and managing emerging biotechnology companies					
Series A Common Stock (acquired 7/21/14-1/29/16)	(E)		$186,736	581,907	$186,736
AgTech Accelerator Corporation (8)(9)(10)(24)		Life Sciences			
Identifying and managing emerging agriculture technologies companies					
Common Stock (acquired 5/4/16)	(E)		64,508	150,000	64,508
Total Equity Method Investments (cost: $251,244)					$251,244
Total Investments (cost: $107,782,987)					$67,996,587

The accompanying unaudited notes are an integral part of these consolidated financial statements.
18

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF SEPTEMBER 30, 2016
(Unaudited)

Notes to Consolidated Schedule of Investments

(1) See "Footnote to Consolidated Schedule of Investments" on page 37 for a description of the "Valuation Procedures."

(2) We classify "Energy" companies as those that seek to improve performance, productivity or efficiency, and to reduce environmental impact, waste, cost, energy consumption or raw materials. We classify "Electronics" companies as those that address problems in electronics-related industries, including semiconductors and computing. We classify "Life Sciences" companies as those that address problems in life sciences-related industries, including precision health and precision medicine, biotechnology, agriculture, advanced materials and chemicals, health care, 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, including control of a majority of the seats on the board of directors, or more than 25 percent of the seats on the board of directors, with no other entity or person in control of more director seats than us. Among our controlled affiliated companies, ProMuc, Inc., and Interome, Inc., were 100 percent owned by us at September 30, 2016.

(4) The aggregate cost for federal income tax purposes of investments in unaffiliated privately held companies is $10,878,510. The gross unrealized appreciation based on the tax cost for these securities is $90,884. The gross unrealized depreciation based on the tax cost for these securities is $6,254,378.

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

(6) The aggregate cost for federal income tax purposes of investments in unaffiliated rights to milestone payments is $781,863. The gross unrealized appreciation based on the tax cost for these securities is $2,660,882. The gross unrealized depreciation based on the tax cost for these securities is $0.

(7) The aggregate cost for federal income tax purposes of investments in unaffiliated publicly traded companies is $2,664,644. The gross unrealized appreciation based on the tax cost for these securities is $0. The gross unrealized depreciation based on the tax cost for these securities is $1,742,039.

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

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

(10) Initial investment was made in 2016.

(11) We received shares of Xenio Corp. as part of the consideration distributed to shareholders of Bridgelux, Inc., for the sale of Bridgelux, Inc., to a an investment group led by China Electronics Corporation and ChongQing Linkong Development Investment Company. The close of this transaction occurred on August 1, 2016.

(12) The Company's securities of OpGen, Inc., were subject to a lock-up agreement that restricted our ability to trade these securities. The lock-up agreement expired on August 18, 2016. A total of 300,833 shares and 300,833 warrants are not qualifying assets under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire non-qualifying assets unless, at the time the acquisition is made, qualifying assets are at least 70 percent of our total assets.

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, 2016
(Unaudited)

(13) The aggregate cost for federal income tax purposes of investments in non-controlled affiliated privately held companies is $51,750,473. The gross unrealized appreciation based on the tax cost for these securities is $14,862,714. The gross unrealized depreciation based on the tax cost for these securities is $20,627,446.

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

(15) Represents a non-operating entity that exists to collect future payments from licenses or other engagements and/or monetize assets for future distributions to investors and debt holders.

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

(17) The aggregate cost for federal income tax purposes of investments in non-controlled affiliated publicly traded companies is $17,073,716. The gross unrealized appreciation based on the tax cost for these securities is $0. The gross unrealized depreciation based on the tax cost for these securities is $11,641,901.

(18) A total of 200,000 shares of our holdings in Adesto Technologies Corporation are not qualifying assets under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire non-qualifying assets unless, at the time the acquisition is made, qualifying assets are at least 70 percent of our total assets.

(19) The aggregate cost for federal income tax purposes of investments in controlled affiliated companies is $24,382,537. The gross unrealized appreciation based on the tax cost for these securities is $1,370,317. The gross unrealized depreciation based on the tax cost for these securities is $18,505,433

(20) On August 4, 2015, SiOnyx, Inc., reorganized its corporate structure to become a subsidiary of a new company, Black Silicon Holdings, Inc. Our security holdings of SiOnyx converted into securities of Black Silicon Holdings. SiOnyx was then acquired by an undisclosed buyer. Black Silicon Holdings owns a profit interest in the undisclosed buyer.

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

(22) On October 19, 2016, Senova Systems, Inc., sold substantially all of its assets to an undisclosed buyer for an up-front payment and potential future payments upon achievement of milestones.

(23) The aggregate cost for federal income tax purposes of investments in privately held equity method investments is $251,244. Under the equity method, investments are carried at cost, plus or minus the Company's equity in the increases and decreases in the investee's net assets after the date of acquisition and certain other adjustments.

(24) See "Note 11. Commitments and Contingencies."

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, 2015

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares / Principal	Value
Investments in Unaffiliated Companies (3) – 11.0% of net assets at value					
Private Placement Portfolio (Illiquid) (4) – 6.1% of net assets at value					
Bridgelux, Inc. (5)(8)(9)(10)		Energy			
Manufacturing high-power light emitting diodes (LEDs) and arrays					
Series B Convertible Preferred Stock (acquired 11/29/07)	(M)		$1,000,000	1,861,504	$258,939
Series C Convertible Preferred Stock (acquired 7/27/07)	(M)		1,352,196	2,130,699	534,737
Series D Convertible Preferred Stock (acquired 2/25/08-3/10/10)	(M)		1,371,622	999,999	737,006
Series E Convertible Preferred Stock (acquired 6/1/11)	(M)		672,599	440,334	607,572
Series E-1 Convertible Preferred Stock (acquired 3/16/12)	(M)		386,073	399,579	400,630
Warrants for Series E Convertible Preferred Stock expiring 12/31/17 (acquired 1/27/11)	(M)		93,969	170,823	0
Warrants for Common Stock expiring 6/1/16 (acquired 6/1/11)	(M)		72,668	132,100	0
Warrants for Common Stock expiring 8/9/18 (acquired 8/9/13)	(M)		148,409	171,183	0
Warrants for Common Stock expiring 10/21/18 (acquired 10/21/11)	(M)		18,816	84,846	0
			5,116,352		2,538,884
Cambrios Technologies Corporation (5)(8)(9)(11)		Electronics			
Developed nanowire-enabled electronic materials for the display industry					
Series B Convertible Preferred Stock (acquired 11/9/04-2/16/05)	(M)		1,294,025	1,294,025	0
Series C Convertible Preferred Stock (acquired 3/21/07)	(M)		1,300,000	1,300,000	0
Series D Convertible Preferred Stock (acquired 8/7/09)	(M)		515,756	515,756	0
Series D-2 Convertible Preferred Stock (acquired 5/31/11)	(M)		92,400	92,400	0
Series D-4 Convertible Preferred Stock (acquired 7/12/12)	(M)		216,168	216,168	0
			3,418,349		0

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2015

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares / Principal	Value
Investments in Unaffiliated Companies (3) – 11.0% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (4) – 6.1% of net assets at value (Cont.)					
Magic Leap, Inc. (8)(9)(12)		Electronics			
Developing novel human computing interfaces and software					
Series B Convertible Preferred Stock (acquired 5/1/15)	(I)		$338,604	29,291	$348,994
Mersana Therapeutics, Inc. (5)(8)(9)		Life Sciences			
Developing antibody drug conjugates for cancer therapy					
Series A-1 Convertible Preferred Stock (acquired 7/27/12-4/2/14)	(H)		683,538	635,081	613,892
Series B-1 Convertible Preferred Stock (acquired 2/20/15)	(H)		104,521	97,111	104,407
Common Stock (acquired 7/27/12)	(H)		3,875,395	350,539	309,963
			4,663,454		1,028,262
Nanosys, Inc. (5)(8)(9)		Energy			
Developing inorganic nanowires and quantum dots for use in LED-backlit devices					
Series C Convertible Preferred Stock (acquired 4/10/03)	(M)		1,500,000	803,428	128,853
Series D Convertible Preferred Stock (acquired 11/7/05)	(M)		3,000,003	1,016,950	597,334
Series E Convertible Preferred Stock (acquired 8/13/10)	(M)		496,573	433,688	452,627
			4,996,576		1,178,814
Nano Terra, Inc. (5)(8)		Energy			
Developing surface chemistry and nano- manufacturing solutions					
Warrants for Common Stock expiring on 2/22/21 (acquired 2/22/11)	(I)		69,168	4,462	211
Warrants for Series A-3 Preferred Stock expiring on 11/15/22 (acquired 11/15/12)	(I)		35,403	47,508	61,978
			104,571		62,189

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2015

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares / Principal	Value
Investments in Unaffiliated Companies (3) – 11.0% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (4) – 6.1% of net assets at value (Cont.)					
Phylagen, Inc. (5)(8)(13)		Life Sciences			
Developing technology to improve human health and business productivity					
Secured Convertible Bridge Note, 5%, (acquired 2/5/15)	(M)		$209,041	$200,000	$209,041
Secured Convertible Bridge Note, 5%, (acquired 6/5/15)	(M)		10,288	$10,000	10,288
			219,329		219,329
Total Unaffiliated Private Placement Portfolio (cost: $18,857,235)					$5,376,472
Rights to Milestone Payments (Illiquid) (6) – 3.8% of net assets at value					
Amgen, Inc. (8)(9)		Life Sciences			
Rights to Milestone Payments from Acquisition of BioVex Group, Inc. (acquired 3/4/11)	(I)		$548,998	$548,998	$2,900,232
Laird Technologies, Inc. (8)(9)		Energy			
Rights to Milestone Payments from Merger & Acquisition of Nextreme Thermal Solutions, Inc. (acquired 2/13/13)	(I)		0	$0	0
Canon, Inc. (8)(9)		Electronics			
Rights to Milestone Payments from Acquisition of Molecular Imprints, Inc. (acquired 4/18/14)	(I)		232,865	$232,865	461,819
Total Unaffiliated Rights to Milestone Payments (cost: $781,863)					$3,362,051

The accompanying notes are an integral part of these consolidated financial statements.
23

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2015

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares / Principal	Value
Publicly Traded Portfolio (7) – 1.1% of net assets at value					
Champions Oncology, Inc. (5)(9)		Life Sciences			
Developing its TumorGraft™ platform for personalized medicine and drug development					
Common Stock (acquired 3/24/11-3/11/15)	(M)		$1,622,629	243,540	$944,819
Warrants for Common Stock expiring 1/28/19 (acquired 1/28/13)	(I)		400	5,500	12,725
			1,623,029		957,544
Total Unaffiliated Publicly Traded Portfolio (cost: $1,623,029)					$957,544
Total Investments in Unaffiliated Companies (cost: $21,262,127)					$9,696,067
Investments in Non-Controlled Affiliated Companies (3) – 67.9% of net assets at value					
Private Placement Portfolio (Illiquid) (14) – 47.2% of net assets at value					
ABSMaterials, Inc. (5)(8)(9)		Energy			
Developing nano-structured absorbent materials for water remediation and consumer applications					
Series A Convertible Preferred Stock (acquired 2/17/10-10/24/11)	(I)		$435,000	390,000	$160,303
Series B Convertible Preferred Stock (acquired 11/8/13-6/25/14)	(I)		1,217,644	1,037,751	823,319
			1,652,644		983,622
AgBiome, LLC (5)(8)(9)		Life Sciences			
Providing early-stage research and discovery for agriculture and utilizing the crop microbiome to identify products that reduce risk and improve yield					
Series A-1 Convertible Preferred Stock (acquired 1/30/13)	(I)		2,000,000	2,000,000	4,022,722
Series A-2 Convertible Preferred Stock (acquired 4/9/13-10/15/13)	(I)		521,740	417,392	891,588
Series B Convertible Preferred Stock (acquired 8/7/15)	(I)		500,006	160,526	575,979
			3,021,746		5,490,289

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2015

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares / Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 67.9% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (14) – 47.2% of net assets at value (Cont.)					
D-Wave Systems, Inc. (8)(9)(15)		Electronics			
Developing high-performance quantum computing systems					
Series 1 Class B Convertible Preferred Stock (acquired 9/30/08)	(H)		$1,002,074	1,144,869	$1,485,943
Series 1 Class C Convertible Preferred Stock (acquired 9/30/08)	(H)		487,804	450,450	588,844
Series 1 Class D Convertible Preferred Stock (acquired 9/30/08)	(H)		748,473	855,131	1,117,858
Series 1 Class E Convertible Preferred Stock (acquired 11/24/10)	(H)		248,049	269,280	368,385
Series 1 Class F Convertible Preferred Stock (acquired 11/24/10)	(H)		238,323	258,721	353,940
Series 1 Class H Convertible Preferred Stock (acquired 6/27/14)	(H)		909,088	460,866	732,972
Series 2 Class D Convertible Preferred Stock (acquired 9/30/08)	(H)		736,019	678,264	886,651
Series 2 Class E Convertible Preferred Stock (acquired 6/1/12-3/22/13)	(H)		659,493	513,900	711,876
Series 2 Class F Convertible Preferred Stock (acquired 6/1/12-3/22/13)	(H)		633,631	493,747	683,959
Warrants for Common Stock expiring 5/12/19 (acquired 5/12/14)	(I)		26,357	20,415	710
			5,689,311		6,931,138
EchoPixel, Inc. (5)(8)		Life Sciences			
Developing virtual reality 3-D visualization software for life sciences and health care applications					
Series Seed Convertible Preferred Stock (acquired 6/21/13-6/30/14)	(I)		1,250,000	4,194,630	1,327,092
Secured Convertible Bridge Note, 8%, (acquired 11/25/15)	(M)		113,425	$112,500	113,425
			1,363,425		1,440,517

The accompanying notes are an integral part of these consolidated financial statements.
25

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2015

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares / Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 67.9% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (14) – 47.2% of net assets at value (Cont.)					
Ensemble Therapeutics Corporation (5)(8)(9)		Life Sciences			
Developing DNA-Programmed Chemistry™ for the discovery of new classes of therapeutics					
Series B Convertible Preferred Stock (acquired 6/6/07)	(I)		$2,000,000	1,449,275	$662,607
Series B-1 Convertible Preferred Stock (acquired 4/21/14)	(I)		679,754	492,575	1,448,295
			2,679,754		2,110,902
HZO, Inc. (5)(8)(9)		Electronics			
Developing novel industrial coatings that protect electronics against damage from liquids					
Common Stock (acquired 6/23/14)	(I)		666,667	405,729	329,802
Series I Convertible Preferred Stock (acquired 6/23/14)	(I)		5,709,835	2,266,894	4,281,820
Series II Convertible Preferred Stock (acquired 6/23/14-8/3/15)	(I)		2,500,006	674,638	2,515,164
			8,876,508		7,126,786

The accompanying notes are an integral part of these consolidated financial statements.
26

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2015

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares / Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 67.9% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (14) – 47.2% of net assets at value (Cont.)					
Laser Light Engines, Inc. (8)(9)		Energy			
Manufactured solid-state light sources for digital cinema and large-venue projection displays					
Series A Convertible Preferred Stock (acquired 5/6/08)	(M)		$2,000,000	7,499,062	$ 0
Series B Convertible Preferred Stock (acquired 9/17/10)	(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
Lodo Therapeutics Corporation (5)(8)(9)(13)		Life Sciences			
Developing and commercializing novel therapeutics derived from a metagenome-based Natural Product Discovery Platform					
Series A Convertible Preferred Stock (acquired 12/21/15)	(I)		107,900	107,900	107,281

The accompanying notes are an integral part of these consolidated financial statements.
27

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2015

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares / Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 67.9% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (14) – 47.2% of net assets at value (Cont.)					
Metabolon, Inc. (5)(8)(9)		Life Sciences			
Developing a biochemical profiling platform for precision medicine					
Series B Convertible Preferred Stock (acquired 6/29/09)	(M)		$2,500,000	371,739	$3,699,120
Series B-1 Convertible Preferred Stock (acquired 6/29/09)	(M)		706,214	148,696	1,479,647
Series C Convertible Preferred Stock (acquired 4/30/09)	(M)		1,000,000	1,000,000	3,388,907
Series D Convertible Preferred Stock (acquired 8/25/11)	(M)		1,499,999	835,882	2,887,617
Series E-1 Convertible Preferred Stock (acquired 3/2/15)	(M)		1,225,000	444,404	1,776,987
Series E-2 Convertible Preferred Stock (acquired 3/2/15)	(M)		299,999	103,277	389,566
			7,231,212		13,621,844
ORIG3N, Inc. (5)(8)(9)(13)		Life Sciences			
Developing precision medicine applications for induced pluripotent stems cells					
Series 1 Convertible Preferred Stock (acquired 2/5/15-8/5/15)	(I)		500,000	1,195,315	826,563
Series A Convertible Preferred Stock (acquired 11/25/15)	(I)		750,000	682,333	750,338
			1,250,000		1,576,901
Petra Pharma Corporation (5)(8)(9)(13)		Life Sciences			
Developing small molecule inhibitors for treatment of cancer and metabolic diseases					
Series A Convertible Preferred Stock (acquired 12/23/15)	(I)		1,025,050	1,025,050	1,019,755

The accompanying notes are an integral part of these consolidated financial statements.
28

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2015

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares / Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 67.9% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (14) – 47.2% of net assets at value (Cont.)					
Produced Water Absorbents, Inc. (5)(8)(16)		Energy			
Providing integrated process separation solutions to the global oil and gas industries, enabling onsite treatment of produced and flowback water					
Series A Convertible Preferred Stock (acquired 6/21/11)	(M)		$1,000,000	1,000,000	$ 77,549
Series B Convertible Preferred Stock (acquired 6/20/13-3/31/14)	(M)		1,496,865	5,987,460	214,302
Series B-2 Convertible Preferred Stock (acquired 5/12/14)	(M)		1,015,427	4,322,709	154,718
Series B-3 Convertible Preferred Stock (acquired 11/14/13)	(M)		978,641	3,914,564	140,109
Series C Convertible Preferred Stock (acquired 5/26/14)	(M)		1,000,268	2,667,380	75,581
Series D Convertible Preferred Stock (acquired 2/17/15)	(M)		986,066	2,629,510	133,330
Subordinated Secured Debt, 12%, maturing on 6/30/16 (acquired 10/7/14)	(M)		990,634	$1,000,000	560,538
Subordinated Convertible Bridge Note, 12%, (acquired 6/3/2015)	(M)		267,425	$250,000	36,854
Subordinated Convertible Bridge Note, 12%, (acquired 7/15/2015)	(M)		263,973	$250,000	36,378
Subordinated Convertible Bridge Note, 12%, (acquired 9/28/2015)	(M)		257,808	$250,000	35,528
Subordinated Convertible Bridge Note, 12%, (acquired 10/30/2015)	(M)		255,178	$250,000	35,166
Warrants for Series B-2 Preferred Stock expiring upon liquidation event (acquired 5/12/14)	(I)		65,250	300,000	174
			8,577,535		1,500,227

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2015

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares / Principal	Value
Investments in Non-Controlled Affiliated Companies (3) – 67.9% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (14) – 47.2% of net assets at value (Cont.)					
Ultora, Inc. (5)(8)(17)		Energy			
Developed energy-storage devices enabled by carbon nanotubes					
Series A Convertible Preferred Stock (acquired 12/5/13)	(M)		$886,830	17,736	$0
Series B Convertible Preferred Stock (acquired 12/5/13)	(M)		236,603	2,347,254	0
Secured Convertible Bridge Note, 5%, (acquired 5/7/14)	(M)		86,039	$ 86,039	0
Secured Convertible Bridge Note, 5%, (acquired 8/20/14)	(M)		17,208	$ 17,208	0
Secured Convertible Bridge Note, 5%, (acquired 10/14/14)	(M)		10,750	$ 10,750	0
Secured Convertible Bridge Note, 5%, (acquired 3/30/15)	(M)		7,525	$ 7,525	0
			1,244,955		0
Total Non-Controlled Private Placement Portfolio (cost: $49,262,921)					$41,909,262
Publicly Traded Portfolio (18) – 20.7% of net assets at value					
Adesto Technologies Corporation (5)(8)(9)(19)		Electronics			
Developing low-power, high-performance memory devices					
Common Stock (acquired 10/27/15)	(M)		$11,482,417	1,769,868	$13,645,682
Enumeral Biomedical Holdings, Inc. (5)(8)(9)(20)		Life Sciences			
Developing therapeutics and diagnostics through functional assaying of single cells					
Common Stock (acquired 7/31/14)	(M)		4,993,357	7,966,368	1,831,468
Warrants for Common Stock expiring 7/30/19 (acquired 7/31/14)	(I)		540,375	1,500,000	43,326
Warrants for Common Stock expiring 2/2/24 (acquired 7/31/14)	(I)		57,567	255,120	44,160
Options to Purchase Common Stock at $1.00 expiring 7/30/16 (acquired 8/4/14)	(I)		0	80,000	54
			5,591,299		1,919,008

The accompanying notes are an integral part of these consolidated financial statements.
30

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2015

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares / Principal	Value
Publicly Traded Portfolio (18) – 20.7% of net assets at value (Cont.)					
OpGen, Inc. (5)(21)		Life Sciences			
Developing tools for genomic sequence assembly and analysis					
Common Stock (acquired 5/5/15)	(M)		$5,665,708	1,409,796	$2,678,612
Warrants for Common Stock expiring 5/8/20 (acquired 5/5/15)	(M)		425,579	300,833	101,431
Warrants for Common Stock expiring 2/17/25 (acquired 5/5/15)	(I)		785	31,206	26,372
			6,092,072		2,806,415
Total Non-Controlled Affiliated Publicly Traded Portfolio (cost: $23,165,788)					$18,371,105
Total Investments in Non-Controlled Affiliated Companies (cost: $72,428,709)					$60,280,367
Investments in Controlled Affiliated Companies (3) – 7.9% of net assets at value					
Private Placement Portfolio (Illiquid) (22) – 7.9% of net assets at value					
Black Silicon Holdings, Inc. (5)(8)(23)		Electronics			
Holding company for interest in a company that develops silicon-based optoelectronic products					
Series A Convertible Preferred Stock (acquired 8/4/15)	(I)		$750,000	233,499	$0
Series A-1 Convertible Preferred Stock (acquired 8/4/15)	(I)		890,000	2,966,667	0
Series A-2 Convertible Preferred Stock (acquired 8/4/15)	(I)		2,445,000	4,207,537	0
Series B-1 Convertible Preferred Stock (acquired 8/4/15)	(I)		1,169,561	1,892,836	0
Series C Convertible Preferred Stock (acquired 8/4/15)	(I)		1,171,316	1,674,030	0
Secured Convertible Bridge Note, 8%, (acquired 8/4/15)	(I)		1,321,068	$1,278,454	316,613
			7,746,945		316,613

The accompanying notes are an integral part of these consolidated financial statements.
31

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2015

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares / Principal	Value
Investments in Controlled Affiliated Companies (3) – 7.9% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (22) – 7.9% of net assets at value (Cont.)					
NGX Bio, Inc. (5)(8)(9)(24)		Life Sciences			
Developing translational genomics solutions					
Series Seed Convertible Preferred Stock (acquired 6/6/14)	(I)		$375,000	500,000	$446,878
Series A Convertible Preferred Stock (acquired 8/20/15-9/30/15)	(I)		499,999	329,989	403,538
Warrants for Series Seed Preferred Stock expiring 6/6/19 (acquired 6/6/15)	(I)		125,000	166,667	148,958
			999,999		999,374
ProMuc, Inc. (5)(8)		Life Sciences			
Developing synthetic mucins for the nutritional, food and health care markets					
Common Stock (acquired 12/18/13)	(M)		1	1,000	1
Secured Convertible Bridge Note, 8%, (acquired 12/18/13)	(M)		407,074	$350,000	407,074
Secured Convertible Bridge Note, 8%, (acquired 8/13/14)	(M)		111,091	$100,000	111,091
Secured Convertible Bridge Note, 8%, (acquired 8/5/15)	(M)		77,449	$75,000	77,449
Secured Convertible Bridge Note, 8%, (acquired 12/7/15)	(M)		55,301	$55,000	55,301
			650,916		650,916
Senova Systems, Inc. (5)(8)(9)		Life Sciences			
Developing next-generation sensors to measure pH					
Series B Convertible Preferred Stock (acquired 9/9/11-7/18/12)	(I)		1,218,462	1,350,000	284,938
Series B-1 Convertible Preferred Stock (acquired 8/1/13-1/15/14)	(I)		1,083,960	2,759,902	659,411
Series C Convertible Preferred Stock (acquired 10/24/14-4/1/15)	(I)		1,208,287	1,611,049	1,127,419
Warrants for Series B Preferred Stock expiring 10/15/17 (acquired 10/15/12)	(I)		131,538	164,423	34,703
Warrants for Series B Preferred Stock expiring 4/24/18 (acquired 4/24/13)	(I)		20,000	25,000	5,277
			3,662,247		2,111,748

The accompanying notes are an integral part of these consolidated financial statements.
32

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2015

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares / Principal	Value
Investments in Controlled Affiliated Companies (3) – 7.9% of net assets at value					
Private Placement Portfolio (Illiquid) (22) – 7.9% of net assets at value					
SynGlyco, Inc. (5)(8)		Life Sciences			
Developed synthetic carbohydrates for pharmaceutical applications					
Common Stock (acquired 12/13/11)	(I)		$2,729,817	57,463	$0
Series A' Convertible Preferred Stock (acquired 12/13/11-6/7/12)	(I)		4,855,627	4,855,627	100,343
Secured Convertible Bridge Note, 8%, (acquired 1/23/13)	(I)		438,931	$350,000	438,931
Secured Convertible Bridge Note, 8%, (acquired 4/25/13)	(I)		369,170	$300,000	369,170
			8,393,545		908,444
TARA Biosystems, Inc. (5)(8)		Life Sciences			
Developing human tissue models for toxicology and drug discovery applications					
Common Stock (acquired 8/20/14)	(M)		20	2,000,000	20
Secured Convertible Bridge Note, 8%, (acquired 8/20/14)	(M)		333,516	$300,000	500,274
Secured Convertible Bridge Note, 8%, (acquired 5/18/15)	(M)		209,995	$200,000	314,992
Secured Convertible Bridge Note, 8%, acquired 12/1/15	(M)		1,208,153	$1,200,000	1,208,153
			1,751,684		2,023,439
Total Controlled Private Placement Portfolio (cost: $23,205,336)					$7,010,534
Total Investments in Controlled Affiliated Companies (cost: $23,205,336)					$7,010,534
Total Private Placement and Publicly Traded Portfolio (cost: $116,896,172)					$76,986,968

The accompanying notes are an integral part of these consolidated financial statements.
33

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2015

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares / Principal	Value
Equity Method Investments (25) – 0.2% of net assets at value					
Private Placement Portfolio (Illiquid) (25) – 0.2% of net assets at value					
Accelerator IV-New York Corporation (8)(9)(26)		Life Sciences			
Identifying and managing emerging biotechnology companies					
Series A Common Stock (acquired 7/21/14-1/30/15)	(E)		$165,936	478,227	$165,936
Total Equity Method Investments (cost: $165,936)					$165,936
Total Investments (cost: $117,062,108)					$77,152,904

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS
AS OF DECEMBER 31, 2015

Notes to Consolidated Schedule of Investments

(1) See "Footnote to Consolidated Schedule of Investments" on page 37 for a description of the "Valuation Procedures."

(2) We classify "Energy" companies as those that seek to improve performance, productivity or efficiency, and to reduce environmental impact, waste, cost, energy consumption or raw materials. We classify "Electronics" companies as those that address problems in electronics-related industries, including semiconductors and computing. We classify "Life Sciences" companies as those that address problems in life sciences-related industries, including precision health and precision medicine, biotechnology, agriculture, advanced materials and chemicals, health care, 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, including control of a majority of the seats on the board of directors, or more than 25 percent of the seats on the board of directors, with no other entity or person in control of more director seats than us. Among our controlled affiliated companies, ProMuc, Inc., was 100 percent owned by us at December 31, 2015.

(4) The aggregate cost for federal income tax purposes of investments in unaffiliated privately held companies is $18,857,235. The gross unrealized appreciation based on the tax cost for these securities is $10,390. The gross unrealized depreciation based on the tax cost for these securities is $13,491,153.

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

(6) The aggregate cost for federal income tax purposes of investments in unaffiliated rights to milestone payments is $781,863. The gross unrealized appreciation based on the tax cost for these securities is $2,580,188. The gross unrealized depreciation based on the tax cost for these securities is $0.

(7) The aggregate cost for federal income tax purposes of investments in unaffiliated publicly traded companies is $1,623,029. The gross unrealized appreciation based on the tax cost for these securities is $0. The gross unrealized depreciation based on the tax cost for these securities is $665,485.

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

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

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

(11) In February of 2016, Cambrios Technologies Corporation ceased operations and began liquidation of its assets through a general assignment for the benefit of creditors.

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

(13) Initial investment was made in 2015.

(14) The aggregate cost for federal income tax purposes of investments in non-controlled affiliated privately held companies is $49,262,921. The gross unrealized appreciation based on the tax cost for these securities is $10,504,995. The gross unrealized depreciation based on the tax cost for these securities is $17,858,654.

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS
AS OF DECEMBER 31, 2015

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

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

(17) In March of 2015, Ultora, Inc., ceased operations and began liquidation of its assets through a general assignment for the benefit of creditors.

(18) The aggregate cost for federal income tax purposes of investments in non-controlled affiliated publicly traded companies is $23,165,788. The gross unrealized appreciation based on the tax cost for these securities is $2,163,265. The gross unrealized depreciation based on the tax cost for these securities is $6,957,948.

(19) As of December 31, 2015, the Company's shares of Adesto Technologies Corporation were subject to a lock-up agreement that restricts our ability to trade these securities. A total of 200,000 shares are not qualifying assets under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire non-qualifying assets unless, at the time the acquisition is made, qualifying assets are at least 70 percent of our total assets.

(20) As of December 31, 2015, a portion of the Company's shares and warrants of Enumeral Biomedical Holdings, Inc., were subject to a lock-up agreement that restricts our ability to trade these securities. The lock-up period on our securities of Enumeral Biomedical Holdings expired on January 31, 2016. A portion of our shares were held in escrow as of the end of 2015. This escrow period expired with no claims against the escrowed shares.

(21) The Company's shares of OpGen, Inc., became freely tradeable on November 2, 2015. A total of 300,833 shares and 300,833 warrants are not qualifying assets under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire non-qualifying assets unless, at the time the acquisition is made, qualifying assets are at least 70 percent of our total assets.

(22) The aggregate cost for federal income tax purposes of investments in controlled affiliated companies is $23,205,336. The gross unrealized appreciation based on the tax cost for these securities is $271,755. The gross unrealized depreciation based on the tax cost for these securities is $16,466,557.

(23) On August 4, 2015, SiOnyx, Inc., reorganized its corporate structure to become a subsidiary of a new company, Black Silicon Holdings, Inc. Our security holdings of SiOnyx converted into securities of Black Silicon Holdings. SiOnyx was then acquired by an undisclosed buyer. Black Silicon Holdings owns a profit interest in the undisclosed buyer.

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

(25) The aggregate cost for federal income tax purposes of investments in privately held equity method investments is $165,936. Under the equity method, investments are carried at cost, plus or minus the Company's equity in the increases and decreases in the investee's net assets after the date of acquisition and certain other adjustments.

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

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

HARRIS &
HARRIS GROUP,
INC.
FOOTNOTE TO
CONSOLIDATED
SCHEDULE OF
INVESTMENTS

VALUATION PROCEDURES

I. Determination of Net Asset Value

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

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

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

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

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

II. Approaches to Determining Fair Value

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

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

- Market Approach (M): The market approach may use quantitative inputs such as prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities and the values of market multiples derived from a set of comparable companies. The market approach may also use qualitative inputs such as progress toward milestones, the long-term potential of the business, current and future financing requirements and the rights and preferences of certain securities versus those of other securities. The selection of the relevant inputs used to derive value under the market approach requires judgment considering factors specific to the significance and relevance of each input to deriving value.
- Income Approach (I): The income approach uses valuation techniques to convert future amounts (for example, revenue, cash flows or earnings) to a single present value amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts. Those valuation techniques include present value techniques; option-pricing models, such as the Black-Scholes-Merton formula (a closed-form model) and a binomial model (a lattice model), which incorporate present value techniques; and the multi-period excess earnings method, which is used to measure the fair value of certain assets.

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

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

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices in active markets for similar assets or liabilities, or quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Level 2 inputs are in those markets for which there are few transactions, the prices are not current, little public information exists or instances where prices vary substantially over time or among brokered market makers; and
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs are those inputs that reflect our own assumptions that market participants would use to price the asset or liability based upon the best available information.

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

III. Investment Categories

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

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

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

A. EQUITY RELATED SECURITIES

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

- Readily available public market quotations;
- The cost of the Company’s investment;
- Transactions in a company's securities or unconditional firm offers by responsible parties as a factor in determining valuation;
- The financial condition and operating results of the company;
- The company's progress towards milestones;
- The long-term potential of the business and technology of the company;
- The values of similar securities issued by companies in similar businesses;

- Multiples to revenue, net income or EBITDA that similar securities issued by companies in similar businesses receive
- Estimated time to exit;
- Volatility of similar securities in similar businesses;
- The proportion of the company's securities we own and the nature of any rights to require the company to register restricted securities under applicable securities laws; and
- The rights and preferences of the class of securities we own as compared with other classes of securities the portfolio company has issued.

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

The Company values two investments using the equity method.

- Equity Method (E): Under the equity method, investments are carried at cost, plus or minus the Company's equity in the increases and decreases in the investee's net assets after the date of acquisition and certain other adjustments.

B. LONG-TERM FIXED-INCOME SECURITIES

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

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

- Credit quality;
- Interest rate analysis;
- Quotations from broker-dealers;
- Prices from independent pricing services that the Board believes are reasonably reliable; and
- Reasonable price discovery procedures and data from other sources.

C. SHORT-TERM FIXED-INCOME SECURITIES

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

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

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

- The cost of the Company's investment;
- Investments in the same or substantially similar intellectual property or patents or research and development in technology or product development or offers by responsible third parties;
- The results of research and development;

- Product development and milestone progress;
- Commercial prospects;
- Term of patent;
- Projected markets; and
- Other subjective factors.

E. ALL OTHER SECURITIES

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

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

IV. Frequency of Valuation

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

V. Regular Review

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

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

VI. Other Assets

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. THE COMPANY

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

H&H Ventures Management, Inc.SM ("Ventures") is a 100 percent wholly owned subsidiary of the Company. Ventures is taxed under Subchapter C (a "C Corporation") of the Internal Revenue Code of 1986 (the "Code"). Harris Partners I, L.P, is a limited partnership and, from time to time, may be used to hold certain interests in our portfolio companies. The partners of Harris Partners I, L.P., are Ventures (sole general partner) and the Company (sole limited partner). Ventures pays taxes on income generated by its operations as well as on any non-passive investment income generated by Harris Partners I, L.P. For the period ended September 30, 2016, there was no non-passive investment income generated by Harris Partners I, L.P. Ventures, as the sole general partner, consolidates Harris Partners I, L.P. The Company consolidates its wholly owned subsidiary, Ventures, for financial reporting purposes.

The Company is the Managing Member of H&H Co-Investment Partners, LLC, a limited liability company formed to facilitate the opportunity for interested investors to co-invest alongside the Company in its portfolio companies. The Company is also the Investment Manager of two series formed by H&H Co-Investment Partners, H&H Co-Investment Partners, LLC D-Wave Co-Investment Series J and H&H Co-Investment Partners, LLC HZO Co-Investment Series III. As of September 30, 2016, H&H Co-Investment Partners did not have any capital under management. The Company expects to receive management fees and/or carried interest in profits generated on invested capital from any capital under management if and when capital is raised. The Company does not expect to consolidate the operations of H&H Co-Investment Partners if and when it has capital under management.

NOTE 2. INTERIM FINANCIAL STATEMENTS

Our interim financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to interim financial information. Accordingly, the information presented on our interim financial statements does not include all information and disclosures necessary for a fair statement of our financial position, results of operations and cash flows in conformity with GAAP for annual financial statements. In the opinion of management, these financial statements reflect all adjustments, consisting of valuation adjustments and normal recurring accruals, necessary for a fair statement of our financial position, results of operations and cash flows for such periods. The results of operations for any interim period are not necessarily indicative of the results for the full year. These financial statements should be read in conjunction with the financial statements and notes thereto contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Principles of Consolidation. The consolidated financial statements have been prepared in accordance with GAAP and include the accounts of the Company and its wholly owned subsidiary. The Company is an investment company following accounting and reporting guidance in Accounting Standards Codification 946. In accordance with GAAP and Regulation S-X, the Company may only consolidate its interests in investment company subsidiaries and controlled operating companies whose business consists of providing services to the Company. Our wholly owned subsidiary, Ventures, is a controlled operating company that provides services to us and is, therefore, consolidated. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform to the current period presentation. Amounts reported in "Net decrease (increase) in unrealized depreciation on investments" have been reclassified from prior years. Amounts related to portfolio company investments were previously reported as a single amount and have been reclassified to present unrealized (depreciation) appreciation from unaffiliated companies, controlled affiliated companies, non-controlled affiliated companies, publicly traded companies and unaffiliated rights to milestone payments. There was no impact to the total amounts reported in any period.

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

Portfolio Investment Valuations. Investments are stated at "value" as defined in the 1940 Act and in the applicable regulations of the Securities and Exchange Commission ("SEC") and in accordance with GAAP. Value, as defined in Section 2(a)(41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) the fair value as determined in good faith by, or under the direction of, the Board of Directors for all other assets. (See "Valuation Procedures" in the "Footnote to Consolidated Schedule of Investments.") As of September 30, 2016, our financial statements include investments fair valued by the Board of Directors at $61,611,808 and two investments valued under the equity method at $251,244. The fair values were determined in good faith by, or under the direction of, the Board of Directors. The fair value amount includes the values of our privately held investments as well as the warrants of Champions Oncology, Inc., Enumeral Biomedical Holdings, Inc., and OpGen, Inc., which are publicly traded companies. Our investments in Accelerator IV-New York Corporation and AgTech Accelerator Corporation are accounted for under the equity method of accounting as they represent non-controlling interests in operating entities that provide investment advisory services to the Company. Under the equity method, investments are carried at cost, plus or minus the Company’s equity in the increases and decreases in the investee’s net assets after the date of acquisition and certain other adjustments. The Company’s share of the net income or loss of the investee is included in "Share of loss on equity method investments" on the Company’s “Consolidated Statements of Operations.” Upon sale of investments, the values that are ultimately realized may be different from the fair value presented in the Company's financial statements. The difference could be material.

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

Unaffiliated Rights to Milestone Payments. At September 30, 2016, and December 31, 2015, the outstanding potential milestone payments from Amgen, Inc.’s acquisition of BioVex Group, Inc., were valued at $2,975,353 and $2,900,232, respectively. The milestone payments are derivatives and are fair valued using the probability-adjusted, present value of proceeds from future payments that would be due upon successful completion of certain regulatory and sales milestones. On November 17, 2014, the Company received a payment of $2,070,955 owing to the achievement of the first milestone. On November 23, 2015, the Company received a payment of $2,070,955 owing to the achievement of the second milestone. If all the remaining milestones are met, we would receive $5,384,482. At September 30, 2016, and December 31, 2015, the outstanding potential milestone payments from Canon, Inc.'s acquisition of Molecular Imprints, Inc., were valued at $467,392 and $461,819, respectively. On October 1, 2015, the Company received a payment of $795,567 owing to the achievement of the first milestone. If all the remaining milestones are met, we would receive an additional $938,926. At September 30, 2016, and December 31, 2015, the outstanding potential milestone payments from Laird Technologies, Inc.’s acquisition of Nextreme Thermal Solutions, Inc., were valued at $0. If all the remaining milestones are met, we would receive approximately $400,000. There can be no assurances as to how much of these amounts we will ultimately realize or when they will be realized, if at all.

Funds Held in Escrow from Sale of Investments. At September 30, 2016, and December 31, 2015, there were funds held in escrow fair valued at $116,872 and $311,137, respectively, relating to the sale of Molecular Imprints, Inc.'s semiconductor lithography equipment business to Canon, Inc. On April 20, 2016, the Company received proceeds of $390,492 from the release of a portion of the funds held in escrow following the transaction. The remaining funds held in escrow are expected to be released in April of 2017, net of settlement of any indemnity claims and expenses related to the transaction. If the funds held in escrow for this transaction are released in full, we would receive $234,336 and realize a gain of $117,464. At September 30, 2016, and December 31, 2015, there were funds held in escrow fair valued at $0 and $63,428, respectively, relating to the sale of the Molecular Imprints' non-semiconductor business to Magic Leap, Inc. On May 18, 2016, the Company received proceeds of $130,522, following the expiration of the one-year escrow period established at the closing of the transaction.

Receivable From Sale of Investments. At September 30, 2016, we had a receivable totaling $53,162 from the sale of our publicly traded shares of OpGen, Inc. and Champions Oncology, Inc., which settled on October 3, and October 4, 2016.

Prepaid Expenses. We include prepaid insurance premiums and deferred financing charges in "Prepaid expenses." Prepaid insurance premiums are recognized over the term of the insurance contract and are included in "Insurance expense" in the Consolidated Statements of Operations. Deferred financing charges consist of fees and expenses paid in connection with the closing of loan facilities and are capitalized at the time of payment. Deferred financing charges are amortized over the term of the Loan

Facility discussed in "Note 5. Debt." Amortization of the financing charges is included in "Interest and other debt expenses" in the Consolidated Statements of Operations.

Property and Equipment. Property and equipment are included in "Other assets" and are carried at $147,404 and $180,089 at September 30, 2016, and December 31, 2015, respectively, representing cost, less accumulated depreciation of $424,657 and $445,476, respectively. Depreciation is provided using the straight-line method over the estimated useful lives of the property and equipment. We estimate the useful lives to be five to ten years for furniture and fixtures, three years for computer equipment, and the lesser of ten years or the remaining life of the lease for leasehold improvements. Substantially all of our fixed assets are pledged as collateral under the Company's four-year $20,000,000 Multi-Draw Term Loan Facility Credit Agreement, by and among the Company, as borrower, Orix Corporate Capital, Inc., as administrative agent and lender and the other lenders party thereto from time to time (the "Loan Facility").

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

Interest Income Recognition. Interest income, including amortization of premium and accretion of discount, is recorded on an accrual basis. When accrued interest is determined not to be recoverable, the Company ceases accruing interest and writes off any previously accrued interest. Securities are deemed to be non-income producing if investments have not paid dividends or interest within the last 12 months. These write-offs are reversed through interest income. During the three months and nine months ended September 30, 2016, the Company earned $117,056 and $255,653, respectively, in interest on subordinated secured debt, non-convertible promissory notes, senior secured debt and interest-bearing accounts. During the three months and nine months ended September 30, 2015, the Company earned $46,070 and $158,559, respectively, in interest on senior secured debt, subordinated secured debt, non-convertible promissory notes and interest-bearing accounts. During the three months and nine months ended September 30, 2016, the Company recorded, on a net basis, $97,871 and $306,947, respectively, of bridge note interest. During the three months and nine months ended September 30, 2015, the Company recorded, on a net basis, $82,959 and $341,949, respectively, of bridge note interest. The total for the nine months ended September 30, 2015, included a partial write-off of previously accrued bridge note interest of $1,427.

Yield-Enhancing Fees on Debt Securities. Yield-enhancing fees received in connection with our non-convertible debt investments are deferred. The unearned fee income is accreted into income based on the effective interest method over the life of the investment. For the three months and nine months ended September 30, 2016, total yield-enhancing fees accreted into investment income were $35,975, and $80,533, respectively. For the three months and nine months ended September 30, 2015, total yield-enhancing fees accreted into investment income were $44,014 and $90,062, respectively.

Fees for Providing Managerial Assistance to Portfolio Companies. For the three months and nine months ended September 30, 2016, the Company earned income of $315,250 and $685,103, respectively, owing to certain of its employees providing managerial assistance to certain portfolio companies, primarily from Interome, Inc., totaling $300,000 and $600,000, respectively, for the three months and nine months ended September 30, 2016. Fees were also received from certain other portfolio companies, namely Adesto Technologies Corporation, OpGen, Inc., TARA

Biosystems, Inc., Fleet Health Alliance, LLC, and Muses Labs, Inc., during 2016. For the three months and nine months ended September 30, 2015, the Company earned income of $71,359 and $84,859, respectively, owing to certain of its employees providing managerial assistance to certain of its portfolio companies.

Stock-Based Compensation. The Company has a stock-based employee compensation plan. The Company accounts for the Amended and Restated Harris & Harris Group, Inc. 2012 Equity Incentive Plan (the "Stock Plan") by determining the fair value of all share-based payments to employees, including the fair value of grants of employee stock options and restricted stock awards, and records these amounts as an expense in the Consolidated Statements of Operations over the vesting period with a corresponding increase (decrease) to our additional paid-in capital. For the three months and nine months ended September 30, 2016, and September 30, 2015, the increase (decrease) to our operating expenses was offset by the increase (decrease) to our additional paid-in capital, resulting in no net impact to our net asset value. Additionally, the Company does not record the potential tax benefits associated with the expensing of stock options or restricted stock because the Company currently intends to qualify as a regulated investment company ("RIC") under Subchapter M of the Code, and the deduction attributable to such expensing, therefore, is unlikely to provide any additional tax savings. The amount of non-cash, stock-based compensation expense recognized in the Consolidated Statements of Operations is based on the fair value of the awards the Company expects to vest, recognized over the vesting period on a straight-line basis for each award, and adjusted for actual awards vested and pre-vesting forfeitures. The forfeiture rate is estimated at the time of grant and revised, if necessary, in subsequent periods if the actual forfeiture rate differs from the estimated rate and is accounted for in the current period and prospectively. See "Note 9. Stock-Based Compensation" for further discussion.

Rent expense. Our lease at 1450 Broadway, New York, New York, commenced on January 21, 2010. The lease expires on December 31, 2019. The base rent is $36 per square foot with a 2.5 percent increase per year over the 10 years of the lease, subject to a full abatement of rent for four months and a rent credit for six months throughout the lease term. We apply these rent abatements, credits, escalations and landlord payments on a straight-line basis in the determination of rent expense over the lease term. Certain leasehold improvements were also paid for on our behalf by the landlord, the cost of which is accounted for as property and equipment and "Deferred rent" in the accompanying Consolidated Statements of Assets and Liabilities. These leasehold improvements are depreciated over the lease term. We also leased office space in California until December 31, 2015.

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

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

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

Securities Transactions. Securities transactions are accounted for on the date the transaction for the purchase or sale of the securities is entered into by the Company (i.e., trade date). Securities transactions outside conventional channels, such as private transactions, are recorded as of the date the Company obtains the right to demand the securities purchased or to collect the proceeds from a sale and incurs the obligation to pay for the securities purchased or to deliver the securities sold.

Concentration of Credit Risk. The Company places its cash and cash equivalents with financial institutions and, at times, cash held in depository accounts may exceed the Federal Deposit Insurance Corporation's insured limit and is subject to the credit risk of such institutions to the extent it exceeds such limit.

Concentration of Investor Risk. As of September 30, 2016, two investors, Ariel Investments and Granahan Investment Management, owned approximately 13.6 percent and 5.1 percent, respectively, of our outstanding shares.

Recent Accounting Pronouncements. On August 26, 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments." This ASU is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The guidance will affect how distributions received from equity method investees will be reported. The guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The impact of this ASU on the Company's Consolidated Financial Statements is currently being evaluated.

On June 16, 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." This ASU is intended to introduce new guidance for the accounting for credit losses on instruments within scope based on an estimate of current expected credit losses. The guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. The impact of this ASU on the Company's Consolidated Financial Statements is currently being evaluated.

On March 30, 2016, the FASB issued ASU 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." This ASU is intended to simplify several aspects of the accounting for share-based payment award transactions. The guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016, with early adoption permitted. The impact of this ASU on the Company's Consolidated Financial Statements is currently being evaluated.

On March 15, 2016, the FASB issued ASU 2016-07, "Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting." This ASU eliminates the requirement to apply the equity method of accounting retrospectively when a reporting entity obtains significant influence over a previously held investment. This ASU should be applied prospectively for investments that qualify for the equity method of accounting after the effective date. The guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016, with early adoption permitted. The impact of this ASU on the Company's Consolidated Financial Statements is currently being evaluated.

On February 25, 2016, the FASB issued ASU 2016-02, "Leases" (Topic 842). This ASU revises the accounting for leases. Under the new guidance, lessees are required to recognize a right-of-use asset and a lease liability for all leases. The new guidance will continue to classify leases as either financing or operating, with classification affecting the pattern of expense recognition. The accounting applied by a lessor under the new guidance will be substantially equivalent to current lease accounting guidance. This ASU is required to be applied with a modified retrospective approach to each prior reporting period presented and provides for certain practical expedients. The guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. The impact of this ASU on the Company's Consolidated Financial Statements is currently being evaluated.

On January 5, 2016, the FASB issued ASU 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." This ASU affects the accounting for equity investments, requiring that all equity investments in unconsolidated entities (other than those accounted for using the equity method of accounting) be measured at fair value through earnings. There will no longer be an available-for-sale classification (changes in fair value reported in other comprehensive income) for equity securities with readily determinable fair values. The guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The impact of this ASU on the Company's Consolidated Financial Statements is currently being evaluated.

On April 7, 2015, the FASB issued ASU 2015-03, "Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." This ASU requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of related debt liability, consistent with debt discounts. Under the former guidance, such costs were recorded as an asset. On August 18, 2015, the FASB clarified that this ASU does not apply to line of credit arrangements. Accordingly, companies may continue to present debt issuance costs for line of credit arrangements as an asset and subsequently amortize the deferred debt costs ratably over the term of the arrangement. This guidance was adopted on January 1, 2016. Management determined that this ASU does not have any impact on the Company’s Consolidated Financial Statements as the Company does not issue debt as part of its business operations.

On February 18, 2015, the FASB issued ASU 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis." This ASU amends the current consolidation guidance. The amendments affect both the variable interest entity and voting interest entity consolidation models. This guidance was adopted on July 1, 2016. Management determined that this ASU does not have any impact on the Company’s Consolidated Financial Statements. The Company does not hold any variable interests and is, therefore, not required to consolidate using the consolidation models defined in this ASU.

On August 27, 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties About an Entity’s Ability to Continue as a Going Concern." This ASU requires management to perform interim and annual assessments of an entity’s ability to continue as a going concern within one year of the date the financial statements are issued and provides guidance on determining when and how to disclose going concern uncertainties in the financial statements. Certain disclosures will be required if conditions give rise to substantial doubt about an entity’s ability to continue as a going concern. This guidance will be effective for fiscal years, and interim periods within those fiscal years, ending after December 15, 2016, with early adoption permitted. The impact of this ASU on the Company's Consolidated Financial Statements is currently being evaluated.

On June 19, 2014, the FASB issued ASU 2014-12, "Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could be Achieved After the Requisite Service Period." This ASU provides more explicit guidance for treating share-based payment awards that require a specific performance target that affects vesting and that could be achieved after the requisite service period as a performance condition. This guidance was adopted on January 1, 2016. Management determined that this ASU does not have any impact on the Company’s Consolidated Financial Statements as the Company does not have share-based payment awards that require a specific performance target that affects vesting and that could be achieved after the requisite service period as a performance condition.

On May 28, 2014, the FASB and the International Accounting Standards Board ("IASB") issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," their final converged standard on revenue recognition. This ASU provides a single, comprehensive revenue recognition model for all contracts with customers and supersedes current revenue recognition guidance. The guidance contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. This ASU also includes enhanced disclosures that are significantly more comprehensive than those in existing revenue standards. ASU 2014-09 was to be effective for the Company beginning on January 1, 2017, but, on July 9, 2015, the FASB voted to approve a one-year deferral of the effective date. This new guidance is now expected to be effective for the Company beginning on January 1, 2018. The guidance allows for either "full retrospective" adoption, meaning the standard is applied to all of the periods presented, or "modified retrospective" adoption, meaning the standard is applied only to the most current period presented in the financial statements. The impact of this ASU on the Company's Consolidated Financial Statements is currently being evaluated.

NOTE 4. BUSINESS RISKS AND UNCERTAINTIES

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

We do not choose investments based on a strategy of diversification. We also do not rebalance the portfolio should one of our portfolio companies increase in value substantially relative to the rest of the portfolio. Therefore, the value of our portfolio may be more vulnerable to microeconomic events affecting a single sector, industry or portfolio company and to general macroeconomic events that may be unrelated to our portfolio companies. These factors may subject the value of our portfolio to greater volatility than a company that follows a diversification strategy. As of September 30, 2016, and December 31, 2015, our largest 10 investments by value accounted for approximately 80 percent and 79 percent, respectively, of the value of our equity-focused portfolio. Our largest three investments, by value, D-Wave Systems, Inc., Metabolon, Inc., and AgBiome, LLC accounted for approximately 18 percent, 17 percent and 12 percent, respectively, of our equity-focused portfolio at September 30, 2016. Our largest three investments, by value, Adesto Technologies Corporation, Metabolon, Inc., and HZO, Inc, accounted for approximately 19 percent, 18 percent and 10 percent, respectively, of our equity-focused portfolio at December 31, 2015. D-Wave Systems, Inc., Metabolon, Inc., AgBiome, LLC, and HZO, Inc., are privately held portfolio companies. Adesto Technologies Corporation is a publicly traded portfolio company.

Approximately 90 percent of the portion of our equity-focused portfolio that was fair valued was comprised of securities of 26 privately held companies, as well as the warrants of publicly traded Champions Oncology, Inc., OpGen, Inc., and Enumeral Biomedical Holdings, Inc. Approximately 0.4 percent of the portion of our equity-focused portfolio that was valued according to the equity method was comprised of two privately held companies. Because there is typically no public or readily ascertainable market for our interests in the small privately held companies in which we invest, the valuation of the securities in that portion of our portfolio is determined in good faith by our Valuation Committee, which is comprised of all of the independent members of our Board of Directors. The values are determined in accordance with our Valuation Procedures and are subject to significant estimates and judgments. The fair value of the securities in our portfolio may differ significantly from the values that would be placed on these securities if a ready market for the securities existed. Any changes in valuation are recorded in our Consolidated Statements of Operations as "Net increase in unrealized depreciation on investments." Changes in valuation of any of our investments in privately held companies from one period to another may be significant.

NOTE 5. DEBT

The Company has a Loan Facility with Orix Corporate Capital, Inc., which may be used to fund investments in portfolio companies. The Loan Facility, among other things, matures on September 30, 2017, and bears interest at 10 percent per annum in cash. The borrowing period for the Loan Facility ended on September 30, 2016. The Company has the option to have interest accrue at a rate of 13.5 percent per annum if the Company decides not to pay interest in cash monthly. The Company currently pays interest in cash on its outstanding borrowings. The Loan Facility also requires payment of a draw fee on each borrowing equal to 1.0 percent of such borrowing and an unused commitment fee of 1.0 percent per annum. Fee payments under the Loan Facility are made quarterly in arrears. The Company may prepay the loans or reduce the aggregate commitments under the Loan Facility at any time prior to the maturity date, as long as certain conditions are met, including payment of required prepayment or termination fees. The Loan Facility is secured by all of the assets of the Company and its wholly owned subsidiaries, subject to certain customary exclusions. The Loan Facility contains certain affirmative and negative covenants, including without limitation: (a) maintenance of certain minimum liquidity requirements; (b) maintenance of an eligible asset leverage ratio of not less than 4.0:1.0; (c) limitations on liens; (d) limitations on the incurrence of additional indebtedness; and (e) limitations on structural changes, mergers and disposition of assets (other than in the normal course of our business activities).

At September 30, 2016, and December 31, 2015, the Company had outstanding debt of $5,000,000. The weighted average annualized interest rate for each of the three months and nine months ended September 30, 2016, was 10 percent, exclusive of amortization of closing fees and other expenses. The weighted average annual interest rate for the year ended December 31, 2015, was 10 percent. The weighted average debt outstanding for the three months and nine months ended September 30, 2016, was $5,000,000. The weighted average debt outstanding for the year ended December 31, 2015, was $5,000,000. The remaining capacity under the Loan Facility was $0 at September 30, 2016. Unamortized fees and expenses of $174,880 and $306,040 related to establishing the Loan Facility are included as "Prepaid expenses" in the Consolidated Statements of Assets and Liabilities as of September 30, 2016, and December 31, 2015, respectively. These amounts are amortized over the term of the Loan Facility, and $131,160 was amortized in the nine months ended September 30, 2016, and in the nine months ended September 30, 2015. The Company paid $38,333 and $114,167 in non-utilization fees during the three months and nine months ended September 30, 2016, respectively. The Company paid $38,333 and $126,250 in non-utilization fees during the three months and nine months ended September 30, 2015, respectively. The Company paid $127,778 and $380,556 in interest expense for the three months and nine months ended September 30, 2016, respectively. The Company paid $127,778 and $254,167 in interest expense for the three months and nine months ended September 30, 2015. During the nine months ended September 30, 2016, and September 30, 2015, the Company paid $0 and $50,000, respectively, in utilization fees associated with a drawdown of the Loan Facility. At September 30, 2016, the Company was in compliance with all covenants required by the Loan Facility.

NOTE 6. FAIR VALUE OF INVESTMENTS

At September 30, 2016, our financial assets valued at fair value were categorized as follows in the fair value hierarchy:

Description	September 30, 2016	Fair Value Measurement at Reporting Date Using: Unadjusted Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Privately Held Portfolio Companies:				
Preferred Stock	$47,805,431	$0	$0	$47,805,431
Bridge Notes	6,378,368	0	0	6,378,368
Warrants	137,180	0	0	137,180
Rights to Milestone Payments	3,442,745	0	0	3,442,745
Common Stock	2,202,449	0	0	2,202,449
Senior Secured Debt	1,424,750	0	0	1,424,750
Publicly Traded Portfolio Companies:				
Common Stock	$6,133,535	$6,133,535	$0	$0
Warrants	220,885	0	118,197	102,688
Total Investments:	$67,745,343	$6,133,535	$118,197	$61,493,611
Funds Held in Escrow From Sales of Investments:	$116,872	$0	$0	$116,872
Total Financial Assets:	$67,862,215	$6,133,535	$118,197	$61,610,483

Financial Instruments Disclosed, but not Carried, at Fair Value

The following table presents the carrying value and the fair value of the Company's financial liabilities disclosed, but not carried, at fair value as of September 30, 2016, and the level of each financial liability within the fair value hierarchy:

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

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

Significant Unobservable Inputs

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

Description	Fair Value at September 30, 2016	Valuation Technique(s)	Unobservable Input(s)	Range(s) (Weighted Average (a))
			Price Per Share	$2.26 - $2.62 ($2.56)
			Non-Performance Risk	0.0% (0.0%)
			Volatility	51.5% - 96.6% (58.4%)
Preferred Stock	$13,549,791	Hybrid Approach	Time to Exit / Cash Flows (Years)	5.0 (5.00)
			Probability of Achieving Independent Milestones	12.5% - 100.0% (53.6%)
			Probability of Achieving Dependent Milestones	32.0% - 83.0% (63.2%)
			Price Per Share	$0.30 - $3.11 ($2.05)
			Non-Performance Risk	-8.6% - 24.0% (19.1%)
			Volatility	50.1% - 124.6% (76.8%)
Preferred Stock	17,217,614	Income Approach	Time to Exit / Cash Flows (Years)	0.3 - 10.8 (5.14)
			Price Per Share	$2.76 ($2.76)
			Volatility	49.4% - 56.1% (55.1%)
			Revenue Multiples	4.6 - 4.9 (4.84)
			Time to Exit (Years)	0.2 - 5.0 (2.0)
Preferred Stock	17,038,026	Market Approach	Discount for Lack of Marketability	23.5% - 25.8% (25.5%)
Bridge Notes	664,693	Income Approach	Estimated Value to Cost Ratio at Payout	0.23 - 1.00 (0.64)
Bridge Notes	5,713,675	Market Approach	Estimated Value to Cost Ratio at Conversion	0.53 - 1.58 (1.11)
			Price Per Share	$2.26 ($2.26)
			Volatility	96.6% (96.6%)
			Non-Performance Risk	0.0% (0.0%)
Common Stock	717,186	Hybrid Approach	Time to Exit (Years)	5.0 (5.00)
			Non-Performance Risk	0.0% (0.0%)
			Volatility	124.6% (124.6%)
			Time to Exit (Years)	6.0 (6.0)
Common Stock	921,647	Income Approach	Price Per Share	$0.50 ($0.50)
			Volatility	56.1% (56.1%)
			Revenue Multiples	4.9 (4.9)
			Time to Exit (Years)	5.0 (5.0)
			Discount for Lack of Marketability	25.8% (25.8%)
	563,616	Market Approach	Price Per Share	

Common Stock				$0.0000 - $0.8320 ($0.8320)
			Stock Price	$0.18 - $3.55 ($2.09)
			Volatility	51.5% - 105.4% (74.8%)
Warrants	239,868	Income Approach	Time to Exit (Years)	2.3 - 8.4 (5.56)

Description	Fair Value at September 30, 2016	Valuation Technique(s)	Unobservable Input(s)	Range(s) (Weighted Average (a))
			Probability of Achieving Independent Milestones	25% - 75% (67%)
			Probability of Achieving Dependent Milestones	50% - 100% (81%)
Rights to Milestone Payments	$3,442,745	Income Approach	Time to Cash Flows (Years)	0.5 - 6.3 (3.4)
Senior Secured Debt	1,424,750	Income Approach	Discount Rate	53% (53%)
			Probability of Achieving Independent Milestones	50% (50%)
Funds Held in Escrow from Sales of Investments	116,872	Income Approach	Time to Cash Flows (Years)	0.5 (0.5)
Total	$61,610,483			

(a) Weighted average based on fair value at September 30, 2016.

Valuation Methodologies and Inputs for Level 3 Assets

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

Preferred Stock, Bridge Notes and Common Stock

Preferred stock, bridge notes and common stock are valued by either a market, income or hybrid approach using internal models with inputs, most of which are not market observable. Common inputs for valuing Level 3 preferred stock, bridge note and private common stock investments include prices from recently executed private transactions in a company’s securities or unconditional firm offers, revenue multiples of comparable publicly traded companies, merger and acquisition ("M&A") transactions consummated by comparable companies, discounts for lack of marketability, rights and preferences of the class of securities we own as compared with other classes of securities the portfolio company has issued, particularly related to potential liquidity scenarios of an initial public offering ("IPO") or an acquisition transaction, estimated time to exit, volatilities of comparable publicly traded companies and management’s best estimate of risk attributable to non-performance risk. We employ option pricing models as a primary methodology to derive value for companies that have consummated arm’s length financings within one year of the date of valuation. We use alternative methods such as multiples to revenues and/or the present value of future cash flows to derive value for certain companies that have not had a recent arm’s length financing or where option pricing models yield results that differ substantially from values derived by other market-based approaches. We define non-performance risk as the risk that the price per share (or implied valuation of a portfolio company) or the effective yield of a debt security of a portfolio company, as applicable, does not appropriately represent the risk that a portfolio company with negative cash flow will be: (a) unable to raise capital, will need to be shut down and will not return our invested capital; or (b) able to raise capital, but at a valuation significantly lower than the implied post-money valuation of the last round of financing. We also include discount factors for adjustments to transaction/sale values and discount ratios for discounted cash flows in our definition of non-performance risk. Increases in non-performance risk are reflected by negative percentages. Decreases in non-performance risk are reflected by positive percentages. We assess non-performance risk for each private portfolio company quarterly. Our assessment of non-performance risk typically includes an evaluation of the financial condition and operating results of the company, the company's progress towards milestones, and the long-term potential of the business and technology of the company and how this potential may or may not affect the value of the shares owned by us. An increase to the non-performance risk or a decrease in the private offering price of a future round of financing from that of the most recent round would result in a lower fair value measurement and/or a change in the distribution of value among the classes of securities we own. An increase in the volatility assumption generally increases the enterprise value calculated in an option pricing model. An increase in the time to exit assumption also generally increases the enterprise value calculated in an option pricing model. Variations in the expected time to exit or expected volatility assumptions have a significant impact on fair value. We increased the time to exit used to derive value beginning with the second quarter of 2016, versus prior quarters based on an updated analysis of our weighted-average holding periods. We may also consider changes in market values for sets of comparable companies when recent private transaction information is not available.

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

Bridge notes commonly contain terms that provide for the conversion of the full amount of principal, and sometimes interest, into shares of preferred stock at a defined price per share and/or the price per share of the next round of financing. The use of a discount for non-performance risk in the valuation of bridge notes would indicate the potential for conversion of only a portion of the principal, plus interest when applicable, into shares of preferred stock or the potential that a conversion event will not occur and that the likely outcome of a liquidation of assets would result in payment of less than the remaining principal outstanding of the note. Non-performance risk is not considered a significant input for bridge notes as of September 30, 2016. An increase in non-performance risk would result in a lower fair value measurement. Conversely, we may acquire or hold notes that are pari passu with other notes but have different conversion terms. In such cases, we may apply an adjustment factor to reflect the differences in the terms with respect to values.

Warrants and Options

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

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

Rights to Milestone Payments

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

Subordinated Secured Debt and Senior Secured Debt

We invest in non-convertible debt investments through subordinated secured debt and senior secured debt. We value these securities using an income approach. The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present value amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts. Common inputs for valuing Level 3 debt investments include: the effective yield of the debt investment or, in the case where we have received warrant coverage, the warrant-adjusted effective yield of the security, adjustments for changes in the yields of comparable publicly traded high-yield debt funds and risk-free interest rates and an assessment of non-performance risk. For non-convertible debt investments, an increase in yields would result in a lower fair value measurement. Furthermore, yields would decrease, and value would increase, if the company is exceeding targets and risk has been substantially reduced from the level of risk that existed at the time of investment. Yields would increase, and values would decrease, if the company is failing to meet its targets and risk has been increased from the level of risk that existed at the time of investment.

The following chart shows the components of change in the financial assets categorized as Level 3 for the three months ended September 30, 2016.

	Beginning Balance 7/1/2016	Total Realized (Losses) Gains Included in Changes in Net Assets	Transfers	Total Unrealized (Depreciation) Appreciation Included in Changes in Net Assets	Investments in Portfolio Companies, Interest on Bridge Notes, and Amortization of Loan Fees, Net	Disposals and Settlements	Ending Balance 9/30/2016	Amount of Total (Depreciation) Appreciation for the Period Included in Changes in Net Assets Attributable to the Change in Unrealized Losses or Gains Relating to Assets Still Held at the Reporting Date
Preferred Stock	$52,442,790	$(2,665,608)[1]	$250,000 [3]	$(854,869)	$750,000	$(2,116,882)	$47,805,431	$(3,098,476)
Bridge Notes	5,478,889	0	(250,000)[3]	(145,899)	1,398,995	(103,617)	6,378,368	(281,835)
Common Stock	1,935,702	0	0	82,094	184,653	0	2,202,449	82,094
Warrants	210,800	(261,194)[1]	0	290,262	0	0	239,868	29,068
Rights to Milestone Payments	2,993,857	0	0	448,888	0	0	3,442,745	448,888
Senior Secured Debt	1,494,000	0	0	(105,225)	35,975	0	1,424,750	(105,225)
Funds Held in Escrow From Sales of Investments	116,781	91 [2]	0	0	0	0	116,872	0
Total	$64,672,819	$(2,926,711)	$0	$(284,749)	$2,369,623	$(2,220,499)	$61,610,483	$(2,925,486)

[1]Represents a gross realized loss.
[2]Represents a gross realized gain.
[3]Transfers among asset classes are owing to conversions at financing events. These do no represent transfers in or out of Level 3.

We elected to use the beginning of period values to recognize transfers in and out of Level 3 investments.

The following chart shows the components of change in the financial assets categorized as Level 3 for the nine months ended September 30, 2016.

	Beginning Balance 1/1/2016	Total Realized (Losses) Gains Included in Changes in Net Assets	Transfers	Total Unrealized Appreciation (Depreciation) Included in Changes in Net Assets	Investments in Portfolio Companies, Interest on Bridge Notes, and Amortization of Loan Fees, Net	Disposals and Settlements	Ending Balance 9/30/2016	Amount of Total Appreciation (Depreciation) for the Period Included in Changes in Net Assets Attributable to the Change in Unrealized Losses or Gains Relating to Assets Still Held at the Reporting Date
Preferred Stock	$48,568,205	$(6,905,065)[1]	$(396,631)[4,5]	$7,235,141	$2,061,591	$(2,757,810)	$47,805,431	$460,143
Bridge Notes	4,275,728	(121,522)[2]	(406,621)[4]	28,279	3,570,071	(967,567)	6,378,368	(93,243)
Common Stock	639,786	0	952,210[4]	425,790	184,663	0	2,202,449	425,790
Warrants	480,025	(333,862)[2]	(250,389)[4,5]	344,094	0	0	239,868	10,232
Rights to Milestone Payments	3,362,051	0	0	80,694	0	0	3,442,745	80,694
Subordinated Secured Debt	560,538	0	(569,904)[4]	0	9,366	0	0	0
Senior Secured Debt	0	0	569,904[4]	(91,321)	946,167	0	1,424,750	(91,321)
Funds Held in Escrow From Sales of Investments	374,565	263,321[3]	0	0	0	(521,014)	116,872	0
Options	54	0	0	(54)	0	0	0	(54)
OTC Traded Common Stock	29,732	0	(29,732)[6]	0	0	0	0	0
Total	$58,290,684	$(7,097,128)	$(131,163)	$8,022,623	$6,771,858	$(4,246,391)	$61,610,483	$792,241

[1]Represents gross realized losses of $7,207,390 net of gross realized gains of $302,325.
[2]Represents a gross realized loss.
[3]Represents a gross realized gain.
[4]Transfers among asset classes are owing to conversions or exercises at financing events. These do no represent transfers in or out of Level 3.
[5]There was a $101,431 transfer from "Warrants" of OpGen, Inc. from Level 3 investments to a Level 2 investment.

[6]There was a $29,732 transfer from "OTC Traded Common Stock" of Enumeral Biomedical Holdings, Inc. from Level 3 investments to a Level 1 investment.

We elected to use the beginning of period values to recognize transfers in and out of Level 3 investments. For the nine months ended September 30, 2016, there were transfers out of Level 3 investments totaling $131,163. A total of 129,327 of our shares of Enumeral Biomedical Holdings, Inc., transferred from Level 3 investments to Level 1 investments owing to the use of their unadjusted closing share price on their respective stock exchanges on September 30, 2016, to derive their value. Transfers from Level 3 investments to Level 2 investments occur when observable inputs replace unobservable inputs as the primary inputs used to derive value.

At December 31, 2015, our financial assets valued at fair value were categorized as follows in the fair value hierarchy:

	Fair Value Measurement at Reporting Date Using:			
Description	December 31, 2015	Unadjusted Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Privately Held Portfolio Companies:				
Preferred Stock	$48,568,205	$0	$0	$48,568,205
Bridge Notes	4,275,728	0	0	4,275,728
Warrants	480,025	0	0	480,025
Rights to Milestone Payments	3,362,051	0	0	3,362,051
Common Stock	639,786	0	0	639,786
Subordinated Secured Debt	560,538	0	0	560,538
Options	54	0	0	54
Publicly Traded Portfolio Companies:				
Common Stock	$19,100,581	$18,126,030	$944,819	$29,732
Total Investments:	$76,986,968	$18,126,030	$944,819	$57,916,119
Funds Held in Escrow From Sales of Investments:	$374,565	$0	$0	$374,565
Total Financial Assets:	$77,361,533	$18,126,030	$944,819	$58,290,684

Financial Instruments Disclosed, but not Carried, at Fair Value

The following table presents the carrying value and the fair value of the Company's financial liabilities disclosed, but not carried, at fair value as of December 31, 2015, and the level of each financial liability within the fair value hierarchy:

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

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

Significant Unobservable Inputs

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

Description	Fair Value at December 31, 2015	Valuation Technique(s)	Unobservable Input(s)	Range(s) (Weighted Average(a))
Preferred Stock	$ 7,648,727	Hybrid Approach	Private Offering Price Volatility Time to Exit	$1.08 - $2.17 ($2.07) 48.8% - 131.2% (56.5%) 1.25 - 1.5 Years (1.48)
Preferred Stock	22,784,347	Income Approach	Private Offering Price Non-Performance Risk Volatility Time to Exit	$0.02 - $23.03 ($2.65) 0% - 48% (4.4%) 0% - 112.8% (68.4%) 1.0 - 5.0 Years (2.8)
Preferred Stock	18,135,131	Market Approach	Volatility Revenue Multiples Time to Exit Discount for Lack of Marketability	0% - 54.1% (45.5%) 0 - 5.9 (4.76) 0.2 - 2 Years (1. 2) 0% - 16.7% (12.9%)
Bridge Notes	1,124,714	Income Approach	Private Offering Price	$1.00 ($1.00)
Bridge Notes	3,151,014	Market Approach	Private Offering Price	$0.56 - $1.00 ($0.98)
Common Stock	309,963	Hybrid Approach	Private Offering Price Volatility Time to Exit	$1.08 ($1.08) 131.2% (131.2%) 1.25 Years (1.25)
Common Stock	329,802	Income Approach	Private Offering Price Volatility Time to Exit	$0 - $3.71 ($3.71) 50.8% (50.8%) 3 Years (3)
Common Stock	21	Market Approach	Private Offering Price	$0.0001 - $0.001 ($0.0001)
Warrants	101,431	Market Approach	Volume Weighted Average Price	0.34 (0.34)
Warrants	378,594	Income Approach	Stock Price Volatility Expected Term	$0.21 - $3.88 ($1.04) 48.8% - 101.9% (64%) 0.03 - 9.14 Years (3.34)
Rights to Milestone Payments	3,362,051	Probability Weighted Discounted Cash Flow	Probability of Achieving Independent Milestones Probability of Achieving Dependent Milestones	25% - 100% (58%) 0% - 75% (36%)
Subordinated Secured Debt	560,538	Market Approach	Market Price	0.56 (0.56)
Funds Held in Escrow From Sales of Investments	374,565	Market Approach	Escrow Discount	50% (50%)
Options	54	Income Approach	Stock Price Volatility	$0.23 ($0.23) 79% (79%)

			Expected Term	0.58 Years (0.58)
OTC Traded Common Stock	29,732	Market Approach	Stock Price	$0.23 ($0.23)
Total	$ 58,290,684			

(a)Weighted average based on fair value at December 31, 2015.

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

	Beginning Balance 7/1/2015	Total Realized (Losses) Gains Included in Changes in Net Assets	Transfers	Total Unrealized Appreciation (Depreciation) Included in Changes in Net Assets	Investments in Portfolio Companies, Interest on Bridge Notes, and Amortization of Loan Fees, Net	Disposals and Settlements	Ending Balance 9/30/2015	Amount of Tota (Depreciation) Appreciation for the Period Included in Changes in Net Assets Attributa to the Change i Unrealized Gai or Losses Relating to Assets Still Held at the Reporting Date
Preferred Stock	$63,882,805	$0	$0	$(13,513,549)	$1,750,007	$0	$52,119,263	$(13,513,549)
Bridge Notes	5,194,358	1,790,891	0	(2,090,749)	747,427	(2,429,202)	3,212,725	(3,356,937)
Common Stock	452,129	0	0	109,644	0	0	561,773	109,644
Warrants	1,023,104	(528,469)	201,558	141,309	0	0	837,502	82,935
Rights to Milestone Payments	3,181,183	0	0	1,876,900	0	0	5,058,083	1,876,900
Subordinated Secured Debt	987,025	0	0	(20,537)	1,562	0	968,050	(20,537)
Senior Secured Debt	764,253	0	0	(108,422)	42,453	(597,309)	100,975	(108,422)
Funds Held in Escrow From Sales of Investments	372,835	2,016	0	0	0	0	374,851	0
Options	38,536	0	0	(36,661)	0	0	1,875	(36,661)
OTC Traded Common Stock	7,707,262	0	(7,698,444)	17,047	0	0	25,865	521,145
Total	$83,603,490	$1,264,438	$(7,496,886)	$(13,625,018)	$2,541,449	$(3,026,511)	$63,260,962	$(14,445,482)

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

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

	Beginning Balance 1/1/2015	Total Realized (Losses) Gains Included in Changes in Net Assets	Transfers	Total Unrealized Appreciation (Depreciation) Included in Changes in Net Assets	Investments in Portfolio Companies, Interest on Bridge Notes, and Amortization of Loan Fees, Net	Disposals and Settlements	Ending Balance 9/30/2015	Amount of To (Depreciation) Appreciation f the Period Included in Changes in Ne Assets Attribu to the Change Unrealized Ga or Losses Relatin to Assets Still Held at the Reporting Date
Preferred Stock	$70,969,603	$3,351,833	$(231,361)[1]	$(20,121,000)	$3,684,034	$(5,533,846)	$52,119,263	$(18,211,065
Bridge Notes	2,163,916	1,790,891	(1,630,121)	653,728	2,663,513	(2,429,202)	3,212,725	(612,460
Common Stock	535,280	0	(74,379)	100,872	0	0	561,773	100,872
Warrants	2,026,864	(911,957)	0	(525,754)	272,349	(24,000)	837,502	(777,815
Rights to Milestone Payments	3,193,865	0	0	1,864,218	0	0	5,058,083	1,864,218
Senior Secured Debt	1,203,299	0	0	(394,805)	75,899	(783,418)	100,975	(394,805
Subordinated Secured Debt	979,450	0	0	(25,563)	14,163	0	968,050	(25,563
Funds Held in Escrow From Sales of Investments	306,802	(58,923)	126,972[1]	0	0	0	374,851	0
Options	50,690	0	0	(48,815)	0	0	1,875	(48,815
OTC Traded Common Stock	7,251,178	0	(8,020,281)	(87,684)	882,652	0	25,865	(87,684
Total	$88,680,947	$4,171,844	$(9,829,170)	$(18,584,803)	$7,592,610	$(8,770,466)	$63,260,962	$(18,193,117

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

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

NOTE 7. DERIVATIVES

At September 30, 2016, and December 31, 2015, we had rights to milestone payments from Amgen, Inc.’s acquisition of our former portfolio company, BioVex Group, Inc. These milestone payments were fair valued at $2,975,353 and $2,900,232 as of September 30, 2016, and December 31, 2015, respectively. At September 30, 2016, and December 31, 2015, we had rights to milestone payments from Laird Technologies, Inc.'s acquisition of our former portfolio company, Nextreme Thermal Solutions, Inc. These milestone payments were fair valued at $0 as of September 30, 2016, and December 31, 2015. At September 30, 2016, and December 31, 2015, we had rights to milestone payments from Canon, Inc.'s acquisition of our former portfolio company, Molecular Imprints, Inc. These milestone payments were fair valued at $467,392 and $461,819 as of September 30, 2016, and December 31, 2015 respectively. These milestone payments are contingent upon certain milestones being achieved in the future. The Company is not subject to master-netting arrangements.

The following tables present the value of derivatives held at September 30, 2016, and the effect of derivatives held during the three months and nine months ended September 30, 2016, along with the respective location in the financial statements.

Statements of Assets and Liabilities:

	Assets		Liabilities	
Derivatives	Location	Fair Value	Location	Fair Value
Amgen, Inc. Rights to Milestone Payments from Acquisition of BioVex Group, Inc.	Investments	$2,975,353	—	—
Laird Technologies, Inc. Rights to Milestone Payments from Acquisition of Nextreme Thermal Solutions, Inc.	Investments	$0	—	—
Canon, Inc. Rights to Milestone Payments from Acquisition of Molecular Imprints, Inc.	Investments	$467,392	—	—

Statements of Operations for the Three Months Ended September 30, 2016:

Derivatives	Location	Realized Gain (Loss)	(Increase) Decrease in Unrealized Depreciation
Amgen, Inc. Rights to Milestone Payments from Acquisition of BioVex Group, Inc.	Net Realized and Unrealized Gain (Loss)	$ 0	$ 447,724
Laird Technologies, Inc. Rights to Milestone Payments from Acquisition of Nextreme Thermal Solutions, Inc.	Net Realized and Unrealized Gain (Loss)	$ 0	$ 0
Canon, Inc. Rights to Milestone Payments from Acquisition of Molecular Imprints, Inc.	Net Realized and Unrealized Gain (Loss)	$ 0	$ 1,164

Statements of Operations
for the Nine Months Ended
September 30, 2016:

Derivatives	Location	Realized Gain (Loss)	(Increase) Decrease in Unrealized Depreciation
Amgen, Inc. Rights to Milestone Payments from Acquisition of BioVex Group, Inc.	Net Realized and Unrealized Gain (Loss)	$ 0	$ 75,121
Laird Technologies, Inc. Rights to Milestone Payments from Acquisition of Nextreme Thermal Solutions, Inc.	Net Realized and Unrealized Gain (Loss)	$ 0	$ 0
Canon, Inc. Rights to Milestone Payments from Acquisition of Molecular Imprints, Inc.	Net Realized and Unrealized Gain (Loss)	$ 0	$ 5,573

The following tables present the value of derivatives held at December 31, 2015, and the effect of derivatives held during the three months and nine months ended September 30, 2015, along with the respective location in the financial statements.

Statements of Assets and Liabilities:

	Assets		Liabilities	
Derivatives	Location	Fair Value	Location	Fair Value
Amgen, Inc. Rights to Milestone Payments from Acquisition of BioVex Group, Inc.	Investments	$2,900,232	—	—
Laird Technologies, Inc. Rights to Milestone Payments from Acquisition of Nextreme Thermal Solutions, Inc.	Investments	$0	—	—
Canon, Inc. Rights to Milestone Payments from Acquisition of Molecular Imprints, Inc.	Investments	$461,819	—	—

Statements of Operations
for the Three Months Ended
September 30, 2015:

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

Statements of Operations
for the Nine Months Ended
September 30, 2015:

Derivatives	Location	Realized Gain (Loss)	(Increase) Decrease in Unrealized Depreciation
Amgen, Inc. Rights to Milestone Payments from Acquisition of BioVex Group, Inc.	Net Realized and Unrealized Gain (Loss)	$ 0	$ 1,229,623
Laird Technologies, Inc. Rights to Milestone Payments from Acquisition of Nextreme Thermal Solutions, Inc.	Net Realized and Unrealized Gain (Loss)	$ 0	$ 0
Canon, Inc. Rights to Milestone Payments from Acquisition of Molecular Imprints, Inc.	Net Realized and Unrealized Gain (Loss)	$ 0	$ 634,595

NOTE 8. EMPLOYEE BENEFITS

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

Our accumulated postretirement benefit obligation was re-measured as of the plan amendment date, which resulted in a $1,101,338 decrease in our liability. A deferred gain of $1,101,338 owing to this amendment was included in "Accumulated other comprehensive income" as of March 31, 2013. This amount is being amortized over a service period of 5.27 years. During the three months and nine months ended September 30, 2016, a total of $52,246 and $156,738, respectively, was amortized and included as a reduction of "Salaries, benefits and stock-based compensation" on our Consolidated Statements of Operations. All of the amounts reported in the Consolidated Statements of Comprehensive Loss relate to the plan amendment.

NOTE 9. STOCK-BASED COMPENSATION

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

Stock Option Awards

During the nine months ended September 30, 2016, and the year ended December 31, 2015, the Compensation Committee of the Board of Directors of the Company did not grant any stock options. The Compensation Committee does not plan to grant new stock options to employees.

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

No options were exercised during the nine months ended September 30, 2016, and September 30, 2015. Upon exercise, shares would be issued from our previously authorized but unissued shares.

A summary of the changes in outstanding stock options for the nine months ended September 30, 2016, is as follows:

Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value