

HARRIS & HARRIS GROUP INC /NY/  
Form 10-Q  
August 06, 2010

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2010

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  
(State or Other Jurisdiction of  
Incorporation or Organization)

13-3119827  
(I.R.S. Employer Identification No.)

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

10018  
(Zip Code)

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

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

Yes  No

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

Yes  No

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes                              No       

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

Class	Outstanding at August 6, 2010
Common Stock, \$0.01 par value per share	30,864,899 shares

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Harris & Harris Group, Inc.  
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## PART I. FINANCIAL INFORMATION

### Item 1. Consolidated Financial Statements

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

Harris & Harris Group, Inc.® (the "Company," "us," "our" and "we"), is an internally managed venture capital company that has elected to operate as a business development company ("BDC") under the Investment Company Act of 1940 (the "1940 Act"). Certain information and disclosures normally included in the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted as permitted by Regulation S-X and Regulation S-K. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2009, contained in our Annual Report on Form 10-K for the year ended December 31, 2009.

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

June 30, 2010  
(Unaudited)

December 31, 2009

ASSETS

Investments, in portfolio securities at value:

Unaffiliated privately held companies (cost: \$30,719,854 and \$26,977,200, respectively)	\$ 24,677,744	\$ 21,656,436
Unaffiliated publicly traded securities (cost: \$0 and \$298,827, respectively)	0	226,395
Non-controlled affiliated privately held companies (cost: \$59,493,753 and \$54,864,948, respectively)	61,463,821	50,297,220
Controlled affiliated privately held companies (cost: \$7,871,243 and \$10,248,932, respectively)	5,898,432	5,843,430
Total, investments in privately held and publicly traded securities at value (cost: \$98,084,850 and \$92,389,907, respectively)	\$ 92,039,997	\$ 78,023,481
Investments, in U.S. Treasury obligations at value (cost: \$45,948,517 and \$55,960,024, respectively)	45,930,735	55,947,581
Cash	2,553,490	1,611,465
Restricted funds	2,000	2,000
Receivable from portfolio company	0	28,247
Interest receivable	4	25,832
Prepaid expenses	241,485	94,129
Other assets	691,725	376,366
Total assets	\$ 141,459,436	\$ 136,109,101

LIABILITIES & NET ASSETS

Post retirement plan liabilities	\$ 1,437,413	\$ 1,369,843
Accounts payable and accrued liabilities	488,544	579,162
Deferred rent	350,631	1,838
Total liabilities	2,276,588	1,950,843
Net assets	\$ 139,182,848	\$ 134,158,258

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 06/30/10 and 12/31/09; 32,693,639 issued at 06/30/10 and 32,688,333 issued at 12/31/09	326,937	326,884
Additional paid in capital (Note 8)	207,162,971	205,977,117
Accumulated net operating and realized loss	(58,838,894)	(54,361,343)

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Accumulated unrealized depreciation of investments	(6,062,635)	(14,378,869)
Treasury stock, at cost (1,828,740 shares at 06/30/10 and 12/31/09)	(3,405,531)	(3,405,531)
Net assets	\$ 139,182,848	\$ 134,158,258
Shares outstanding	30,864,899	30,859,593
Net asset value per outstanding share	\$ 4.51	\$ 4.35

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<b>Investment income:</b>				
<b>Interest from:</b>				
Fixed-income securities and bridge notes (Note 3)	\$ 123,208	\$ 75,084	\$ 196,281	\$ 39,185
Miscellaneous income	6,000	8,750	12,000	21,088
<b>Total investment income</b>	<b>129,208</b>	<b>83,834</b>	<b>208,281</b>	<b>60,273</b>
<b>Expenses:</b>				
Salaries, benefits and stock-based compensation (Note 6)	1,465,520	1,506,597	2,854,797	2,893,937
Administration and operations	228,246	231,161	510,768	521,596
Professional fees	176,866	152,291	420,235	367,541
Rent (Note 3)	89,145	78,998	166,360	157,061
Directors' fees and expenses	85,560	89,100	180,921	173,609
Custody fees	24,000	11,080	48,000	17,942
Depreciation	13,820	12,878	25,789	25,737
Lease termination costs (Note 3)	0	0	68,038	0
<b>Total expenses</b>	<b>2,083,157</b>	<b>2,082,105</b>	<b>4,274,908</b>	<b>4,157,423</b>
<b>Net operating loss</b>	<b>(1,953,949)</b>	<b>(1,998,271)</b>	<b>(4,066,627)</b>	<b>(4,097,150)</b>
<b>Net realized gain (loss):</b>				
<b>Realized gain (loss) from investments:</b>				
Unaffiliated companies	13,218	(1,511,042)	13,218	(1,514,330)
Non-Controlled affiliated companies	(257,007)	0	(257,007)	0
Publicly traded companies	(152,980)	0	(152,980)	0
U.S. Treasury obligations/other	0	0	(11,523)	(325)
<b>Realized loss from investments</b>	<b>(396,769)</b>	<b>(1,511,042)</b>	<b>(408,292)</b>	<b>(1,514,655)</b>
Income tax expense (Note 7)	0	1,729	2,632	2,109
<b>Net realized loss</b>	<b>(396,769)</b>	<b>(1,512,771)</b>	<b>(410,924)</b>	<b>(1,516,764)</b>
<b>Net decrease in unrealized depreciation on investments:</b>				
Change as a result of investment sales	222,319	1,511,042	222,319	1,511,042
Change on investments held	4,279,351	2,421,367	8,093,915	3,572,815
<b>Net decrease in unrealized depreciation on investments</b>	<b>4,501,670</b>	<b>3,932,409</b>	<b>8,316,234</b>	<b>5,083,857</b>
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$ 2,150,952</b>	<b>\$ 421,367</b>	<b>\$ 3,838,683</b>	<b>\$ (530,057)</b>
<b>Per average basic and diluted outstanding share</b>	<b>\$ 0.07</b>	<b>\$ 0.02</b>	<b>\$ 0.12</b>	<b>\$ (0.02)</b>
<b>Average outstanding shares</b>	<b>30,864,491</b>	<b>25,859,573</b>	<b>30,862,202</b>	<b>25,859,573</b>

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

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

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
<b>Cash flows used in operating activities:</b>		
Net increase (decrease) in net assets resulting from operations	\$ 3,838,683	\$ (530,057)
<b>Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash used in operating activities:</b>		
Net realized and unrealized gain on investments	(7,907,942)	(3,569,202)
Depreciation of fixed assets, amortization of premium or discount on U.S. government securities, and bridge note interest	(142,420)	73,663
Stock-based compensation expense	1,214,938	1,411,917
<b>Changes in assets and liabilities:</b>		
Restricted funds	0	2,586
Receivable from portfolio company	28,247	0
Interest receivable	26,234	4,317
Prepaid expenses	(147,356)	252,454
Other assets	(264,374)	3,312
Post retirement plan liabilities	67,570	60,514
Accounts payable and accrued liabilities	(90,618)	(210,977)
Deferred rent	348,793	(3,151)
<b>Net cash used in operating activities</b>	<b>(3,028,245)</b>	<b>(2,504,624)</b>
<b>Cash flows from investing activities:</b>		
Purchase of U.S. government securities	(58,644,919)	(103,318,117)
Sale of U.S. government securities	68,646,697	109,851,434
Investments in affiliated portfolio companies	(5,469,691)	(3,052,065)
Investments in unaffiliated portfolio companies	(857,473)	(399,484)
Proceeds from conversion of bridge note	1,356	0
Proceeds from sale of investments	407,543	3,250
Purchase of fixed assets	(84,212)	(1,313)
<b>Net cash provided by investing activities</b>	<b>3,999,301</b>	<b>3,083,705</b>
<b>Cash flows from financing activities:</b>		
Proceeds from stock option exercises	19,897	0
Payment of offering costs	(48,928)	0
<b>Net cash used in financing activities</b>	<b>(29,031)</b>	<b>0</b>
<b>Net decrease in cash:</b>		
Cash at beginning of the period	1,611,465	692,309
Cash at end of the period.	2,553,490	1,271,390
<b>Net increase in cash</b>	<b>\$ 942,025</b>	<b>\$ 579,081</b>

Supplemental disclosures of cash flow information:

Income taxes paid	\$	2,632	\$	2,109
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The accompanying notes are an integral part of these consolidated financial statements.

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

	Six Months Ended June 30, 2010 (Unaudited)	Year Ended December 31, 2009
Changes in net assets from operations:		
Net operating loss	\$ (4,066,627)	\$ (8,761,215)
Net realized loss on investments	(410,924)	(11,105,577)
Net decrease in unrealized depreciation on investments as a result of sales	222,319	11,090,579
Net decrease in unrealized depreciation on investments held	8,093,915	8,627,748
Net increase (decrease) in net assets resulting from operations	3,838,683	(148,465)
Changes in net assets from capital stock transactions:		
Issuance of common stock upon the exercise of stock options	53	1,125
Issuance of common stock on offering	0	48,875
Additional paid-in capital on common stock issued and options exercised	(29,084)	21,636,090
Stock-based compensation expense	1,214,938	3,089,520
Net increase in net assets resulting from capital stock transactions	1,185,907	24,775,610
Net increase in net assets	5,024,590	24,627,145
Net assets:		
Beginning of the period	134,158,258	109,531,113
End of the period	\$ 139,182,848	\$ 134,158,258

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

HARRIS & HARRIS GROUP, INC.  
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2010  
(Unaudited)

	Method of Valuation (1)	Shares/ Principal	Value
Investments in Unaffiliated Companies (2)(3) – 17.7% of net assets at value			
Private Placement Portfolio (Illiquid) – 17.7% of net assets at value			
BioVex Group, Inc. (4)(5)(6)(7) — Developing novel biologics for treatment of cancer and infectious disease			
Series E Convertible Preferred Stock	(M)	2,799,552	\$ 1,303,577
Series G Convertible Preferred Stock	(M)	5,425,574	1,139,371
Warrants at \$0.21 expiring 11/5/16	(I)	285,427	24,547
			2,467,495
Bridgelux, Inc. (4)(5) — Manufacturing high-power light emitting diodes (LEDs) and arrays			
Series B Convertible Preferred Stock	(M)	1,861,504	1,759,121
Series C Convertible Preferred Stock	(M)	2,130,699	2,013,511
Series D Convertible Preferred Stock	(M)	999,999	944,998
Warrants at \$0.7136 expiring 12/31/14	( I )	163,900	86,867
Warrants at \$1.50 expiring 8/26/14	( I )	166,665	58,500
			4,862,997
Cobalt Technologies, Inc. (4)(5)(6)(8) — Developing processes for making biobutanol through biomass fermentation			
Series C Convertible Preferred Stock	(M)	352,112	375,000
Ensemble Therapeutics Corporation (4)(5)(9) — Developing DNA- Programmed Chemistry™ for the discovery of new classes of therapeutics			
Series B Convertible Preferred Stock	(M)	1,449,275	2,000,000
Unsecured Convertible Bridge Note (including interest)	(M)	\$ 299,169	337,440
			2,337,440
Molecular Imprints, Inc. (4)(5) — Manufacturing nanoimprint lithography capital equipment			
Series B Convertible Preferred Stock	(M)	1,333,333	2,000,000
Series C Convertible Preferred Stock	(M)	1,250,000	1,875,000
Warrants at \$2.00 expiring 12/31/11	( I )	125,000	78,000
			3,953,000

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



HARRIS & HARRIS GROUP, INC.  
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2010  
(Unaudited)

	Method of Valuation (1)	Shares/ Principal	Value
Investments in Unaffiliated Companies (2)(3) – 17.7% of net assets at value (Cont.)			
Private Placement Portfolio (Illiquid) – 17.7% of net assets at value (Cont.)			
Nanosys, Inc. (4)(5) — Developing inorganic materials and devices based on nanowires and quantum dots			
Series C Convertible Preferred Stock	(M)	803,428	\$ 1,021,835
Series D Convertible Preferred Stock	(M)	1,016,950	1,382,573
			2,404,408
Nantero, Inc. (4)(5)(6) — Developing a high-density, nonvolatile, random access memory chip, enabled by carbon nanotubes			
Series A Convertible Preferred Stock	(M)	345,070	1,046,908
Series B Convertible Preferred Stock	(M)	207,051	628,172
Series C Convertible Preferred Stock	(M)	188,315	571,329
			2,246,409
NeoPhotonics Corporation (4)(5) — Developing and manufacturing optical devices and components			
Common Stock	(M)	1,130,440	759,656
Series 1 Convertible Preferred Stock	(M)	1,831,256	1,230,604
Series 2 Convertible Preferred Stock	(M)	741,898	498,555
Series 3 Convertible Preferred Stock	(M)	2,750,000	1,848,000
Series X Convertible Preferred Stock	(M)	8,923	1,427,680
			5,764,495
Polatis, Inc. (4)(5)(6) — Developing MEMS-based optical networking components			
Common Stock	(M)	16,438	0
Series A-1 Convertible Preferred Stock	(M)	16,775	0
Series A-2 Convertible Preferred Stock	(M)	71,611	0
Series A-4 Convertible Preferred Stock	(M)	4,774	0
			0
PolyRemedy, Inc. (4)(5)(6) — Developing a platform for producing and tracking the use of wound treatment patches			
Series B-1 Convertible Preferred Stock	(M)	287,647	0
Series B-2 Convertible Preferred Stock	(M)	676,147	0
			0

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

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HARRIS & HARRIS GROUP, INC.  
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2010  
(Unaudited)

	Method of Valuation (1)	Shares/ Principal	Value
Investments in Unaffiliated Companies (2)(3) – 17.7% of net assets at value (Cont.)			
Private Placement Portfolio (Illiquid) – 17.7% of net assets at value (Cont.)			
Siluria Technologies, Inc. (4)(5)(6) — Developing nanomaterials for manufacturing of chemicals			
Series S-2 Convertible Preferred Stock	(M)	612,061	\$ 204,000
TetraVitae Bioscience, Inc. (4)(5)(6)(10) — Developing methods of producing alternative chemicals and fuels through biomass fermentation			
Series B Convertible Preferred Stock	(M)	118,804	62,500
Total Unaffiliated Private Placement Portfolio (cost: \$30,719,854)			\$ 24,677,744
Total Investments in Unaffiliated Companies (cost: \$30,719,854)			\$ 24,677,744

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

HARRIS & HARRIS GROUP, INC.  
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2010  
(Unaudited)

	Method of Valuation (1)	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (2)(11) – 44.2% of net assets at value			
Private Placement Portfolio (Illiquid) – 44.2% of net assets at value			
ABS Materials, Inc. (4)(5)(6)(12) — Developing nano-structured absorbent materials for environmental remediation and for the petroleum industry			
Series A Convertible Preferred Stock	(M)	375,000	\$ 375,000
Adesto Technologies Corporation (4)(5)(6) — Developing low-power, high-performance memory devices			
Series A Convertible Preferred Stock	(M)	6,547,619	2,420,000
Series B Convertible Preferred Stock	(M)	5,952,381	2,200,000
			4,620,000
Cambrios Technologies Corporation (4)(5)(6) — Developing nanowire-enabled electronic materials for the display industry			
Series B Convertible Preferred Stock	(M)	1,294,025	647,013
Series C Convertible Preferred Stock	(M)	1,300,000	650,000
Series D Convertible Preferred Stock	(M)	515,756	257,878
			1,554,891
Contour Energy Systems, Inc. (4)(5)(6)(13) — Developing batteries using nanostructured materials			
Series A Convertible Preferred Stock	(M)	2,565,798	2,822,378
Series B Convertible Preferred Stock	(M)	812,500	1,300,000
			4,122,378
Crystal IS, Inc. (4)(5) — Developing single-crystal aluminum nitride substrates for light-emitting diodes			
Common Stock	(M)	3,994,468	0
Warrants at \$0.78 expiring 05/05/13	(I)	15,231	0
Warrants at \$0.78 expiring 05/12/13	(I)	2,350	0
Warrants at \$0.78 expiring 08/08/13	(I)	4,396	0
			0

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

HARRIS & HARRIS GROUP, INC.  
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2010  
(Unaudited)

	Method of Valuation (1)	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (2)(11) – 44.2% of net assets at value (Cont.)			
Private Placement Portfolio (Illiquid) – 44.2% of net assets at value (Cont.)			
D-Wave Systems, Inc. (4)(5)(6)(14) — Developing high- performance quantum computing systems			
Series B Convertible Preferred Stock	(M)	1,144,869	\$ 1,209,783
Series C Convertible Preferred Stock	(M)	450,450	475,991
Series D Convertible Preferred Stock	(M)	1,533,395	1,620,339
			3,306,113
Enumeral Technologies, Inc. (4)(5)(6) — Developing therapeutics and diagnostics through functional assaying of single cells			
Unsecured Convertible Bridge Note (including interest)	(M)	\$ 250,000	260,411
Innovalight, Inc. (4)(5)(6) — Developing silicon-based nanomaterials for use in the solar energy industry			
Series B Convertible Preferred Stock	(M)	16,666,666	2,969,667
Series C Convertible Preferred Stock	(M)	5,810,577	1,276,457
Series D Convertible Preferred Stock	(M)	4,046,974	721,090
			4,967,214
Kovio, Inc. (4)(5) — Developing semiconductor products using printed electronics and thin-film technologies			
Series A' Convertible Preferred Stock	(M)	2,686,225	1,343,113
Mersana Therapeutics, Inc. (4)(5)(6) — Developing treatments for cancer based on novel drug delivery polymers			
Series A Convertible Preferred Stock	(M)	68,451	136,902
Series B Convertible Preferred Stock	(M)	866,500	1,733,000
Unsecured Convertible Bridge Note (including interest)	(M)	\$ 821,975	919,514
Warrants at \$2.00 expiring 10/21/10	(I)	91,625	42,972
			2,832,388

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

HARRIS & HARRIS GROUP, INC.  
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2010  
(Unaudited)

	Method of Valuation (1)	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (2)(11) – 44.2% of net assets at value (Cont.)			
Private Placement Portfolio (Illiquid) – 44.2% of net assets at value (Cont.)			
Metabolon, Inc. (4)(5) — Developing service and diagnostic products through the use of a metabolomics, or biochemical, profiling platform			
Series B Convertible Preferred Stock	(M)	371,739	\$ 1,087,870
Series B-1 Convertible Preferred Stock	(M)	148,696	435,149
Series C Convertible Preferred Stock	(M)	1,000,000	1,000,000
Warrants at \$1.15 expiring 3/25/15	( I )	74,348	106,394
			2,629,413
NanoGram Corporation (4)(5)(15) — Developed solar power products enabled by silicon-based nanomaterials			
Common Stock	(M)	2,988,437	0
			0
Nextreme Thermal Solutions, Inc. (4)(5) — Developing thin-film thermoelectric devices for cooling and energy conversion			
Series A Convertible Preferred Stock	(M)	17,500	437,500
Series B Convertible Preferred Stock	(M)	4,870,244	663,814
			1,101,314
Questech Corporation (4)(5) — Manufacturing and marketing proprietary metal and stone products for home decoration			
Common Stock	(M)	655,454	363,121
SiOnyx, Inc. (4)(5)(6) — Developing silicon-based optoelectronic products enabled by its proprietary "Black Silicon"			
Series A Convertible Preferred Stock	(M)	233,499	160,367
Series A-1 Convertible Preferred Stock	(M)	2,966,667	2,037,507
Series A-2 Convertible Preferred Stock	(M)	4,207,537	2,889,736
Series B-1 Convertible Preferred Stock	(M)	1,892,836	1,300,000
Warrants at \$0.6868 expiring 2/23/17	( I )	247,350	143,463
			6,531,073

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



HARRIS & HARRIS GROUP, INC.  
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2010  
(Unaudited)

	Method of Valuation (1)	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (2)(11) – 44.2% of net assets at value (Cont.)			
Private Placement Portfolio (Illiquid) – 44.2% of net assets at value (Cont.)			
Solazyme, Inc. (4)(5)(6) — Developing algal biodiesel, industrial chemicals and specialty ingredients using synthetic biology			
Series A Convertible Preferred Stock	(M)	988,204	\$ 8,750,744
Series B Convertible Preferred Stock	(M)	495,246	4,385,502
Series C Convertible Preferred Stock	(M)	651,309	5,767,471
Series D Convertible Preferred Stock	(M)	169,390	1,499,991
			20,403,708
Xradia, Inc. (4)(5) — Designing, manufacturing and selling ultra-high resolution 3D x-ray microscopes and fluorescence imaging systems			
Series D Convertible Preferred Stock	(M)	3,121,099	7,053,684
Total Non-Controlled Private Placement Portfolio (cost: \$59,493,753)			\$ 61,463,821
Total Investments in Non-Controlled Affiliated Companies (cost: \$59,493,753)			\$ 61,463,821

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

HARRIS & HARRIS GROUP, INC.  
 CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2010  
 (Unaudited)

	Method of Valuation (1)	Shares/ Principal	Value
Investments in Controlled Affiliated Companies (2)(16) – 4.2% of net assets at value			
Private Placement Portfolio (Illiquid) – 4.2% of net assets at value			
Ancora Pharmaceuticals Inc. (4)(5)(6) — Developing synthetic carbohydrates for pharmaceutical applications			
Series B Convertible Preferred Stock	(M)	1,663,808	\$ 17,374
Series C Convertible Preferred Stock	(M)	2,066,051	1,239,632
Secured Convertible Bridge Note (including interest)	(M)	\$ 1,100,000	1,126,630