

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

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, 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 (I.R.S. Employer Identification No.)
Incorporation or Organization)

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

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

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

Yes No

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

Yes No

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

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

(Do not check if a smaller reporting company)

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

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

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

In the opinion of management, these financial statements reflect all adjustments, consisting of valuation adjustments and normal recurring accruals, necessary for a fair statement of our financial position, results of operations and cash flows for such periods.

Harris & Harris Group, Inc.® (the "Company," "us," "our" and "we"), is an internally managed, non-diversified management investment company that has elected to operate as a business development company ("BDC") under the Investment Company Act of 1940 (the "1940 Act"). Certain information and disclosures normally included in the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted as permitted by Regulation S-X and Regulation S-K. Accordingly, they do not include all information and disclosures necessary for a fair presentation of our financial position, results of operations and cash flows in conformity with GAAP. The results of operations for any interim period are not necessarily indicative of the results for the full year. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2015.

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

	June 30, 2016	December 31, 2015
ASSETS		
Investments, in portfolio securities at value:		
Unaffiliated privately held companies (cost: \$15,732,223 and \$18,857,235, respectively)	\$6,621,231	\$5,376,472
Unaffiliated rights to milestone payments (adjusted cost basis: \$781,863 and \$781,863, respectively)	2,993,857	3,362,051
Unaffiliated publicly traded securities (cost: \$1,623,029 and \$1,623,029, respectively)	552,215	957,544
Non-controlled affiliated privately held companies (cost: \$50,377,689 and \$49,262,921, respectively)	48,536,764	41,909,262
Non-controlled affiliated publicly traded companies (cost: \$23,165,788 and \$23,165,788, respectively)	9,688,048	18,371,105
Controlled affiliated privately held companies (cost: \$23,679,289 and \$23,205,336, respectively)	6,294,427	7,010,534
Equity method privately held companies (adjusted cost basis: \$334,216 and \$165,936, respectively)	334,216	165,936
Total, investments in private portfolio companies, rights to milestone payments and public securities at value (cost: \$115,694,097 and \$117,062,108, respectively)	75,020,758	77,152,904
Cash	11,841,767	17,922,630
Funds held in escrow from sales of investments at value (Note 3)	116,781	374,565
Receivable from portfolio companies	209,477	13,032
Receivable from sale of investments (Note 3)	383,581	0
Interest receivable	99,815	10,333
Prepaid expenses	358,135	563,699
Other assets	398,052	424,123
Total assets	\$88,428,366	\$96,461,286
LIABILITIES & NET ASSETS		
Term loan credit facility (Note 5)	\$5,000,000	\$5,000,000
Post retirement plan liabilities (Note 8)	1,222,360	1,202,148
Accounts payable and accrued liabilities	671,828	1,268,355
Deferred rent	249,896	279,112
Total liabilities	\$7,144,084	\$7,749,615
Commitments and contingencies (Note 11)		
Net assets	\$81,284,282	\$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 6/30/16 and 12/31/15; 33,218,651 and 33,183,576 issued at 6/30/16 and 12/31/15, respectively	332,186	331,836
Additional paid in capital (Note 9)	215,674,385	215,762,973
Accumulated net operating and realized loss	(89,848,153)	(83,377,629)
Accumulated unrealized depreciation of investments	(40,673,339)	(39,909,204)
Accumulated other comprehensive income (Note 8)	404,728	509,220
Treasury stock, at cost (2,337,822 shares at 6/30/16 and 12/31/15) (Note 12)	(4,605,525)	(4,605,525)

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Net assets	\$81,284,282	\$88,711,671
Shares outstanding	30,880,829	30,845,754
Net asset value per outstanding share	\$2.63	\$2.88

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

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

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Investment income:				
Interest from:				
Unaffiliated companies	\$3,692	\$9,533	\$6,310	\$20,776
Non-controlled affiliated companies	96,806	201,896	152,872	254,322
Controlled affiliated companies	95,718	47,207	186,142	91,633
Cash and U.S. Treasury securities and other	917	3,318	2,349	4,748
Fees for providing managerial assistance to portfolio companies (Note 14)	222,976	6,500	369,853	13,500
Yield-enhancing fees on debt securities	39,933	19,741	44,558	46,048
Total investment income	460,042	288,195	762,084	431,027
Expenses:				
Salaries, benefits and stock-based compensation (Note 9)	617,599	977,689	1,221,507	2,056,178
Administration and operations	110,120	134,860	252,412	236,094
Professional fees	349,743	314,785	648,565	887,019
Rent (Note 3)	57,221	67,758	114,441	135,464
Insurance expense	67,538	73,724	127,113	141,335
Directors' fees and expenses	74,151	68,901	144,760	188,525
Interest and other debt expenses	208,025	208,026	416,051	351,746
Custody fees	12,629	15,704	24,690	31,616
Depreciation	11,322	12,055	22,777	24,702
Total expenses	1,508,348	1,873,502	2,972,316	4,052,679
Net operating loss	(1,048,306)	(1,585,307)	(2,210,232)	(3,621,652)
Net realized gain (loss):				
Realized gain (loss) from investments:				
Unaffiliated companies	233,531	3,289,351	(2,925,462)	3,299,836
Non-controlled affiliated companies	0	(98,644)	(1,244,955)	(392,430)
Publicly traded companies	15	41,411	15	41,411
Realized gain (loss) from investments	233,546	3,232,118	(4,170,402)	2,948,817
Income tax (benefit) expense (Note 10)	(1,339)	1,600	4,491	1,705
Net realized gain (loss) from investments	234,885	3,230,518	(4,174,893)	2,947,112
Net (increase) decrease in unrealized depreciation on investments:				
Unaffiliated companies	1,477,991	(3,782,012)	4,369,770	(4,405,846)
Controlled affiliated companies	(176,611)	199,923	(1,190,061)	357,040
Unaffiliated rights to milestone payments	34,088	(13,597)	(368,194)	(12,681)
Non-controlled affiliated companies	2,402,785	3,434,300	5,512,736	(146,818)
Publicly traded non-controlled affiliated companies	(3,673,752)	(2,353,228)	(8,683,057)	(601,804)
Publicly traded unaffiliated companies	(392,208)	(601,763)	(405,329)	222,951
Net increase in unrealized depreciation on investments	(327,707)	(3,116,377)	(764,135)	(4,587,158)
Net realized and unrealized (loss) gain on investments	(92,822)	114,141	(4,939,028)	(1,640,046)
Share of loss on equity method investments	(43,917)	(58,330)	(85,399)	(189,836)
Net decrease in net assets resulting from operations:				

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Total	\$(1,185,045)	\$(1,529,496)	\$(7,234,659)	\$(5,451,534)
Per average basic and diluted outstanding share	\$(0.04)	\$(0.05)	\$(0.24)	\$(0.17)
Average outstanding shares - basic and diluted	30,850,982	31,285,894	30,848,368	31,283,382

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

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

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Net decrease in net assets resulting from operations	\$(1,185,045)	\$(1,529,496)	\$(7,234,659)	\$(5,451,534)
Other comprehensive loss:				
Amortization of prior service (benefit)	(52,246)	(52,246)	(104,492)	(104,492)
Other comprehensive loss	(52,246)	(52,246)	(104,492)	(104,492)
Comprehensive loss	\$(1,237,291)	\$(1,581,742)	\$(7,339,151)	\$(5,556,026)

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

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

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Cash flows used in operating activities:		
Net decrease in net assets resulting from operations	\$(7,234,659)	\$(5,451,534)
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	4,934,537	1,638,341
Depreciation of fixed assets, amortization of prepaid assets and accretion of bridge note interest	(230,834)	(279,990)
Share of loss on equity method investments	85,399	189,836
Stock-based compensation (benefit) expense	(65,923)	431,981
Amortization of prior service (benefit)	(104,492)	(104,492)
Funding of operating commitment to equity method investments	(253,680)	(262,215)
Purchase of affiliated portfolio companies	(3,450,302)	(4,275,915)
Purchase of unaffiliated portfolio companies	(698,300)	(509,824)
Payments received on debt investments	0	186,109
Proceeds from repayment of bridge notes of affiliated portfolio companies	113,950	39,757
Proceeds from sale of investments of unaffiliated portfolio companies	1,161,942	5,557,846
Proceeds from repayment of bridge notes of controlled affiliated portfolio companies	750,000	0
Proceeds from publicly traded unaffiliated companies	0	100,491
Changes in assets and liabilities:		
Receivable from portfolio companies	(196,445)	143,377
Receivable from sale of investments	(383,581)	0
Interest receivable	(89,482)	(10,344)
Prepaid expenses	205,564	200,089
Other assets	3,289	(138,848)
Post retirement plan liabilities	20,212	26,347
Accounts payable and accrued liabilities	(596,527)	(167,075)
Deferred rent	(29,216)	(25,712)
Net cash used in operating activities	(6,058,548)	(2,711,775)
Cash flows from investing activities:		
Purchase of fixed assets	0	(6,806)
Net cash used in investing activities	0	(6,806)
Cash flows from financing activities:		
Proceeds from drawdown of loan facility	0	5,000,000
Payment of withholdings related to net settlement of restricted stock	(22,315)	(47,644)
Net cash (used in) provided by financing activities	(22,315)	4,952,356
Net (decrease) increase in cash	\$(6,080,863)	\$2,233,775
Cash at beginning of the period	17,922,630	20,748,314
Cash at end of the period	\$11,841,767	\$22,982,089
Supplemental disclosures of cash flow information:		
Income taxes paid	\$4,491	\$1,705
Interest paid	\$252,778	\$0

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

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

	Six Months Ended June 30, 2016	Year Ended December 31, 2015
Changes in net assets from operations:		
Net operating loss	\$(2,210,232)	\$(7,162,510)
Net realized (loss) gain on investments	(4,174,893)	4,531,700
Net increase in unrealized depreciation on investments	(764,135)	(17,302,729)
Share of loss on equity method investments	(85,399)	(312,291)
Net decrease in net assets resulting from operations	(7,234,659)	(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 (benefit) expense	(65,923)	798,965
Net decrease in net assets resulting from capital stock transactions	(88,238)	(487,943)
Changes in net assets from accumulated other comprehensive loss:		
Other comprehensive loss	(104,492)	(208,983)
Net decrease in net assets resulting from accumulated other comprehensive loss	(104,492)	(208,983)
Net decrease in net assets:	(7,427,389)	(20,942,756)
Net Assets:		
Beginning of the period	88,711,671	109,654,427
End of the period	\$81,284,282	\$88,711,671

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

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

Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Unaffiliated Companies (3) - 12.5% of net assets at value				
Private Placement Portfolio (Illiquid) (4) - 8.1% of net assets at value				
Bridgelux, Inc. (5)(8)(9)(10)				
Manufacturing high-power light emitting diodes (LEDs) and arrays				
Energy				
Series B Convertible Preferred Stock (acquired 11/29/07)	(M)	\$1,000,000	1,861,504	\$216,402
Series C Convertible Preferred Stock (acquired 7/27/07)	(M)	1,352,196	2,130,699	446,626
Series D Convertible Preferred Stock (acquired 2/25/08-3/10/10)	(M)	1,371,622	999,999	615,544
Series E Convertible Preferred Stock (acquired 6/1/11)	(M)	672,599	440,334	507,418
Series E-1 Convertible Preferred Stock (acquired 3/16/12)	(M)	386,073	399,579	334,596
Warrants for Series E Convertible Preferred Stock expiring 12/31/17 (acquired 10/21/11)	(M)	93,969	170,823	—
Warrants for Common Stock expiring 8/9/18 (acquired 1/27/11)	(M)	148,409	171,183	—
Warrants for Common Stock expiring 10/21/18 (acquired 8/9/13)	(M)	18,816	84,846	—
		5,043,684		2,120,586
Fleet Health Alliance, LLC (5)(8)(9)(11)				
Developing software for information transfer amongst healthcare providers and consumers				
Life Sciences				
Unsecured Convertible Bridge Note, 0%, (acquired 4/22/16)	(M)	225,000	\$225,000	225,000
Mersana Therapeutics, Inc. (5)(8)(9)				
Developing antibody drug conjugates for cancer therapy				
Life Sciences				
Common Stock (acquired 7/27/12)	(H)	3,875,395	350,539	717,468
Series A-1 Convertible Preferred Stock (acquired 7/27/12-4/2/14)	(H)	683,538	635,081	1,333,985
Series B-1 Convertible Preferred Stock (acquired 2/20/15-6/14/16)	(H)	365,820	339,887	729,566
		4,924,753		2,781,019
Muses Labs, Inc. (5)(8)(11)				
Developing a data analytics platform for precision medicine				
Life Sciences				
Unsecured Convertible Bridge Note, 5%, (acquired 5/25/16)	(M)	213,075	\$212,000	213,075

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

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

Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Unaffiliated Companies (3) - 12.5% of net assets at value (Cont.)				
Private Placement Portfolio (Illiquid) (4) - 8.1% of net assets at value (Cont.)				
Nanosys, Inc. (5)(8)(9)				
Developing inorganic nanowires and quantum dots for use in LED-backlit devices				
			Energy	
Series C Convertible Preferred Stock (acquired 4/10/03)	(M)	\$1,500,000	803,428	\$128,337
Series D Convertible Preferred Stock (acquired 11/7/05)	(M)	3,000,003	1,016,950	433,421
Series E Convertible Preferred Stock (acquired 8/13/10)	(M)	496,573	433,688	320,819
		4,996,576		882,577
Nano Terra, Inc. (5)(8)				
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	356
Warrants for Series A-3 Preferred Stock expiring on 11/15/22 (acquired 11/15/12)				
	(I)	35,403	47,508	84,228
		104,571		84,584
Phylagen, Inc. (5)(8)				
Developing technology to improve human health and business productivity				
Life Sciences				
Secured Convertible Bridge Note, 5%, (acquired 2/5/15)	(M)	214,027	\$200,000	299,638
Secured Convertible Bridge Note, 5%, (acquired 6/5/15)	(M)	10,537	\$10,000	14,752
		224,564		314,390
Total Unaffiliated Private Portfolio (cost: \$15,732,223)				\$6,621,231
Rights to Milestone Payments (Illiquid) (6) - 3.7% 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	\$2,527,629

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

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

Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Rights to Milestone Payments (Illiquid) (6) - 3.7% of net assets at value (Cont.)				
Canon, Inc. (8)(9)			Electronics	
Rights to Milestone Payments from Acquisition of Molecular Imprints, Inc. (acquired 4/18/14)	(I)	\$232,865	\$232,865	\$466,228
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)				\$2,993,857
Publicly Traded Portfolio (7) - 0.7% 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	\$547,721
Warrants for Common Stock expiring 1/28/19 (acquired 1/28/13)	(I)	400	5,500	4,494
		\$1,623,029		\$552,215
Total Unaffiliated Publicly Traded Portfolio (cost: \$1,623,029)				\$552,215
Total Investments in Unaffiliated Companies (cost: \$18,137,115)				\$10,167,303

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

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

Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
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Investments in Non-Controlled Affiliated Companies (3) -
71.6% of net assets at value

Private Placement Portfolio (Illiquid) (12) -
59.7% 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	\$ 231,918
Series B Convertible Preferred Stock (acquired 11/8/13-6/25/14)	(I)	1,217,644	1,037,751	978,243
Secured Convertible Bridge Note, 8%, (acquired 1/20/16)	(M)	103,573	\$ 100,000	103,573
		1,756,217		1,313,734

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	4,621,038
Series A-2 Convertible Preferred Stock (acquired 4/9/13-10/15/13)	(I)	521,740	417,392	1,005,124
Series B Convertible Preferred Stock (acquired 8/7/15)	(I)	500,006	160,526	571,997
		3,021,746		6,198,159

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CONSOLIDATED SCHEDULE OF
INVESTMENTS AS OF JUNE 30, 2016
(Unaudited)

Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) - 71.6% of net assets at value (Cont.)				
Private Placement Portfolio (Illiquid) (12) - 59.7% of net assets at value (Cont.)				
D-Wave Systems, Inc. (5)(8)(9)(13)				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	\$2,536,278
Series 1 Class C Convertible Preferred Stock (acquired 9/30/08)	(H)	487,804	450,450	1,001,791
Series 1 Class D Convertible Preferred Stock (acquired 9/30/08)	(H)	748,473	855,131	1,901,794
Series 1 Class E Convertible Preferred Stock (acquired 11/24/10)	(H)	248,049	269,280	606,587
Series 1 Class F Convertible Preferred Stock (acquired 11/24/10)	(H)	238,323	258,721	582,801
Series 1 Class H Convertible Preferred Stock (acquired 6/27/14)	(H)	909,088	460,866	1,121,259
Series 2 Class D Convertible Preferred Stock (acquired 9/30/08)	(H)	736,019	678,264	1,508,446
Series 2 Class E Convertible Preferred Stock (acquired 6/1/12-3/22/13)	(H)	659,493	513,900	1,164,235
Series 2 Class F Convertible Preferred Stock (acquired 6/1/12-3/22/13)	(H)	633,631	493,747	1,118,578
Warrants for Common Stock expiring 5/12/19 (acquired 5/12/14)	(I)	26,357	20,415	16,457
		5,689,311		11,558,226
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	1,365,715
Series Seed-2 Convertible Preferred Stock (acquired 1/22/16)	(I)	500,000	1,476,668	508,330
		1,750,000		1,874,045
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	
Series B-1 Convertible Preferred Stock (acquired 4/21/14)	(I)	679,754	492,575	1,289,653
		2,679,754		1,289,653

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

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

Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) - 71.6% of net assets at value (Cont.)				
Private Placement Portfolio (Illiquid) (12) - 59.7% of net assets at value (Cont.)				
HZO, Inc. (5)(8)		Electronics		
Developing novel industrial coatings that protect electronics against damage from liquids				
Common Stock (acquired 6/23/14)		(H)	\$ 666,667 405,729	\$ 672,553
Series I Convertible Preferred Stock (acquired 6/23/14)		(H)	5,709,835 2,266,894	5,614,379
Series II Convertible Preferred Stock (acquired 6/23/14-8/3/15)		(H)	2,500,006 674,638	2,302,053
Unsecured Convertible Bridge Note, 10%, (acquired 6/15/16)		(H)	251,096 \$ 250,000	307,865
			9,127,604	8,896,850
Laser Light Engines, Inc. (8)(9)(14)		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

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

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

Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) - 71.6% of net assets at value (Cont.)				
Private Placement Portfolio (Illiquid) (12) - 59.7% of net assets at value (Cont.)				
Lodo Therapeutics Corporation (5)(8)(9)				
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	\$ 670,056
Metabolon, Inc. (5)(8)(9)				
Developing a biochemical profiling platform for precision medicine				
Series B Convertible Preferred Stock (acquired 6/29/09)	(H)	2,500,000	371,739	3,319,486
Series B-1 Convertible Preferred Stock (acquired 6/29/09)	(H)	706,214	148,696	1,327,793
Series C Convertible Preferred Stock (acquired 4/30/09)	(H)	1,000,000	1,000,000	3,050,329
Series D Convertible Preferred Stock (acquired 8/25/11)	(H)	1,499,999	835,882	2,569,683
Series E-1 Convertible Preferred Stock (acquired 3/2/15)	(H)	1,225,000	444,404	1,454,456
Series E-2 Convertible Preferred Stock (acquired 3/2/15)	(H)	299,999	103,277	331,039
		7,231,212		12,052,786
ORIG3N, Inc. (5)(8)(9)				
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	1,115,811
Series A Convertible Preferred Stock (acquired 11/25/15)	(I)	750,000	682,333	735,531
		1,250,000		1,851,342
Petra Pharma Corporation (5)(8)(9)				
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	1,052,243

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

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

Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) - 71.6% of net assets at value (Cont.)				
Private Placement Portfolio (Illiquid) (12) - 59.7% of net assets at value (Cont.)				
Produced Water Absorbents, Inc. (5)(8)(15) 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	50,243,347 \$285,670
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)	1,910,193	\$2,533,766 1,494,000
			9,645,724	1,779,670
Total Non-Controlled Affiliated Private Portfolio (cost: \$50,377,689)				\$48,536,764
Publicly Traded Portfolio (16) - 11.9% of net assets at value				
Adesto Technologies Corporation (5)(9)(17) Electronics				
Developing low-power, high-performance memory devices				
Common Stock (acquired 10/27/15)		(M)	\$11,482,417	1,769,868 \$5,805,167
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 1,577,341
Warrants to purchase Common Stock expiring 2/2/2024 (acquired 7/31/14)		(I)	57,567	255,120 38,833
Warrants to purchase Common Stock expiring 7/30/2019 (acquired 7/31/14)		(I)	540,375	1,500,000 37,500
Options to purchase Common Stock at \$1.00 expiring 7/30/2016 (acquired 8/4/14)		(I)	0	80,000 0
			5,591,299	1,653,674

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

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

Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Publicly Traded Portfolio (16) - 11.9% of net assets at value (Cont.)				
OpGen, Inc. (5)(8)(9)(18)				Life Sciences
Developing tools for genomic sequence assembly and analysis				
Common Stock (acquired 5/5/15)	(M)	\$5,665,708	1,409,796	\$2,142,890
Warrants for the Purchase of Common Stock expiring 5/8/20 (acquired 5/5/15)	(M)	425,579	300,833	57,385
Warrants for the Purchase of Common Stock expiring 2/17/25 (acquired 5/5/15)	(I)	785	31,206	28,932
		6,092,072		2,229,207
Total Non-Controlled Affiliated Publicly Traded Portfolio (cost: \$23,165,788)				\$9,688,048
Total Investments in Non-Controlled Affiliated Companies (cost: \$73,543,477)				\$58,224,812
Investments in Controlled Affiliated Companies (3) - 7.8% of net assets at value				
Private Placement Portfolio (Illiquid) (19) - 7.8% of net assets at value				
Black Silicon Holdings, Inc. (5)(8)(14)(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 8/4/15)	(I)	1,372,775	\$1,278,453	417,143
		7,798,652		417,143

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

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

Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Controlled Affiliated Companies (3) - 7.8% of net assets at value (Cont.)				
Private Placement Portfolio (Illiquid) (19) - 7.8% of net assets at value (Cont.)				
Interome, Inc. (5)(8)(11)				
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
			300,010	300,010
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	666,667 504,999
Series A Convertible Preferred Stock (acquired 8/20/15-9/30/15)		(I)	499,999	329,989 341,867
Unsecured Convertible Bridge Note, 6% (acquired 4/6/16)		(M)	507,068	\$500,000 507,068
			1,507,069	1,353,934
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)	421,036	\$350,000 421,036
Secured Convertible Bridge Note, 8%, (acquired 8/13/14)		(M)	115,079	\$100,000 115,079
Secured Convertible Bridge Note, 8%, (acquired 8/5/15)		(M)	80,441	\$75,000 80,441
Secured Convertible Bridge Note, 8%, (acquired 12/7/15)		(M)	57,495	\$55,000 57,495
			674,052	674,052

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

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

Method of Primary Cost Shares/ Value
Valuation (1) Industry (2) Principal

Investments in Controlled Affiliated Companies (3) -
7.8% of net assets at value (Cont.)

Private Placement Portfolio (Illiquid) (19) -
7.8% of net assets at value (Cont.)

Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
	Senova Systems, Inc. (5)(8)		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
	Warrants for Series B Preferred Stock expiring 4/24/18 (acquired 4/24/13) (I)	20,000	25,000	0
	Series C Convertible Preferred Stock (acquired 10/24/14-4/1/15) (I)	1,208,287	1,611,049	872,564
	Warrants for Series B Preferred Stock expiring 10/15/17 (acquired 10/15/12) (I)	131,538	164,423	0
	Secured Convertible Bridge Note, 8%, (acquired 1/15/16) (I)	261,507	\$250,000	261,507
		3,923,754		1,134,071

Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
	SynGlyco, Inc. (5)(8)(14)		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)	69,696	\$67,823	52,339
		7,655,140		52,339

Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
	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	260,000
	Secured Convertible Bridge Note, 8%, (acquired 8/20/14) (M)	346,440	\$300,000	519,660
	Secured Convertible Bridge Note, 8%, (acquired 5/18/15) (M)	218,130	\$200,000	327,196
	Secured Convertible Bridge Note, 8%, (acquired 12/1/15) (M)	1,256,022	\$1,200,000	1,256,022
		1,820,612		2,362,878

Total Controlled Private Placement Portfolio (cost:
\$23,679,289) \$6,294,427

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

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

Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Total Investments in Controlled Affiliated Companies (cost: \$23,679,289)				\$6,294,427
Total Investments in Private Placement and Publicly Traded Portfolio (cost: \$115,359,881)				\$74,686,542
Equity Method Investments (22) - 0.4% of net assets at value				
Private Placement Portfolio (Illiquid) (22) - 0.4% of net assets at value				
Accelerator IV-New York Corporation (8)(9)(23)			Life Sciences	
Identifying and managing emerging biotechnology companies Series A Common Stock (acquired 7/21/14-1/29/16)		(E)	\$199,726	581,907 \$199,726
AgTech Accelerator Corporation (8)(9)(11)(23)			Life Sciences	
Identifying and managing emerging agriculture technologies companies Common Stock (acquired 5/4/16)		(E)	134,490	150,000 134,490
Total Equity Method Investments (cost: \$334,216)				\$334,216
Total Investments (cost: \$115,694,097)				\$75,020,758

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 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."
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.
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.
- (3) 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 June 30, 2016.
The aggregate cost for federal income tax purposes of investments in unaffiliated privately held companies is
- (4) \$15,732,223. The gross unrealized appreciation based on the tax cost for these securities is \$89,826. The gross unrealized depreciation based on the tax cost for these securities is \$9,200,818.
- (5) All or a portion of the investments or instruments are pledged as collateral under our Loan Facility with Orix Corporate Capital, Inc.
The aggregate cost for federal income tax purposes of investments in unaffiliated rights to milestone payments is
- (6) \$781,863. The gross unrealized appreciation based on the tax cost for these securities is \$2,211,994. The gross unrealized depreciation based on the tax cost for these securities is \$0.
The aggregate cost for federal income tax purposes of investments in unaffiliated publicly traded companies is
- (7) \$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 \$1,070,814.
- (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.
On July 21, 2015, Bridgelux, Inc., signed a definitive agreement to be acquired by an investment group led by
- (10) China Electronics Corporation and ChongQing Linkong Development Investment Company. The close of this transaction occurred on August 1, 2016.
- (11) Initial investment was made in 2016.
The aggregate cost for federal income tax purposes of investments in non-controlled affiliated privately held
- (12) companies is \$50,377,689. The gross unrealized appreciation based on the tax cost for these securities is \$14,631,348. The gross unrealized depreciation based on the tax cost for these securities is \$16,472,273.

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

HARRIS & HARRIS GROUP, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2016

(Unaudited)

- 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.
- 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.
- Produced Water Absorbents, Inc., also does business as ProSep, Inc.
- 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 \$0. The gross unrealized depreciation based on the tax cost for these securities is \$13,477,740.
- The Company's shares of Adesto Technologies Corporation were subject to a lock-up agreement that restricted our ability to trade these securities. The lock-up agreement expired on April 25, 2016. 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.
- As of June 30, 2016, 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 expires 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 aggregate cost for federal income tax purposes of investments in controlled affiliated companies is \$23,679,289. The gross unrealized appreciation based on the tax cost for these securities is \$542,266. The gross unrealized depreciation based on the tax cost for these securities is \$17,927,128.
- 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.
- On August 19, 2015, UberSeq, Inc., changed its name to NGX Bio, Inc.
- The aggregate cost for federal income tax purposes of investments in privately held equity method investments is \$334,216. 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.
- 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	34,737
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.

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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

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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

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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

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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

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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.

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

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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

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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	

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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

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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)					