HARRIS & HARRIS GROUP INC /NY/
Form 10-K
March 15, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

Form 10-K

ý Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2016
or

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

For the transition period from ____________________ to ____________________

Commission File No. 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, 24th Floor, New York, New York	10018
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code (212) 582-0900

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.01 par value	Nasdaq Global Market

Securities registered pursuant to Section 12(g) of the Act:

None
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
o Yes þ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. o Yes þ No

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. þYes oNo

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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).
o Yes o No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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 o	Accelerated filer o
Non-accelerated filer þ	Smaller reporting company o

(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 Act). oYes þ No

The aggregate market value of the common stock held by non-affiliates of Registrant as of June 30, 2016 was $48,382,880 based on the last sale price as quoted by the Nasdaq Global Market on such date (only officers and directors are considered affiliates for this calculation).

As of March 15, 2017, the registrant had 30,904,209 shares of common stock, par value $0.01 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE	INCORPORATED AT
Harris & Harris Group, Inc. Proxy Statement for the 2017 Annual Meeting of Shareholders	Part III, Items 10, 11, 12, 13 and 14

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PART I

Item 1. Business.

Harris & Harris Group, Inc.® (the "Company," "us," "our," and "we"), is an internally managed investment company. We have elected to be regulated as a business development company ("BDC") under the Investment Company Act of 1940, (the "1940 Act"). For tax purposes, we have elected to be treated as a regulated investment company ("RIC") under Subchapter M of the Internal Revenue Code of 1986 (the "Code"). However, as is discussed in detail in Note 10 to our Consolidated Financial Statements, we did not qualify as a RIC in 2016, but we had no taxable income. We were incorporated under the laws of the state of New York in August 1981. We are overseen by our Board of Directors and managed by our officers and have no external investment adviser.

Historically, our investment objective has been to achieve long-term capital appreciation investing in venture capital investments. Our focus was making investments in transformative companies enabled by what we believed was disruptive science. More recently, we have focused our investments on transformative companies in precision health and medicine. We then provided strategic, operational and management resources, and creative financial solutions to these companies. While we will continue to provide such resources to our existing portfolio companies, including our precision health and medicine companies, our investment objective on future new investments will be focused on generating capital appreciation and current income from investments in what we believe are deeply undervalued, small publicly traded companies where we believe we can positively impact the business and valuation through constructive activism.

We believe we combine new perspectives with the historical knowledge and experience of managing the current portfolio. We believe these complementary sets of experiences and skills in investment management and in working with management teams to build businesses can be a foundation for future growth. We believe we will be able to generate income and grow net asset value per share for shareholders over shorter, more predictable timeframes than we have experienced historically.

While there are multiple fund managers that invest in smaller publicly traded companies, we believe that these managers are often not able to engage or interested in engaging with such companies on an active basis. We believe our expertise and focus on constructive activism could be an attractive complement to other investors in the space. Our new simplified structure and focus could lead to partnerships or other opportunities. We believe that the universe of potential partners on this strategy is substantially larger than those focused on privately held investments. We believe we will be in a strong position to seek these strategic partnership opportunities with the current and future assets of our company.

We believe we provide four core benefits to our shareholders. First, our go-forward investment strategy offers investors the opportunity to leverage our experience, extensive diligence and active portfolio management of what we believe are significantly undervalued publicly traded companies that may be difficult to replicate on an individual basis. Second, we provide shareholders with access to an existing privately held portfolio of disruptive companies that we believe may yield significant returns on invested capital in the future. Third, we provide access for accredited investors to co-invest with us in our portfolio companies when we acquire pre-emptive rights and either lack sufficient capital to fully exercise those rights, or otherwise determine that such investment is not appropriate for us. Fourth, we are able to invest opportunistically in multiple types of securities to take advantage of market inefficiencies.

Proposals to Withdraw Election to be Treated as a BDC and Change of Corporate Name

We recently filed a definitive proxy statement proposing that the Company obtain shareholder approval to withdraw our election to be treated as a BDC and to change our name from Harris & Harris Group, Inc., to 180 Degree Capital Corp. ("180"). Concurrent with the withdrawal of the election, we would immediately register as a closed-end investment company (hereinafter, a "Registered Closed-End Fund"). As a Registered Closed-End Fund, we would remain subject to many of the same provisions of the 1940 Act that we are subject to as a BDC. We are proposing to convert from a BDC to a Registered Closed-End Fund because we believe that certain provisions of corporate law and the 1940 Act will enable us to operate with a lower expense ratio. We believe this change will increase returns to investors, while allowing us to maintain a comparable investment strategy. Such provisions include:

- Less frequent and less complex reports filed with the SEC; and
- Exemption of Registered Closed-End Funds from Section 404(b) of the Sarbanes-Oxley Act.

We currently expect that the transition from a BDC to a Registered Closed-End Fund will enable us to reduce our annual operating expenses attributable to regulatory and compliance costs.

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Our priority with the proposed name change is to reflect the focus of our future business and to provide the opportunity to re-brand the firm. Initially, 180 will be focused on shepherding the existing portfolio of investments to maximize returns, with what we believe will be less regulatory burden and expense to shareholders than in a BDC structure. 180's future business will be focused on making decisions that are designed to generate income and grow net asset value per share for shareholders over shorter, more predictable timeframes. Toward this goal, and as discussed above, 180 will focus on investing in and providing value-add assistance through constructive activism to what 180's management team believes are substantially undervalued small, publicly traded companies that have potential for aggressive growth. Our goal is that the result of our constructive activism leads to a reversal in direction for the share prices of these investee companies, i.e., a 180-degree turn.

Summary of our Current Portfolio

As of December 31, 2016, we held equity in two publicly traded portfolio companies that we believe are undervalued and where we have engaged in constructive activism in an effort to improve shareholder value:

Adesto Technologies Corporation (NASDAQ:IOTS - 11.4 percent voting ownership) - Adesto Technologies is a provider of application-specific, feature-rich, ultra-low power non-volatile memory products.

Enumeral Biomedical Holdings, Inc. (OTC:ENUM - 6.2 percent voting ownership) - Enumeral Biomedical Holdings discovers and develops novel therapeutics known as immunomodulators or immunotherapies that help the immune system fight cancer and other diseases.

We also have a portfolio of 21 active privately held investments that we believe has the potential to generate meaningful returns for shareholders over the coming years. Over the last six years, we have demonstrated that we have the ability to discover, diligence, invest, build and realize gains from our investments.

ABSMaterials, Inc. - ABSMaterials provides innovative solutions for water treatment and a wide variety of other applications.

Accelerator IV-New York Corporation - Accelerator IV-New York is a biotechnology investment and management company with offices in New York City and Seattle. Through its consortium of top-tier investors, team of scientific thought leaders and executive managers, it identifies, finances and manages the development of emerging biotechnology opportunities.

AgBiome, LLC - AgBiome is a biotechnology company using new knowledge of the plant-associated microbiome to create innovative products for agriculture.

D-Wave Systems, Inc. - We believe D-Wave Systems is the recognized leader in the development, fabrication, and integration of superconducting quantum computers.

EchoPixel, Inc. - EchoPixel provides virtual reality 3-D visualization software that offers physicians the opportunity to view and interact with patient tissues and organs as if they were real objects.

Essential Health Solutions, Inc. (Controlled Investment) - Essential Health Solutions provides management services and diagnostic ordering to functional medicine practices.

Fleet Health Alliance, LLC - Fleet Health Alliance is a seed-stage company focused on disrupting the flow of information to, from, and within clinical healthcare systems. Their initial activities will be to create an interoperable platform for EHR (Electronic Health Record) systems based on the new Fast Healthcare Interoperability Resources (FHIR, pronounced “fire”) standards. This system will connect both internal clinical networks as well as allow external solutions to seamlessly integrate into EHR systems.

Genome Profiling, LLC - Genome Profiling is a bioinformatics company specializing in the discovery of novel epigenetic biomarkers based on its proprietary, genome-wide methylation profiling platform to revolutionize the way doctors treat, diagnose, and predict chronic and life-threatening diseases.

HZO, Inc. - HZO's technology solutions make electronics waterproof and resistant to corrosion.

Interome, Inc. (renamed HALE.life Corporation in 2017) (Controlled Investment) - Interome was founded to organize multiple types of genotypic, phenotypic and physiological information together on a platform that can be used to inform both consumers and medical clinicians. The purpose of Interome is to build a platform that acts as the management system to organize, integrate and interpret health and medical information in the primary care clinical environment. Interome will initially focus on the markets of performance athletics and wellness.

Lodo Therapeutics Corporation - Lodo Therapeutics is a drug development company that identifies and produces bioactive natural products directly from the microbial DNA sequence information contained in soil for therapeutic applications.

Mersana Therapeutics, Inc. - Mersana Therapeutics is a drug development company that leverages its Fleximer™ platform to create precisely targeted and highly tailored therapeutics.

Muses Labs, Inc. - Muses Labs finds solutions for complex, chronic diseases. It employs data to identify the underlying causes, develop an evidence-based, personalized combination therapy, and work collaboratively with patients, caregivers, and health care providers to improve outcomes. Combined with a team of doctors, scientists, technology experts, and seasoned entrepreneurs, Muses Labs is bringing to market a next-generation personalized combination therapy for Alzheimer’s disease.

Nanosys, Inc. - We believe Nanosys is leading the development of quantum dot technology for displays.

NGX Bio, Inc. (Controlled Investment) - NGX Bio's expertise is in next-generation sequencing, logistics, and genomic data analysis. It is focused on making next-generation sequencing easy and affordable for researchers.

ORIG3N, Inc. - ORIG3N has established the world's largest uniformly consented induced pluripotent stem cell repository to better understand the cellular and molecular foundations of disease.

Petra Pharma Corporation - Petra Pharma is a drug development company focused on novel enzyme targets that play a central role in a variety of important cellular processes, including cell division, growth, trafficking, and signaling.

Phylagen, Inc. - Phylagen harnesses the vast, unseen world of microbes that we believe will improve business performance and make our lives better.

Produced Water Absorbents, Inc. (also does business as ProSep, Inc.) - We believe ProSep is the industry-leading technology and services provider of choice for integrated process solutions to the global oil and gas industry.

TARA Biosystems, Inc. (Controlled Investment) - TARA Biosystems is focused on revolutionizing “human-on-a-chip” technology by providing predictive cardiac physiology.

Xenio Corporation - Xenio is developing an Internet of Things (IoT) platform to deliver a new set of possibilities to retail. Its platform brings together hardware, software, mobile applications, and cloud-based connectivity to enable a more connected in-store experience.

There are three main drivers of our potential growth in value from these companies over the coming years. First, we have a larger portfolio of more mature companies than we have had historically. Second, we believe the quality of our existing portfolio is stronger than it has been historically. Third, we own larger percentages of more companies in the existing portfolio than we have owned historically.

In previous communications with shareholders, we have discussed how we are managing our portfolio in an effort to maximize our value at exit. We currently believe D-Wave Systems, Inc., Adesto Technologies Corporation, HZO, Inc., Interome, Inc. (renamed HALE.life Corporation in 2017) and AgBiome, LLC, may have the potential to be real drivers of realized returns from our portfolio in the coming years.

We currently plan to return to shareholders a portion of future realized gains from our maturing investments in the form of dividends and share repurchases. During the third quarter of 2015, our Board of Directors authorized a repurchase of up to $2.5 million of the Company’s common stock in the open market within a six-month period. As of December 31, 2015, we had repurchased 509,082 shares. During the first quarter of 2016, our Board of Directors reauthorized the repurchase of up to an additional $2.5 million of the Company’s common stock in the open market within a six-month period from the proxy mailing date of April 29, 2016. This six-month period expired on October 31, 2016. During the fourth quarter of 2016, our Board of

Directors again reauthorized the repurchase of up to $2.5 million of the Company's common stock within a six-month period from the date of notice to investors, which has yet to be determined. There were no additional repurchases of our common stock during 2016.

As of December 31, 2016, our investments comprise 78.2 percent of our total assets. We currently manage and plan to continue to manage our portfolio, allocate capital and budget our investments on a holistic basis and not in separate segments. Our cash comprised 20.7 percent of our total assets and other assets comprised the remaining 1.1 percent of our total assets. As of December 31, 2016, we did not have debt outstanding.

Co-Investment Opportunities

During 2016, we began to provide accredited investors in the Company with the opportunity to co-invest in certain of our portfolio companies through one or more series issued by H&H Co-Investment Partners, LLC. The Company serves as the managing member of and investment adviser to H&H Co-Investment Partners. We anticipate earning management and incentive fees in connection with our management of certain series issued by H&H Co-Investment Partners. As of December 31, 2016, H&H Co-Investment Partners did not have any capital under management.

Investments that Generate Current Income

As a BDC, we invest in and offer managerial assistance to our investee companies. In certain cases, particularly in ones where we control the company, we may receive consulting fees for our time and services. During 2016, we generated short-term income through payment of such consulting fees from seven of the 23 active privately held and publicly traded companies in our portfolio in which we own at least one class of equity securities (approximately 30 percent). The majority of the income generated from fees for providing managerial assistance to portfolio companies during 2016 was from Interome, Inc. We expect that our income generated from such investments will decrease during 2017 owing to the transition of management of Interome from that of personnel employed by us to personnel employed by Interome beginning in the second quarter of 2017. We currently expect income generated in 2017 and beyond to be primarily from fees from managing capital in co-investment and other potential funds as well as from dividends and interest on invested capital in publicly traded and privately held portfolio companies.

Historically, we demonstrated the ability to identify, diligence, underwrite and realize gains in mid- to late-stage companies and securities that produce current income to us. We may refer to our activities in this area as specialty finance, and it is a part of our ability to invest opportunistically in a range of securities to take advantage of market inefficiencies. We identified such an opportunity in providing debt capital to mid- to late-stage companies that have capital needs that are in excess of most online lending platforms and marketplaces or are below the thresholds that interest traditional lenders. We continue to believe there is a lack of capital available to companies that fit this profile and an opportunity for us to generate favorable risk-adjusted returns on invested capital through investments in these companies.

We believe we have two primary competitive advantages for investments in such companies and securities: 1) Our long history of investing in companies throughout their life cycles provides us with extensive knowledge and experience in understanding the needs and risks of investing in such companies; and 2) We are able to design creative investment options and solutions for investee companies.

Involvement in Our Investee Companies

As a BDC, we invest in and offer managerial assistance to our portfolio companies. We may own 100 percent of the securities of a small business for a period of time. We may control the company for a substantial period. We may control 25 percent or more of the board seats in those companies in which we have significant ownership. We expect to maintain or increase our control in our controlled and partner investee companies over time. These businesses tend to lack management depth, to have limited or no history of operations and to not have attained profitability. Because of the speculative nature of these investments, these securities have a significantly greater risk of loss than traditional investment securities. Some of our investee companies will never realize their potential, and some will be unprofitable or result in complete loss of our investment. Some of our investee companies will build successful companies but will not provide a return to us. Small businesses are more vulnerable to adverse business or economic developments than better-capitalized companies. Small businesses generally have limited product lines, markets and/or financial resources. Publicly traded small businesses and those with small market capitalizations are not well known to the investing public and are generally subject to high volatility, to general movements in markets, to perceptions of potential growth and/or the potential for bankruptcy.

In connection with our investments, we provide a variety of services, including the following:

- serving in management roles;
- recruiting management;
- formulating operating strategies;
- formulating intellectual property strategies;
- assisting in financial planning;
- providing management in the initial start-up stages;
- introducing corporate and development partners; and
- establishing corporate goals.

We may assist in raising additional capital for these companies from other potential investors. We are more likely to invest our own capital rather than seek capital from other investors in our controlled and partner companies. This reliance on our capital to fund the operations of these companies increases the risks associated with such investments. We typically find it necessary or appropriate to provide additional capital of our own in rounds of financing subsequent to our initial investment. We may introduce these companies to potential joint venture partners, suppliers and customers. In addition, we may assist in establishing relationships with investment bankers and other professionals. We may also assist management of our investee companies with strategy and execution of merger and acquisition ("M&A") transactions. We generate income from certain of our controlled and partner companies for these services and plan to increase this source of short-term income in the future.

We may control, be represented on, or have observer rights on the board of directors of a portfolio company through one or more of our officers or directors who may also serve as officers of the portfolio company. We indemnify our officers and directors for serving on the boards of directors or as officers of portfolio companies, which exposes us to additional risks.

Industry Sectors of Investment

We currently classify our existing investments in one of three industry sectors: Life Sciences, Energy and Electronics. Historically, the interdisciplinary nature of science-based inventions enabled our portfolio companies to address needs in multiple sectors rather than being confined to addressing needs in one sector.

We classify companies in our life sciences portfolio as those that address problems in life sciences-related industries, including biotechnology, agriculture, advanced materials and chemicals, diagnostics, health care, bioprocessing, water, industrial biotechnology, food, and nutrition. Our investments in precision health and precision medicine companies fall into this category.

We classify companies in our energy portfolio as those that seek to improve performance, productivity or efficiency, and to reduce environmental impact, waste, cost, energy consumption or raw materials. Energy is a term used commonly to describe products and processes that solve global problems related to resource constraints. The term "cleantech" is also used commonly in a similar manner.

We classify companies in our electronics portfolio as those that address problems in electronics-related industries, including semiconductors, computing, telecommunications and data communications, metrology and test and measurement.

Investment Securities and Strategies

Neither our investments, nor an investment in us, is intended to constitute a balanced investment program. We expect to be risk seeking rather than risk averse in our investment approach. To such end, we reserve the fullest possible freedom of action, subject to our Certificate of Incorporation, Amended and Restated By-laws, applicable law and regulations, and policy statements contained herein. There is no assurance that our investment objectives will be achieved.

We have discretion in the investment of our capital to achieve our objectives. Historically, we invested a substantial portion of our assets in securities that we consider to be private equity investments. These private equity investments usually do not pay interest or dividends and typically are subject to legal or contractual restrictions on resale that may adversely affect the liquidity and marketability of such securities. Some of our convertible bridge notes may result in payment-in-kind ("PIK") interest, which typically accrues over the life of the bridge note and often converts into equity of the portfolio company upon a financing event.

While we plan to continue to make investments in securities of existing privately held and publicly traded portfolio companies, we plan to focus future new investments on what we believe are deeply undervalued, small publicly traded companies where we believe we can positively impact the business and valuation through constructive activism. These businesses can range in stage from pre-revenue to generating positive cash flow.

Substantially all of our privately held investments are in thinly capitalized, unproven, small companies focused on commercializing risky technologies. We do not currently limit our investments to any categories of investments. Our securities investments may consist of private, public or governmental issuers of any type, subject to the restrictions imposed on us as a BDC under the 1940 Act. Subject to the diversification requirements applicable to a RIC, we may commit all of our assets to only a few investments.

Our investment approach is comprised of a patient examination of available opportunities thorough due diligence and close involvement with management of our portfolio companies. We currently invest our capital directly into portfolio companies or through purchases of publicly traded companies in open-market purchases. We may in the future seek to invest our capital alongside capital from other investors through co-investment funds that we control. Such funds could provide benefits to us including 1) the generation of income from management fees; 2) the potential to participate economically in the returns of the funds invested above and beyond the returns generated from investment of our capital; 3) the ability for us to increase the amount of capital under our control invested per portfolio company; and 4) in cases where we may partner with others, we gain access to market intelligence and distribution and manufacturing expertise that complements our expertise in identifying disruptive innovations and building companies.

Subject to continuing to meet the compliance tests applicable to BDCs under the 1940 Act, there are no limitations on the types of securities or other assets in which we may invest. Investments may include the following:

- Equity, equity-related securities (including warrants and options) and debt with equity features from either private or public issuers;

- Debt obligations of all types having varying terms with respect to security or credit support, subordination, purchase price, interest payments and maturity;

- Foreign securities;

- Intellectual property or patents or research and development in technology or product development that may lead to patents or other marketable technology; and

- Miscellaneous investments.

The following is a summary description of the types of assets in which we may invest, the investment strategies we may use, and the attendant risks associated with our investments and strategies.

Equity, Equity-Related Securities and Debt with Equity Features

We may invest in equity, equity-related securities and debt with equity features. These securities include common stock or units, preferred stock or units, debt instruments convertible into common or preferred stock or units, limited partnership interests, other beneficial ownership interests and warrants, options or other rights to acquire or agreements to sell any of the foregoing.

We primarily make such investments in companies with operating histories that are unprofitable or marginally profitable, that have negative net worth, or that are involved in bankruptcy or reorganization proceedings. These investments would involve businesses that management believes have potential for rapid growth through the infusion of additional capital and management assistance. In addition, we may make investments in connection with the acquisition or divestiture of companies or divisions of companies. There is a significantly greater risk of loss with these types of securities than is the case with traditional investment securities.

Warrants, options and convertible or exchangeable securities generally give the investor the right to acquire specified equity securities of an issuer at a specified price during a specified period or on a specified date. Warrants and options fluctuate in value in relation to the value of the underlying security and the remaining life of the warrant or option, while convertible or exchangeable securities fluctuate in value both in relation to the intrinsic value of the security without the conversion or exchange feature and in relation to the value of the conversion or exchange feature, which is like a warrant or option. When we invest in these securities, we incur the risk that the option feature will expire worthless, thereby either eliminating or diminishing the value of our investment.

Most of our current portfolio company investments are in the equity securities of private companies. Investments in equity securities of private companies often involve securities that are restricted as to sale and cannot be sold in the open market without registration under the Securities Act of 1933 or pursuant to a specific exemption from these registrations. Opportunities for sale are more limited than in the case of marketable securities, although these private investments may be purchased at more advantageous prices and may offer attractive investment opportunities. Even if one of our portfolio companies completes an initial public offering ("IPO"), we are typically subject to a lock-up agreement for 180 days or longer, and the stock price may decline substantially before we are free to sell or enter into contracts to sell these shares. These lock-up restrictions apply to us and our shares of the portfolio company owned prior to the IPO and may include shares purchased by us in an IPO. These restrictions generally include provisions that stipulate that we are not permitted to offer, pledge or sell our shares, including selling covered call options on our shares, prior to the expiration of the lock-up period. We are also prohibited from entering into new securities lending arrangements for these securities during the lock-up period. We may also own securities of privately held companies that complete public listings through reverse mergers into publicly traded shell companies. Our shares of the privately held company prior to the reverse merger may be subject to additional restrictions on their sale under Rule 144.

We may utilize instruments such as forward contracts, currency options and interest rate swaps, caps, collars and floors to seek to hedge against fluctuations in the relative values of our portfolio positions from changes in market conditions, currency exchange rates and market interest rates. Hedging against a decline in the values of our portfolio positions does not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of such positions decline. However, such hedging can establish other positions designed to gain from those same developments, thereby offsetting the decline in the value of such portfolio positions.

We may also invest in publicly traded securities of whatever nature, including relatively small, emerging growth companies that management believes have long-term growth potential. These investments may be through open-market transactions or through private placements in publicly traded companies ("PIPEs"). Securities purchased in PIPE transactions are typically subject to a lock-up agreement for 180 days or longer, or are issued as unregistered securities that are not freely tradable for at least six months.

Even if we have registration rights to make our investments in privately held and publicly traded companies more marketable, a considerable amount of time may elapse between a decision to sell or register the securities for sale and the time when we are able to sell the securities. The prices obtainable upon sale may be adversely affected by market conditions, by the level of average trading volume of the underlying stock as compared with the position offered for sale or negative conditions affecting the issuer during the intervening time. We may elect to hold formerly restricted securities after they have become freely marketable, either because they remain relatively illiquid or because we believe that they may appreciate in value. During this holding period, the value of these securities may decline and be especially volatile. If we need funds for investment or working capital purposes, we might need to sell marketable securities at disadvantageous times or prices.

Debt Investments

We may hold debt securities, including in privately held and thinly traded public companies, for income and as a reserve pending more speculative investments. Debt obligations may include U.S. government and agency securities, commercial paper, bankers' acceptances, receivables or other asset-based financing, notes, bonds, debentures, or other debt obligations of any nature and repurchase agreements related to these securities. These obligations may have varying terms with respect to security or credit support, subordination, purchase price, interest payment and length of time to maturity from private, public or governmental issuers of any type located anywhere in the world. We may invest in debt obligations of companies with operating histories that are unprofitable or marginally profitable, that have negative net worth or are involved in bankruptcy or reorganization proceedings, or that are start-up or development-stage small businesses. In addition, we may participate in the acquisition or divestiture of companies or divisions of companies through issuance or receipt of debt obligations. As of December 31, 2016, the debt obligations held in our portfolio consisted of convertible bridge notes and senior secured debt. Our convertible bridge notes generally do not generate cash payments to us, nor are they held for that purpose. Our convertible bridge notes and the interest accrued thereon are generally held for the purpose of potential conversion into equity at a future date.

Our investments in debt obligations may be of varying quality, including non-rated, unsecured and highly speculative debt investments with limited marketability. Investments in lower-rated and non-rated securities, commonly referred to as "junk bonds," including our non-convertible debt investments, are subject to special risks, including a greater risk of loss of principal and non-payment of interest. Generally, lower-rated and non-rated securities offer a higher return potential than higher-rated securities, but involve greater volatility of price and greater risk of loss of income and principal, including the possibility of default or bankruptcy of the issuers of these securities. Lower-rated securities and comparable non-rated securities will likely have large uncertainties or major risk exposure to adverse economic conditions and are predominantly speculative with respect to the issuer’s capacity to pay interest and repay principal in accordance with the terms of the obligation. In addition, issuers of lower-rated securities and comparable non-rated securities are often highly leveraged and may not have more traditional methods of financing available to them; therefore, their ability to service their debt obligations during an economic downturn or during sustained periods of rising interest rates may be impaired. The risk of loss owing to default by these issuers is significantly greater because lower-rated securities and comparable non-rated securities generally are unsecured and frequently are subordinated to the prior payment of senior indebtedness. We may incur additional expenses to the extent that we are required to seek recovery upon a default in the payment of principal or interest on our portfolio holdings. In addition, many of the companies in which we invest have limited cash flows and no income, which may limit our ability to recover in the event of a default.

The markets in which lower-rated securities or comparable non-rated securities are traded generally are more limited than those in which higher-rated securities are traded. The existence of limited markets for these securities may restrict our ability to obtain accurate market quotations for the purposes of valuing lower-rated or non-rated securities and calculating net asset value or to sell securities at their fair value. The market values of lower-rated and non-rated securities also tend to be more sensitive to individual corporate developments and changes in economic conditions than higher-rated securities. The occurrence of adverse conditions and uncertainties to issuers of lower-rated securities would likely reduce the value of lower-rated or non-rated securities held by us, with a commensurate effect on the value of our shares, when applicable.

The market values of investments in debt securities that carry no equity conversion rights usually reflect yields generally available on securities of similar quality and type at the time purchased. When interest rates decline, the market value of a debt portfolio already invested at higher yields can be expected to rise if the securities are protected against early call. Similarly, when interest rates increase, the market value of a debt portfolio already invested at lower yields can be expected to decline. Deterioration in credit quality also generally causes a decline in market value of the security, while an improvement in credit quality generally leads to increased value.

Foreign Securities

We may make investments in securities of issuers whose principal operations are conducted outside the United States, and whose earnings and securities are stated in foreign currency. In order to comply with restrictions owing to our status as a BDC, our investments in non-qualifying assets, including the securities of companies organized outside the United States, would be limited to 30 percent of our assets, because under the 1940 Act, we must generally invest at least 70 percent of our assets in "qualifying assets," which exclude securities of foreign companies.

In comparison with otherwise comparable investments in securities of U.S. issuers, currency exchange risk of securities of foreign issuers is a significant variable. The value of these investments to us will vary with the relation of the currency in which they are denominated to the U.S. dollar, as well as with intrinsic elements of value such as credit risk, interest rates and performance of the issuer. Investments in foreign securities also involve risks relating to economic and political developments, including nationalization, expropriation of assets, currency exchange freezes and local recession. Securities of many foreign issuers are less liquid and more volatile than those of comparable U.S. issuers. In addition, accounting and financial reporting standards that prevail outside of the U.S. generally may differ from U.S. standards and, consequently, less information is typically available concerning companies located outside of the U.S. than for those located in the U.S. Interest and dividend income and capital gains on our foreign securities may be subject to withholding and other taxes that may not be recoverable by us. We may seek to hedge all or part of the currency risk of our investments in foreign securities through the use of futures, options and forward currency purchases or sales.

Intellectual Property

We believe there is a role for organizations that can assist in technology transfer. Scientists and institutions that develop and patent intellectual property perceive the need for and rewards of entrepreneurial commercialization of their inventions.

Our form of investment may be:

- funding research and development in the development of a technology;
- obtaining licensing rights to intellectual property or patents;
- acquiring intellectual property or patents; or
- forming and funding companies or joint ventures to commercialize further intellectual property.

Income from our investments in intellectual property or its development may take the form of participation in licensing or royalty income, fee income, or some other form of remuneration. In order to satisfy RIC requirements, these investments may be held in an entity taxable as a corporation. Investment in developmental intellectual property rights involves a high degree of risk that can result in the loss of our entire investment as well as additional risks, including uncertainties as to the valuation of an investment and potential difficulty in liquidating an investment. Further, investments in intellectual property generally require investor patience, as investment return may be realized only after or over a long period. At some point during the commercialization of a technology, our investment may be transformed into ownership of securities of a small business, as discussed above.

Importance of Availability of Liquid Capital

Privately held equity investment funds are structured commonly as limited partnerships with a committed level of capital and finite lifetime. Capital is "called" from limited partners to make investments and pay for expenses of running the fund at various points within its lifetime. For each initial investment, the fund must reserve additional capital for follow-on investments at later stages of the life of the portfolio companies. These follow-on investments are required because often portfolio companies in areas in which we invest, whether privately held or publicly traded, operate with negative cash flow for periods of time. In general, the cumulative total of initial invested capital and reserves cannot exceed the committed level of capital of the fund.

Our strategy for investing capital is similar to this approach in some respects. We make initial investments in privately held and publicly traded companies and project the amount of capital that may be required should the company mature successfully. These projections, equivalent to the reserves of privately held equity-focused investment funds, are reviewed weekly by management, are updated frequently and are a component of the data that guide our decisions on whether to make new and/or follow-on investments. As a publicly traded, internally managed investment company, our cash used to make investments and pay expenses is held by us and not called from external sources when needed.

Borrowing and Margin Transactions

We may from time to time borrow money or obtain credit by any lawful means from banks, lending institutions, other entities or individuals, in negotiated transactions. We may issue, publicly or privately, bonds, debentures or notes, in series or otherwise, with interest rates and other terms and provisions, including conversion rights, on a secured or unsecured basis, for any purpose, up to the maximum amounts and percentages permitted for BDCs under the 1940 Act. The 1940 Act currently prohibits us from borrowing any money or issuing any other senior securities (including preferred stock but excluding temporary borrowings of up to five percent of our assets), if after giving effect to the borrowing or issuance, the value of our total assets less liabilities not constituting senior securities would be less than 200 percent of our senior securities. We may pledge assets to secure any borrowings.

On September 30, 2013, the Company entered into a $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 the other lenders party thereto from time to time, which provided a multi-draw credit facility (the "Loan Facility") that could be used by us to fund investments in portfolio companies. We pledged our assets to secure any borrowings. The draw period for the Loan Facility ended on September 30, 2016. On December 1, 2016, we paid off all outstanding obligations associated with the Loan Facility and the Loan Facility was no longer in effect as of that date. The funds used to pay off the obligations were from the sale of Metabolon, Inc., during the fourth quarter that generated a gain on invested capital. As of December 31, 2016, we did not have outstanding debt.

Portfolio Company Turnover

Changes with respect to portfolio companies will be made as our management considers necessary in seeking to achieve our investment objectives. The rate of portfolio turnover will not be treated as a limiting or relevant factor considered by management when making portfolio changes.

Although we expect that many of our investments will be relatively long term in nature, we may make changes in our particular portfolio holdings whenever it is considered that an investment no longer has substantial growth potential or has reached its anticipated level of performance, or (especially when cash is not otherwise available) that another investment appears to have a relatively greater opportunity for capital appreciation. We may also make general portfolio changes to increase our cash and position ourselves in a defensive posture. We may make portfolio changes without regard to the length of time we have held an investment, or whether a sale results in profit or loss, or whether a purchase results in the reacquisition of an investment that we may have only recently sold. Our investments in privately held small businesses are illiquid, which limits portfolio turnover. The portfolio turnover rate may vary greatly during a year as well as from year to year and may also be affected by cash requirements.

We currently expect that our portfolio company turnover will increase from historical rates as we make more investments in securities of publicly traded companies.

Management

Achievement of our investment objective as of December 31, 2016, was primarily dependent upon the judgment of Douglas W. Jamison and Daniel B. Wolfe, full-time members of management. Blake Stevens, Senior Associate, and Alexei Andreev, a part-time employee who is a Venture Partner, were also involved in the management of our investment portfolio.

We currently expect that shortly following the scheduled Special Meeting of shareholders on March 24, 2017, Douglas W. Jamison, our current Chairman and Chief Executive Officer, will resign from all of his positions with the Company to become Chairman and Chief Executive Officer of HALE.life Corporation, a portfolio holding of the Company. Simultaneous with Mr. Jamison’s resignation, the Board intends to appoint Kevin M. Rendino, who currently serves as a director on our Board, as Chairman and Chief Executive Officer of the Company.

There can be no assurance that a suitable replacement could be found for any of our officers upon their retirement, resignation, inability to act on our behalf, or death.

Competition

Numerous companies and individuals are engaged in investing in privately held or small publicly traded businesses, and such businesses are intensely competitive. We believe our corporate structure permits public market investors to participate in investing in privately held or small publicly traded businesses, company building, specialty finance leveraging access to due diligence, constructive activism and other resources that may not be readily accessible to public market investors. We also believe our corporate structure permits greater liquidity and better transparency than private investment funds and private equity businesses. We believe we are a unique company with our focus on being actively involved investors in small capitalization publicly traded companies and privately held companies as a liquid, U.S. exchange-listed, publicly traded company.

Many of our competitors have significantly greater financial and other resources than we do and are, therefore, in certain respects, in a better position than we are to obtain access to attractive investment opportunities. There can be no assurance that we will be able to compete against these businesses for attractive investments, particularly in capital-intensive companies.

Regulation

The Small Business Investment Incentive Act of 1980 amended the 1940 Act to establish the regulatory framework for BDCs. BDCs are a special type of investment company. After a company files its election to be treated as a BDC, it may not withdraw its election without first obtaining the approval of holders of a majority of its outstanding voting securities. The following is a brief description of the 1940 Act provisions applicable to BDCs, qualified in its entirety by reference to the full text of the 1940 Act and the rules issued thereunder by the Securities and Exchange Commission ("SEC").

Generally, to be eligible to elect BDC status, a company must primarily engage in the business of furnishing capital and making significant managerial assistance available to companies that do not have ready access to capital through conventional financial channels such as private companies and small public companies. The companies that satisfy certain additional criteria described below are termed "eligible portfolio companies." In general, in order to qualify as a BDC, a company must: (i) be a domestic company; (ii) have registered a class of its securities pursuant to Section 12 of the Securities Exchange Act of 1934 (the "Exchange Act"); (iii) operate for the purpose of investing in the securities of certain types of portfolio companies, including early-stage or emerging companies and businesses suffering or just recovering from financial distress (see following paragraph); (iv) make available significant managerial assistance to such portfolio companies; and (v) file a proper notice of election with the SEC.

An eligible portfolio company generally is a domestic company that is not an investment company or a company excluded from investment company status pursuant to exclusions for certain types of financial companies (such as brokerage firms, banks, insurance companies and investment banking firms) and that: (i) has a fully diluted market capitalization of less than $250 million and has a class of equity securities listed on a national securities exchange, (ii) does not have a class of securities listed on a national securities exchange, or (iii) is controlled by the BDC by itself or together with others (control under the 1940 Act is presumed to exist where a person owns at least 25 percent of the outstanding voting securities of the portfolio company) and has a representative on the board of directors of such company.

As with other companies regulated by the 1940 Act, a BDC must adhere to certain substantive regulatory requirements. A majority of the directors must be persons who are not interested persons, as that term is defined in the 1940 Act. Additionally, we are required to provide and maintain a bond issued by a reputable fidelity insurance company to protect the BDC. Furthermore, as a BDC, we are prohibited from protecting any director or officer against any liability to us or our shareholders arising from willful malfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person's office. We may be periodically examined by the SEC for compliance with the 1940 Act and federal securities laws.

The 1940 Act provides that as a BDC, we may not make an investment in non-qualifying assets unless at the time at least 70 percent of the value of our total assets (measured as of the date of our most recently filed financial statements) consists of qualifying assets. Qualifying assets include: (i) securities of eligible portfolio companies; (ii) securities of certain companies that were eligible portfolio companies at the time we initially acquired their securities and in which we retain a substantial interest; (iii) securities of certain controlled companies; (iv) securities of certain bankrupt, insolvent or distressed companies; (v) securities received in exchange for or distributed in or with respect to any of the foregoing; and (vi) cash items, U.S. government and agency securities and high quality short-term debt. The SEC has adopted a rule permitting a BDC to invest its cash in certain money market funds. The 1940 Act also places restrictions on the nature of the transactions in which securities can be purchased in some instances in order for the securities to be considered qualifying assets.

We are permitted by the 1940 Act, under specified conditions, to issue multiple classes of debt and a single class of preferred stock if our asset coverage, as defined in the 1940 Act, is at least 200 percent after the issuance of the debt or the preferred stock (i.e., such senior securities may not be in excess of our net assets). Under specific conditions, we are also permitted by the 1940 Act to issue warrants.

Except under certain conditions, we may sell our securities at a price that is below the prevailing net asset value per share only during the 12-month period after (i) a majority of our directors and our disinterested directors have determined that such sale would be in the best interest of us and our shareholders and (ii) the holders of a majority of our outstanding voting securities and the holders of a majority of our voting securities held by persons who are not affiliated persons of ours approve our ability to make such issuances. A majority of the disinterested directors must determine in good faith that the price of the securities being sold is not less than a price which closely approximates the market value of the securities, less any distribution discount or commission.

Certain transactions involving certain closely related persons of the Company, including its directors, officers and employees, may require the prior approval of the SEC. However, the 1940 Act ordinarily does not restrict transactions between us and our portfolio companies.

We have adopted a code of ethics pursuant to Rule 17j-1 under the 1940 Act that establishes procedures for personal investments and restricts certain personal securities transactions. Personnel subject to the code may invest in securities for their personal investment accounts, including securities that may be purchased or held by us, so long as such investments are made in accordance with the code's requirements.

Tax Status

The following discussion is a general summary of certain material U.S. federal income tax considerations relating to our qualification and taxation as a RIC and the acquisition, ownership and disposition of our preferred stock or common stock, but does not purport to be a complete description of the income tax considerations relating thereto. For example, we have not described tax consequences that we assume to be generally known by investors or certain considerations that may be relevant to certain types of investors subject to special treatment under U.S. federal income tax laws, including tax-exempt organizations, insurance companies, dealers in securities, pension plans and trusts, financial institutions, traders in securities that elect to use the mark-to-market method of accounting for securities holdings, persons subject to the alternative minimum tax, U.S. expatriates, U.S. persons with a functional currency other than the U.S. dollar, persons that hold our preferred stock or common stock as part of an integrated investment (including a "straddle"), "controlled foreign corporations," "passive foreign investment companies," or corporations that accumulate earnings to avoid U.S. federal income tax. This summary is limited to beneficial owners of our preferred stock or common stock that will hold our preferred stock or common stock as capital assets (within the meaning of the Code). The discussion is based upon the Code, temporary and final U.S. Treasury regulations, and administrative and judicial interpretations, each as of the date hereof and all of which are subject to change, possibly retroactively, which could affect the continuing validity of this discussion. We have not sought and will not seek any ruling from the Internal Revenue Service (the "IRS") regarding our preferred stock or common stock. This summary does not discuss any aspects of U.S. estate or gift tax or foreign, state or local tax. It does not discuss the special treatment under U.S. federal income tax laws that could result if we invested in tax-exempt securities or certain other investment assets.

This summary does not discuss the consequences of an investment in our subscription rights, debt securities or warrants representing rights to purchase shares of our preferred stock, common stock or debt securities or as units comprised of combinations of securities. The U.S. federal income tax consequences of such an investment will be discussed in the relevant prospectus supplement. In addition, we may issue preferred stock with terms resulting in U.S. federal income taxation of beneficial owners with respect to such preferred stock in a manner different from that set forth in this summary. In such instances, such differences will be discussed in a relevant prospectus supplement.

If a partnership (including an entity treated as a partnership for U.S. federal income tax purposes) holds shares of our preferred stock or common stock, the tax treatment of a partner in the partnership will generally depend upon the status of the partner, the activities of the partnership and certain determinations made at the partner level. Investors treated as partnerships for U.S. federal income tax purposes (or investors that are partners in such a partnership) are encouraged to consult with their own tax advisers with respect to the tax consequences relating to the purchase, ownership and disposition of our preferred stock or common stock.

Tax matters are very complicated, and the tax consequences to an investor in our securities will depend on the facts of their particular situation. We encourage investors to consult their own tax advisers regarding the specific consequences of such an investment, including tax reporting requirements, the applicability of federal, state, local and foreign tax laws, eligibility for the benefits of any applicable tax treaty and the effect of any possible changes in tax laws.

Election to be Taxed as a RIC

Effective on January 1, 1997, we met the criteria specified below to qualify as a RIC and elected to be treated as a RIC under Subchapter M of the Code with the filing of our federal income tax return for 1997. As a RIC, we generally will not have to pay corporate taxes on any income we distribute to our shareholders as dividends, which allows us to reduce or eliminate our corporate-level U.S. federal income tax.

Taxation as a RIC

For any taxable year in which we:

- qualify as a RIC; and
- distribute at least 90 percent of our net ordinary income and realized net short-term gains in excess of realized net long-term capital losses, if any (the "Annual Distribution Requirement").

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We generally will not be subject to federal income tax on the portion of our investment company taxable income and net capital gain (i.e., net realized long-term capital gains in excess of net realized short-term capital losses) that we distribute (or are deemed to distribute) to shareholders with respect to that year. We made an election to recognize built-in gains as of the effective date of our election to be treated as a RIC and, therefore, will not be subject to built-in gains tax when we sell those assets. However, if we subsequently acquire built-in gain assets from a C corporation in a carryover basis transaction, then we may be subject to tax on the gains recognized by us on dispositions of such assets unless we make a special election to pay corporate-level tax on such built-in gain at the time the assets are acquired. We will be subject to U.S. federal income tax at the regular corporate rates on any income or capital gains not distributed (or deemed distributed) to our shareholders.

In order to qualify as a RIC for federal income tax purposes and obtain the tax benefits of RIC status, in addition to satisfying the Annual Distribution Requirement, we must, among other things:

- have in effect at all times during each taxable year an election to be regulated as a BDC under the 1940 Act;
- derive in each taxable year at least 90 percent of our gross income from (a) dividends, interest, payments with respect to certain securities loans, gains from the sale of stock or other securities, or other income derived with respect to our business of investing in such stock or securities and (b) net income derived from an interest in a "qualified publicly traded partnership" (the "90 Percent Income Test"); and
- diversify our holdings so that at the end of each quarter of the taxable year:
  - at least 50 percent of the value of our assets consists of cash, cash equivalents, U.S. government securities, securities of other RICs, and other securities if such other securities of any one issuer do not represent more than 5 percent of the value of our assets or more than 10 percent of the outstanding voting securities of such issuer; and
  - no more than 25 percent of the value of our assets is invested in (i) securities (other than U.S. government securities or securities of other RICs) of one issuer, (ii) securities of two or more issuers that are controlled, as determined under applicable tax rules, by us and that are engaged in the same or similar or related trades or businesses or (iii) securities of one or more "qualified publicly traded partnerships" (the "Diversification Tests").

As noted above, in order to qualify as a RIC, we must satisfy the Diversification Tests each quarter. Because of the specialized nature of our investment portfolio, in some years we have been able to satisfy the diversification requirements under Subchapter M of the Code primarily as a result of receiving certification from the SEC under the Code with respect to each taxable year beginning after 1998 that we were "principally engaged in the furnishing of capital to other corporations which are principally engaged in the development or exploitation of inventions, technological improvements, new processes, or products not previously generally available" for such year.

Although we received SEC certifications for 1999 to 2015, there can be no assurance that we will receive such certification for subsequent years (to the extent we need additional certifications as a result of changes in our portfolio). If we require, but fail to obtain, the SEC certification for a taxable year, we may fail to qualify as a RIC for such year. We also will fail to qualify for favorable RIC tax treatment for a taxable year if we do not satisfy the 90 Percent Income Test, Diversification Tests or Annual Distribution Requirement for such year. In the event we do not satisfy the 90 Percent Income Test, the Diversification Tests or the Annual Distribution Requirement for any taxable year, we will be subject to federal tax with respect to all of our taxable income, whether or not distributed. In addition, all our distributions to shareholders in that situation generally will be taxable as ordinary dividends.

Although we currently intend to qualify as a RIC for each taxable year, under certain circumstances, we may choose to take action with respect to one or more taxable years to ensure that we would be taxed under Subchapter C of the Code (rather than Subchapter M) for such year or years. Additionally, income from fees for providing managerial assistance to portfolio companies generally does not qualify as good RIC income under the 90 Percent Income Test. During the year ended December 31, 2016, the Company generated more income from such fees and failed to qualify as a RIC for the 2016 tax year owing to its inability to satisfy the 90 Percent Income Test. The Company is, therefore, obligated to be taxed under Subchapter C of the Code (subject to federal, state and local income tax) on its taxable income, if any. Although the Company failed the 90 Percent Income Test for 2016, it does not have taxable income and is in a loss position owing to gains being offset by capital and net operating losses during the current year. The Company will continue to evaluate the long-term impact of potential taxation as a C-Corporation based on tax liabilities resulting from failure to pass the 90 Percent Income Test, the Diversification Tests or the Annual Distribution Requirement in each subsequent year.

Our ownership percentages in our portfolio have increased over the last several years, which make it more difficult to pass certain RIC Diversification Tests when companies in our portfolio are successful and we wish to invest additional capital in those companies to increase our investment returns. As long as the aggregate values of our non-qualifying assets remain below 50 percent of total assets, we will pass the Diversification Tests. Rather than selling portfolio companies that are performing well in order to pass the RIC Diversification Tests, we may opt instead not to qualify as a RIC and to be taxed as a C-Corporation. We will choose to take such action only if we believe that the result of the action will benefit us and our shareholders.

Under applicable Treasury regulations and certain private rulings issued by the IRS, RICs are permitted to treat certain distributions payable in up to 80 percent in their stock as taxable dividends, which will satisfy their annual distribution obligations for federal income tax and excise tax purposes provided that shareholders have the opportunity to elect to receive the distribution in cash. Taxable shareholders receiving such dividends will be required to include the full amount of the dividend as ordinary income (or as long-term capital gain to the extent such distribution is properly designated as a capital gain dividend) to the extent of our current and accumulated earnings and profits for U.S. federal income tax purposes. As a result, a U.S. shareholder may be required to pay tax with respect to such dividends in excess of any cash received. If a U.S. shareholder sells the stock it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. shareholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our shareholders determine to sell shares of our stock in order to pay taxes owed on dividends, then such sales may put downward pressure on the trading price of our stock. We may in the future determine to distribute taxable dividends that are payable in part in our common stock.

As a RIC, we will be subject to a 4 percent non-deductible federal excise tax on certain undistributed income unless we distribute in a timely manner an amount at least equal to the sum of (1) 98 percent of our ordinary income for each calendar year, (2) 98.2 percent of our capital gain net income for the one-year period ending October 31 in that calendar year and (3) any income recognized, but not distributed, in preceding years and on which we paid no federal income tax (the "Excise Tax Avoidance Requirement"). We will not be subject to excise taxes on amounts on which we are required to pay corporate income tax (such as retained net capital gains). Depending on the level of taxable income earned in a tax year, we may choose to carry over taxable income in excess of current year distributions from such taxable income into the next tax year and pay a 4 percent excise tax on such income, as required. The maximum amount of excess taxable income that may be carried over for distribution in the next year under the Code is the total amount of dividends paid in the following year, subject to certain declaration and payment guidelines. To the extent we choose to carry over taxable income into the next tax year, dividends declared and paid by us in a year may differ from taxable income for that year as such dividends may include the distribution of current year taxable income, the distribution of prior year taxable income carried over into and distributed in the current year, or returns of capital.

We may be required to recognize taxable income in circumstances in which we do not receive a corresponding payment in cash. For example, if we hold debt obligations that are treated under applicable tax rules as having original issue discount (such as debt instruments with payment-in-kind interest or, in certain cases, increasing interest rates or debt instruments that were issued with warrants), we must include in income each year a portion of the original issue discount that accrues over the life of the obligation, regardless of whether cash representing such income is received by us in the same taxable year. Because any original issue discount accrued will be included in our investment company taxable income for the year of accrual, we may be required to make a distribution to our shareholders in order to satisfy the Annual Distribution Requirement and the Excise Tax Avoidance Requirement, even though we will not have received any corresponding cash amount.

Gain or loss realized by us from the sale or exchange of warrants acquired by us as well as any loss attributable to the lapse of such warrants generally will be treated as a capital gain or loss. Such gain or loss generally will be long-term or short-term, depending on how long we held a particular warrant.

We are authorized to borrow funds and to sell assets in order to satisfy the Annual Distribution Requirement and the Excise Tax Avoidance Requirement (collectively, the "Distribution Requirements"). However, under the 1940 Act, we are not permitted to make distributions to our shareholders while our debt obligations and other senior securities are outstanding unless certain "asset coverage" tests are met. We may be restricted from making distributions under the terms of our debt obligations themselves unless certain conditions are satisfied. Moreover, our ability to dispose of assets to meet the Distribution Requirements may be limited by (1) the illiquid nature of our portfolio, or (2) other requirements relating to our status as a RIC, including the Diversification Tests. If we dispose of assets in order to meet the Distribution Requirements, we may make such dispositions at times that, from an investment standpoint, are not advantageous. If we are prohibited from making distributions or are unable to obtain cash from other sources to make the distributions, we may fail to qualify as a RIC, which would result in us becoming subject to corporate-level federal income tax.

Any transactions in options, futures contracts, constructive sales, hedging, straddle, conversion or similar transactions, and forward contracts will be subject to special tax rules, the effect of which may be to accelerate income to us, defer losses, cause adjustments to the holding periods of our investments, convert long-term capital gains into short-term capital gains, convert short-term capital losses into long-term capital losses or have other tax consequences. These rules could affect the amount, timing and character of distributions to shareholders. We do not currently intend to engage in these types of transactions.

Although we have not done so historically, if we invest in certain real estate investment trusts or residual interests of real estate mortgage investment conduits, a portion of our income may be classified as "excess inclusion income." Investors that are not otherwise subject to tax may be taxable on their share of any such excess inclusion income as unrelated business taxable income ("UBTI"). In addition, tax may be imposed on us on the portion of any excess inclusion income allocable to any investors that are classified as disqualified organizations.

A RIC is limited in its ability to deduct expenses in excess of its "investment company taxable income" (which is, generally, ordinary income plus net realized short-term capital gains in excess of net realized long-term capital losses). If our expenses in a given year exceed gross taxable income (e.g., as the result of large amounts of equity-based compensation), we would experience a net operating loss for that year. However, a RIC is not permitted to carry forward net operating losses to subsequent years and such net operating losses do not pass through to the RIC's shareholders. In addition, expenses can be used only to offset investment company taxable income, not net capital gain. A RIC may not use any net capital losses (that is, realized capital losses in excess of realized capital gains) to offset the RIC's investment company taxable income, but may carry forward such losses and can use certain of them to offset capital gains indefinitely. Losses incurred prior to the Regulated Investment Company Modernization Act of 2010 carry an expiration date and must be used prior to post-enactment losses. As a result of this ordering rule, pre-enactment loss carryforwards may be more likely to expire unused. Owing to these limits on the deductibility of expenses and net capital losses, we may for tax purposes have aggregate taxable income for several years that we are required to distribute and that is taxable to our shareholders even if such income is greater than the aggregate net income we actually earned during those years. Such required distributions may be made from our cash assets or by liquidation of investments, if necessary. We may realize gains or losses from such liquidations. In the event we realize net capital gains from such transactions, you may receive a larger capital gain distribution than you would have received in the absence of such transactions.

Investment income received from sources within foreign countries, or capital gains earned by investing in securities of foreign issuers, may be subject to foreign income taxes withheld at the source. In this regard, withholding tax rates in countries with which the United States does not have a tax treaty are often as high as 35 percent or more. The United States has entered into tax treaties with many foreign countries that may entitle us to a reduced rate of tax or exemption from tax on this related income and gains. The effective rate of foreign tax cannot be determined at this time since the amount of our assets to be invested within various countries is not presently known. We do not anticipate being eligible for the special election that allows a RIC to treat foreign income taxes paid by such RIC as paid by its shareholders.

If we acquire stock in certain foreign corporations that receive at least 75 percent of their annual gross income from passive sources (such as interest, dividends, rents, royalties or capital gain) or hold at least 50 percent of their total assets in investments producing such passive income ("passive foreign investment companies"), we could be subject to federal income tax. We could also be subject to additional interest charges on "excess distributions" received from such companies or gain from the sale of stock in such companies, even if all income or gain actually received by us is timely distributed to our shareholders. We would not be able to pass through to our shareholders any credit or deduction for such a tax. Certain elections may, if available, ameliorate these adverse tax consequences, but any such election requires us to recognize taxable income or gain without the concurrent receipt of cash. We intend to limit and/or manage our holdings in passive foreign investment companies to minimize our tax liability. Foreign exchange gains and losses realized by us in connection with certain transactions involving non-dollar debt securities, certain foreign currency futures contracts, foreign currency option contracts, foreign currency forward contracts, foreign currencies, or payables or receivables denominated in a foreign currency are subject to Code provisions that generally treat such gains and losses as ordinary income and losses and may affect the amount, timing and character of distributions to our shareholders. Any such transactions that are not directly related to our investment in securities (possibly including speculative currency positions or currency derivatives not used for hedging purposes) could, under future Treasury regulations, produce income not among the types of "qualifying income" from which a RIC must derive at least 90 percent of its annual gross income.

Taxation of U.S. Shareholders

A "U.S. shareholder" generally is a beneficial owner of shares of our preferred stock or common stock who is for U.S. federal income tax purposes:

- a citizen or individual resident of the United States including an alien individual who is a lawful permanent resident of the United States or meets the "substantial presence" test under Section 7701(b) of the Code;
- a corporation or other entity taxable as a corporation, for U.S. federal income tax purposes, created or organized in or under the laws of the United States or any political subdivision thereof;
- a trust if (1) a court in the United States has primary supervision over its administration and one or more U.S. persons has the authority to control all substantial decisions of such trust or (2) if such trust validly elects to be treated as a U.S. person for federal income tax purposes; or
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source.

For federal income tax purposes, distributions by us generally are taxable to U.S. shareholders as ordinary income or capital gains. Distributions of our "investment company taxable income" (which is, generally, our ordinary income plus net realized short-term capital gains in excess of net realized long-term capital losses) will be taxable as ordinary income to U.S. shareholders to the extent of our current or accumulated earnings and profits, whether paid in cash or reinvested in additional preferred stock or common stock. To the extent such distributions paid to non-corporate U.S. shareholders (including individuals) are attributable to dividends from U.S. corporations and certain qualified foreign corporations, such distributions may be reported by us as "qualified dividend income" eligible to be taxed in the hands of non-corporate shareholders at the rates applicable to long-term capital gains, provided certain holding period and other requirements are met at both the shareholder and company levels. In this regard, it is anticipated that distributions paid by us generally will not be attributable to dividends and, therefore, generally will not be qualified dividend income. Distributions of our net capital gains (which is generally our realized net long-term capital gains in excess of realized net short-term capital losses) properly reported by us as "capital gain dividends" will be taxable to a U.S. shareholder as long-term capital gains (currently at a maximum rate of 20 percent, in the case of individuals, trusts or estates), regardless of the U.S. shareholder's holding period for his, her or its preferred stock or common stock and regardless of whether paid in cash or reinvested in additional preferred stock or common stock. Distributions in excess of our current and accumulated earnings and profits first will reduce a U.S. shareholder's adjusted tax basis in such shareholder's preferred stock or common stock and, after the adjusted basis is reduced to zero, will constitute capital gains to such U.S. shareholder.

We currently intend to retain some or all of our realized net long-term capital gains in excess of realized net short-term capital losses, but to designate the retained net capital gain as a "deemed distribution." In that case, among other consequences, we will pay tax on the retained amount, each U.S. shareholder will be required to include his, her or its share of the deemed distribution in income as if it had been actually distributed to the U.S. shareholder, and the U.S. shareholder will be entitled to claim a tax credit equal to his, her or its allocable share of the tax paid thereon by us. Since we expect to pay tax on any retained net capital gains at our regular corporate tax rate, and since that rate is in excess of the maximum rate currently payable by non-corporate shareholders on long-term capital gains, the amount of tax that non-corporate shareholders will be treated as having paid and for which they will receive a credit will exceed the tax they owe on the retained net capital gain. Such excess generally may be claimed as a credit against the U.S. shareholder's other federal income tax obligations or may be refunded to the extent it exceeds a shareholder's liability for federal income tax. A shareholder that is not subject to federal income tax or otherwise required to file a federal income tax return would be required to file a federal income tax return on the appropriate form in order to claim a refund for the taxes we paid. For federal income tax purposes, the tax basis of shares owned by a U.S. shareholder will be increased by an amount equal under current law to the difference between the amount of undistributed capital gains included in the U.S. shareholder's gross income and the tax deemed paid by the U.S. shareholder as described in this paragraph. In order to utilize the deemed distribution approach, we must provide written notice to our shareholders prior to the expiration of 60 days after the close of the relevant taxable year. We cannot treat any of our investment company taxable income as a "deemed distribution."

For purposes of determining (1) whether the Annual Distribution Requirement is satisfied for any year and (2) the amount of the deduction for ordinary income and capital gain dividends paid for that year, we may, under certain circumstances, elect to treat a dividend that is paid during the following taxable year as if it had been paid during the taxable year in question. If we make such an election, the U.S. shareholder will still be treated as receiving the dividend in the taxable year in which the distribution is made. However, any dividend declared by us in October, November or December of any calendar year, payable to shareholders of record on a specified date in such a month and actually paid during January of the following year, will be treated as if it had been received by our U.S. shareholders on December 31 of the year in which the dividend was declared.

If an investor purchases shares of our preferred stock or common stock shortly before the record date of a distribution, the price of the shares will include the value of the distribution and the investor will be subject to tax on the distribution even though economically it may represent a return of his, her or its investment.

A U.S. shareholder generally will recognize a taxable gain or loss if the U.S. shareholder sells or otherwise disposes of his, her or its shares of our preferred stock or common stock. Any gain arising from such sale or disposition generally will be treated as a long-term capital gain or loss if the U.S. shareholder has held his, her or its shares for more than one year. Otherwise, it will be classified as a short-term capital gain or loss. However, any capital loss arising from the sale or disposition of shares of our preferred stock or common stock held for six months or less will be treated as a long-term capital loss to the extent of the amount of capital gain dividends received, or undistributed capital gain deemed received, with respect to such shares. In addition, all or a portion of any loss recognized upon a disposition of shares of our preferred stock or common stock may be disallowed if other shares of our common stock are purchased (whether through reinvestment of distributions or otherwise) within 30 days before or after the disposition. In such a case, the basis of the newly purchased shares will be adjusted to reflect the disallowed loss.

In general, individual U.S. shareholders currently are subject to a reduced maximum federal income tax rate of 20 percent on their net capital gain (i.e., the excess of realized net long-term capital gain over realized net short-term capital loss for a taxable year) including any long-term capital gain derived from an investment in our shares. Such rate is lower than the maximum rate on ordinary income currently payable by individuals. In addition, individuals with income in excess of $200,000 ($250,000 in the case of married individuals filing jointly) and certain estates and trusts are subject to an additional 3.8 percent tax on their "net investment income," which generally includes net income from interest, dividends, annuities, royalties, and rents, and net capital gains (other than certain amounts earned from trades or businesses). Corporate U.S. shareholders currently are subject to federal income tax on net capital gain at the maximum 35 percent rate also applied to ordinary income. Non-corporate U.S. shareholders with net capital losses for a year (i.e., capital losses in excess of capital gains) generally may deduct up to $3,000 of such losses against their ordinary income each year; any net capital losses of a non-corporate shareholder in excess of $3,000 generally may be carried forward and used in subsequent years as provided in the Code. Corporate U.S. shareholders generally may not deduct any net capital losses for a year, but may carry back such losses for three years or carry forward such losses for five years.

We (or the applicable withholding agent) will send to each of our U.S. shareholders, as promptly as possible after the end of each calendar year, a notice reporting the amounts includible in such U.S. shareholder's taxable income for such year as ordinary income and as long-term capital gain. In addition, the federal tax status of each year's distributions generally will be reported to the IRS (including the amount of dividends, if any, eligible for the 20 percent "qualified dividend income" rate). Distributions may also be subject to additional state, local, and foreign taxes depending on a U.S. shareholder's particular situation. Dividends distributed by us generally will not be eligible for the corporate dividends received deduction or the preferential rate applicable to "qualified dividend income."

In some taxable years, we may be subject to the alternative minimum tax ("AMT"). If we have tax items that are treated differently for AMT purposes than for regular tax purposes, we may apportion those items between us and our shareholders, and this may affect our shareholder's AMT liabilities. Although regulations explaining the precise method of apportionment have not yet been issued by the IRS, we may apportion these items in the same proportion that dividends paid to each shareholder bear to our taxable income (determined without regard to the dividends paid deduction), unless we determine that a different method for a particular item is warranted under the circumstances. You should consult your own tax adviser to determine how an investment in our stock could affect your AMT liability.

We may be required to withhold federal income tax ("backup withholding") from all distributions to any non-corporate U.S. shareholder (1) who fails to furnish us with a correct taxpayer identification number or a certificate that such shareholder is exempt from backup withholding, or (2) with respect to whom the IRS notifies us that such shareholder has failed to properly report certain interest and dividend income to the IRS and to respond to notices to that effect. An individual's taxpayer identification number is his or her social security number. Any amount withheld under backup withholding is allowed as a credit against the U.S. shareholder's federal income tax liability, provided that proper information is timely provided to the IRS.

Generally, an exempt organization is exempt from U.S. federal income tax on its passive investment income, such as dividends, interest and capital gains. This general exemption from tax does not apply to the UBTI of an exempt organization. Generally, income and gain derived by an exempt organization from the ownership and sale of debt-financed property is UBTI and, thus, taxable in the proportion to which such property is financed by "acquisition indebtedness" during the relevant period of time. Tax-exempt U.S. investors will not incur UBTI as a result of our leveraged investment activities, although a tax-exempt investor may incur UBTI on dividend income paid by us and generally on any gain realized on the sale of shares of our common stock, if it borrows to acquire such shares. Tax-exempt U.S. investors may be subject to UBTI on excess inclusion income allocated to such investors as a result of an investment by us (if any) in certain certain real estate investment trusts or residual interests of real estate mortgage investment conduits. Tax-exempt U.S. persons are urged to consult their own tax advisors concerning the U.S. federal tax consequences of an investment in our shares.

Taxation of Non-U.S. Shareholders

A "Non-U.S. shareholder" is a beneficial owner of shares of our preferred stock or common stock that is not a U.S. shareholder or a partnership (including an entity treated as a partnership) for U.S. federal income tax purposes.

Whether an investment in our shares is appropriate for a Non-U.S. shareholder will depend upon that person's particular circumstances. An investment in the shares by a Non-U.S. shareholder may have adverse tax consequences. Non-U.S. shareholders should consult their tax advisers before investing in our preferred stock or common stock.

In general, dividend distributions (other than certain distributions derived from net long-term capital gains) paid by us to a Non-U.S. shareholder are subject to withholding of U.S. federal income tax at a rate of 30 percent (or lower applicable treaty rate) even if they are funded by income or gains (such as portfolio interest, short-term capital gains, or foreign-source dividend and interest income) that, if paid to a Non-U.S. shareholder directly, would not be subject to withholding. If the distributions are effectively connected with a U.S. trade or business of the Non-U.S. shareholder (and, if an income tax treaty applies, attributable to a permanent establishment maintained by the Non-U.S. shareholder in the United States), we will not be required to withhold federal income tax if the Non-U.S. shareholder complies with applicable certification and disclosure requirements, although the distributions will be subject to federal income tax at the rates applicable to U.S. shareholders. (Special certification requirements apply to a Non-U.S. shareholder that is a foreign partnership or a foreign trust, and such entities are urged to consult their own tax advisers.)

However, no withholding is required with respect to certain distributions if (i) the distributions are properly reported as "interest-related dividends" or "short-term capital gain dividends" in written statements to our shareholders, (ii) the distributions are derived from sources specified in the Code for such dividends and (iii) certain other requirements are satisfied. Currently, we do not anticipate that any significant amount of our distributions would be reported as eligible for this exemption from withholding.

Actual or deemed distributions of our net capital gains to a Non-U.S. shareholder, and gains realized by a Non-U.S. shareholder upon the sale of our preferred stock or common stock, will not be subject to federal withholding tax and generally will not be subject to federal income tax unless the distributions or gains, as the case may be, are effectively connected with a U.S. trade or business of the Non-U.S. shareholder (and, if an income tax treaty applies, are attributable to a permanent establishment maintained by the Non-U.S. shareholder in the United States), or in the case of an individual shareholder, the shareholder is present in the United States for a period or periods aggregating 183 days or more during the year of the sale or capital gain dividend and certain other conditions are met.

If we distribute our net capital gains in the form of deemed rather than actual distributions, a Non-U.S. shareholder will be entitled to a federal income tax credit or tax refund equal to the shareholder's allocable share of the tax we pay on the capital gains deemed to have been distributed. In order to obtain the refund, the Non-U.S. shareholder must obtain a U.S. taxpayer identification number and file a federal income tax return even if the Non-U.S. shareholder would not otherwise be required to obtain a U.S. taxpayer identification number or file a federal income tax return. For a corporate Non-U.S. shareholder, distributions (both actual and deemed), and gains realized upon the sale of our preferred stock or common stock that are effectively connected to a U.S. trade or business may, under certain circumstances, be subject to an additional "branch profits tax" at a 30 percent rate (or at a lower rate if provided for by an applicable treaty). Accordingly, investment in the shares may not be appropriate for a Non-U.S. shareholder.

A Non-U.S. shareholder who is a non-resident alien individual, and who is otherwise subject to withholding of federal income tax, may be subject to information reporting and backup withholding of federal income tax on dividends unless the Non-U.S. shareholder provides us or the dividend paying agent with an IRS Form W-8BEN or IRS Form W-8BEN-E (or an acceptable substitute or successor form) or otherwise meets documentary evidence requirements for establishing that it is a Non-U.S. shareholder or otherwise establishes an exemption from backup withholding.

Legislation commonly referred to as the "Foreign Account Tax Compliance Act," or "FATCA," generally imposes a 30 percent withholding tax on payments of certain types of income to foreign financial institutions that fail to enter into an agreement with the U.S. Treasury to report certain required information with respect to accounts held by U.S. persons (or held by foreign entities that have U.S. persons as substantial owners). The types of income subject to the tax include U.S. source interest and dividends, and the gross proceeds from the sale of any property that could produce U.S. source interest or dividends paid after December 31, 2016. The information required to be reported includes the identity and taxpayer identification number of each account holder that is a U.S. person and transaction activity within the holder's account. In addition, subject to certain exceptions, this legislation also imposes a 30 percent withholding on payments to foreign entities that are not financial institutions unless the foreign entity certifies that it does not have a greater than 10 percent U.S. owner or provides the withholding agent with identifying information on each greater than 10 percent U.S. owner. Depending on the status of Non-U.S. holders and the status of the intermediaries through which they hold their shares, Non-U.S. holders could be subject to this 30 percent withholding tax with respect to distributions on their shares and proceeds from the sale of their shares. Under certain circumstances, a Non-U.S. holder might be eligible for refunds or credits of such taxes.

Non-U.S. persons should consult their own tax advisers with respect to the U.S. federal income tax and withholding tax, and state, local and foreign tax consequences of an investment in the shares.

Failure to Qualify as a Regulated Investment Company

If we fail to satisfy the 90 Percent Income Test, the Diversification Tests and the Annual Distribution Requirement for any taxable year, we may nevertheless continue to qualify as a RIC for such year if certain relief provisions are applicable (which may, among other things, require us to pay certain corporate-level federal taxes or to dispose of certain assets).

If we were unable to qualify for treatment as a RIC and the foregoing relief provisions are not applicable, we would be subject to tax on all of our taxable income at regular corporate rates. We would not be able to deduct distributions to shareholders, nor would they be required to be made. Such distributions would be taxable to our shareholders and provided certain holding period and other requirements were met, could qualify for treatment as "qualified dividend income" eligible for the 20 percent maximum rate to the extent of our current and accumulated earnings and profits. Subject to certain limitations under the Code, corporate distributions would be eligible for the dividends-received deduction. Distributions in excess of our current and accumulated earnings and profits would be treated first as a return of capital to the extent of the shareholder's tax basis, and any remaining distributions would be treated as a capital gain. To requalify as a RIC in a subsequent taxable year, we would be required to satisfy the RIC qualification requirements for that year and dispose of any earnings and profits from any year in which we failed to qualify as a RIC. Subject to a limited exception applicable to RICs that qualified as such under Subchapter M of the Code for at least one year prior to disqualification and that requalify as a RIC no later than the second year following the non-qualifying year, we could be subject to tax on any unrealized net built-in gains in the assets held by us during the period in which we failed to qualify as a RIC that are recognized within the subsequent five years, unless we made a special election to pay corporate-level tax on such built-in gain at the time of our requalification as a RIC.

Subsidiaries

H&H Ventures Management, Inc.SM ("Ventures"), formerly Harris & Harris Enterprises, Inc.SM, is a 100 percent wholly owned subsidiary of the Company and is consolidated in our financial statements. Ventures is a partner in Harris Partners I, L.P.SM, and is taxed as a C Corporation. Harris Partners I, L.P., is a limited partnership and has historically owned our interests in partnership investments. The partners of Harris Partners I, L.P., are Ventures (sole general partner) and the Company (sole limited partner). Ventures, as the sole general partner, consolidates Harris Partners I, L.P.

Available Information

Additional information about us, including our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, are available as soon as reasonably practicable free of charge on our website at www.HHVC.com. Information contained on our website is not incorporated by reference into this Annual Report on Form 10-K, and you should not consider that information to be part of this Annual Report on Form 10-K.

You may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information regarding the Public Reference Room by calling the SEC at 1-800-SEC-0330.

Employees

As of December 31, 2016, we employed seven full-time employees and one part-time employee. As of March 15, 2017, we have seven full-time employees and one part-time employee. We believe our relations with our employees are generally good.

Item 1A. Risk Factors.

Investing in our common stock involves significant risks relating to our business and investment objectives. You should carefully consider the risks and uncertainties described below before you purchase any shares of our common stock. These risks and uncertainties are not the only ones we face. Unknown additional risks and uncertainties, or ones that we currently consider immaterial, may also impact our business. If any of these risks or uncertainties materialize, our business, financial condition or results of operations could be materially adversely affected. In this event, the trading price of our common stock could decline, and you could lose all or part of your investment.

Risks related to our proposed change from a BDC to a registered closed-end fund.

If shareholders approve the proposal to authorize the Board of Directors to withdraw the Company's election to be regulated as a BDC, the withdrawal will become effective upon receipt by the SEC of the Company's application for withdrawal of such election on Form N-54C. When the Company withdraws its election to be treated as a BDC, it will be required to register immediately as a Registered Closed-End Fund under the 1940 Act because it will not be eligible for any exemption without registration. The 1940 Act requires that a Registered Closed-End Fund adopt certain fundamental investment restrictions in its initial registration statement. A BDC is not required to have fundamental investment restrictions. Instead, BDCs are required to have at least 70 percent of their assets invested in eligible portfolio companies, which acts as a substitute for the fundamental investment restrictions that Registered Closed-End Funds are otherwise subject to. Should we receive approval from shareholders to withdraw our election to be regulated as a BDC and transition to a Registered Closed-End Fund with the SEC, the most significant material changes to our business as a result of being required to adopt fundamental investment restrictions will be:

- We may not invest more than 25 percent of our total assets in the securities of companies or entities engaged in any one industry or group of industries. This limitation does not apply to investment in the securities of the U.S. Government, its agencies or instrumentalities;

- We will be required to maintain an asset coverage ratio of at least 300 percent versus 200 percent as a BDC, generally reflecting the ratio of our total assets to senior securities that are indebtedness (or 200 percent in the case of senior securities representing stock, generally reflecting the ratio of our total assets to total senior securities outstanding); and

- We will no longer be limited in our ability to invest in foreign companies and vehicles that are structured as private funds.

The limitation on investing no more than 25 percent of our total assets in the securities of companies or entities engaged in any one industry, or group of industries could prevent us, for example, from making follow-on investments in existing portfolio companies (which could result in the dilution of our position and/or other punitive actions on our securities of those companies). If, in order to make additional investments, we need to dispose of such investments quickly, it could be difficult to dispose of such investments on favorable terms. We may have difficulty in such a case in finding a buyer and, if we do find a buyer, we may have to sell the investments at a substantial loss.

The increase in the asset coverage ratio from 200 percent to 300 percent will reduce the amount of senior securities that are indebtedness we can issue to provide capital to fund our operations and make investments. We do not currently have any senior securities outstanding, nor do we currently plan to issue such securities, but this change could reduce our operational flexibility in the future should we decide to issue such securities. In addition, while we do not intend to specifically target foreign investments, we will no longer be required to invest 70 percent of our assets in U.S.-based eligible portfolio companies once we are no longer a BDC.

If shareholders do not approve the proposal to authorize the Board of Directors to withdraw the Company’s election to be regulated as a BDC, the Company will continue to operate as a BDC.

Risks related to our investments.

Approximately 46 percent of the net asset value attributable to our equity-focused portfolio company investments, or 35 percent of our net asset value, as of December 31, 2016, is concentrated in D-Wave Systems, Inc., AgBiome, LLC, and HZO, Inc.

At December 31, 2016, we valued our investment in D-Wave Systems, Inc., which had a historical cost to us of $5,689,311, at $9,714,459, our investment in AgBiome, LLC, which had a historical cost to us of $3,021,746, at $9,214,997, and our investment in HZO, Inc., which had a historical cost to us of $9,132,398, at $6,613,046.

Any downturn in the business outlook and/or substantial changes in the funding requirements of D-Wave Systems, Inc., AgBiome, LLC, and HZO, Inc., could have a significant effect on the value of our current investments in those companies, and the overall value of our portfolio, and could have a significant adverse effect on the value of our common stock.

The difficult venture capital investment and capital market climates for the types of companies in which we invest could increase the non-performance risk for our portfolio companies.

The potential for future global instabilities remains of concern. Even with signs of economic improvement, the availability of capital for firms that focus on investing in capital-intensive, science-enabled, small businesses, such as the ones in which we have historically invested and continue to hold positions in, continues to be limited. Historically, difficult financing environments have resulted in a higher than normal number of small businesses not receiving capital and being subsequently closed down with a loss to investors, and other small businesses receiving capital but at significantly lower valuations than the preceding financing rounds. Additionally, tightening the liquidity environment for companies seeking financings, sales, IPOs or M&A transactions and the currently volatile public markets in general may negatively affect the available capital to the types of companies we invest in. Further, many of our portfolio companies receive non-dilutive funding through government contracts and grants. Reductions in government spending could have a direct and significant reduction in our portfolio companies' contract or grant awards. Such reductions can also result in reduced budgets at research facilities, which would reduce the volume of products they could potentially purchase from our portfolio companies.

We believe that these factors continue to contribute to the potential for non-performance risk for our portfolio companies that need to raise additional capital or that require substantial amounts of capital to execute on their business plans, as measured on an individual portfolio company basis. We define non-performance 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 that requires or seeks to raise additional capital 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 most recent round of financing. In these circumstances, the portfolio company could be recapitalized at a valuation significantly lower than the post-money valuation implied by our valuation method, sold at a loss to our investment or shut down. In addition, significant changes in the capital markets, including periods of extreme volatility and disruption, have had, and may in the future have, a negative effect on the valuations of our investments and on the potential for liquidity events involving our investments. We believe further that the long-term effects of the difficult private investment market, the volatility and limited capital flowing into small capitalization publicly traded companies and difficult, but improving, liquidity environments will continue to affect negatively the fundraising ability of some small businesses regardless of near-term improvements in the overall global economy and public markets.

Changes in valuations of early-stage small businesses tend to be more volatile than changes in prices of established, more mature securities.

Investments in early- and mid-stage small businesses may be inherently more volatile than investments in more mature businesses. Such immature businesses are inherently fragile and easily affected by both internal and external forces. Our investee companies can lose much or all of their value suddenly in response to an internal or external adverse event. Conversely, these immature small businesses can gain suddenly in value in response to an internal or external positive development. Moreover, because of the lack of daily pricing mechanisms of our privately held companies, our ownership interests in such investments are generally valued only at quarterly intervals by our Valuation Committee. Thus, changes in valuations from one valuation point to another may be larger than changes in valuations of marketable securities that are revalued in the marketplace much more frequently, in some highly liquid cases, virtually continuously. Although we carefully monitor each of our portfolio companies, information pertinent to our portfolio companies is not always known immediately by us, and, therefore, its availability for use in determining value may not always coincide with the timeframe of our valuations required by the federal securities laws.

As of December 31, 2016, our shares of Adesto Technologies Corporation and Enumeral Biomedical Holdings, Inc., were valued using the closing price at the end of the quarter as required by the 1940 Act owing to our determination that the common stock of these companies traded in an active market as of the valuation date. If in future quarters, shares of Adesto Technologies, and Enumeral Biomedical do not continue to trade in an active market as of the dates of valuation, the value of our shares could be materially different.

Additionally, we may price or invest in rounds at lower valuations than prior rounds of financing and/or previously reported valuations in order to receive more favorable terms, such as increased ownership percentages or liquidation preferences, which may result in decreased valuations in the interim. These decreases could be material.

The capital markets may experience periods of disruption and instability. Such market conditions may materially and adversely affect debt and equity capital markets in the United States, which may have a negative impact on our business and operations.

From time to time, capital markets may experience periods of disruption and instability. For example, between 2008 and 2009, the global capital markets were unstable as evidenced by periodic disruptions in liquidity in the debt capital markets, significant write-offs in the financial services sector, the re-pricing of credit risk in the broadly syndicated credit market and the failure of major financial institutions. Despite actions of the U.S. federal government and foreign governments, these events contributed to declining general economic conditions that materially and adversely impacted the broader financial and credit markets and reduced the availability of debt and equity capital for the market as a whole and financial services firms in particular. While market conditions have experienced relative stability in recent years, there have been continuing periods of volatility, and there can be no assurance that adverse market conditions will not reoccur in the future.

Equity capital may be difficult to raise during periods of adverse or volatile market conditions because, subject to some limited exceptions, as a BDC, we are generally not able to issue additional shares of our common stock at a price below our net asset value without first obtaining approval for such issuance from our stockholders and our independent directors.

Significant changes or volatility in the capital markets may also have a negative effect on the valuations of our investments. While most of our investments are not publicly traded, applicable accounting standards require us to assume as part of our valuation process that our investments are sold in a principal market to market participants. Significant changes in the capital markets may also affect the pace of our investment activity and the potential for liquidity events involving our investments. Thus, the illiquidity of our investments may make it difficult for us to sell such investments, and, as a result, we could realize significantly less than the amount at which we have valued our investments if we were required to sell them for liquidity purposes. An inability to raise or access capital could have a material adverse effect on our business, financial condition or results of operations.

Uncertainty about the financial stability of the United States and of several countries in the European Union (EU) could have a significant adverse effect on our business, financial condition and results of operations.

Owing to federal budget deficit concerns, S&P downgraded the federal government's credit rating from AAA to AA+ for the first time in history on August 5, 2011. Further, Moody's and Fitch had warned that they may downgrade the federal government's credit rating. Further downgrades or warnings by S&P or other rating agencies, and the U.S. government's credit and deficit concerns in general, could cause interest rates and borrowing costs to rise, which may negatively impact both the perception of credit risk associated with our debt portfolio and our ability to access the debt markets on favorable terms. In addition, a decreased U.S. government credit rating could create broader financial turmoil and uncertainty, which may weigh heavily on our financial performance and the value of our common stock.

In 2010, a financial crisis emerged in Europe, triggered by high budget deficits and rising direct and contingent sovereign debt in Greece, Ireland, Italy, Portugal and Spain, which created concerns about the ability of these nations to continue to service their sovereign debt obligations. While the financial stability of such countries has improved significantly, risks resulting from any future debt crisis in Europe or any similar crisis could have a detrimental impact on the global economic recovery, sovereign and non-sovereign debt in these countries and the financial condition of European financial institutions. Market and economic disruptions have affected, and may in the future affect, consumer confidence levels and spending, personal bankruptcy rates, levels of incurrence and default on consumer debt and home prices, among other factors. We cannot assure you that market disruptions in Europe, including the increased cost of funding for certain governments and financial institutions, will not impact the global economy, and we cannot assure you that assistance packages will be available or, if available, be sufficient to stabilize countries and markets in Europe or elsewhere affected by a financial crisis. To the extent uncertainty regarding any economic recovery in Europe negatively impacts consumer confidence and consumer credit factors, our business, financial condition and results of operations could be significantly and adversely affected.

In October of 2014, the Federal Reserve announced that it was concluding its bond-buying program, or quantitative easing, which was designed to stimulate the economy and expand the Federal Reserve's holdings of long-term securities, suggesting that key economic indicators, such as the unemployment rate, had showed signs of improvement since the inception of the program. It is unclear what effect, if any, the conclusion of the Federal Reserve's bond-buying program will have on the value of our investments. Additionally, in December 2015 and December 2016, the Federal Reserve raised the federal funds rate and further increases in the federal funds rate are expected in 2017. However, it is possible that, without quantitative easing by the Federal Reserve, these developments, along with the U.S. government's credit and deficit concerns and the European sovereign debt crisis, could cause interest rates and borrowing costs to rise, which may negatively impact our portfolio company’s ability to access the debt markets on favorable terms.

Investing in small, privately held and publicly traded companies involves a high degree of risk and is highly speculative.

A substantial portion of our portfolio consists of investments in preferred stock and bridge loans that are not rated by any rating agency, and if such investments were rated, they would likely receive a rating below investment grade or "junk." A below investment grade or "junk" rating means that, in the rating agency's view, there is increased risk that the obligor on such debt will be unable to pay interest and repay principal on its debt in full. In addition, we have invested a substantial portion of our assets in privately held companies, the securities of which are inherently illiquid. We plan to increase our investment of capital in publicly traded small businesses that we believe are deeply undervalued. Our privately held companies may transition to publicly traded companies through routes other than traditional IPOs and be listed on OTC rather than national exchanges. Although these companies are publicly traded, their stock may not trade at high volumes, and prices can be volatile, which may restrict our ability to sell our positions. These privately held and publicly traded small businesses tend to lack management depth, to have limited or no history of operations and may not have attained profitability. Because of the speculative nature of these investments, these securities have a significantly greater risk of loss than traditional investment securities. Some of our investments are likely to be complete losses or unprofitable, and some will never realize their potential. We have been and will continue to be risk seeking rather than risk averse in our approach to our investments. Neither our investments nor an investment in our common stock is intended to constitute a balanced investment program.

We have historically invested in sectors including life sciences, energy and electronics that are subject to specific risks related to each industry.

We have historically invested the three largest portions of our portfolio in life sciences, energy and electronics companies. Our focus for new investments in publicly traded companies that we believe are undervalued will be agnostic in terms of sector.

Our life sciences portfolio consists of companies that commercialize and integrate products in life sciences-related industries, including precision medicine, biotechnology, pharmaceuticals, diagnostics and medical devices. There are risks in investing in companies that target life sciences-related industries, including, but not limited to, the uncertainty of timing and results of clinical trials to demonstrate the safety and efficacy of products; failure to obtain any required regulatory approval of products; failure to show clinical utility; failure to develop manufacturing processes that meet regulatory standards; competition, in particular from companies that develop rival products; and the ability to protect proprietary technology. Adverse developments in any of these areas may adversely affect the value of our life sciences portfolio.

Our energy portfolio consists of companies that commercialize and integrate products targeted at energy-related markets. There are risks in investing in companies that target energy-related markets, including the rapid and sometimes dramatic price fluctuations of commodities, particularly oil and sugar, and of public equities, the reliance on the capital and debt markets to finance large capital outlays, change in climate, including climate-related regulations, and the dependence on government subsidies to be cost-competitive with non-renewable or energy-efficient solutions. Adverse developments in this market may significantly affect the value of our energy portfolio, and thus our portfolio as a whole.

Our electronics portfolio consists of companies that commercialize and integrate products targeted at electronics-related markets. There are risks in investing in companies that target electronics-related markets, including rapid and sometimes dramatic price erosion of products, the reliance on capital and debt markets to finance large capital outlays, including fabrication facilities, the reliance on partners outside of the United States, particularly in Asia, and inherent cyclicality of the electronics market in general. Additionally, electronics-related companies are currently out of favor with many investment firms. Therefore, access to capital may be difficult or impossible for companies in our portfolio that are pursuing these markets.

Many of the sectors around which our investments have developed are all capital intensive.

Many of sectors where we have historically made investments, life sciences, energy and electronics, are all capital intensive. Currently, financing for capital-intensive companies remains difficult. In some successful companies, we believe we may need to invest more than we currently have planned to invest in these companies. There can be no assurance that we will have the capital necessary to make such investments. In addition, investing greater than planned amounts in our portfolio companies could limit our ability to pursue new investments and fund follow-on investments. Both of these situations could cause us to miss investment opportunities or limit our ability to protect existing investments from dilution or other actions or events that would decrease the value and potential return from these investments.

Our Board of Directors may change our investment objective, operating policies and strategies without prior notice or shareholder approval, the effects of which may be adverse.

In 2013 we announced the refinement of our investment focus for new investments in BIOLOGY+ companies. We define BIOLOGY+ as investments in interdisciplinary life science companies where biology innovation is intersecting with innovations in areas such as electronics, physics, materials science, chemistry, information technology, engineering and mathematics. In 2015, we refined this focus to precision health and precision medicine. At the end of 2016, we announced that our focus will be on investing in what we believe are deeply undervalued, small publicly traded companies where we believe we can positively impact the business and valuation through constructive activism. This focus is not a fundamental policy, and we will not be required to give notice to shareholders prior to making a change from this focus.

Our Board of Directors has the authority to modify or waive our investment objective, current operating policies, investment criteria and strategies without prior notice and without shareholder approval. We cannot predict the effect any changes to our current operating policies, investment criteria and strategies would have on our business, net asset value, operating results and the value of our stock. However, the effects might be adverse, which could negatively impact our ability to pay you dividends and cause you to lose all or part of your investments.

We have and will continue to make follow-on investments in illiquid securities and may not be able to dispose of them when it is advantageous to do so, or ever.

Most of our historical investments have been in equity, equity-linked, or debt securities acquired directly from privately held small businesses. These securities are generally subject to restrictions on resale or otherwise have no established trading market. The illiquidity of most of our portfolio of securities may adversely affect our ability to dispose of these securities at times when it may be advantageous for us to liquidate these investments. We may never be able to dispose of these securities.

In addition, we are typically subject to lock-up provisions that prohibit us from selling our investments into the public market for specified periods of time after IPOs. After a portfolio company completes an IPO, its shares are generally subject to lock-up restrictions for a period of time. These lock-up restrictions apply to us and our shares of the portfolio company, potentially including any shares purchased by us in the IPO, and generally include provisions that stipulate that we are not permitted to offer, pledge or sell our shares, including selling covered call options on our shares, prior to the expiration of the lock-up period. We are also prohibited from entering into securities lending arrangements for these securities during the lock-up period. The market price of securities that we hold may decline substantially before we are able to sell these securities.

We may also hold securities of privately held companies that transition to publicly traded companies through reverse mergers into publicly traded shell companies. In such transactions, holders of shares of the privately held company prior to the reverse merger may be subject to limitations on the sale of securities held including time and volume restrictions. These restrictions may limit our ability to dispose of these securities at times when it may be advantageous for us to liquidate these investments, and the market price of securities that we hold may decline substantially before we are able to sell these securities.

Successful portfolio companies do not always result in positive investment returns.

Depending on the amount and timing of our investments in our portfolio companies, even if a portfolio company is ultimately successful, the returns on our investment in such portfolio company may not be positive. Our portfolio companies often receive capital from other investors in rounds of financing. Depending on the amount of capital that it takes to operate a company until it either becomes cash flow positive or seeks to exit through an IPO or M&A transaction, each round of financing may have different terms, including liquidation preferences and control over company decisions. Depending on which rounds of financings the Company participates in and the terms of the last round of financing, the investment returns for any particular round may be higher or lower than others. Furthermore, our portfolio companies often require more capital than originally expected, and the ultimate value of those companies at realization may not be greater than the capital invested. Each of these scenarios and others could lead to a realized loss on an investment in an ultimately successful company.

Our investments in debt and preferred equity securities of portfolio companies may be extremely risky, and we could lose all or part of our investments.

A portfolio company's failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, termination of its loans and foreclosure on its assets, which could trigger cross-defaults under other agreements and jeopardize our portfolio company's ability to meet its obligations under the debt securities that we hold. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting portfolio company. In addition, if a portfolio company goes bankrupt, even though we may have structured our interest as senior debt, depending on the facts and circumstances, including the extent to which we actually provided significant "managerial assistance" to that portfolio company, a bankruptcy court might recharacterize our debt holding and subordinate all or a portion of our claim to that of another creditor.

When we make an investment in a secured debt instrument of a portfolio company, we generally take a security interest in the available assets of the portfolio company, including the equity interests of its subsidiaries, which we expect to help mitigate the risk that we will not be repaid. However, there is a risk that the collateral securing our loans may decrease in value over time, may be difficult to sell in a timely manner, may be difficult to appraise and may fluctuate in value based upon the success of the business and market conditions, including as a result of the inability of the portfolio company to raise additional capital, and, in some circumstances, our lien could be subordinated to claims of other creditors. In addition, deterioration in a portfolio company's financial condition and prospects, including its inability to raise additional capital, may be accompanied by deterioration in the value of the collateral for the loan. Consequently, the fact that a loan is secured does not guarantee that we will receive principal and interest payments according to the loan's terms, or at all, or that we will be able to collect on the loan should we be forced to enforce our remedies.

When we make an investment in preferred equity securities of a portfolio company, these securities are generally structured as unsecured convertible securities that are non-income producing and thus are not meant to be viewed or considered debt securities. As such, our preferred equity securities are generally subordinated to claims by outstanding debt and other creditors. Deterioration in a portfolio company's financial condition and prospects, including its inability to raise additional capital, may be accompanied by deterioration in the value of the collateral for the loan.

A portfolio company's failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, termination of its loans and foreclosure on its assets, which could trigger cross-defaults under other agreements and jeopardize our portfolio company's ability to meet its obligations under the debt securities that we hold and may not result in proceeds to return for our holdings of preferred stock. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting portfolio company. In addition, if a portfolio company goes bankrupt, even though we may have structured our interest as senior debt, depending on the facts and circumstances, including the extent to which we actually provided significant "managerial assistance" to that portfolio company and/or that we hold equity securities of the portfolio company, a bankruptcy court might recharacterize our debt holding and subordinate all or a portion of our claim to that of another creditor.

To the extent we use debt to finance our investments, changes in interest rates could affect our cost of capital and net investment income.

To the extent we borrow money to make investments, our net investment income will depend, in part, upon the difference between the rate at which we borrow funds and the return from invested funds. As a result, we can offer no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income in the event we use debt to finance our investments. In periods of rising interest rates, our cost of funds could increase, which could reduce our net investment income. In addition, an increase in interest rates could make it more expensive to use debt to finance our investments. As a result, a significant increase in market interest rates could increase our cost of capital, which would reduce our net investment income. A decrease in market interest rates may adversely impact our returns on our cash invested in treasury securities, which would reduce our net investment income and cash available to fund operations. We may also use the proceeds from borrowings to invest in non-income-producing investments. Under this scenario, we would incur costs associated with the borrowings without any income to offset those costs until such investment is monetized. It is possible we may not be able to cover the costs of such borrowings from the returns on those investments.

Our portfolio companies may incur debt that ranks senior to our investments in such companies.

We may make investments in our portfolio companies in the form of bridge notes that typically convert into preferred stock issued in the next round of financing of that portfolio company or other forms of convertible and non-convertible debt securities. Our portfolio companies usually have, or may be permitted to incur, other debt that ranks senior to the debt securities in which we invest. By their terms, debt instruments may provide that the holders are entitled to receive payment of interest and principal on or before the dates on which we are entitled to receive payments on the debt securities in which we invest. Also, in the case of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of debt instruments ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any distribution in respect of our investment. After repaying such senior creditors, such portfolio company may not have any remaining assets to use for repaying its obligations to us. In addition, in companies where we have made investments in the form of bridge notes or other debt securities, we may also have investments in equity in the form of preferred shares. In some cases, a bankruptcy court may subordinate our bridge notes and/or other debt securities to debt holders that do not have equity in the portfolio company.

Our portfolio companies face risks associated with international sales.

We anticipate that certain of our portfolio companies could generate revenue from international sales. Risks associated with these potential future sales include:

- Political and economic instability;

- Export controls and other trade restrictions;

- Changes in legal and regulatory requirements;

- U.S. and foreign government policy changes affecting the markets for the technologies;

- Changes in tax laws and tariffs;

- Convertibility and transferability of international currencies; and

- International currency exchange rate fluctuations.

The effect of global climate change may impact our operations and the operations of our portfolio companies.

There may be evidence of global climate change. Climate change creates physical and financial risk, and some of our portfolio companies may be adversely affected by climate change. For example, the needs of customers of energy companies vary with weather conditions, primarily temperature and humidity. To the extent weather conditions are affected by climate change, energy use could increase or decrease depending on the duration and magnitude of any changes. Increases in the cost of energy could adversely affect the cost of operations of our portfolio companies if the use of energy products or services is material to their business. A decrease in energy use owing to weather changes may affect some of our portfolio companies' financial condition through decreased revenues. Extreme weather conditions in general may disrupt our operations and the operations of our portfolio companies and require more system backups and redundancies, adding to costs, and can contribute to increased system stresses, including service interruptions.

Risks related to our Company and an investment in our securities.

Regulations governing our operation as a BDC may limit our ability to, and the way in which we, raise additional capital, which could have a material adverse impact on our liquidity, financial condition and results of operations.

Our business will in the future require a substantial amount of capital. We may acquire additional capital from the issuance of senior securities (including debt and preferred stock), the issuance of additional shares of our common stock or from securitization transactions. However, we may not be able to raise additional capital in the future on favorable terms or at all. Additionally, we may only issue senior securities up to the maximum amount permitted by the 1940 Act. The 1940 Act permits us to issue senior securities only in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200 percent after such issuance or incurrence. If our assets decline in value and we fail to satisfy this test, we may be required to liquidate a portion of our investments and repay a portion of our indebtedness at a time when such sales or repayment may be disadvantageous, which could have a material adverse impact on our liquidity, financial condition and results of operations.

- Senior Securities. As a result of issuing senior securities, we would also be exposed to typical risks associated with leverage, including an increased risk of loss. If we issue preferred securities, such securities would rank "senior" to common stock in our capital structure, resulting in preferred shareholders having separate voting rights and possibly rights, preferences or privileges more favorable than those granted to holders of our common stock. Furthermore, the issuance of preferred securities could have the effect of delaying, deferring or preventing a transaction or a change of control that might involve a premium price for our common shareholders or otherwise be in your best interest.

- Additional Common Stock. Our Board of Directors may decide to issue common stock to finance our operations rather than issuing debt or other senior securities. As a BDC, we are generally not able to issue our common stock at a price below net asset value without first obtaining required approvals from our shareholders and our independent directors. In any such case, the price at which our securities are to be issued and sold may not be less than a price, that in the determination of our Board of Directors, closely approximates the market value of such securities at the relevant time. We may also make rights offerings to our shareholders at prices per share less than the net asset value per share, subject to the requirements of the 1940 Act. If we raise additional funds by issuing more common stock or senior securities convertible into, or exchangeable for, our common stock, the percentage ownership of our shareholders at that time would decrease, and such shareholders may experience dilution.

We are a non-diversified investment company within the meaning of the 1940 Act, and, therefore, we are not limited with respect to the proportion of our assets that may be invested in securities of a single issuer.

We are classified as a non-diversified investment company within the meaning of the 1940 Act, which means that we are not limited by the 1940 Act with respect to the proportion of our assets that we may invest in securities of a single issuer. To the extent that we assume large positions in the securities of a small number of issuers, our net asset value may fluctuate to a greater extent than that of a diversified investment company as a result of changes in the financial condition or the market's assessment of the issuer. We may also be more susceptible to any single economic or regulatory occurrence than a diversified investment company. We do not have fixed guidelines for diversification, and, therefore, our investments could be concentrated in relatively few portfolio companies.

Our financial condition and results of operations could be negatively affected if a significant investment fails to perform as expected.

Our investment portfolio includes investments that may be significant individually or in the aggregate. If a significant investment in one or more companies fails to perform as expected, such a failure could have a material adverse effect on our financial condition and results of operations, and the magnitude of such effect could be more significant than if we had further diversified our portfolio.

Ineffective internal controls could impact our business and operating results.

Our internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we fail to maintain the adequacy of our internal controls, including any failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business and operating results could be harmed and we could fail to meet our financial reporting obligations.

Economic recessions or downturns could impair our portfolio companies and harm our operating results.

Many of our portfolio companies may be susceptible to economic downturns or recessions and may be unable to repay our loans during these periods. Therefore, during these periods our non-performing assets may increase and the value of our portfolio may decrease if we are required to write down the values of our investments. Adverse economic conditions may also decrease the value of collateral securing some of our loans and the value of our equity investments. Economic slowdowns or recessions could lead to financial losses in our portfolio and a decrease in revenues, net income and assets. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events could prevent us from increasing investments and harm our operating results. We experienced to some extent such effects as a result of the economic downturn that occurred from 2008 through 2009 and may experience such effects again in any future downturn or recession.

When we are a debt or minority equity investor in a portfolio company, we are often not in a position to exert influence on the entity, and other equity holders and management of the company may make decisions that could decrease the value of our portfolio holdings.

When we make debt or minority equity investments, we are subject to the risk that a portfolio company may make business decisions with which we disagree and the other equity holders and management of such company may take risks or otherwise act in ways that do not serve our interests. As a result, a portfolio company may make decisions that could decrease the value of our investment.

Our business model depends upon the development and maintenance of strong referral relationships with asset managers, investment banking firms and other entities active in working with small publicly traded and privately held companies.

We are substantially dependent on our informal relationships, which we use to help identify and gain access to investment opportunities. If we fail to maintain our relationships with key firms, or if we fail to establish strong referral relationships with other firms or other sources of investment opportunities, we will not be able to grow our portfolio of equity investments and achieve our investment objective. In addition, persons with whom we have informal relationships are not obligated to inform us of investment opportunities, and therefore such relationships may not lead to the origination of equity or other investments. Any loss or diminishment of such relationships could effectively reduce our ability to identify attractive portfolio companies that meet our investment criteria, either for direct equity investments or for investments through private secondary market transactions or other secondary transactions.

We may in the future choose to pay dividends in our common stock, in which case you may be required to pay tax in excess of the cash you receive.

We may distribute taxable dividends that are payable in part in our common stock. In accordance with certain applicable Treasury regulations and private letter rulings issued by the Internal Revenue Service ("IRS"), a RIC may treat a distribution of its own common stock as fulfilling the RIC distribution requirements if each stockholder may elect to receive his or her entire distribution in either cash or common stock of the RIC, subject to a limitation that the aggregate amount of cash to be distributed to all stockholders must be at least 20 percent of the aggregate declared distribution. If too many stockholders elect to receive cash, each stockholder electing to receive cash must receive a pro rata amount of cash (with the balance of the distribution paid in common stock). In no event will any stockholder, electing to receive cash, receive less than 20 percent of his or her entire distribution in cash. If these and certain other requirements are met, for U.S. federal income tax purposes, the amount of the dividend paid in common stock will be equal to the amount of cash that could have been received instead of common stock. Taxable stockholders receiving such dividends will be required to include the full amount of the dividend as ordinary income (or as long-term capital gain to the extent such distribution is properly reported as a capital gain dividend) to the extent of our current and accumulated earnings and profits for U.S. federal income tax purposes. As a result, a U.S. stockholder may be required to pay tax with respect to such dividends in excess of any cash received. If a U.S. stockholder sells the stock it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our common stock at the time of the sale. Furthermore, with respect to Non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in common stock. In addition, if a significant number of our stockholders determine to sell shares of our common stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our common stock.

If we do not invest a sufficient portion of our assets in qualifying assets, we could fail to qualify as a BDC or be precluded from investing according to our current business strategy.

As a BDC, we may not acquire any assets other than "qualifying assets" unless, at the time of and after giving effect to such acquisition, at least 70 percent of our total assets are qualifying assets, which may prevent us from making certain investments that we would otherwise view as attractive opportunities or important to facilitate transactions such as IPOs through participation in such offerings.

In the event we remain a BDC, we believe that most of the investments that we may acquire in the future will constitute qualifying assets. However, we may be precluded from investing in what we believe are attractive investments if the investments are not qualifying assets for purposes of the 1940 Act. If we do not invest a sufficient portion of our assets in qualifying assets, we could be found to be in violation of the 1940 Act provisions applicable to BDCs, which would have a material adverse effect on our business, financial condition and results of operations. Rules under the 1940 Act could prevent us, for example, from making follow-on investments in existing portfolio companies (which could result in the dilution of our position and/or other punitive actions on our securities of those companies). If, in order to make additional investments, we need to dispose of such investments quickly, it could be difficult to dispose of such investments on favorable terms. We may have difficulty in such a case in finding a buyer and, if we do find a buyer, we may have to sell the investments at a substantial loss.

Failure to maintain our status as a BDC could change our operating flexibility.

We have elected to be regulated as a BDC under the 1940 Act. The 1940 Act imposes numerous constraints on the operations of BDCs. For example, BDCs must invest at least 70 percent of their gross assets in specified types of securities, primarily in private companies or thinly traded U.S. public companies, cash, cash equivalents, U.S. government securities and other high quality debt investments that mature in one year or less. Investments in securities issued as part of an IPO are not considered "qualifying assets." Furthermore, any failure to comply with the requirements imposed on BDCs by the 1940 Act could cause the SEC to bring an enforcement action against us and/or expose us to claims of private litigants. In addition, upon approval of a majority of our shareholders, we may elect to withdraw our status as a BDC. If we decide to withdraw our election, or if we otherwise fail to qualify or maintain our qualification as a BDC, we may be subject to different regulations under the 1940 Act as a Registered Closed-End Fund that may positively or negatively change our operating flexibility.

We are uncertain of our sources for funding our future capital needs; if we cannot obtain capital from realized investments to reinvest or obtain debt or equity financing on acceptable terms, our ability to acquire investments and to expand our operations will be adversely affected.

Any working capital reserves we maintain and capital obtained from realized investments may not be sufficient for investment purposes, and we may require debt or equity financing to operate. Accordingly, in the event that we develop a need for additional capital in the future for investments or for any other reason, these sources of funding may not be available to us. If we cannot obtain capital from realized investments or obtain debt or equity financing on acceptable terms, our ability to acquire investments and to expand our operations will be adversely affected. In such cases, we could be unable to make follow-on investments in existing portfolio companies (which could result in the dilution of our position and/or other punitive actions on our securities of those companies), which may negatively impact our net asset value per share, our investment returns and our ability to make distributions to our shareholders.

Our ability to enter into transactions with our affiliates is restricted.

We are prohibited under the 1940 Act from participating in certain transactions with certain of our affiliates without the prior approval of a majority of the independent members of our Board of Directors and, in some cases, the SEC. Any person that owns, directly or indirectly, five percent or more of our outstanding voting securities will be our affiliate for purposes of the 1940 Act, and we will generally be prohibited from buying or selling any securities from or to such affiliate, absent the prior approval of our Board of Directors. The 1940 Act also prohibits certain "joint" transactions with certain of our affiliates, which could include investments in the same portfolio company (whether at the same or closely related times), without prior approval of our Board of Directors and, in some cases, the SEC. If a person acquires more than 25 percent of our voting securities, we will be prohibited from buying or selling any security from or to such person or certain of that person’s affiliates, or entering into prohibited joint transactions with such persons, absent the prior approval of the SEC.

Our business may be adversely affected by the small size of our market capitalization.

Changes in regulations of the financial industry have adversely affected coverage of small capitalization companies such as ours by financial analysts. A number of analysts that have covered us in the past are no longer able to continue to do so owing to changes in employment, to restrictions on the size of companies they are allowed to cover and/or their firms have shut down operations. An inability to attract analyst coverage may adversely affect the liquidity of our stock and our ability to raise capital from investors, particularly institutional investors. Our inability to access the capital markets on favorable terms, or at all, may adversely affect our future financial performance. The inability to obtain adequate financing could force us to seek debt financing, self-fund strategic initiatives or even forgo certain opportunities, which in turn could potentially harm our current and future performance.

Because there is generally no established market in which to value our investments, our Valuation Committee's value determinations may differ materially from the values that a ready market or third party would attribute to these investments.

There is generally no public market for the private equity securities in which we invest. Pursuant to the requirements of the 1940 Act, we value all of the privately held equity and debt securities in our portfolio at fair value as determined in good faith by the Valuation Committee, a committee made up of all of the independent members of our Board of Directors, pursuant to

Valuation Procedures established by the Board of Directors. Determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment pursuant to specified valuation principles and processes. We are required by the 1940 Act to value specifically each individual investment on a quarterly basis and record unrealized depreciation for an investment that we believe has become impaired. Conversely, we must record unrealized appreciation if we believe that a security has appreciated in value. Our valuations, although stated as a precise number, are necessarily within a range of values that vary depending on the significance attributed to the various factors being considered.

We currently use option pricing models to determine and/or allocate the fair value of a significant portion of the privately held securities in our portfolio. 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 the privately held securities 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.

Without a readily ascertainable market value and because of the inherent uncertainty of valuation, the fair value that we assign to our investments may differ from the values that would have been used had an efficient market existed for the investments, and the difference could be material. Any changes in fair value are recorded in our Consolidated Statement of Operations as a change in the "Net (decrease) increase in unrealized depreciation on investments."

Even when a portfolio of early-stage, high-technology investments proves to be profitable over the portfolio's lifetime, it is common for the portfolio's value to undergo a so-called "J-curve" valuation pattern. This means that when reflected on a graph, the portfolio’s valuation would appear in the shape of the letter "J," declining from the initial valuation prior to increasing in valuation. This J-curve valuation pattern results from write-downs and write-offs of portfolio investments that appear to be unsuccessful, prior to write-ups for portfolio investments that prove to be successful. Because early-stage small businesses typically have negative cash flow and are by their nature inherently fragile, a valuation process can more readily substantiate a loss of value than an increase in value. Even if our investments prove to be profitable in the long run, such J-curve valuation patterns could have a significant adverse effect on our net asset value per share and the value of our common stock in the interim. Over time, as we continue to make additional investments, this J-curve pattern may be less relevant for our portfolio as a whole, because the individual J-curves for each investment, or series of investments, may overlap with previous investments at different stages of their J-curves.

We expect to continue to experience material write-downs of securities of portfolio companies.

Write-downs of securities of our privately held companies have always been a by-product and risk of our business. We expect to continue to experience material write-downs of securities of privately held portfolio companies. Write-downs of such companies occur at all stages of their development. Such write-downs may increase in dollar terms, frequency and as a percentage of our net asset value as our dollar investment activity in privately held companies continues to increase, and the number of such holdings in our portfolio continues to grow. As the average size of each of our investments increases, the average size of our write-downs may also increase. We may also choose to sell the securities of our privately held portfolio companies at a discount to the amounts at which they have been previously valued.

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.

Unfavorable regulatory changes could impair our ability to engage in liquidity events and dampen our returns.

We currently rely on the ability to generate realized returns on our investments through liquidity events such as IPOs and M&A transactions.

When companies in which we have invested as private entities complete IPOs of their securities, these newly issued securities are by definition unseasoned issues. Unseasoned issues tend to be highly volatile and have uncertain liquidity, which may negatively affect their price. In addition, we are typically subject to lock-up provisions that prohibit us from selling our investments into the public market for specified periods of time after IPOs. The market price of securities that we hold may decline substantially before we are able to sell these securities. Government reforms that affect the trading of securities in the United States have made market-making activities by broker-dealers less profitable, which has caused broker-dealers to reduce their market-making activities, thereby making the market for unseasoned stocks less liquid than they might be otherwise.

We also invest in companies that may complete public listings through reverse mergers with publicly traded shell companies. The securities owned prior to the completion of the reverse merger are subject to sale restrictions of at least one year from the effective date of the reverse merger as long as the publicly traded company continues to comply with the requirements of Rule 144. In addition, stockholders deemed to be affiliates of the publicly traded company are subject to volume restrictions once the stock owned by those entities is tradable. Furthermore, in 2011, the SEC established new rules for "seasoning periods" for former shell companies to uplist to a national exchange. These rules may negatively affect the liquidity of our stock of these companies as well as the ability of the publicly traded companies to raise additional capital, if needed. These factors could negatively affect the performance of the publicly traded companies and our returns on investments in these companies.

In addition, the structural changes in the public markets that currently value near-term cash flows and predictable revenues versus long-term prospects for growth, and the regulatory burden imposed on publicly traded companies by governments worldwide, have reduced the appetite for some of our portfolio companies to pursue IPOs or other steps that would increase the liquidity of our ownership in these portfolio companies. This trend may lengthen the time that our portfolio companies remain as privately held entities in our portfolio, and our returns on these investments may be dampened by the need or choice to seek monetization of such illiquid assets.

An inability to generate realized returns on our investments could negatively affect our liquidity, our reinvestment rate in new and follow-on investments and the value of our investment portfolio.

We are subject to risks associated with our strategy of increasing assets under management by raising third-party funds to manage.

We have announced our strategy to grow assets under management by raising one or more third-party funds to manage. It is possible that we will invest our capital alongside or through these funds in portfolio companies. There is no assurance when and if we will be able to raise such fund(s) or, if raised, whether they will be successful.

Our executive officers and employees, in their capacity as the investment advisor of a fund, may manage other investment funds in the same or a related line of business as we do. Accordingly, they may have obligations to such other entities, the fulfillment of which obligations may not be in the best interests of us or our shareholders.

Our shares of common stock are trading at a discount from net asset value and may continue do so in the future.

Shares of closed-end investment companies have frequently traded at a market price that is less than the net asset value that is attributable to those shares. In part as a result of adverse economic conditions and increasing pressure within the financial sector of which we are a part, our common stock traded below our net asset value per share during some periods in 2010 and consistently throughout 2011 through 2016. Our common stock may continue to trade at a discount to net asset value in the future. The possibility that our shares of common stock may trade at a discount from net asset value over the long term is separate and distinct from the risk that our net asset value will decrease. We cannot predict whether shares of our common stock will trade above, at, or below our net asset value. On December 30, 2016, the last trading day of the year, our stock closed at $1.38 per share, a discount of $0.96, or 41.0 percent, to our net asset value per share of $2.34 as of December 31, 2016. On March 14, 2017, our stock closed at $1.34 per share, a discount of $1.00, or 42.7 percent percent, to our net asset value per share as of December 31, 2016.

Because we neither choose investments based on a strategy of diversification nor rebalance the portfolio should one or more investments increase in value substantially relative to the rest of the portfolio, the value of our portfolio is subject to greater volatility than the value of companies with more broadly diversified investments.

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 events affecting a single sector or industry and, therefore, subject to greater volatility than a company that follows a diversification strategy. Accordingly, an investment in our common stock may present greater risk to you than an investment in a diversified company.

We are dependent upon key management personnel for future success, and may not be able to retain them.

None of our employees are subject to employment agreements. Our ability to attract and retain personnel with the requisite credentials, experience and skills will depend on several factors including, but not limited to, our ability to offer competitive wages, benefits and professional growth opportunities. Many of the entities with which we will compete for experienced personnel, including investment funds and traditional financial services companies, will have greater resources than us.

We are dependent upon the diligence and skill of our senior management and other key advisors for the selection, structuring, closing and monitoring of our investments. We utilize lawyers, and we utilize outside consultants to assist us in conducting due diligence when evaluating potential investments. There is generally no publicly available information about the companies in which we invest, and we rely significantly on the diligence of our employees and advisors to obtain information in connection with our investment decisions. Our future success, to a significant extent, depends on the continued service and coordination of our senior management team. The departure of any of our senior management or key advisors could materially adversely affect our ability to implement our business strategy. We do not maintain for our benefit any key-man life insurance on any of our officers or employees.

The failure in cyber security systems, as well as the occurrence of events unanticipated in our disaster recovery systems and management continuity planning, could impair our ability to conduct business effectively.

The occurrence of a disaster such as a cyber attack, a natural catastrophe, an industrial accident, a terrorist attack or war, events unanticipated in our disaster recovery systems, or a support failure from external providers, could have an adverse effect on our ability to conduct business and on our results of operations and financial condition, particularly if those events affect our computer-based data processing, transmission, storage, and retrieval systems or destroy data. If a significant number of our managers were unavailable in the event of a disaster, our ability to effectively conduct our business could be severely compromised.

We depend upon computer systems to perform necessary business functions related primarily to financial records and reporting. Despite our implementation of a variety of security measures, our computer systems could be subject to cyber attacks and unauthorized access, such as physical and electronic break-ins or unauthorized tampering. Like other companies, we may experience threats to our data and systems, including malware and computer virus attacks, unauthorized access, system failures and disruptions. If one or more of these events occurs, it could potentially jeopardize the confidential, proprietary and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our operations, which could result in damage to our reputation, financial losses, litigation, increased costs, regulatory penalties and/or shareholder dissatisfaction or loss.

We are dependent on information systems and systems failures could disrupt our business, which may, in turn, negatively affect the market price of our common stock.

Our business is dependent on our and third party communications and information systems. Any failure or interruption of those systems, including as a result of the termination of an agreement with any third-party service providers, could cause delays or other problems in our activities. Our financial, accounting, backup or other operating systems and facilities may fail to operate properly or become disabled or damaged as a result of a number of factors, including events that are wholly or partially beyond our control, and adversely affect our business. There could be:

- sudden electrical or telecommunications outages;
- natural disasters such as earthquakes, tornadoes and hurricanes;
- disease pandemics;
- events arising from local or larger scale political or social matters, including terrorist acts; and

- cyber attacks.

These events, in turn, could have a material adverse effect on our operating results and negatively affect the market price of our common stock.

Our failure to make follow-on investments in our portfolio companies could impair the value of our portfolio.

Following an initial investment in a portfolio company, we may make additional investments in that portfolio company as "follow-on" investments, in order to: (1) increase or maintain in whole or in part our ownership percentage; (2) exercise warrants, options or convertible securities that were acquired in the original or subsequent financing; or (3) attempt to preserve or enhance the value of our investment.

We may elect not to make follow-on investments or lack sufficient funds to make such investments. We have the discretion to make any follow-on investments, subject to the availability of capital resources. The failure to make a follow-on investment may, in some circumstances, jeopardize the continued viability of a portfolio company and our initial investment, or may result in a missed opportunity for us to increase our participation in a successful operation, or may cause us to lose some or all preferred rights pursuant to "pay-to-play" provisions that have become common in venture capital transactions. These provisions require proportionate investment in subsequent rounds of financing in order to preserve preferred rights such as anti-dilution protection, liquidation preferences and preemptive rights to invest in future rounds of financing. Even if we have sufficient capital to make a desired follow-on investment, we may elect not to make a follow-on investment because we may not want to increase our concentration of risk, because we prefer other opportunities or because we are inhibited by compliance with BDC requirements or the desire to maintain our tax status.

Bank borrowing or the issuance of debt securities or preferred stock by us, to fund investments in portfolio companies or to fund our operating expenses, would make our total return to common shareholders more volatile.

Use of debt or preferred stock as a source of capital entails two primary risks. The first is the risk of leverage, which is the use of debt to increase the pool of capital available for investment purposes. The use of debt leverages our available common equity capital, magnifying the impact on net asset value of changes in the value of our investment portfolio. For example, a BDC that uses 33 1/3 percent leverage (that is, $50 of leverage per $100 of common equity) will show a 1.5 percent increase or decline in net asset value for each one percent increase or decline in the value of its total assets. The second risk is that the cost of debt or preferred stock financing may exceed the return on the assets the proceeds are used to acquire, thereby diminishing rather than enhancing the return to common shareholders. If we issue preferred shares or debt, the common shareholders would bear the cost of this leverage. To the extent that we utilize debt or preferred stock financing for any purpose, these two risks would likely make our total return to common shareholders more volatile. In addition, we might be required to sell investments, in order to meet dividend, interest or principal payments, when it might be disadvantageous for us to do so.

As provided in the 1940 Act and subject to some exceptions, we can issue debt or preferred stock so long as our total assets immediately after the issuance, less some ordinary course liabilities, exceed 200 percent of the sum of the debt and any preferred stock outstanding. The debt or preferred stock may be convertible in accordance with SEC guidelines, which might permit us to obtain leverage at more attractive rates. The requirement under the 1940 Act to pay, in full, dividends on preferred shares or interest on debt before any dividends may be paid on our common stock means that dividends on our common stock from earnings may be reduced or eliminated. An inability to pay dividends on our common stock could conceivably result in our ceasing to qualify as a RIC under the Code, which would, in most circumstances, be materially adverse to the holders of our common stock.

As of December 31, 2016, we did not have debt outstanding pursuant to the Loan Facility, and we did not have any preferred stock outstanding.

We may expose ourselves to risks if we engage in hedging transactions.

If we engage in hedging transactions, we may expose ourselves to risks associated with such transactions. We may utilize instruments such as forward contracts, currency options and interest rate swaps, caps, collars and floors to seek to hedge against fluctuations in the relative values of our portfolio positions from changes in market conditions, currency exchange rates and market interest rates. Hedging against a decline in the values of our portfolio positions does not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of such positions decline. However, such hedging can establish other positions designed to gain from those same developments, thereby offsetting the decline in the value of such portfolio positions. Such hedging transactions may also limit the opportunity for gain if the values of the underlying portfolio positions should increase. It may not be possible to hedge against an exchange rate or interest rate fluctuation that is so generally anticipated that we are not able to enter into a hedging transaction at an acceptable price. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss. In addition, it may not be possible to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in non-U.S. currencies because the value of those securities is likely to fluctuate as a result of factors not related to currency fluctuations.

We are authorized to issue preferred stock, which would convey special rights and privileges to its owners senior to those of common stock shareholders.

We are currently authorized to issue up to 2,000,000 shares of preferred stock, under terms and conditions determined by our Board of Directors. These shares would have a preference over our common stock with respect to dividends and liquidation. The statutory class voting rights of any preferred shares we would issue could make it more difficult for us to take some actions that might, in the future, be proposed by the Board and/or holders of common stock, such as a merger, exchange of securities, liquidation or alteration of the rights of a class of our securities, if these actions were perceived by the holders of the preferred shares as not in their best interests. The issuance of preferred shares convertible into shares of common stock might also reduce the net income and net asset value per share of our common stock upon conversion.

Loss of status as a RIC could reduce our net asset value and distributable income.

We have elected to qualify as a RIC under the Code; however, we did not qualify as a RIC in 2016 owing to failing the 90 Percent Income Test. As a RIC, we do not have to pay federal income taxes on our income (including realized gains) that is distributed to our shareholders. Accordingly, we are not permitted under accounting rules to establish reserves for taxes on our unrealized capital gains. Since we failed to qualify for RIC status in 2016, and if we fail in any subsequent year, we would be taxed in the same manner as an ordinary corporation and distributions to our shareholders would not be deductible in computing our taxable income, which could materially adversely impact the amount of cash available for distribution to our shareholders. In addition, to the extent that we had unrealized appreciation, we would have to establish reserves for taxes, which would reduce our net asset value, accordingly. We do not expect to have a material tax liability in 2016 owing to net operating and capital losses that offset income and realized gains on investments during the year.

To requalify as a RIC in a subsequent taxable year, we would be required to satisfy the RIC qualification requirements for that year and dispose of any earnings and profits from any year which we failed to qualify as a RIC. Subject to a limited exception applicable to RICs that qualified as such under Subchapter M of the Code for at least one year prior to disqualification and that requalify as a RIC no later than the second year following the nonqualifying year, we could be subject to tax on any unrealized net built-in gain in the assets held by us during the period in which we failed to qualify as a RIC that are recognized within the subsequent 10 years (or shorter applicable period), unless we made a special election to pay corporate-level tax at the time of our requalification as a RIC.

We will not be eligible to be treated as a RIC if we are not able to qualify as a RIC in any given year. In order to qualify for the special treatment accorded to RICs, we must meet certain income source, asset diversification and annual distribution requirements. Recent changes in our business, including our strategy of taking larger positions in our portfolio companies and increased holding periods to exit through IPOs or M&A transactions, have created more risk specifically relating to the asset diversification requirements of maintaining our special tax status. To qualify as a RIC, we must meet certain asset diversification requirements at the end of each quarter of our taxable year. Failure to meet these tests in any year may result in the loss of RIC status. As long as the aggregate values of our non-qualifying assets remain below 50 percent of total assets, we will continue to qualify as a RIC. It becomes more difficult to pass this test when companies in our portfolio are successful and we want to invest more capital in those companies to increase our investment returns. Rather than selling portfolio companies that are performing well in order to pass our RIC diversification tests, we may opt instead to not qualify as a RIC. If we fail to qualify for special tax treatment accorded to RICs for failure of our RIC diversification tests, or for any other reason, we will be subject to corporate-level income tax on our income.

A deemed dividend election could affect the value of our stock.

If we, as a RIC, decide to make a deemed distribution of realized net capital gains and retain the net realized capital gains for any taxable year, also referred to as a deemed dividend, we would have to establish appropriate reserves for taxes that we would have to pay on behalf of shareholders. It is possible that establishing reserves for taxes could have a material adverse effect on the value of our common stock. Additionally, if we decide to make a deemed distribution and changes in tax law occur that would increase the dividend tax rates for individuals and corporations, the net benefit to shareholders from a deemed distribution could be adversely affected. Such changes, therefore, could reduce the overall benefit to our shareholders from our status as a RIC.

We operate in a heavily regulated environment, and changes to, or non-compliance with, regulations and laws could harm our business.

We are subject to substantive SEC regulations as a BDC. Securities and tax laws and regulations governing our activities may change in ways adverse to our and our shareholders' interests, and interpretations of these laws and regulations may change with unpredictable consequences. Any change in the laws or regulations that govern our business could have an adverse impact on us or on our operations. Changing laws, regulations and standards relating to corporate governance, valuation, public disclosure and market regulation, including the Sarbanes-Oxley Act of 2002 and the Dodd Frank Act, new SEC regulations, new federal accounting standards and Nasdaq Stock Market rules, create additional expense and uncertainty for publicly traded companies in general, and for BDCs in particular. These new or changed laws, regulations and standards are subject to varying interpretations in many cases because of their lack of specificity, and as a result, their application in practice may evolve over time, which may well result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices.

We are committed to maintaining high standards of corporate governance and public disclosure. As a result, our efforts to comply with evolving laws, regulations and standards have and will continue to result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new or changed laws, regulations and standards differ from the activities intended by regulatory or governing bodies, our reputation may be harmed. This increased regulatory burden is causing us to incur significant additional expenses and is time consuming for our management, which could have a material adverse effect on our financial performance.

Market prices of our common stock will continue to be volatile.

We expect that the market price of our common stock price will continue to be volatile. The price of the common stock may be higher or lower than the price you pay for your shares, depending on many factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include the following:

- stock market and capital markets conditions;
- internal developments in our Company with respect to our personnel, financial condition and compliance with all applicable regulations;
- announcements regarding any of our portfolio companies;
- announcements regarding developments in the life sciences-, energy- or electronics-related fields in general;
- announcements regarding government funding and initiatives associated with the development of life sciences-, energy- or electronics-related products;
- a mismatch between the long-term nature of our business and the short-term focus of many investors;
- significant volatility in the market price and trading volume of securities of BDCs, RICs or other financial services companies;
- changes in regulatory policies or tax guidelines with respect to BDCs or RICs; general economic conditions and trends; and/or
- departures of key personnel.

We will not have control over many of these factors, but expect that our stock price may be influenced by them. As a result, our stock price may be volatile, and you may lose all or part of your investment. In the past, following periods of volatility in the market price of a company’s securities, securities class action litigation has often been brought against that company. Due to the potential volatility of our stock price, we may therefore be the target of securities litigation in the future. Securities litigation could result in substantial costs and divert management’s attention and resources from our business.

Quarterly results fluctuate and are not indicative of future quarterly performance.

Our quarterly operating results fluctuate as a result of a number of factors. These factors include, among others, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we and our portfolio companies encounter competition in our markets and general economic and capital markets conditions. As a result of these factors, results for any one quarter should not be relied upon as being indicative of performance in future quarters.

Investment in foreign securities could result in additional risks.

We may invest in foreign securities, and we currently have one investment in a foreign security. When we invest in securities of foreign issuers, we may be subject to risks not usually associated with owning securities of U.S. issuers. These risks can include fluctuations in foreign currencies, foreign currency exchange controls, social, political and economic instability, differences in securities regulation and trading, expropriation or nationalization of assets and foreign taxation issues. In addition, changes in government administrations or economic or monetary policies in the United States or abroad could result in appreciation or depreciation of our securities and could favorably or unfavorably affect our operations. It may also be more difficult to obtain and enforce a judgment against a foreign issuer. Any foreign investments made by us must be made in compliance with U.S. and foreign currency restrictions and tax laws restricting the amounts and types of foreign investments.

Although most of our investments are denominated in U.S. dollars, our investment that is denominated in a foreign currency is subject to the risk that the value of a particular currency may change in relation to the U.S. dollar, in which currency we maintain financial statements and valuations. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments.

Investing in our stock is highly speculative and an investor could lose some or all of the amount invested.

Our investment objectives and strategies result in a high degree of risk in our investments and may result in losses in the value of our investment portfolio. Our investments in small businesses are highly speculative and, therefore, an investor in our common stock may lose his or her entire investment. The value of our common stock may decline and may be affected by numerous market conditions, which could result in the loss of some or all of the amount invested in our common stock. The securities markets frequently experience extreme price and volume fluctuations that affect market prices for securities of companies in general, and technology and very small capitalization companies in particular. Because of our focus on the technology and very small capitalization sectors, and because we are a very small capitalization company ourselves, our stock price is especially likely to be affected by these market conditions. General economic conditions and conditions in the semiconductor and information technology, life sciences, materials science and other high-technology industries, including energy, may also affect the price of our common stock.

Our compensation structure as an internally managed BDC could be materially different than our compensation structure if we were externally managed.

As an internally managed BDC, our compensation structure is determined and set by our Board of Directors. This structure currently includes salary and bonus and incentive compensation, which is issued through grants and subsequent vesting of restricted stock. We are not generally permitted to employ an incentive compensation structure that directly ties performance of our investment portfolio and results of operations to compensation owing to our granting of restricted stock as incentive compensation.

This compensation structure contrasts to that of an externally managed BDC, where management fees used to pay salaries and bonuses of the employees of the external adviser are determined based on a percentage of total (gross) assets, and cash-based incentive compensation is determined based on the performance of the BDC's investment portfolio and operating performance.

The differences between the compensation structure of our internally managed BDC and that of an externally managed BDC could lead to material differences in the compensation of our management team when compared with the compensation that would have been due if we were externally managed. For example, for the fiscal year ended December 31, 2016 salaries and benefits (excluding compensation costs related to restricted stock) accounted for approximately 3.2 percent of total assets. Owing primarily to a reduction in the number of full-time employees, we currently expect salaries and benefits to be lower for the fiscal year ending December 31, 2017. That said, this percentage could be higher if our total assets decrease as of the end of 2017 or could be lower if our total assets increase as of the end of 2017. If we were externally managed, the management fees that would be used to pay such expenses would be fixed based on the investment advisory agreement between the BDC and the adviser. This percentage is commonly set at 2.0 percent of total assets.

Incentive compensation is currently paid to our employees through grants of restricted stock. This restricted stock vests in part over time and in part when the volume-weighted stock price is at or above pre-determined stock price targets over a 30-day period. In 2016, 75,570 shares of restricted stock vested based on time that were net settled by withholding 26,450 shares, which represented the minimum statutory obligation for each employee's applicable income and other employment taxes and remitted cash totaling $39,691 to the appropriate tax authorities. No restricted stock vested based on stock price. The company recognized $158,973 in non-cash compensation expense related to restricted stock in 2016. While a portion of the amount of restricted stock that vests is directly correlated to our stock price, there is no specific direct correlation between vesting and performance of the BDC’s investment portfolio and operating performance. If we were externally managed, we would pay our adviser in cash a portion of our net realized gains less unrealized depreciation. This percentage is commonly set at 20 percent. If we were externally managed in 2016, we would not have paid incentive compensation to our adviser.

You have no right to require us to repurchase your shares.

You do not have the right to require us to repurchase your shares of common stock.

Future sales of our common stock in the public market could cause our stock price to fall.

Sales of a substantial number of shares of our common stock in offerings, such as follow-on public offerings, registered direct or PIPE transactions, or rights offerings, or the perception that these sales might occur, could depress the market price of our common stock and could impair our ability to raise capital through the sale of additional equity securities.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties

The Company maintains its offices at 1450 Broadway, New York, New York 10018, where it leases approximately 6,900 square feet of office space pursuant to a lease agreement expiring on December 31, 2019. (See "Note 11. Commitments and Contingencies" contained in "Item 8. Consolidated Financial Statements and Supplementary Data.")

We believe that our office facilities are suitable and adequate for our business as it is contemplated to be conducted.

Item 3. Legal Proceedings.

We and our consolidated subsidiaries are not currently subject to any material legal proceedings. From time to time, we and our consolidated subsidiaries may be a party to certain legal proceedings in the ordinary course of business, including proceedings relating to the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our financial condition or results of operations.

Item 4. Mine Safety Disclosures.

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Our common stock is traded on the Nasdaq Global Market under the symbol "TINY." The following table sets forth the range of the high and low sales price of the Company's shares during each quarter of the last two fiscal years and the closing share price as a percentage of net asset value, as reported by the Nasdaq Global Market. The quarterly stock prices quoted represent interdealer quotations and do not include markups, markdowns or commissions.

	Market Price		Net Asset Value ("NAV") Per Share at end of Period	Premium or (Discount) as a % of NAV	
Quarter Ended	High	Low		High	Low
March 31, 2016	$2.22	$1.65	$ 2.67	(16.9)%	(38.2)%
June 30, 2016	$1.80	$1.60	$ 2.63	(31.6)%	(39.2)%
September 30, 2016	$1.63	$1.37	$ 2.44	(33.2)%	(43.9)%
December 31, 2016	$1.50	$1.21	$ 2.34	(35.9)%	(48.3)%
March 31, 2015	$3.85	$2.86	$ 3.39	13.6 %	(15.6)%
June 30, 2015	$3.15	$2.56	$ 3.34	(5.7)%	(23.4)%
September 30, 2015	$2.88	$2.05	$ 2.80	2.9 %	(26.8)%
December 31, 2015	$2.38	$2.00	$ 2.88	(17.4)%	(30.6)%

Shares of BDCs may trade at a market price that is less than the value of the net assets attributable to those shares. The possibility that our shares of common stock will trade at premiums that are unsustainable over the long term or at a discount from net asset value is separate and distinct from the risk that our net asset value will decrease. Historically, our shares of common stock have traded at times at a discount and at other times at a premium to net asset value. For the last two years, our stock has generally traded at a discount to net asset value. The last reported price for our common stock on December 30, 2016, the last trading day of the year, was $1.38 per share, which was a 41.0 percent discount to our net asset value of $2.34 as of December 31, 2016.

Shareholders

As of March 15, 2017, there were approximately 110 holders of record and approximately 12,500 beneficial owners of the Company's common stock.

Dividends

We did not pay a cash dividend or declare a deemed dividend for 2016 or 2015. For more information about deemed dividends, please refer to the discussion under "Tax Status."

Issuer Purchases of Equity Securities

On August 6, 2015, our Board of Directors authorized a repurchase of up to $2.5 million of the Company’s common stock in the open market within a six-month period. Under the repurchase program, we may, but we are not obligated to, repurchase our outstanding common stock in the open market from time to time provided that we comply with the prohibitions under our Insider Trading Policies and Procedures and the guidelines specified in Rule 10b-18 of the Securities Exchange Act of 1934, as amended, including certain price, market volume and timing constraints. In addition, any repurchases are conducted in accordance with the 1940 Act. During the year ended December 31, 2015, we repurchased 509,082 shares at an average price of approximately $2.36 per share, inclusive of commissions. This represented a discount of approximately 18.1 percent of the net asset value per share at

December 31, 2015. The total dollar amount of shares repurchased as of December 31, 2015, was $1,199,994, leaving a maximum of $1,300,006 available for future program purchases as of December 31, 2015. This six-month period expired on February 6, 2016. On March 3, 2016, our Board of Directors reauthorized the repurchase of up to $2.5 million of the Company's common stock within a six-month period from the proxy mailing date of April 29, 2016. This six-month period expired on October 31, 2016. On November 3, 2016, our Board of Directors again reauthorized the repurchase of up to $2.5 million of the Company's common stock within a six-month period from the date of notice to investors, which has yet to be determined. As of December 31, 2016, and March 15, 2017, no additional repurchases have occurred, leaving a maximum of $2.5 million available for future repurchases.

The following table discloses on a monthly basis for the year ended December 31, 2015, the total number of shares repurchased (including the total number of shares repurchased under this program), the average price paid per share, and the maximum number of shares (or approximate dollar value) that may yet be repurchased under the program.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Program	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Program
August 21-31, 2015	88,875	$2.54	88,875	$2,274,557
September 1-30, 2015	209,944	2.44	298,819	1,762,338
October 1-12, 2015	119,365	2.20	418,184	1,500,003
November 30, 2015	11,899	2.22	430,083	1,473,643
December 1-9, 2015	78,999	2.20	509,082	1,300,006

Securities Authorized for Issuance Under Equity Compensation Plans

EQUITY COMPENSATION PLAN INFORMATION
As of December 31, 2016

Plan Category	Number of securities to be issued upon exercise of out-standing options, warrants and rights[1] (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in Column (a)) (c)
Equity compensation plans approved by security holders	197,852	$6.86	[2]
Equity compensation plans not approved by security holders	—	—	—

TOTAL	197,852	$6.86	(2)

(1) Represents shares subject to options.

(2) The Company's Stock Plan permits the issuance of stock options and restricted stock in an aggregate amount of up to 20 percent of our issued and outstanding common stock (the “Plan Maximum Shares”) as of the effective date of the Stock Plan (June 7, 2012). Under the Stock Plan, all of the Plan Maximum Shares are available for grants of stock options, and half of the Plan Maximum Shares (up to 10 percent of our issued and outstanding common stock as of the effective date of the Stock Plan) is available for grants of restricted stock. As of December 31, 2016, there were 5,291,523 shares remaining available for issuance under the Stock Plan, 2,389,315 of which were available for grant in the form of restricted stock. If any shares subject to an award granted under the Stock Plan are forfeited, canceled, exchanged or surrendered, or if an award terminates or expires without a distribution of shares, those shares will again be available for awards under the Stock Plan.

Performance Graph

The graph below compares the cumulative five-year total return of holders of the Company's common stock with the cumulative total returns of the Nasdaq Composite index and the Nasdaq Financial index. We chose broader indices for comparison because we make investments in multiple industries, and we do not believe there is an appropriate index of companies with an investment strategy similar to our own with which to compare the return on our common stock. The graph assumes that the value of the investment in the Company's common stock and in each of the indexes (including reinvestment of dividends) was $100 on December 31, 2011, and tracks it through December 31, 2016.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Harris & Harris Group, Inc., the NASDAQ Composite Index
and the NASDAQ Financial Index

*$100 invested on 12/31/11 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

	12/11	12/12	12/13	12/14	12/15	12/16
Harris & Harris Group, Inc.	100.00	95.38	86.13	85.26	63.58	39.88
NASDAQ Composite	100.00	116.41	165.47	188.69	200.32	216.54
NASDAQ Financial	100.00	115.99	165.37	175.69	181.49	234.44

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

Source: Research Data Group, Inc.

Stock Transfer Agent

American Stock Transfer & Trust Company, 59 Maiden Lane, New York, New York 10038 (Telephone 800-937-5449, Attention: Mr. Paul O'Leary) serves as our transfer agent. Certificates to be transferred should be mailed directly to the transfer agent, preferably by registered mail.

Item 6. Selected Financial Data

The information below was derived from the audited Consolidated Financial Statements included in this report and in previous annual reports filed with the SEC. This information should be read in conjunction with those Consolidated Financial Statements and Supplementary Data and the notes thereto. These historical results are not necessarily indicative of the results to be expected in the future.

Financial Position as of December 31:

	2016	2015	2014	2013	2012
Total assets	$74,622,068	$96,461,286	$112,094,861	$125,063,946	$131,990,250
Total liabilities	$2,366,458	$7,749,615	$2,440,434	$2,362,371	$3,553,476
Net assets	$72,255,610	$88,711,671	$109,654,427	$122,701,575	$128,436,774
Net asset value per outstanding share	$2.34	$2.88	$3.51	$3.93	$4.13
Cash dividends paid	$0.00	$0.00	$0.00	$0.00	$0.00
Cash dividends paid per outstanding share	$0.00	$0.00	$0.00	$0.00	$0.00
Shares outstanding, end of year	30,904,209	30,845,754	31,280,843	31,197,438	31,116,881

Operating Data for Year Ended December 31:

	2016	2015	2014	2013	2012
Total investment income	$1,792,190	$916,995	$517,800	$470,902	$722,227
Total expenses[1]	$6,308,298	$8,079,505	$8,419,527	$8,493,108	$9,525,570
Net operating loss	$(4,516,108)	$(7,162,510)	$(7,901,727)	$(8,022,206)	$(8,803,343)
Total tax expense	$1,767	$2,148	$17,896	$27,994	$15,236
Net realized (loss) gain from investments	$(8,075,175)	$4,531,700	$(5,083,625)	$18,516,268	$2,406,433
Net increase in unrealized depreciation on investments	$(3,683,822)	$(17,302,729)	$(585,068)	$(18,283,020)	$(13,589,990)
Share of loss on equity investment	$(91,255)	$(312,291)	$0	$0	$0
Net decrease in net assets resulting from operations	$(16,366,360)	$(20,245,830)	$(13,570,420)	$(7,788,958)	$(19,986,900)
Decrease in net assets resulting from operations per average	$(0.53)	$(0.65)	$(0.43)	$(0.25)	$(0.65)

outstanding share

[1] Included in total expenses is non-cash, stock-based compensation expense of $158,973 in 2016; $798,965 in 2015; $857,006 in 2014; $1,249,756 in 2013; and $2,928,943 in 2012.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.
The information contained in this section should be read in conjunction with the Company's 2016 Consolidated Financial Statements and notes thereto.

Cautionary Statement Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements that involve substantial risks and uncertainties. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about the Company, our current and prospective portfolio investments, our industry, our beliefs, and our assumptions. Words such as "anticipates," "expects," "intends," "plans," "will," "may," "continue," "believes," "seeks," "estimates," "would," "could," "should," "targets," "projects," and variations of these words and similar expressions are intended to identify forward-looking statements. The forward-looking statements contained in this Annual Report involve risks and uncertainties, including statements as to:

- our future operating results;
- our business prospects and the prospects of our portfolio companies;
- the impact of investments that we expect to make;
- our contractual arrangements and relationships with third parties;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- the ability of our portfolio companies to achieve their objectives;
- our expected financings and investments;
- the adequacy of our cash resources and working capital; and
- the timing of cash flows, if any, from the operations and/or monetization of our positions in our portfolio companies.

These statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements, including without limitation:

- an economic downturn could impair our portfolio companies' ability to continue to operate, which could lead to the loss of some or all of our investments in such portfolio companies;
- a contraction of available credit and/or an inability to access the equity markets could impair our investment activities;
- interest rate volatility could adversely affect our results, particularly if we elect to use leverage as a material part of our investment strategy;
- currency fluctuations could adversely affect the results of our investments in foreign companies, particularly to the extent that we receive payments denominated in foreign currency rather than U.S. dollars; and
-

the risks, uncertainties and other factors we identify in "Risk Factors" and elsewhere in this Annual Report on Form 10-K and in our other filings with the SEC.

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, the forward-looking statements based on those assumptions also could be inaccurate. Important assumptions include our ability to originate new investments, certain margins and levels of profitability and the availability of additional capital. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this Annual Report on Form 10-K should not be regarded as a representation by us that our plans and objectives will be achieved. These risks and uncertainties include those described or identified in "Risk Factors" and elsewhere in this Annual Report on Form 10-K. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Annual Report on Form 10-K.

Background and Overview

We incorporated under the laws of the state of New York in August 1981. In 1983, we completed an initial public offering ("IPO"). In 1984, we divested all of our assets except Otisville BioTech, Inc., and became a financial services company with the investment in Otisville as the initial focus of our business activity.

In 1992, we registered as an investment company under the 1940 Act, commencing operations as a closed-end, non-diversified investment company. In 1995, we elected to become a business development company ("BDC") subject to the provisions of Sections 55 through 65 of the 1940 Act.

We have historically identified and invested in transformative companies enabled by what we believed was disruptive science. More recently, we have focused on investing in transformative companies in precision health and medicine. We then provided strategic, operational and management resources, and creative financial solutions to these companies. While we will continue to provide such resources to our existing portfolio companies, including our precision health and medicine companies, our future new investments will be focused on what we believe are significantly undervalued, small publicly traded companies where we believe we can positively impact the business and valuation through constructive activism.

We believe we combine new perspectives with the historical knowledge and experience of managing the current portfolio. We believe these complementary sets of experiences and skills in investment management and in working with management teams to build businesses can be a foundation for future growth. We believe we will be able to generate income and grow net asset value per share for shareholders over shorter, more predictable timeframes than those we have experienced over the past several years.

While there are multiple fund managers that invest in smaller publicly traded companies, we believe that these managers are often not able or interested to actively engage with such companies. We believe our expertise and focus on constructive activism could be an attractive complement to other investors in the space. Our new simplified structure and focus could lead to partnerships or other opportunities. We believe that the universe of potential partners on this strategy is substantially larger than those focused on privately held investments. We believe we will be in a strong position to seek these strategic partnership opportunities with the current and future assets of our company.

We believe we provide four core benefits to our shareholders. First, our go-forward investment strategy offers investors the opportunity to leverage our experience, extensive diligence and active portfolio management in what we believe are significantly undervalued publicly traded companies that may be difficult to replicate on an individual basis. Second, we provide shareholders with access to an existing privately held portfolio of disruptive companies that we believe may yield significant returns on invested capital in the future. Third, we provide access for accredited investors to co-invest with us in our portfolio companies when we acquire pre-emptive rights and either lack sufficient capital to fully exercise those rights, or otherwise determine that such investment is not appropriate for us. Fourth, we are able to invest opportunistically in multiple types of securities to take advantage of market inefficiencies.

Proposals to Withdraw Election to be Treated as a BDC and Change of Corporate Name

We recently filed a definitive proxy statement proposing that the Company obtain shareholder approval to withdraw its election to be treated as a BDC and to change its name from Harris & Harris Group, Inc., to 180 Degree Capital Corp. ("180"). Concurrent with the withdrawal of the election, we would immediately register as a closed-end investment company (hereinafter, a "Registered Closed-End Fund"). As a Registered Closed-End Fund, we would remain subject to many of the same provisions of the 1940 Act that we are subject to as a BDC. We are proposing to convert from a BDC to a Registered Closed-End Fund because we believe that certain provisions of corporate law and the 1940 Act will enable us to operate with a lower expense ratio. We believe this change will increase returns to investors, while allowing us to maintain a comparable investment strategy. Such provisions include:

- Less frequent and less complex reports filed with the SEC; and
- Exemption of Registered Closed-End Funds from Section 404(b) of the Sarbanes-Oxley Act.

We currently expect that the transition from a BDC to a Registered Closed-End Fund will enable us to reduce our annual operating expenses attributable to regulatory and compliance requirements.

Our priority with the proposed name change is to reflect the focus of our future business and to provide the opportunity to re-brand the firm. Initially, 180 will be focused on shepherding the existing portfolio of investments to maximize returns, with what we believe will be less regulatory burden and expense to shareholders than in a BDC structure. 180's future business will be focused on making decisions that are designed to generate income and grow net asset value per share for shareholders over shorter, more predictable timeframes. Toward this goal, and as discussed above, 180 will focus on investing in and providing value-add assistance through constructive activism to what management believes are substantially undervalued small, publicly traded companies that have potential for aggressive growth. Our goal is that the result of our constructive activism leads to a reversal in direction for the share prices of these investee companies, i.e., a 180-degree turn.

Review of 2016

During 2016, we continued to take steps to position the Company for potential future growth. We believe a number of accomplishments, including those of our privately held portfolio companies during the year, have the potential to contribute to this goal. These steps and accomplishments include:

- We increased our investment income by 95 percent and decreased our net operating loss by 37 percent during 2016 as compared with 2015.

- We decreased our operating expenses for the third consecutive year. Additionally, in 2017 and pending approval from shareholders, we are positioned to significantly reduce our net operating loss primarily through the withdrawal of our election to be treated as a BDC and transition to a Registered Closed-End Fund.

- We announced changes in our business that we believe will enable us to generate income and grow net asset value per share for shareholders over shorter, more predictable timeframes than those we have experienced over the past several years. More specifically, our go-forward focus will be on investing in and providing value-add assistance through constructive activism to what management believes are substantially undervalued small, publicly traded companies that have potential for aggressive growth. Our goal is that the result of our constructive activism leads to a reversal in direction for the share prices of these investee companies, thereby creating value for our shareholders.

- We paid off all of our outstanding obligations associated with the Loan Facility with ORIX Corporate Capital, Inc. As of December 31, 2016, the Company did not have outstanding debt.

- We executed an agreement whereby Metabolon, Inc., repurchased all our securities of Metabolon for proceeds of $10,802,329, versus our cost basis of $7,231,212.

- We sold our shares of Magic Leap, Inc., to two undisclosed buyers for aggregate gross proceeds of $640,928, versus our cost basis of $338,604.

- We launched our first two co-investment funds offered by H&H Co-Investment Partners, LLC, an entity formed to provide shareholders who are accredited investors and other accredited investors the opportunity to invest alongside us in our portfolio companies on an individual portfolio company basis. The first two co-investment funds will invest in rounds of financing of D-Wave Systems, Inc., and HZO, Inc.

A number of our portfolio companies announced financings and/or business milestones during the year, including:

- D-Wave Systems, Inc., announced details of its most advanced quantum computing system, the D-Wave 2000QTM, at the inaugural users group conference in Santa Fe, New Mexico. During the first quarter of 2017, D-Wave Systems announced the sale of its first D-Wave 2000QTM to Temporal Defense Systems, a cybersecurity firm. D-Wave Systems also announced the formation of D-Wave Government Inc., a U.S. subsidiary formed to provide D-Wave Systems's quantum computer systems to the U.S. government. D-Wave Systems also announced the members of the subsidiary's independent board, which include prominent executives with extensive experience at U.S. government agencies including the Department of Energy, the Department of Defense, the National Science Board, the Defense Science Board and the Intelligence Community.

- AgBiome, LLC, announced the award of a multi-year grant from the Bill & Melinda Gates Foundation for the evaluation and development of lead, proprietary biological fungicides in the fields of African smallholder farmers. The aim of the project is to identify and validate biological fungicides to control one or more of three major crop diseases of importance in Sub-Saharan Africa: sorghum anthracnose, black Sigatoka in banana, and aflatoxin contamination in maize.

- Mersana Therapeutics, Inc., expanded its partnership with Takeda Pharmaceutical Company Limited, providing Mersana Therapeutics with an upfront payment of $40 million and an additional payment of $20 million upon clearance of the IND (Investigational New Drug application) for XMT-1522 by the FDA. Subject to the success of the XMT-1522 and antibody-drug conjugate programs, Mersana Therapeutics is eligible to receive milestone payments of more than $750 million combined as well as royalties. Takeda also agreed to invest up to $20 million in Mersana Therapeutics's future equity rounds of financing.

- Additionally, Mersana Therapeutics, Inc., raised an equity round of capital from new and current investors at a higher price per share than the company's prior round of financing. Lodo Therapeutics Corporation completed the second tranche of its initial equity round of financing. HZO, Inc., and NGX Bio, Inc., raised capital through issuance of convertible notes to new and existing investors.

- The acquisition of Bridgelux, Inc., by a consortium of buyers that was initially announced in July 2015, closed on August 1, 2016.

- Several of our portfolio companies announced new partnerships, including ORIG3N, Inc., with the National Football League's San Francisco 49ers; Ensemble Therapeutics Corporation with Novartis; Nanosys, Inc., with Hitachi; and Enumeral Biomedical Holdings, Inc., with Pieris Pharma.

- TARA Biosystems, Inc., appointed serial entrepreneur and leading researcher, Professor Robert Langer of the Massachusetts Institute of Technology, to its board of directors.

- HZO, Inc., announced a collaboration with Rakuten Kobo to protect its latest eReader, the Kobo Aura ONE.

- Interome, Inc. (renamed HALE.life Corporation in 2017) announced that it is a co-organizer of the UnDx Consortium™. The UnDx Consortium brings together five precision medicine technology providers and prominent experts from medical centers and universities across the country to collaborate in an effort to produce new hypotheses for a group of seven patients struggling with undiagnosed diseases. The UnDx Consortium met to explore results of cutting-edge tests analyzing samples from these patients and their families. That meeting was the beginning of what is expected to evolve into an ongoing forum to explore the potential of combining precision medicine technologies to diagnose and treat disease. Interome subsequently announced that collaborators and organizers of the UnDx Consortium met again at the 14th annual Future in Review (FiRe) conference in Park City, UT. The meeting included a summary of the UnDx Consortium, a discussion of hypotheses resulting from the analysis of data, and the proposed next steps for the Consortium.

- Muses Labs, Inc., presented data from a pilot study of its MEND Protocol for the treatment of early Alzheimer's disease at the Alzheimer's Association International Conference 2016. MEND Protocol is a multi-step cognitive evaluation process that uses advanced data processing technology to initially assess an individual's existing risk factors. Additionally. Muses Labs and Metabolon, Inc., announced a partnership to study and apply metabolomics in individuals with pre- and early-symptomatic cognitive decline and Alzheimer's disease. Muses Labs and Metabolon stated that they expect to bring new clinical trial services and updated care protocols to the market.

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EchoPixel, Inc., announced that its medical virtual reality system is ready for clinical implementation. The system is being distributed to customers in collaboration with the HP Zvr Interactive Virtual Reality Display and workstation. Additionally, EchoPixel's 3D visualization technology was profiled in an article and video by ABC News.

We also faced the following challenges during the year:

- Our net asset value per share decreased from $2.88 as of December 31, 2015, to $2.34 as of December 31, 2016.
- Our share price decreased from $2.20 as of December 31, 2015, to $1.38 as of December 30, 2016, the last trading day of the year, and $1.34 as of March 14, 2017.
- Two of our portfolio companies, Cambrios Technologies Corporation and Ultora, Inc., completed auctions of their respective assets by a trustee appointed to conduct such liquidations for the benefit of creditors. We did not receive any proceeds from the liquidation of assets of either company.
- Senova Systems, Inc., sold substantially all of its assets to an undisclosed buyer for an upfront payment and potential future milestone payments. Even if all of the milestone payments are received in full, we do not expect to recover our cost basis of approximately $4 million. The Company received proceeds of $356,336 as repayment of the principal and accrued interest of its outstanding bridge notes of Senova Systems.
- The values of public equities, particularly those of microcapitalization companies, are highly volatile. The price per share and market capitalization of Adesto Technologies Corporation decreased in value from $7.71 as of December 31, 2015, to $1.85 as of December 30, 2016, the last trading day of the year, and closed at $4.10 as of March 14, 2017. Enumeral Biomedical Holdings, Inc., decreased in value from $0.23 as of December 31, 2015, to $0.13 as of December 30, 2016, the last trading day of the year, and closed at $0.13 as of March 14, 2017.
- The change in the price per share of Adesto Technologies Corporation between December 30, 2016, the last trading day of the year, and March 14, 2017, equals an increase of approximately $0.13 in net asset value per share.
- The prices per share of Adesto Technologies Corporation's and Enumeral Biomedical Holdings, Inc.'s common stock continue to trade below the price per share at the time of each company's initial public listing. Additionally, the stock prices of comparable public market companies that impact the market's valuation of certain of our portfolio companies also decreased during the year.
- The Company sold 1,409,796 shares of OpGen, Inc., a publicly traded portfolio company, in open market transactions for net proceeds, after commission, of $2,382,008, or an average sale price of $1.69 per share. Our average cost basis in OpGen was $4.02 per share. As of December 31, 2016, the Company no longer owned any shares of common stock of OpGen, but continues to hold 332,039 warrants to purchase common stock of OpGen.
- The Company sold 243,540 shares of Champions Oncology, Inc., a publicly traded portfolio company, in open market transactions for net proceeds, after commission, of $407,344, or an average sale price of $1.67 per share. Our average cost basis in Champions Oncology was $6.66 per share. As of December 31, 2016, the Company no longer owned any shares of common stock of Champions Oncology, but continues to hold 5,500 warrants to purchase common stock of Champions Oncology.
- The Company sold 500,000 warrants to purchase common stock of Enumeral Biomedical Holdings, Inc., a publicly traded portfolio company, for net proceeds of $40,000, or an average sale price per warrant of $0.08. Our average cost basis per warrant was $0.36. As of December 31, 2016, the Company continues to hold 7,966,368 shares of common stock and 1,255,120 warrants to purchase common stock of Enumeral Biomedical Holdings.
- Even though financings of some of our portfolio companies may have occurred at increases in price per share from prior rounds of financing, such increases in value may not be reflected in full in our values owing to other rights and preferences afforded to investors in those rounds of financing. This challenge, in part, led to a decrease in our net

asset value per share during 2016.

- IPOs of small companies are difficult to complete, and, when they are completed, they often occur at valuations lower than publicly traded comparable companies and rounds of private financing.

- The downturn in the oil and gas sector negatively affected the business operations of at least one of our portfolio companies, Produced Water Absorbents, Inc.

2017 Outlook

We have three core initiatives that we believe will continue to position us to generate returns for stockholders through appreciation in our net asset value, stock buybacks and dividends.

1) We will continue to cultivate our maturing companies that have the potential to generate substantial returns. We will also continue to cultivate our focus on precision health and medicine through Interome, Inc. (renamed HALE.life Corporation in 2017).

2) We will continue to reduce our net operating loss (defined as our investment income less our expenses). Our net operating loss decreased by 43 percent over the period of time from 2014 through 2016. We believe we can materially reduce this loss further in 2017 through a reduction in our expenses enabled primarily by the withdrawal of our election to be treated as a BDC and transition to a Registered Closed-End Fund, subsequent to shareholder approval. We will also continue to seek to increase substantially the short-term income generated from existing and new investments to offset our operating expenses and potentially generate additional cash flows for shareholders of the Company. This reduction in net operating loss will permit our shareholders to realize more of the value of our portfolio as it matures in the coming years.

3) We will execute on a strategy for future new investments that will focus on what we believe are significantly undervalued, small publicly traded companies where we have the potential to positively impact the business and valuation through constructive activism. We will also more actively employ constructive activism in publicly traded positions currently in our portfolio (namely Adesto Technologies Corporation and Enumeral Biomedical Holdings, Inc.) as well as positions that become publicly traded from our existing privately held portfolio of investments.

Reduction of Net Operating Loss

During 2016, we reduced our net operating loss from approximately $7.2 million to $4.5 million. This reduction was owing to the following changes made during 2016:

- We reduced the size of our investment team from four managing directors to two managing directors.

Alexei Andreev, one of our former managing directors, transitioned to a part-time employee of the Company.
Misti Ushio, another of our former managing directors, resigned on February 29, 2016, to pursue her role as CEO of one of our portfolio companies, TARA Biosystems, Inc.

- We generated substantial income from fees for providing managerial assistance to portfolio companies, particularly Interome, Inc., which changed its name to HALE.life Corporation in early 2017.

We currently believe we will reduce our net operating loss further in 2017.

Portfolio Summary

As of December 31, 2016, we had 21 privately held, equity-focused companies in our portfolio that have yet to complete liquidity events (e.g., public listings or merger and acquisition ("M&A") transactions) and are not in the process of liquidating their assets (our "Active Portfolio"). These do not include 1) our publicly traded and unrestricted securities of Adesto Technologies Corporation and Enumeral Biomedical Holdings, Inc.; 2) our investment in NanoTerra, Inc., which was originally structured as a non-convertible debt investment; 3) our rights to milestone payments from Amgen, Inc., Laird Technologies, Inc., and Canon, Inc.; 4) our portfolio companies, 180 Degree Capital Corp., Ensemble Therapeutics Corporation, Laser Light Engines, Inc., and ProMuc, Inc., which are in the process of selling, licensing or liquidating their assets and/or have shut down; 5) our portfolio company AgTech Accelerator Corporation from which we have withdrawn participation; and 6) our portfolio companies, Black Silicon Holdings, Inc., Senova Systems, Inc., and SynGlyco, Inc., that exist to collect payments from the sale of subsidiaries or assets. As of December 31, 2016, we valued these 21 privately held equity-focused companies at $49,491,797. Including the companies referenced above, we valued our total portfolio at $58,334,309 as of December 31, 2016.

Summary of Returns

Since our investment in Otisville in 1983 through December 31, 2016, we have made a total of 114 equity-focused investments. We have completely exited 83 and partially exited two of these 114 investments, recognizing aggregate net realized gains of $80,579,506 on invested capital of $160,743,473. For the securities of the 29 privately held companies in our equity-focused portfolio held at December 31, 2016, we have net unrealized depreciation of $32,444,438 on invested capital of $83,720,546. We have aggregate net realized gains on our exited companies, offset by unrealized depreciation for our 29 currently held equity-focused investments of $48,135,068 on invested capital of $244,464,019. The above net realized gains do not take into consideration our annual operating expenses over the period from 1983 to December 31, 2016, which are directly or indirectly borne by our shareholders. At December 31, 2016, from first dollar in, the investment weighted average holding period for the 29 privately held equity-focused investments was 8.3 years. Historically, as measured from first dollar in to last dollar out, the investment weighted average holding period for the 83 investments we have fully exited was 6.5 years.

The amount of net realized losses includes the following exits in 2016:

- Realized gains of:
  - $3,571,117 on our investment in Metabolon, Inc.
  - $302,324 on our investment in Magic Leap, Inc.

- Realized losses of:
  - $3,418,349 on our investment in Cambrios Technologies Corporation.
  - $3,283,700 on our investment in OpGen, Inc.
  - $2,999,470 on our investment in Bridgelux, Inc.
  - $1,244,955 on our investment in Ultora, Inc.
  - $1,215,285 on our investment in Champions Oncology, Inc.
  - $140,125 on our investment in Enumeral Biomedical Holdings, Inc.

The aggregate net realized gains and the cumulative invested capital do not reflect the cost or value of our freely tradable shares of Adesto Technologies Corporation or Enumeral Biomedical Holdings, Inc., that we owned as of December 31, 2016. The aggregate net realized gains also do not include future potential milestone payments that could occur as part of the acquisitions of BioVex Group, Inc., Nextreme Thermal Solutions, Inc., or Molecular Imprints, Inc. If these amounts were included as of December 31, 2016, our aggregate net realized gains and cumulative invested capital from 1983 through December 31, 2016, would be $73,955,162 and $178,001,110, respectively.

Recent and Potential Liquidity Events From Our Portfolio as of December 31, 2016

On November 30, 2016, the Company and Metabolon, Inc., executed an agreement whereby Metabolon repurchased all of the Company's securities of Metabolon for proceeds of $10,802,329, versus a cost basis of $7,231,212, or a net realized gain of $3,571,117.

On October 19, 2016, Senova Systems, Inc., sold substantially all of its assets to an undisclosed buyer for an upfront payment and potential future milestone payments. On November 15, 2016, Senova repaid the principal and accrued interest on its outstanding bridge notes yielding proceeds to the Company of $356,336. While we expect to receive a return of some of our invested capital in Senova, even if the milestone payments are received in full, we do not expect to recover our cost basis of approximately $4 million.

On August 1, 2016, Bridgelux, Inc., was acquired by an investment group led by the China Electronics Corporation and ChongQing Linkong Development Investment Company. The Company received $1,932,229 in cash and 221,938 shares of a new spin-out company, Xenio Corporation. We invested approximately $5 million in Bridgelux beginning with our initial investment in 2005. We valued our securities of Xenio at $184,653 as of December 31, 2016.

On May 1, 2015, the spin-out of Molecular Imprints, Inc.'s non-semiconductor business was acquired by Magic Leap, Inc. Upon closing of the transaction, we received an initial payment of $705,794 and 24,897 shares of Series B Preferred Stock of Magic Leap. On May 18, 2016, the Company received additional proceeds of $130,522 and 4,394 shares of Series B Preferred Stock of Magic Leap following the expiration of the one-year escrow period established at the closing of the transaction. That same day, the Company agreed to sell its shares of Magic Leap, Inc., to two undisclosed buyers for aggregate gross proceeds of

$640,928. The Company received proceeds of $257,347 from the sale of 11,761 shares of Magic Leap on June 28, 2016. On July 5, 2016, the Company received additional proceeds of $383,581 from the sale of our remaining 17,530 shares of Magic Leap.

On April 18, 2014, Canon, Inc., completed its acquisition of Molecular Imprints, Inc.'s semiconductor lithography equipment business. On October 1, 2015, the Company received proceeds of $795,567 upon the achievement of the first milestone associated with this transaction. As of December 31, 2016, we valued the remaining potential milestone payments from the sale of Molecular Imprints at $234,114. 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. We could receive an additional $234,322 from amounts held in escrow as well as up to $938,926 upon the achievement of certain additional milestones. There can be no assurance as to the timing and how much of the remaining amount we will ultimately realize in the future, if any. With the closing of the transaction, a new spin-out company, which retained the name "Molecular Imprints, Inc.," was formed to continue development and commercialization of nanoscale patterning in consumer and biomedical applications, and we became a shareholder of the new company.

In July 2015, SynGlyco, Inc., negotiated the acceleration and settlement of payments owed to it from the sale of its synthesis business to Corden Pharmaceuticals. This acceleration of payments yielded proceeds to the Company of $567,500 representing payment in full of our senior secured debt investment. We received additional repayments for our outstanding secured convertible bridge notes of approximately $750,000 during the first quarter of 2016. We currently expect to receive approximately an additional $30,000 in distributions from SynGlyco before it is shut down. These payments may bring our total cash distributions from this investment to approximately $1.6 million. We invested approximately $8.8 million in SynGlyco beginning with our initial investment in 2007. We valued our securities of the company at $30,000 as of December 31, 2016.

As of December 31, 2016, we valued the remaining potential milestone payments from the sale of BioVex Group, Inc., at $2,305,239. If all the remaining milestone payments were to be paid by Amgen, Inc., we would receive an additional $5,384,482. There can be no assurance as to the timing and how much of this amount we will ultimately realize in the future.

Our portfolio companies often plan for and/or begin the process of pursuing potential sales and/or IPOs by hiring bankers and/or advisers. We consider these efforts to be in the ordinary course of business for those companies until the potential and timing of a transaction become tangible through events such as the acceptance of a letter of intent to acquire a company or the beginning of a road show to pursue an IPO.

Review of Transactions Involving Our Publicly Traded Positions

We sold our entire position of 1,409,796 shares of OpGen, Inc., a publicly traded portfolio company, in open market transactions for net proceeds, after commission, of $2,382,008, or an average sale price of $1.69 per share during the year ended December 31, 2016. During the year ended December 31, 2015, we did not sell any shares of OpGen.
We sold our entire position of 243,540 shares of Champions Oncology, Inc., a publicly traded portfolio company, in open market transactions for net proceeds, after commission, of $407,344, or an average sale price of $1.67 per share during the year ended December 31, 2016. During the year ended December 31, 2015, we did not sell any shares of Champions.

We sold 500,000 warrants for the purchase of common stock of Enumeral Biomedical Holdings, Inc., a publicly traded portfolio company, in a private transaction for net proceeds of $40,000, or an average sale price of $0.08 per share, during the year ended December 31, 2016. During the year ended December 31, 2015, we did not sell any shares or warrants for the purchase of common stock of Enumeral Biomedical Holdings.

Maturity of Current Equity-Focused Portfolio

Our current portfolio is comprised of companies at varying stages of maturity in a diverse set of industries. As our portfolio companies mature, we seek to invest in new early- and mid-stage companies that may mature into mid- and late-stage companies. This continuous progression creates a pipeline of investment maturities that may lead to future sources of positive contributions to net asset value per share as these companies mature and potentially experience liquidity and exit events. The investment maturities for our Active Portfolio, the 21 equity-focused companies that are not in the process of being sold or shut down, and our publicly traded portfolio companies are shown in the table below.

Portfolio by Stage of Company

Active Privately Held Portfolio Companies

	Early-Stage	Mid-Stage	Late-Stage
	ABSMaterials, Inc.	AgBiome, LLC	D-Wave Systems, Inc.
	Accelerator IV-New York Corporation	EchoPixel, Inc.	HZO, Inc.
	Essential Health Solutions, Inc.	Mersana Therapeutics, Inc.	Nanosys, Inc.
	Fleet Health Alliance, LLC	NGX Bio, Inc.	Produced Water Absorbents, Inc.
	Genome Profiling, LLC	ORIG3N, Inc.	
	Interome, Inc. (HALE.life Corporation)		
	Lodo Therapeutics Corporation		
	Muses Labs, Inc.		
	Petra Pharma Corporation		
	Phylagen, Inc.		
	TARA Biosystems, Inc.		
	Xenio Corporation		
Value as of 12/31/16	$11,883,856	$17,669,600	$19,938,341

Publicly Traded Portfolio Companies

	Early-Stage	Mid-Stage	Late-Stage
	Enumeral Biomedical Holdings, Inc.		Adesto Technologies Corporation
Value as of 12/31/16*	$1,035,628	$0	$3,274,256
Value as of 3/14/17*	$1,035,628	$0	$7,256,459

* Values as of December 31, 2016 and March 14, 2017, exclude values attributable to warrants to purchase shares of common stock.

We expect some of our portfolio companies to transition between stages of maturity over time. This transition may be forward if the company is maturing and is successfully executing its business plan or may be backward if the company is not successfully executing its business plan or decides to change its business plan substantially from its original plan. Transitions backward may be accompanied by increases in non-performance risk, which reduce valuations. We discuss non-performance risk and its implications on value below in the section titled "Valuation of Investments."

We categorized our seven new portfolio companies in 2016, 180 Degree Capital Corp., AgTech Accelerator Corporation, Essential Health Solutions, Inc., Fleet Health Alliance, LLC, Genome Profiling, LLC, Interome Inc., and Muses Labs, Inc., as early-stage companies. 180 Degree Capital was dissolved on February 17, 2017, and our invested capital was returned in full. We withdrew from participation in AgTech Accelerator on February 3, 2017. During 2016, we transitioned HZO, Inc., from a mid-stage company to a late-stage company and EchoPixel, Inc., NGX Bio, Inc., and ORIG3N, Inc., from early-stage companies to mid-stage companies.

Ownership of Our Portfolio Companies

The potential returns from approximately half of the companies in our portfolio could be the real drivers of net asset value growth over the coming years. These companies include ones in which we have substantial ownership and ones where we currently believe the potential value at exit is substantial. The table below provides some additional detail on our ownership of our Active Portfolio, the 21 privately held, equity-focused companies in our portfolio that have yet to complete liquidity events (e.g., public listings or M&A transactions) and are not in the process of liquidating their assets.

Portfolio Company	Voting Ownership Range
Interome, Inc.* NGX Bio, Inc.* Essential Health Solutions, Inc.* EchoPixel, Inc. Produced Water Absorbents, Inc. TARA Biosystems, Inc.*	>=20%
ABSMaterials, Inc.	15-20%
HZO, Inc. ORIG3N, Inc.	10-15%
Accelerator IV-New York Corporation AgBiome, LLC	5-10%
Petra Pharma Corporation	2.5-5%
Lodo Therapeutics Corporation Nanosys, Inc. D-Wave Systems, Inc.** Mersana Therapeutics, Inc. Xenio Corporation Fleet Health Alliance, LLC*** Genome Profiling, LLC*** Muses Labs, Inc.*** Phylagen, Inc.***	0-2.5%

* Denotes a controlled affiliated company.

**

We own voting and non-voting classes of preferred equity of D-Wave Systems, Inc. If the non-voting preferred equity was included in the calculation, our ownership of D-Wave would be in the 2.5-5 percent range.

*** We own convertible bridge notes in Fleet Health Alliance, LLC, Genome Profiling, LLC, Muses Labs, Inc., and Phylagen, Inc. While these convertible bridge notes have certain rights and preferences, they are not voting securities. We currently expect that these securities will convert into voting equity securities in each company at some future date.

We often invest in multiple rounds of financing over the life of a portfolio company; however, as a company matures, we may decide to reduce our investments in later rounds of financing or decide not to participate in them at all owing primarily to our focus on investing the majority of our capital in companies we control and are in the precision health and precision medicine markets. That said, we believe these maturing companies may be good investment opportunities. We founded H&H Co-Investment Partners, LLC, to provide the opportunity to accredited investors to participate in these later-stage rounds of financing in what we believe to be our most promising portfolio companies.

The price per share at which we invest may or may not change and may or may not increase from round to round. Additionally, we generally purchase preferred stock that is convertible into shares of common stock of the portfolio company. This conversion, if it occurs, generally coincides with a public offering or public listing event, but it may also occur in the event of a recapitalization of the company. This conversion may or may not be on a one share of preferred stock for one share of common stock basis.

The table below shows the investment history and current conversion ratio for 13 active companies in our portfolio of 21 privately held companies in which we have made at least one investment in convertible preferred equity.

Portfolio Company	Price Per Share of Round of Financing	Classes of Equity Owned By H&H	No. of Shares of Each Security Owned by H&H	H&H Ownership on As Converted Basis	Fair Value as of 12/31/16
ABSMaterials, Inc.	$ 1.0000	Series A Convertible Preferred Stock	390,000	390,000	$204,832
	$ 1.2073	Series B Convertible Preferred Stock	1,037,751	1,037,751	$904,433
AgBiome, LLC	$ 1.0000	Series A-1 Convertible Preferred Stock	2,000,000	2,000,000	$6,949,809
	$ 1.2500	Series A-2 Convertible Preferred Stock	417,392	417,392	$1,499,004
	$ 3.1148	Series B Convertible Preferred Stock	160,526	160,526	$766,184
D-Wave Systems, Inc.	$ 0.8753	Series 1 Class B Convertible Preferred Stock	1,144,869	1,144,869	$2,137,105
	$ 1.0829	Series 1 Class C Convertible Preferred Stock	450,450	450,450	$843,457
	$ 0.8753	Series 1 Class D Convertible Preferred Stock	855,131	855,131	$1,601,213
	$ 0.9212	Series 1 Class E Convertible Preferred Stock	269,280	269,280	$509,938
	$ 0.9212	Series 1 Class F Convertible Preferred Stock	258,721	258,721	$489,942
	$ 1.9726	Series 1 Class H Convertible Preferred Stock	460,866	460,866	$932,321
	$ 1.0852	Series 2 Class D Convertible Preferred Stock	678,264	678,264	$1,270,033
	$ 1.2833	Series 2 Class E Convertible Preferred Stock	513,900	513,900	$977,728
	$ 1.2833	Series 2 Class F Convertible Preferred Stock	493,747	493,747	$939,386
	$ 2.6200	Series 1 Class I Convertible Preferred Stock(1)	—	—	
EchoPixel, Inc.	$ 0.2980	Series Seed Convertible Preferred Stock	4,194,630	4,194,630	$930,056
	$ 0.3386		1,476,668	1,476,668	$332,650

		Series Seed-2 Convertible Preferred Stock			
Ensemble Therapeutics Corporation	$ 1.3800	Series B Convertible Preferred Stock	1,449,275	1,449,275	$0
	$ 1.3800	Series B-1 Convertible Preferred Stock	492,575	492,575	$872,469

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Portfolio Company	Price Per Share of Round of Financing	Classes of Equity Owned By H&H	No. of Shares of Each Security Owned by H&H	H&H Ownership on As Converted Basis	Fair Value as of 12/31/16
Essential Health Solutions, Inc.	$ 0.0001	Common Stock	200,000	200,000	$ 116,767
	$ 1.0000	Series A Convertible Preferred Stock	2,750,000	2,750,000	$ 2,747,905
HZO, Inc. (2)	$ 1.6431	Common Stock	405,729	405,729	$ 465,269
	$ 2.5188	Series I Convertible Preferred Stock	2,266,894	2,266,894	$ 4,126,543
	$ 3.7057	Series II Convertible Preferred Stock	674,638	674,638	$ 1,741,033
	$ 3.2739	Series II-A Convertible Preferred Stock	69,053	69,053	$ 255,888
Lodo Therapeutics Corporation	$ 1.0000	Series A Convertible Preferred Stock	658,190	658,190	$ 659,762
Mersana Therapeutics, Inc. (3)	$ 11.0555	Common Stock	350,539	350,539	$ 718,414
	$ 1.0763	Series A-1 Convertible Preferred Stock	635,081	635,081	$ 1,339,343
	$ 1.0763	Series B-1 Convertible Preferred Stock	339,887	339,887	$ 732,992
	$ 2.2557	Series C-1 Convertible Preferred Stock(1)	—	—	
Nanosys, Inc.	$ 1.8670	Series C Convertible Preferred Stock	803,428	892,432	$ 531,914
	$ 2.9500	Series D Convertible Preferred Stock	1,016,950	1,207,486	$ 1,217,890
	$ 1.1450	Series E Convertible Preferred Stock	433,688	433,688	$ 618,332
	$ 1.2219	Series F Convertible Preferred Stock(1)	—	—	
	$ 1.1696	Series G Convertible Preferred Stock(1)	—	—	
NGX Bio, Inc.	$ 0.7500	Series Seed Convertible Preferred Stock	666,667	666,667	$ 706,423
	$ 1.5152	Series A Convertible Preferred Stock	329,989	329,989	$ 447,338
ORIG3N, Inc.	$ 0.4183	Series 1 Convertible Preferred Stock	1,195,315	1,195,315	$ 985,936
	$ 1.0992	Series A Convertible Preferred Stock	1,364,666	1,364,666	$ 1,271,006
Petra Pharma Corporation	$ 1.0000	Series A Convertible Preferred Stock	1,525,050	1,525,050	$ 1,529,372

(1) We did not invest in these rounds of financing of D-Wave Systems, Inc., Mersana Therapeutics, Inc., and Nanosys, Inc., and, hence, do not hold these shares.

(2) At the time of our initial investment in HZO, Inc., in 2011, in addition to Series B Convertible Preferred Stock, we purchased shares of Series A Convertible Preferred Stock from certain initial investors in the company. As part of the terms of the Series II round of financing, the Series A Convertible Preferred Stock converted into shares of common stock and the Series B Convertible Preferred Stock was renamed Series I Convertible Preferred Stock.

(3) We invested in multiple rounds of financing in Mersana Therapeutics, Inc., between 2002 and 2012 when the company completed a Series A-1 round of financing that included the conversion of all of the prior outstanding classes of preferred stock into common stock, including those shares held by us.

Level of Involvement in Our Portfolio Companies

The 1940 Act generally requires that BDCs offer to "make available significant managerial assistance" to portfolio companies. We are actively involved with our portfolio companies through membership on boards of directors, as observers to the boards of directors and/or through frequent communication with management. As of December 31, 2016, we held at least one board seat or observer rights on 16, or 76 percent, of 21 equity-focused portfolio companies that have yet to complete a liquidity event or public listing and are not in the process of being shut down or have not agreed to be acquired as of December 31, 2016.

Investments and Current Investment Pace

The following is a summary of our initial and follow-on equity-focused investments from January 1, 2012, to December 31, 2016.

Investments in Our Equity-Focused Portfolio
of Privately Held and Publicly Traded Companies

	2012	2013	2014	2015	2016
Total Incremental Investments	$15,141,941	$18,076,288	$14,276,808	$11,963,021	$10,521,323
No. of New Investments	2	2	3	4	7
No. of Follow-On Investment Rounds	26	37	33	31	24
No. of Rounds Led	3	9	8	8	13
Average Dollar Amount – Initial	$1,407,500	$550,001	$338,677	$395,738	$573,861
Average Dollar Amount – Follow-On	$474,113	$449,359	$401,842	$334,841	$271,012

Our Sources of Liquid Capital

The sources of liquidity that we use to make our investments are classified as primary and secondary liquidity. As of December 31, 2016, and December 31, 2015, our total primary and secondary liquidity was $20,038,201 and $37,053,638, respectively. We believe it is important to examine both our primary and secondary liquidity when assessing the strength of our balance sheet and our future investment capabilities.

Primary liquidity is comprised of cash and certain receivables. As of December 31, 2016, we held $15,433,919 in cash and $294,398 in certain receivables. As of December 31, 2015, we held $17,922,630 in cash and $30,427 in certain receivables.

The following proceeds added to our primary liquidity during the year ended December 31, 2016:

- $10,802,329 from the sale of our investment in Metabolon, Inc.;
- $2,382,008, net of commissions, from the sale of 1,409,796 shares of our investment in OpGen, Inc., in open market transactions;
- $1,932,229 from the sale of our investment in Bridgelux, Inc.;
- $1,002,853 in fees for providing managerial assistance to certain portfolio companies;
- $750,000 from the repayment of certain bridge notes in SynGlyco, Inc.;
- $640,928 from the sale of our shares of Magic Leap, Inc.;

- $407,344, net of commissions, from the sale of 243,540 shares of our investment in Champions Oncology, Inc., in open market transactions;

- $390,492 from the release of a portion of the funds held in escrow from the sale of Molecular Imprints, Inc.'s semiconductor lithography equipment business to Canon, Inc.;

- $356,336 from the repayment of the bridge notes in Senova Systems, Inc.;

- $130,522 from the release of the funds held in escrow from the sale of Molecular Imprints' non-semiconductor business to Magic Leap;
- $119,242 from the repayment of certain bridge note interest in Black Silicon Holdings, Inc.;
- $113,950 from the repayment of a bridge note in EchoPixel, Inc.;
- $82,296 from the sale of Xradia, Inc., in 2013, resulting from a tax refund associated with Xradia for a period prior to its sale; and
- $40,000 from the sale of 500,000 warrants to purchase common stock of Enumeral Biomedical Holdings, Inc.

Potential milestone payments from the sale of BioVex Group, Inc., and the sale of Molecular Imprints, Inc., to Canon, Inc., would also add to our primary liquidity if these milestones are achieved successfully. The probability-adjusted values of the future milestone payments for the sales of BioVex and Molecular Imprints, as determined at the end of each fiscal quarter, are included as an asset on our Consolidated Statements of Assets and Liabilities and will be included in primary liquidity only if and when payment is received for achievement of the milestones.

Our secondary liquidity is comprised of the unrestricted stock of publicly traded companies. Although these companies are publicly traded, their stock may not trade at high volumes and prices may be volatile, which may restrict our ability to sell our positions at any given time. As of December 31, 2016, our secondary liquidity was $4,309,884. Adesto Technologies Corporation and Enumeral Biomedical Holdings, Inc., account for $3,274,256 and $1,035,628, respectively, of the total amount of secondary liquidity based on the closing price of their common stock as of December 30, 2016, the last trading day of the year.

During the year ended December 31, 2015, we received proceeds of $2,070,955 from our rights to milestone payments from Amgen, Inc., associated with the sale of BioVex Group, Inc., proceeds of $795,567 from our rights to milestone payments from Canon, Inc., associated with the sale of Molecular Imprints, Inc., proceeds of $191,609 for fees for providing managerial assistance to certain portfolio companies, proceeds of $411,296 from the repayment of the senior secured debt by Nano Terra, Inc., proceeds of $8,353 from our former investment in Contour Energy Systems, Inc., proceeds of $2,429,202 from the repayment of certain bridge notes in Black Silicon Holdings, proceeds of $4,828,052 on the sale of our investment in Nantero, Inc., proceeds of $705,794 on the sale of our investment in Molecular Imprints, proceeds of $103,310 on the sale of certain warrants of GEO Semiconductor, Inc., proceeds of $567,500 from the repayment of the senior secured debt of SynGlyco, Inc., and net proceeds of $170,662 on the sale of our remaining 50,000 shares of Solazyme. The proceeds from these transactions added to our primary liquidity during the year ended December 31, 2015.

As of December 31, 2015, our secondary liquidity was $19,100,581. Champions Oncology, Inc., accounts for $944,819 of the total amount of secondary liquidity based on the volume weighted average price of its common stock during the year ended December 31, 2015. Adesto Technologies Corporation, Enumeral Biomedical Holdings, Inc., and OpGen, Inc., account for $13,645,682, $1,831,468 and $2,678,612, respectively, of the total amount of secondary liquidity based on the closing price of their common stock as of December 31, 2015. We were subject to lock-up agreements restricting our ability to trade our securities of Enumeral Biomedical Holdings and Adesto Technologies, exclusive of the general restriction on the transfer of unregistered securities, as of December 31, 2015. The lock-up period on our 7,966,368 shares and warrants for the purchase of 1,755,120 shares of common stock of Enumeral Biomedical Holdings expired on January 31, 2016. The lock-up period on our 1,769,868 shares of common stock of Adesto Technologies expired on April 25, 2016.

The draw period for the Loan Facility expired on September 30, 2016, and is no longer available to the Company for additional liquidity. During the fourth quarter of 2016, the Company paid off all outstanding obligations associated with the Loan Facility. As of December 31, 2016, we did not have outstanding debt.

Current Business Environment

The success of our business is predicated on our ability to invest in companies that provide returns on our invested capital through increases in value of our ownership of those companies, through realized returns generated through the sale of our securities of those companies and, currently to a lesser extent, through short-term income generated from our involvement with those companies. All of these factors can be affected by the current business environment.

Our ability to increase the value of our ownership in our investee companies requires that the current business environment be favorable for the companies to be able to execute on their business and attract additional capital at progressively lower costs over time, if required. These two factors may not necessarily be linked as, more often than not, the price of capital is determined by new investors, and there may not be competition that would provide the company with more leverage in negotiations of price and terms. This situation is especially impactful in private financings and public financings of small capitalization companies where there are limited investors from which to raise capital. We believe this situation will continue for the foreseeable future given the decrease in investors willing to invest in small capitalization companies and as capital flows from actively managed funds to passively managed funds that do not frequently invest in such financings. That said, certain companies will continue to raise capital at increasing valuations and under favorable terms, and for such companies, the current business environment can be supportive of such events.

Even if a company raises additional capital, our participation may be limited owing to our available capital. These situations are occurring more frequently, particularly as the types of companies in which we invest are raising large rounds of financing from deep-pocketed investors. The impact to us is dilution, which may affect value and our ultimate returns, and loss of control. The current business environment is dominated by such large funds, which make it difficult for us to maintain ownership and control in certain companies. This factor is part of the reason for our shift in focus to build companies that we can finance and control with our available capital and investments that produce income where our returns are not as impacted by dilution or loss of control.

The most pronounced issue for certain of our portfolio companies in terms of execution related to the current business environment is the continued pressure on the price of oil. Our exposure to this market is limited to our investment in Produced Water Absorbents, Inc., which is valued at approximately 1.7 percent of our net assets.

Our ability to generate realized returns through the sale of the securities of our investee companies is impacted by the values of publicly traded companies, particularly microcapitalization companies and the global environment for mergers and acquisitions (M&A). We believe the current business environment is increasing its risk tolerance as compared with prior years, which may be positive for small and microcapitalization companies. That said, we expect that the values of microcapitalization companies will continue to be volatile, which may affect our ability to monetize our positions in our publicly traded portfolio companies and the value which is ultimately realized from these investments.

Our short-term income is generated through interest income from convertible and non-convertible debt investments, yield-enhancing fees on debt securities and fees for providing managerial assistance to portfolio companies. We believe the current business environment is supportive for us to be able to continue to generate income from these sources as the majority of such income comes from securities or engagements with companies outside of the oil and gas industries and is associated with companies that we control.

Valuation of Investments

We value our privately held investments and certain publicly traded investments that are determined to not trade in an active market each quarter as determined in good faith by our Valuation Committee, a committee of all the independent directors, within guidelines established by our Board of Directors in accordance with the 1940 Act. See "Footnote to Consolidated Schedule of Investments" contained in "Consolidated Financial Statements" for additional information.

The values of privately held companies are inherently more difficult to determine than those of publicly traded companies at any single point in time because securities of these types of companies are not actively traded. We believe, perhaps even more than in the past, that illiquidity, and the perception of illiquidity, can affect value. Management believes further that the long-term effects of the difficult venture capital market and difficult exit environments will continue to affect negatively the fundraising ability of weak companies. Near-term improvements in the overall global economy and public markets can also affect value.

We note that while the valuations of our privately held, equity-focused companies may decrease, sometimes substantially, such decreases may facilitate increases in our ownership of the overall companies in conjunction with follow-on investments if we choose to make such investments. In these cases, the ultimate return on our overall invested capital could be greater than it would have been without such interim decreases in valuation.

Option pricing models use call option theory to derive the value of sets of classes of securities taking into account the financial rights and preferences of classes of securities such as liquidation preference, redemption rights and dividends. This method treats common and preferred stock as call options on the company's enterprise value. It derives breakpoints based on liquidation preferences of the preferred stock and then calculates the values of those liquidation preferences and the company as a whole using Black-Scholes-Merton equations. The sum of these values yields the estimated enterprise value of the portfolio company. This method of derivation is often referred to as "backsolve" as it uses the price per share of the most recent round of financing to backsolve for the values of the other classes of outstanding securities of the company.

Option pricing models use the following inputs in their calculations:

- Price per Share of the Last Round of Financing
- Liquidation Preferences (including dividends and redemptions, if any)
- Estimated Time to Exit
- Estimated Volatility
- Risk-Free Interest Rate
- Outstanding Capitalization of the Company

Variations in these inputs and assumptions can have a significant impact on fair value. Companies that are valued using market comparables and/or volatilities derived from publicly traded securities are subject to the volatilities within those markets.

Given the consideration of the liquidation preferences, option pricing models more accurately represent scenarios where liquidation preferences are honored, as they would be in M&A scenarios, but not in public offering scenarios, where, in general, all classes of preferred stock convert to common stock. Liquidation preferences are business terms that are generally used in the venture capital industry and are used to provide some downside protection should the company not meet expectations. They can be structured on parity with prior rounds of financing or senior to prior rounds of financing. They can include multiples on the amounts invested and can provide for further distributions following the initial preference or be restricted to the amount of invested capital.

This high weighting of liquidation preferences 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.

We note that the ultimate return on any investment may be materially different than the fair value derived as of the date of valuation.

Two of our portfolio companies trade on public exchanges and are subject to the volatility inherent in the public markets. The following table illustrates the range of values of these securities. We no longer hold shares of common stock of Champions Oncology, Inc. and OpGen, Inc., as of December 31, 2016.

Public Companies' Trading History

	Price per Share on March 14, 2017	Q4 2016 Trading Range	H&H Ownership Value in Q4 2016 Trading Range[1]	January - December 2016 Trading Range	H&H Ownership Value in January - December 2016 Trading Range[1]
Adesto Technologies Corp.	$4.10	$1.50 - $2.76		$1.50-$7.81	$2.7 - $13.8 million

			$2.7 - $4.9 million		
Enumeral Biomedical Holdings, Inc.	$0.13	$0.12 - $0.21	$1.0 - $1.7 million	$0.11-$0.29	$0.9 - $2.3 million
Total:			$3.7 - $6.6 million		$3.6 - $16.1 million

(1) Calculated based on common stock held as of December 30, 2016, the last trading day of the year.

In each of the years in the period of 2012 through 2016, excluding our rights to milestone payments, we recorded the following gross write-ups in privately held securities as a percentage of net assets at the beginning of the year ("BOY"), gross write-downs in privately held securities as a percentage of net assets at the beginning of the year, and change in value of private portfolio securities as a percentage of net assets at the beginning of the year.

Gross Write-Ups and Write-Downs of the Privately Held Portfolio

	2012	2013	2014	2015	2016
Net Asset Value, BOY	$145,698,407	$128,436,774	$122,701,575	$109,654,427	$88,711,671
Gross Write-Downs During Year	$(19,604,046)	$(19,089,816)	$(14,050,501)	$(15,710,180)	$(6,693,168)
Gross Write-Ups During Year	$14,099,904	$10,218,994	$4,587,923	$6,628,025	$10,434,142
Gross Write-Downs as a Percentage of Net Asset Value, BOY	(13.5)%	(14.9)%	(11.5)%	(14.3)%	(7.5)%
Gross Write-Ups as a Percentage of Net Asset Value, BOY	9.7 %	8.0 %	3.8 %	6.0 %	11.8 %
Net Change as a Percentage of Net Asset Value, BOY	(3.8)%	(6.9)%	(7.7)%	(8.3)%	4.3 %

From December 31, 2015, to December 31, 2016, the value of our investment portfolio, including our rights to potential future milestone payments from the sales of BioVex Group, Inc., Nextreme Thermal Solutions, Inc., and Molecular Imprints, Inc., and our one portfolio company, Accelerator IV-New York Corporation, valued by the equity method decreased by $18,818,595, from $77,152,904 to $58,334,309.

This decrease is net of the sale of all of our equity securities of Bridgelux, Inc., Champions Oncology, Inc., Magic Leap, Inc., Metabolon, Inc, and OpGen, Inc., and a portion of our warrant securities of Enumeral Biomedical Holdings, Inc., during 2016 that were valued in aggregate at approximately $20.1 million as of December 31, 2015. During 2016, we invested approximately $10.5 million in new and follow-on investments. The net decrease in the value attributable to our investment portfolio from December 31, 2015, to December 31, 2016 was approximately $3.7million.

Six portfolio companies, Adesto Technologies Corporation, Enumeral Biomedical Holdings, Inc., Ensemble Therapeutics Corporation, HZO, Inc., Produced Water Absorbents, Inc., and Senova Systems, Inc., accounted for $16.1million, or 90.8 percent, of the gross write-downs of our portfolio companies held as of December 31, 2016.

The primary contributing factor for the decrease in the valuation of Adesto Technologies Corporation and Enumeral Biomedical Holdings, Inc., were decreases in the price per share of common stock traded on the NASDAQ Market and the OTC Market, respectively.

The primary contributing factor to the decrease in the valuation of Ensemble Therapeutics Corporation was a decrease in the estimated potential future cash flows from partnerships and out-licensing of therapeutic candidates.

The primary contributing factor to the decrease in the valuation of HZO, Inc., was related to option pricing model-related factors including a new round of financing with a senior liquidation preference, but the same price per share as the prior round of financing.

The primary contributing factor to the decrease in the valuation of Produced Water Absorbents, Inc., was a decrease in the trailing twelve-month revenues of the company during 2016 compared with 2015.

The primary contributing factor to the decrease in the valuation of Senova Systems, Inc., was the terms of the sale of the assets of the company.

Four portfolio companies, AgBiome, LLC, D-Wave Systems, Inc., Mersana Therapeutics, Inc., and Nanosys, Inc. accounted for $9.2million, or 88.2 percent, of the gross write-ups of our portfolio companies held as of December 31, 2016.

The primary contributing factor for the increase in the valuation of AgBiome, LLC, was an increase in the value of a set of publicly traded comparable companies used in the determination of value by option pricing modeling.

The primary contributing factor for the increases in the valuations of D-Wave Systems, Inc., and Mersana Therapeutics, Inc., were the terms of new rounds of financing each company completed during 2016.

The primary contributing factor for the increase in the valuation of Nanosys, Inc., was the increase in trailing twelve-month revenues and an increase in the multiple to revenue derived from a set of publicly traded comparable companies.

We note that our Valuation Committee and ultimately our Board of Directors take into account multiple sources of quantitative and qualitative inputs to determine the value of our privately held portfolio companies.

We also note that our Valuation Committee does not set the value of our unrestricted or registered shares of Enumeral Biomedical Holdings, Inc., which trade publicly over-the-counter, or the value of our unrestricted shares of Adesto Technologies Corporation, which trade on the NASDAQ Capital Market.

As of December 31, 2016, our top ten investments by value accounted for approximately 78 percent of the value of our equity-focused portfolio.

Top Ten Equity-Focused Investments by Value

Portfolio Company	Value as of 12/31/2016	Cumulative % of Equity Focused Venture Capital Portfolio
D-Wave Systems, Inc.	$9,714,459	17%
AgBiome, LLC	$9,214,997	34%
HZO, Inc.	$6,613,046	46%
Adesto Technologies Corporation*	$3,274,256	52%
Essential Health Solutions, Inc.	$2,864,672	57%
TARA Biosystems, Inc.	$2,799,938	62%
Mersana Therapeutics, Inc.	$2,790,749	67%
Nanosys, Inc.	$2,368,136	71%
ORIG3N, Inc.	$2,256,942	75%
NGX Bio, Inc.	$1,733,972	78%

* Adesto Technologies Corporation's rank by value includes the value of Level 1 Common Stock.

Results of Operations

We present the financial results of our operations utilizing accounting principles generally accepted in the United States of America ("GAAP") for investment companies. On this basis, the principal measure of our financial performance during any period is the net increase (decrease) in our net assets resulting from our operating activities, which is the sum of the following three elements:

Net Operating Income (Loss) - the difference between our income from interest, dividends, and fees and our operating expenses.

Net Realized Gain (Loss) on Investments - the difference between the net proceeds of sales of portfolio securities and their stated cost.

Net Increase (Decrease) in Unrealized Appreciation or Depreciation on Investments - the net unrealized change in the value of our investment portfolio.

Owing to the structure and objectives of our business, we generally expect to experience net operating losses and seek to generate increases in our net assets from operations through the long-term appreciation and monetization of our investments. We have relied, and continue to rely, primarily on proceeds from sales of investments, rather than on investment income, to defray a significant portion of our operating expenses. Because such sales are unpredictable, we attempt to maintain adequate working capital to provide for fiscal periods when there are no such sales.

The potential for, or occurrence of, inflation could result in rising interest rates for government-backed debt. We may also invest in both short- and long-term U.S. government and agency securities. To the extent that we invest in short- and long-term U.S. government and agency securities, changes in interest rates result in changes in the value of these obligations that result in an increase or decrease of our net asset value. The level of interest rate risk exposure at any given point in time depends on the market environment, the expectations of future price and market movements, and the quantity and duration of long-term U.S. government and agency securities held by the Company, and it will vary from period to period. During the years ended December 31, 2016, and December 31, 2015, we did not hold any U.S. government securities.

Comparison of Years Ended December 31, 2016, 2015, and 2014

During the years ended December 31, 2016, December 31, 2015, and December 31, 2014, we had net decreases in net assets resulting from operations of $16,366,360, $20,245,830 and $13,570,420, respectively.

Investment Income and Expenses:

During the years ended December 31, 2016, 2015, and 2014, we had net operating losses of $4,516,108, $7,162,510 and $7,901,727, respectively. The variation in these results is primarily owing to the changes in investment income and operating expenses, including non-cash expense included in salaries, benefits and stock-based compensation of $158,973 in 2016, $798,965 in 2015, and $857,006 in 2014. During the years ended December 31, 2016, 2015, and 2014, total investment income was $1,792,190, $916,995 and $517,800, respectively. During the years ended December 31, 2016, 2015, and 2014, total operating expenses were $6,308,298, $8,079,505 and $8,419,527, respectively.

During the year ended December 31, 2016, as compared with the year ended December 31, 2015, investment income increased, reflecting increases in fees for providing managerial assistance to portfolio companies, increases in interest income from convertible bridge notes and non-convertible promissory notes, increases in interest income from senior secured debt securities, and increases in yield-enhancing fees on debt securities. Our fees for providing managerial assistance to portfolio companies increased for the year ended December 31, 2016, and include $900,000 earned from Interome, Inc., a newly founded portfolio company that we currently control and manage, pursuant to a consulting agreement between the Company and Interome executed during the first quarter of 2016 and expiring on March 31, 2017. During the year ended December 31, 2016, and December 31, 2015, we did not hold any U.S. government securities primarily owing to the continued low yields available over the durations of maturities in which we were willing to invest.

Operating expenses, including non-cash, stock-based compensation expenses, were $6,308,298 and $8,079,505 for the years ended December 31, 2016, and December 31, 2015, respectively. The decrease in operating expenses for the year ended December 31, 2016, as compared with the year ended December 31, 2015, was primarily owing to decreases in salaries, benefits and stock-based compensation expense, professional fees, rent expense, insurance expense, directors' fees and expenses and custody fees, offset by increases in administration and operations expense and interest and other debt expense.

Salaries, benefits and stock-based compensation expense decreased by $1,681,221, or 39.8 percent, for the year ended December 31, 2016, as compared with December 31, 2015, primarily as a result of a decrease in salaries and benefits owing primarily to a decrease in our employee headcount, a decrease in compensation cost of $639,992 for restricted stock awards associated with the Stock Plan, and a decrease in employee bonus expense of $582,000, offset by an increase of $129,246 in the projected benefit obligation expense accrual for medical and pension retirement benefits. At December 31, 2016, we had seven full-time employees and one part-time employee as compared with nine full-time employees and one part-time employee at December 31, 2015. While the non-cash, stock-based compensation expense for the Stock Plan increased our operating expenses by $158,973, this increase was offset by a corresponding increase to our additional paid-in capital, resulting in no net impact to our net asset value. Professional fees decreased by $146,191, or 9.7 percent, for the year ended December 31, 2016, as compared with December 31, 2015, primarily as a result of a decrease in certain consulting fees and accounting fees associated with exploration of strategic opportunities, offset by an increase in certain legal fees. Rent expense decreased by $39,804, or 13.2 percent, for the year ended December 31, 2016, as compared with December 31, 2015. Our rent expense of $262,024 for the year ended December 31, 2016, includes $320,833 of rent paid in cash, net of $58,809 non-cash rent expense, credits and abatements that we recognize on a straight-line basis over the lease term. Our rent paid in cash of $320,833 includes $33,143 of real estate tax escalation charges on our corporate headquarters located at 1450 Broadway in New York City. Insurance expense decreased $28,860, or 10.0 percent, for the year ended December 31, 2016, as compared with December 31, 2015. Directors' fees and expenses decreased by $11,876, or 3.3 percent, for the year ended December 31, 2016, as compared with December 31, 2015, primarily owing to a decrease in the number of members serving on the Board of Directors. Custody fees decreased by $18,699, or 30.2 percent, for the year ended December 31, 2016, as compared with December 31, 2015.

Administration and operations expense increased by $42,550, or 8.2 percent, for the year ended ended December 31, 2016, as compared with December 31, 2015, primarily as a result of net increases in general office and administration expenses, offset by decreases in managing directors' travel-related expenses and decreases in costs associated with a Meet the Portfolio Day held during 2015. We did not hold a Meet the Portfolio Day during the year ended December 31, 2016. Interest and other debt expense increased by $115,466, or 15.0 percent, for the year ended December 31, 2016, as compared with December 31, 2015, primarily as a result of utilization fees associated with a drawdown of the Loan Facility.

During the year ended December 31, 2015, as compared with the year ended December 31, 2014, investment income increased, reflecting increases in interest income from convertible bridge notes, non-convertible promissory notes, yield-enhancing fees on debt securities and fees for providing managerial assistance to portfolio companies, offset by decreases in interest income from senior secured debt, senior secured debt through a participation agreement, and a decrease in our average holdings of U.S. government securities. During the year ended December 31, 2015, our average holdings of U.S. government securities were $0 as compared with $2,999,955 during the year ended December 31, 2014, primarily owing to the decrease in yield available over the durations of maturities in which we were willing to invest.

Operating expenses, including non-cash, stock-based compensation expenses, were $8,079,505 and $8,419,527 for the years ended December 31, 2015, and December 31, 2014, respectively. The decrease in operating expenses for the year ended December 31, 2015, as compared with the year ended December 31, 2014, was primarily owing to decreases in salaries, benefits and stock-based compensation expense, administration and operations expense, directors' fees and expenses, and insurance expense, offset by increases in professional fees, rent expense, interest and other debt expense and custody fees.

Salaries, benefits and stock-based compensation expense decreased by $647,733, or 13.3 percent, for the year ended December 31, 2015, as compared with December 31, 2014, primarily as a result of a decrease in salaries and benefits owing primarily to a decrease in our employee headcount, a decrease of $214,090 in the projected benefit obligation expense accrual for medical and pension retirement benefits, and a decrease in compensation cost of $58,041 for restricted stock awards associated with the Stock Plan, offset by an increase in employee bonus expense of $172,500. At December 31, 2015, we had nine full-time employees and one part-time employee as compared with full-time employees and one part-time employee at December 31, 2014. While the non-cash, stock-based compensation expense for the Stock Plan increased our operating expenses by $798,965, this increase was offset by a corresponding increase to our additional paid-in capital, resulting in no net impact to our net asset value. Administration and operations expense decreased by $163,283, or 24.0 percent, for the year ended ended December 31, 2015, as compared with December 31, 2014, primarily as a result of decreases in managing directors' travel-related expenses and net decreases in general office and administration expenses, including decreases in costs associated with a Meet the Portfolio Day held during 2014. We did not hold a Meet the Portfolio Day during the year ended December 31, 2015. Insurance expense decreased $33,993, or 10.6 percent, for the year ended December 31, 2015, as compared with December 31, 2014. Directors' fees and expenses decreased by $15,186, or 4.1 percent, for the year ended

December 31, 2015, as compared with December 31, 2014 primarily owing to a smaller Board of Directors.

Professional fees increased by $127,164, or 9.2 percent, for the year ended December 31, 2015, as compared with December 31, 2014, primarily as a result of an increase in certain legal fees and accounting fees associated with exploration of strategic opportunities, offset by a decrease in certain consulting fees. Rent expense increased by $2,780, or less than one percent, for the year ended December 31, 2015, as compared with December 31, 2014. Our rent expense of $301,828 for the year ended December 31, 2015, includes $353,619 of rent paid in cash, net of $51,791 non-cash rent expense, credits and abatements that we recognize on a straight-line basis over the lease term. Our rent paid in cash of $353,619 includes $30,822 of real estate tax escalation charges on our corporate headquarters located at 1450 Broadway in New York City. Interest and other debt expense increased by $393,750, or 104.3 percent, for the year ended December 31, 2015, as compared with December 31, 2014, primarily as a result of utilization fees associated with a drawdown of the Loan Facility. Custody fees increased by $1,747, or 2.9 percent, for the year ended December 31, 2015, as compared with December 31, 2014.

Realized Gains and Losses from Investments:

During the years ended December 31, 2016, 2015, and 2014, we realized net (losses) gains on investments of \$(8,075,175), \$4,531,700 and \$(5,083,625), respectively. For the years ended December 31, 2016, 2015, and 2014, we realized net (losses) gains from investments, before taxes, of \$(8,073,408), \$4,533,848 and \$(5,065,729), respectively. Income tax expense for the years ended December 31, 2016, 2015, and 2014 was \$1,767, \$2,148 and \$17,896, respectively.

During the year ended December 31, 2016, we realized net losses of \$(8,073,408) consisting primarily of a realized loss of \$3,418,349 on our investment in Cambrios Technologies Corporation, a realized loss of \$3,283,700 on the sale of 1,409,796 shares of OpGen, Inc., a realized loss of \$2,999,470 on our investment in Bridgelux, Inc., a realized loss of \$1,244,955 on our investment in Ultora, Inc., a realized loss of \$1,215,285 on the sale of 243,540 shares of Champions Oncology, Inc., and a realized loss of \$140,125 in Enumeral Biomedical Holdings, Inc., owing to the partial sale of warrants, offset by a realized gain of \$3,571,118 on our investment in Metabolon, Inc., a realized gain of \$302,324 on our investment in Magic Leap, Inc., a realized gain of \$196,334 on our escrow payment from the sale of our investment in Molecular Imprints, Inc., to Canon, Inc., a realized gain of \$82,296 owing to additional proceeds received from the sale of Xradia, Inc., in 2013, a realized gain of \$67,094 on our escrow payment from the sale of our investment in Molecular Imprints, Inc., to Magic Leap, Inc., and a realized gain of \$9,295 on our investment in Black Silicon Holdings, Inc., owing to the repayment of certain convertible bridge notes.

During the year ended December 31, 2015, we realized net gains of \$4,533,848, consisting primarily of a realized gain of \$3,109,347 on the sale of our investment in Nantero, Inc., a realized gain of \$1,790,891 on the repayment of certain bridge notes of Black Silicon Holdings, Inc., a realized gain of \$862,346 on our rights to milestone payments from Amgen, Inc., associated with the sale of BioVex Group, Inc., a realized gain of \$398,762 on our rights to milestone payments from Canon, Inc., associated with the sale of Molecular Imprints, Inc., a realized gain of \$242,485 on the sale of our investment in Molecular Imprints, Inc., a realized gain of \$52,563 on the sale of 50,000 shares of Solazyme, Inc., a realized gain of \$35,403 on the repayment of the senior secured debt by Nano Terra, Inc., a realized gain of \$8,942 on the sale of certain warrants of GEO Semiconductor, Inc., a realized gain of \$8,353 on our former investment in Contour Energy Systems, Inc., owing to its liquidation and dissolution in 2014, and a realized gain of \$4,335 on our escrow payment from the sale of our investment in Molecular Imprints to Canon, Inc., offset by a realized loss of \$995,143 on our investment in Cobalt Technologies, Inc., owing to its securities declared worthless on December 31, 2015, a realized loss of \$296,813 on our investment in Bridgelux, Inc., owing to the expiration of certain warrants, a realized loss of \$293,786 on our investment in Metabolon, Inc., owing to the expiration of certain warrants, a realized loss of \$231,656 owing to the cancellation of our warrants in SiOnyx, Inc., a realized loss of \$98,644 on our investment in D-Wave Systems, Inc., owing to the expiration of certain warrants, and a realized loss of \$63,544 on our escrow payment owing to the sale of our investment in Molecular Imprints to Magic Leap, Inc.

During the year ended December 31, 2014, we realized net losses of \$(5,065,729), consisting primarily of realized losses on the value of our investments in Kovio, Inc., of \$7,299,533, and Contour Energy Systems, Inc., of \$4,488,576, offset by a realized gain of \$3,947,151 on the sale of our investment in Molecular Imprints, Inc., a realized gain of \$16,000 on the early repayment of the senior secured debt by OHSO Clean, Inc., a realized gain of \$68,371 on the sale of certain warrants of GEO Semiconductor, Inc., a realized gain of \$204,442 on the sale of 575,756 shares of Champions Oncology, Inc., a realized gain of \$1,129,054 on the sale of 117,834 shares of Solazyme, Inc., and a realized gain of \$232,079 on the repurchase and expiration of certain Solazyme written call option contracts. At December 31, 2014, we still owned 2,523,895 and 50,000 shares of Champions Oncology and Solazyme, respectively. We also had a realized gain of \$588,440 on our escrow payment from the sale of Xradia, Inc., and a realized gain of \$536,813 on our investment in rights to milestone payments from Amgen, Inc.

Net Unrealized Appreciation and Depreciation of Portfolio Securities:

During the year ended December 31, 2016, net unrealized depreciation on total investments increased by $3,683,822.

During the year ended December 31, 2015, net unrealized depreciation on total investments increased by $17,302,729.

During the year ended December 31, 2014, net unrealized depreciation on total investments increased by $585,068.

During the year ended December 31, 2016, net unrealized depreciation on our investments increased by $3,683,822, from net unrealized depreciation of $39,909,204 at December 31, 2015, to net unrealized depreciation of $43,593,026 at December 31, 2016, owing to write-downs in the valuations of the following portfolio company investments:

Investment	Amount of Write-Down
Adesto Technologies Corporation	$ 10,371,426
Senova Systems, Inc.	1,656,698
Produced Water Absorbents, Inc.	1,397,666
Ensemble Therapeutics Corporation	1,238,433
HZO, Inc.	769,630
Enumeral Biomedical Holdings, Inc.	674,474
ProMuc, Inc.	566,124
EchoPixel, Inc.	504,152
AgTech Accelerator Corporation	299,562
SynGlyco, Inc.	142,775
ORIG3N, Inc.	69,959
Black Silicon Holdings, Inc.	48,169

The write-downs for the twelve months ended December 31, 2016, were partially offset by write-ups in the valuations of the following portfolio company investments:

Investment	Amount of Write-Up
AgBiome, LLC	$ 3,724,707
D-Wave Systems, Inc.	2,724,316
Mersana Therapeutics, Inc.	1,501,188
Nanosys, Inc.	1,189,322
TARA Biosystems, Inc.	640,834
NGX Bio, Inc.	212,404
ABSMaterials, Inc.	125,643
Essential Health Solutions, Inc.	114,652
Phylagen, Inc.	91,944
NanoTerra, Inc.	38,319
Petra Pharma Corporation	9,617
Lodo Therapeutics Corporation	2,191

In addition to the write-downs listed above, we had an increase in unrealized depreciation of $6,390,633 on our investment in Metabolon, Inc., owing to a realized gain on the sale of its securities.

We had an increase in unrealized depreciation of $594,993 on the rights to milestone payments from Amgen, Inc.'s acquisition of BioVex Group, Inc.

We had an increase in unrealized depreciation of $227,705 on the rights to milestone payments from Canon, Inc.'s acquisition of Molecular Imprints, Inc.

We had an increase in unrealized depreciation of $10,390 on our investment in Magic Leap, Inc., owing to a realized gain on the sale of its securities.

In addition to the write-ups listed above, we had a decrease in unrealized depreciation of $3,418,349 on our investment in Cambrios Technologies Corp. owing to a realized loss on the write-off of its securities.

We had a decrease in unrealized depreciation of $2,934,929 on our investment in OpGen, Inc., owing to a realized loss on the sale of its shares of common stock.

We had a decrease in unrealized depreciation of $2,577,469 on our investment in Bridgelux, Inc., owing to a realized loss on the sale of its securities.

We had a decrease in unrealized depreciation of $1,244,955 on our investment in Ultora, Inc., owing to a realized loss on the write-off of its securities.

We had a decrease in unrealized depreciation of $669,123 on our investment in Champions Oncology, Inc., owing to a realized loss on the sale of its shares of common stock.

We had a decrease in unrealized depreciation of $59,005 on our investment in D-Wave Systems, Inc., owing to foreign currency translation.

During the year ended December 31, 2015, net unrealized depreciation on our investments increased by $17,302,729, from net unrealized depreciation of $22,606,475 at December 31, 2014, to net unrealized depreciation of $39,909,204 at December 31, 2015, owing to write-downs in the valuations of the following portfolio company investments:

Investment	Amount of Write-Down
Produced Water Absorbents, Inc.	$ 7,819,206
Enumeral Biomedical Corp.	6,465,632
Nanosys, Inc.	3,127,229
Adesto Technologies Corporation	2,177,641
Ensemble Therapeutics Corporation	782,979
Bridgelux, Inc.	755,380
ABSMaterials, Inc.	563,971
Cambrios Technologies Corporation	550,336
Senova Systems, Inc.	456,473
Champions Oncology, Inc.	311,553
HZO, Inc.	291,148
OpGen, Inc.	105,847
NanoTerra, Inc.	37,711
Ultora, Inc.	7,525
NGX Bio, Inc.	6,785
Petra Pharma Corporation	5,295
Lodo Therapeutics Corporation	619

The write-downs for the year ended December 31, 2015, were offset by write-ups in the valuations of the following portfolio company investments:

Investment	Amount of Write-Up
Metabolon, Inc.	$2,919,072
AgBiome, LLC	2,000,580
Black Silicon Holdings, Inc.	493,388
Mersana Therapeutics, Inc.	351,306
ORIG3N, Inc.	326,901
TARA Biosystems, Inc.	271,754
Accelerator IV-New York Corporation	164,385
SynGlyco, Inc.	75,582
D-Wave Systems, Inc.	47,343
EchoPixel, Inc.	14,667
Magic Leap, Inc.	10,390

We had an increase in unrealized depreciation of $1,909,935 on our investment in Nantero, Inc., owing to a realized gain on the sale of its securities.

We had an increase in unrealized depreciation of $1,352,866 on our investment in D-Wave Systems, Inc., owing to foreign currency translation.

We had an increase in unrealized depreciation of $10,840 on our investment in Solazyme, Inc., owing to a realized gain on the sale of its securities.

We had an increase in unrealized depreciation of $7,870 on our investment in GEO Semiconductor, Inc., owing to a realized gain on the sale of certain warrants.

We had a decrease in unrealized depreciation of $995,143 on our investment in Cobalt Technologies, Inc., owing to a realized loss on its securities, which were declared worthless on December 31, 2015.

We had a decrease in unrealized depreciation of $1,543,925 on the rights to milestone payments from Amgen, Inc.'s acquisition of BioVex Group, Inc.

We had a decrease in unrealized depreciation of $229,676 on the rights to milestone payments from Canon, Inc.'s acquisition of Molecular Imprints, Inc.

During the year ended December 31, 2014, net unrealized depreciation on our investments increased by $576,141, from net unrealized depreciation of $22,030,334 at December 31, 2013, to net unrealized depreciation of $22,606,475 at December 31, 2014, owing primarily to a net increase in unrealized depreciation of $3,872,348 on our investment in Molecular Imprints, Inc., resulting from a realized gain on the sale of its securities, offset by a net decrease in unrealized depreciation on our investment in Contour Energy Systems, Inc., of $4,419,151 resulting in a realized loss on this investment owing to its liquidation and dissolution, and Kovio, Inc., of $7,299,533 resulting in a realized loss on this investment when such securities were deemed worthless. We also had the following write-downs in the valuations of the following portfolio company investments:

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Investment	Amount of Write-Down
SiOnyx, Inc.	$ 4,993,851
Cambrios Technologies Corporation	2,868,013
HZO, Inc.	2,515,023
Champions Oncology, Inc.	2,042,182
Ensemble Therapeutics Corporation	1,218,444
Cobalt Technologies, Inc.	901,558
Senova Systems, Inc.	359,776
Ultora, Inc.	352,388
Mersana Therapeutics, Inc.	219,770
Laser Light Engines, Inc.	195,806
ABSMaterials, Inc.	179,986
Accelerator IV-New York Corporation	164,385
Ohso Clean, Inc.	44,043
AgBiome, LLC	32,036
NanoTerra, Inc.	29,112
GEO Semiconductor, Inc.	17,708
Metabolon, Inc.	2,645

The write-downs for the year ended December 31, 2014, were offset by write-ups in the valuations of the following portfolio company investments:

Investment	Amount of Write-Up
Enumeral Biomedical Corp.	$3,937,669
D-Wave Systems, Inc.	2,448,031
Produced Water Absorbents, Inc.	1,491,898
Nantero, Inc.	399,158
Bridgelux, Inc.	390,435
Nanosys, Inc.	224,040
SynGlyco, Inc.	152,662
Adesto Technologies Corporation	121,875
OpGen, Inc.	80,191
EchoPixel, Inc.	62,425
UberSeq, Inc.	6,159

We had an increase in unrealized depreciation of $1,420,247 on our investment in Solazyme, Inc., primarily owing to realized gains on the partial sale of the securities.

We had an increase in unrealized depreciation owing to foreign currency translation of $788,951 on our investment in D-Wave Systems, Inc.

We had an increase in unrealized depreciation of $722 on the rights to milestone payments from Canon, Inc.'s acquisition of Molecular Imprints, Inc.

We had a decrease in unrealized depreciation of $609,626 on the rights to milestone payments from Amgen, Inc.'s acquisition of BioVex Group, Inc.

Unrealized appreciation on our U.S. government securities portfolio decreased from unrealized appreciation of $45 at December 31, 2013, to $0 at December 31, 2014. We did not hold any U.S. government securities at December 31, 2014.

Financial Condition

December 31, 2016

At December 31, 2016, our total assets and net assets were $74,622,068 and $72,255,610, respectively. At December 31, 2015, our total assets and net assets were $96,461,286 and $88,711,671, respectively.

At December 31, 2016, our net asset value per share was $2.34, as compared with $2.88 at December 31, 2015. At December 31, 2016, and December 31, 2015, our shares outstanding were 30,904,209 and 30,845,754, respectively.

Significant developments in the twelve months ended December 31, 2016, included a decrease in the holdings of our portfolio company investments of $18,818,595 and a decrease in our cash of $2,488,711. The decrease in our portfolio company investments from $77,152,904 at December 31, 2015, to $58,334,309 at December 31, 2016, resulted primarily from a decrease in the net value of our portfolio company investments held of $29,339,918, offset by new and follow-on portfolio company investments of $10,521,323. The decrease in our cash from $17,922,630 at December 31, 2015, to $15,433,919 at December 31, 2016, is primarily owing to new and follow-on portfolio company investments totaling $10,521,323, the payment of cash for operating expenses of $6,263,240, and the payment of the Company's outstanding obligations associated with the Loan Facility of $5,086,111, offset by proceeds of $10,802,329 from the sale of our investment in Metabolon, Inc., proceeds of $2,382,008, net of commissions, from the sale of 1,409,796 shares of our investment in OpGen, Inc., proceeds of $1,932,229 from the sale of our investment in Bridgelux, Inc., $1,002,853 in fees for providing managerial assistance to certain portfolio companies, proceeds of $750,000 from the repayment of certain bridge notes in SynGlyco, Inc., proceeds of $640,928 from the sale of our shares of Magic Leap, Inc., proceeds of $407,344, net of commissions, from the sale of 243,540 shares of our investment in Champions Oncology, Inc., proceeds of $390,492 from the release of a portion of the funds held in escrow from the sale of Molecular Imprints, Inc.'s semiconductor lithography equipment business to Canon, Inc., proceeds of $356,336 from the repayment of the bridge notes in Senova Systems, Inc., proceeds of $130,522 from the release of the funds held in escrow from the sale of Molecular Imprints' non-semiconductor business to Magic Leap, proceeds of $119,242 from the repayment of certain bridge note interest in Black Silicon Holdings, Inc., proceeds of $113,950 from the repayment of a bridge note in EchoPixel, Inc., additional proceeds of $82,296 from the sale of Xradia, Inc., in 2013, resulting from a tax refund associated with Xradia for a period prior to its sale, and proceeds of $40,000 from the sale of 500,000 warrants to purchase common stock of Enumeral Biomedical Holdings, Inc.

The following table is a summary of additions to our portfolio of investments made during the twelve months ended December 31, 2016:

New Investments	Amount of Investment
Interome, Inc.	$ 300,010
Genome Profiling, LLC	230,000
Fleet Health Alliance, LLC	225,000
Muses Labs, Inc.	212,000
AgTech Accelerator Corporation	150,000
Essential Health Solutions, Inc.	2,750,020
180 Degree Capital Corp.	150,000

Follow-On Investments	Amount of Investment
Produced Water Absorbents, Inc.	$875,000
ORIG3N, Inc.	750,000
Lodo Therapeutics Corporation	550,290
EchoPixel, Inc.	500,000
NGX Bio, Inc.	500,000
Petra Pharma Corporation	500,000
EchoPixel, Inc.	350,000
Interome, Inc.	350,000
Interome, Inc.	300,000
Interome, Inc.	50,000
Interome, Inc.	30,000
Interome, Inc.	50,000
Interome, Inc.	375,000
Mersana Therapeutics, Inc.	261,300
HZO, Inc.	250,000
Senova Systems, Inc.	250,000
AgTech Accelerator Corporation	150,000
Produced Water Absorbents, Inc.	125,000
Accelerator IV-New York Corporation	103,680
ABSMaterials, Inc.	100,000
Senova Systems, Inc.	47,271
Senova Systems, Inc.	21,250
Senova Systems, Inc.	15,500
NGX Bio, Inc.	2
Total:	$10,521,323

December 31, 2015

At December 31, 2015, our total assets and net assets were $96,461,286 and $88,711,671, respectively. At December 31, 2014, our total assets and net assets were $112,094,861 and $109,654,427, respectively.

At December 31, 2015, our net asset value per share was $2.88, as compared with $3.51 at December 31, 2014. At December 31, 2015, and December 31, 2014, our shares outstanding were 30,845,754 and 31,280,843, respectively.

Significant developments in the twelve months ended December 31, 2015, included a decrease in the holdings of our investments of $12,611,936 and a decrease in our cash of $2,825,684. The decrease in our investments from $89,764,840 at December 31, 2014, to $77,152,904 at December 31, 2015, resulted primarily from a decrease in value of $3,433,338 owing to the sale of our investment in Nantero, Inc., a decrease in value of $928,884 owing to the sale of our investment in Molecular Imprints, Inc., a decrease in value of $161,286 owing to the reorganization of the corporate structure of SiOnyx, Inc., to become a subsidiary of Black Silicon Holdings, Inc., a decrease in value of $129,000 owing to the sale of our investment in Solazyme, Inc., and a decrease in the net value of our investments held of $19,922,449, offset by new and follow-on investments of $11,963,021. The decrease in our cash from $20,748,314 at December 31, 2014, to $17,922,630 at December 31, 2015, is primarily owing to new and follow-on investments totaling $11,963,021, the payment of cash for operating expenses of $7,514,109 and the purchase of treasury shares totaling $1,199,994, offset by proceeds of $2,070,955 from our rights to milestone payments from

Amgen, Inc., associated with the sale of BioVex Group, Inc., proceeds of $795,567 from our rights to milestone payments from Canon, Inc., associated with the sale of Molecular Imprints, Inc., proceeds of $191,609 for fees for providing managerial assistance to certain portfolio companies, proceeds of $411,296 from the repayment of the senior secured debt by Nano Terra, Inc., proceeds of $8,353 from our former investment in Contour Energy Systems, Inc., proceeds of $2,429,202 from the repayment of certain bridge notes in Black Silicon Holdings, proceeds of $4,828,052 on the sale of our investment in Nantero, proceeds of $705,794 on the sale of our investment in Molecular Imprints, proceeds of $103,310 on the sale of certain warrants of GEO Semiconductor, Inc., proceeds of $567,500 from the repayment of the senior secured debt of SynGlyco, Inc., net proceeds of $170,662 on the sale of our remaining 50,000 shares of Solazyme and a drawdown of $5,000,000 from the Loan Facility.

The following table is a summary of additions to our portfolio of investments made during the year ended December 31, 2015:

New Investments	Amount of Investment
Petra Pharma Corporation	$ 1,025,050
ORIG3N, Inc.	250,000
Phylagen, Inc.	200,000
Lodo Therapeutics Corporation	107,900

Follow-On Investments	Amount of Investment
TARA Biosystems, Inc.	$ 1,200,000
OpGen, Inc.	1,155,000
Adesto Technologies Corporation	1,000,000
ORIG3N, Inc.	750,000
Senova Systems, Inc.	600,000
AgBiome, LLC	500,006
HZO, Inc.	500,003
Produced Water Absorbents, Inc.	500,000
Produced Water Absorbents, Inc.	484,203
NGX Bio, Inc.	300,001
Metabolon, Inc.	299,999
Produced Water Absorbents, Inc.	250,000
Produced Water Absorbents, Inc.	250,000
Produced Water Absorbents, Inc.	250,000
Produced Water Absorbents, Inc.	250,000
ORIG3N, Inc.	250,000
Accelerator IV-New York Corporation	262,215
OpGen, Inc.	208,035
TARA Biosystems, Inc.	200,000
NGX Bio, Inc.	199,999
Nanotero, Inc.	195,303
SiOnyx, Inc.	117,653
EchoPixel, Inc.	112,500
Mersana Therapeutics, Inc.	104,521
SiOnyx, Inc.	103,500
OpGen, Inc.	100,000
SiOnyx, Inc.	89,608
Promuc, Inc.	75,000
Promuc, Inc.	55,000
Phylagen, Inc.	10,000
Ultora, Inc.	7,525
Total:	$ 11,963,021

The following table summarizes the value of our portfolio of investments as compared with its cost at December 31, 2016, and December 31, 2015:

	December 31, 2016	December 31, 2015
Venture capital investments, at cost	$101,927,335	$117,062,108
Net unrealized depreciation	(43,593,026)	(39,909,204)
Venture capital investments, at value	$58,334,309	$77,152,904

Cash Flow

Net cash provided by operating activities for the year ended December 31, 2016, was $2,552,418, primarily reflecting proceeds from the sale of investments of $18,147,676, offset by the purchase of venture capital investments of $10,521,323 and the payment of operating expenses of $6,263,240.

Net cash used in investing activities for the year ended December 31, 2016, was $1,438, primarily reflecting the purchase of fixed assets.

Net cash used in financing activities for the year ended December 31, 2016, was $5,039,691, primarily reflecting the payment of the Company's outstanding obligations associated with the Loan Facility, offset by the net settlement of restricted stock.

Year Ended December 31, 2015

Net cash provided by operating activities for the year ended December 31, 2015, was $6,529,960, primarily reflecting the purchase of venture capital investments of $11,963,021 and the payment of operating expenses of $7,514,109, offset by proceeds from the sale of investments and the repayment of principal of $11,943,697.

Net cash used in investing activities for the year ended December 31, 2015, was $8,816, primarily reflecting the purchase of fixed assets.

Net cash provided by financing activities for the year ended December 31, 2015, was $3,713,092, primarily reflecting a partial drawdown from the Loan Facility, offset by the purchase of treasury stock and the net settlement of restricted stock.

Year Ended December 31, 2014

Net cash provided by operating activities for the year ended December 31, 2014, was $12,361,457, primarily reflecting the net sale of U.S. government securities of $18,999,008 and proceeds from the sale of investments of $13,655,918, offset by the purchase of investments of $14,276,808 and the payment of operating expenses.

Net cash used in investing activities for the year ended December 31, 2014, was $26,940, primarily reflecting the purchase of fixed assets.

Cash used in financing activities for the year ended December 31, 2014, was $124,751, resulting from the net settlement of restricted stock awards.

Liquidity and Capital Resources

Our liquidity and capital resources are generated and are generally available through our cash holdings, cash flows from payments received on our venture debt investments, proceeds from periodic follow-on equity offerings and realized capital gains retained for reinvestment.

We fund our day-to-day operations using interest earned and proceeds from our cash holdings and interest earned from our debt securities. We believe the increase or decrease in the value of our investments does not materially affect the day-to-day operations of the Company or our daily liquidity. As of December 31, 2016, and December 31, 2015, we had no investments in money market mutual funds.

The draw period for the Loan Facility ended on September 30, 2016, and was no longer available to the Company for additional liquidity. On December 1, 2016, the Company paid off all outstanding obligations associated with the Loan Facility. The Loan Facility was no longer in effect as of that date. As of December 31, 2016, we did not have outstanding debt.

As an investment company, it is critical that we have capital available to support our best companies until we have an opportunity for liquidity in our investments. As such, we will continue to maintain a substantial amount of liquid capital on our balance sheet.

Although we cannot predict future market conditions, we continue to believe that our current cash and our ability to adjust our investment pace will provide us with adequate liquidity to execute our current business strategy.

Except for a rights offering, we are generally not able to issue and sell our common stock at a price below our net asset value per share, exclusive of any distributing commission or discount, without shareholder approval. As of December 31, 2016, our net asset value per share was $2.34 per share and our closing market price was $1.38 per share. We do not currently have shareholder approval to issue or sell shares below our net asset value per share.

December 31, 2016

At December 31, 2016, and December 31, 2015, our total net primary and secondary liquidity was $20,038,201 and $37,053,638, respectively.

At December 31, 2016, and December 31, 2015, our total primary liquidity was $15,728,317 and $17,953,057, respectively. Our primary liquidity is principally comprised of our cash and certain receivables. The decrease in our primary liquidity from December 31, 2015, to December 31, 2016, is primarily owing to new and follow-on portfolio company investments totaling $10,521,323, the payment of cash for operating expenses of $6,263,240, and the payment of the Company's outstanding obligations associated with the Loan Facility of $5,086,111, offset by proceeds of $10,802,329 from the sale of our investment in Metabolon, Inc., proceeds of $2,382,008, net of commissions, from the sale of 1,409,796 shares of our investment in OpGen, Inc., proceeds of $1,932,229 from the sale of our investment in Bridgelux, Inc., $1,002,853 in fees for providing managerial assistance to certain portfolio companies, proceeds of $750,000 from the repayment of certain bridge notes in SynGlyco, Inc., proceeds of $640,928 from the sale of our shares of Magic Leap, Inc., proceeds of $407,344, net of commissions, from the sale of 243,540 shares of our investment in Champions Oncology, Inc., proceeds of $390,492 from the release of a portion of the funds held in escrow from the sale of Molecular Imprints, Inc.'s semiconductor lithography equipment business to Canon, Inc., proceeds of $356,336 from the repayment of the bridge notes in Senova Systems, Inc., proceeds of $130,522 from the release of the funds held in escrow from the sale of Molecular Imprints' non-semiconductor business to Magic Leap, proceeds of $119,242 from the repayment of certain bridge note interest in Black Silicon Holdings, Inc., proceeds of $113,950 from the repayment of a bridge note in EchoPixel, Inc., additional proceeds of $82,296 from the sale of Xradia, Inc., in 2013, resulting from a tax refund associated with Xradia for a period prior to its sale, and proceeds of $40,000 from the sale of 500,000 warrants to purchase common stock of Enumeral Biomedical Holdings, Inc.

At December 31, 2016, and December 31, 2015, our secondary liquidity was $4,309,884 and $19,100,581, respectively. Secondary liquidity does not include the value of warrants or options we hold in Champions Oncology, Inc., Enumeral Biomedical Holdings, Inc., and OpGen, Inc. Our secondary liquidity consists of our publicly traded securities. Although these companies are publicly traded, their stock may not trade at high volumes and prices can be volatile, which may restrict our ability to sell our positions at any given time. We may also be restricted for a period of time in selling our positions in these companies due to our shares being unregistered. As of December 31, 2016, our publicly traded securities are not restricted from sale.

The draw period for the Loan Facility ended on September 30, 2016, and was no longer available to the Company for additional liquidity. During the fourth quarter of 2016, the Company paid off all outstanding obligations associated with the Loan Facility. As of December 31, 2016, we did not have outstanding debt.

We do not include funds held in escrow from the sale of investments in primary or secondary liquidity. These funds become primary liquidity if and when they are received at the expiration of the escrow period.

We believe that the current and future venture capital environment may adversely affect the valuation of investment portfolios, lead to tighter lending standards and result in reduced access to capital. These conditions may lead to a decline in net asset value and/or decline in valuations of our portfolio companies in future quarters. Although we cannot predict future market conditions, we continue to believe that our current cash and our ability to adjust our investment pace will provide us with adequate liquidity to execute our current business strategy.

On September 24, 2009, we signed a ten-year lease for approximately 6,900 square feet of office space located at 1450 Broadway, New York, New York. The lease commenced on January 21, 2010, with these offices replacing our corporate headquarters previously located at 111 West 57th Street, New York, NY. 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. The lease expires on December 31, 2019.

Total rent expense for all of our office space, including rent on expired leases, was $262,024 in 2016; $301,828 in 2015; and $299,048 in 2014. Aggregate future minimum lease payments in each of the following years are: 2017 - $294,882; 2018 - $302,254; 2019 - $309,811.

December 31, 2015

At December 31, 2015, and December 31, 2014, our total net primary and secondary liquidity was $37,053,638 and $29,620,665, respectively.

At December 31, 2015, and December 31, 2014, our total primary liquidity was $17,953,057 and $20,978,792, respectively. Our primary liquidity is principally comprised of our cash and certain receivables. The decrease in our primary liquidity from December 31, 2014, to December 31, 2015, is is primarily owing to new and follow-on investments totaling $11,963,021, the payment of cash for operating expenses of $7,514,109 and the purchase of treasury shares totaling $1,199,994, offset by proceeds of $2,070,955 from our rights to milestone payments from Amgen, Inc., associated with the sale of BioVex Group, Inc., proceeds of $795,567 from our rights to milestone payments from Canon, Inc., associated with the sale of Molecular Imprints, Inc., proceeds of $191,609 for fees for providing managerial assistance to certain portfolio companies, proceeds of $411,296 from the repayment of the senior secured debt by Nano Terra, Inc., proceeds of $8,353 from our former investment in Contour Energy Systems, Inc., proceeds of $2,429,202 from the repayment of certain bridge notes in Black Silicon Holdings, proceeds of $4,828,052 on the sale of our investment in Nantero, proceeds of $705,794 on the sale of our investment in Molecular Imprints, proceeds of $103,310 on the sale of certain warrants of GEO Semiconductor, Inc., proceeds of $567,500 from the repayment of the senior secured debt of SynGlyco, Inc., net proceeds of $170,662 on the sale of our remaining 50,000 shares of Solazyme and a drawdown of $5,000,000 from the Loan Facility,

At December 31, 2015, and December 31, 2014, our secondary liquidity was $19,100,581 and $8,641,873, respectively. Secondary liquidity does not include the value of warrants or options we hold in Champions Oncology, Inc., Enumeral Biomedical Holdings, Inc., and OpGen, Inc. Our secondary liquidity consists of our publicly traded securities. Although these companies are publicly traded, their stock may not trade at high volumes and prices can be volatile, which may restrict our ability to sell our positions at any given time. We may also be restricted for a period of time in selling our positions in these companies due to our shares being unregistered. As of December 31, 2015, our publicly traded securities of Adesto Technologies Corporation, Enumeral Biomedical Holdings, Inc., and OpGen, Inc., were restricted from sale.

As of December 31, 2015, we had $5,000,000 in debt outstanding.

Borrowings

The Company had a $20 million Loan Facility with Orix Corporate Capital, Inc., that was scheduled to mature on September 30, 2017. On December 1, 2016, the Company paid off all its outstanding obligations associated with this Loan Facility and the Loan Facility was no longer in effect as of that date.

The Loan Facility, which could be used to fund investments in portfolio companies, carried interest at 10 percent per annum in cash. The Company had the option to have interest accrue at a rate of 13.5 percent per annum if the Company decided not to pay interest in cash monthly. The Company paid interest in cash on its outstanding borrowings. The Loan Facility also required 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 were made quarterly in arrears. The Company had the option to 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 were met, including payment of required prepayment or termination fees. The Loan Facility was secured by all of the assets of the Company and its wholly owned subsidiaries, subject to certain customary exclusions. The Loan Facility contained 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 December 31, 2016, the Company did not have outstanding debt. The weighted average annualized interest rate for the period January 1, 2016 through December 1, 2016 was 10 percent, exclusive of amortization of closing fees and other expenses. Unamortized fees and expenses related to establishing the Loan Facility were included as "Prepaid expenses" and amortized over the term of the Loan Facility. There were no unamortized fees and expenses as of December 31, 2016.

At December 31, 2015, the Company had $5,000,000 in debt outstanding. The weighted average annual interest rate for the year ended December 31, 2015, was 10 percent. The remaining capacity under the Loan Facility was $15,000,000 at December 31, 2015. Unamortized fees and expenses of $306,040 related to establishing the Loan Facility were included as "Prepaid expenses" and amortized over the term of the Loan Facility. At December 31, 2015, the Company was in compliance with all covenants required by the Loan Facility.

Legislation was introduced in the U.S. House of Representatives during the 113th Congress intended to revise certain regulations applicable to BDCs. The legislation, among other things, provides for increasing the amount of funds BDCs may borrow by reducing the asset coverage ratio from 200 percent to 150 percent. As a result, if we were to remain a BDC, we may be able to incur additional indebtedness in the future, and, therefore, the risk of an investment in shares of our common stock may increase.

Contractual Obligations

A summary of our significant contractual payment obligations is as follows:

Payments Due by Period

	Total	Less than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Operating Leases	$906,947	$294,882	$612,065	$ 0	$ 0
Total	$906,947	$294,882	$612,065	$ 0	$ 0

On May 4, 2016, the Company made its first investment of $150,000 in AgTech Accelerator Corporation ("AgTech"). On November 17, 2016, the Company made a second investment of $150,000, representing its total operating commitment of $300,000 to AgTech. AgTech will be identifying emerging agricultural innovation companies for the Company to invest in directly. As of December 31, 2016, the Company had an unfunded $1,200,000 investment commitment to be invested in the identified portfolio companies over a five-year period. On February 3, 2017, the Company withdrew from participation in AgTech prior to any of the investment commitment being called. The Company no longer has any unfunded commitments to AgTech following the date of the withdrawal. The Company's decision to withdraw from AgTech allows the other investors the option to purchase the Company's shares of AgTech for $0.001 per share within 90 days from our notice of withdrawal. This option has yet to be exercised. If the other investors do not exercise the option to purchase the Company’s shares of AgTech within the 90 days, the Company will retain its shares of AgTech with no further investment commitment.

On July 21, 2014, the Company made a $216,012 investment in Accelerator IV-New York Corporation ("Accelerator"). This initial investment was part of an overall initial $666,667 operating commitment to Accelerator. Accelerator will be identifying emerging biotechnology companies for the Company to invest in directly. In addition to this operating commitment, the Company had an initial $3,333,333 investment commitment to be invested in the identified portfolio companies over a five-year period. If the Company defaults on these commitments, the other investors may purchase the Company's shares of Accelerator for $0.001 per share. In the event of default, the Company would still be required to contribute the remaining operating commitment. During the third quarter of 2016, the board of directors of Accelerator voted to modify the operating commitment and investment commitment distributions, which resulted in the Company's operating commitment to be set at $833,333 and investment commitment to be set at $3,166,667.

The Company's aggregate operating and investment commitments in Accelerator amounted to $833,333 and $3,166,667, respectively. During the year ended December 31, 2015, $262,215 in capital related to the operating commitment and $1,132,950 in capital related to the investment commitment were called. During the year ended December 31, 2016, $103,680 in capital related to the operating commitment and $1,050,290 in capital related to the investment commitment were called. As of December 31, 2016, the Company had remaining unfunded commitments of $251,426 and $983,427, or approximately 30.2 percent and 31.1 percent, of the total operating and investment commitments, respectively. The withdrawal of contributed capital is not permitted. The transfer or assignment of capital is subject to approval by Accelerator.

Critical Accounting Policies

The Company's significant accounting policies are described in Note 2 to the Consolidated Financial Statements and in the Footnote to the Consolidated Schedule of Investments. Critical accounting policies are those that are both important to the presentation of our financial condition and results of operations and those that require management’s most difficult, complex or subjective judgments. The Company considers the following accounting policies and related estimates to be critical:

Valuation of Portfolio Investments

The most significant estimate inherent in the preparation of our consolidated financial statements is the valuation of investments and the related amounts of unrealized appreciation and depreciation of investments recorded. As a BDC, we invest in primarily illiquid securities that generally have no established trading market.

Investments are stated at "value" as defined in the 1940 Act and in the applicable regulations of the SEC and U.S. GAAP. ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about assets and liabilities measured at fair value. ASC 820 provides a consistent definition of fair value that focuses on exit price in the principal, or most advantageous, market and prioritizes, within a measurement of fair value, the use of market-based inputs over entity-specific inputs. ASC 820 also establishes the following three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

• Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets;

• Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs 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. See "Note 5. Fair Value of Investments" in the accompanying notes to our consolidated financial statements for additional information regarding fair value measurements.

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" for additional information. As of December 31, 2016, our financial statements include investments fair valued at $53,846,065, and equity method valued at $178,360, the values of which were determined in good faith by, or under the direction of, the Board of Directors. As of December 31, 2016, approximately 75 percent of our net assets represent investments in portfolio companies valued by the Board of Directors.

Determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment, although our valuation policy is intended to provide a consistent basis for determining fair value of the portfolio investments. Factors that may be considered include, but are not limited to, the cost of the Company's investment; transactions in the portfolio company's securities or unconditional firm offers by responsible parties; the financial condition and operating results of the company; the long-term potential of the business and technology of the company; the values of similar securities issued by companies in similar businesses; volatilities of similar securities issued by companies in similar businesses; expected time to exit; multiples to revenues, net income or EBITDA that similar securities issued by companies in similar businesses receive; the proportion of the company's securities we own and the nature of any rights to require the company to register restricted securities under the applicable securities laws; management's assessment of non-performance risk; the achievement of milestones; discounts for restrictions on transfers of publicly traded securities; and the rights and preferences of the class of securities we own as compared with other classes of securities the portfolio has issued.

In addition, with respect to our debt investments for which no readily available market quotations are available, we will generally consider the financial condition and current and expected future cash flows of the portfolio company; the creditworthiness of the portfolio company and its ability to meet its current debt obligations; the relative seniority of our debt investment within the portfolio company's capital structure; the availability and value of any available collateral; and changes in market interest rates and credit spreads for similar debt investments.

Historically, difficult venture capital environments have resulted in companies not receiving financing and being subsequently closed down with a loss of investment to venture investors, and other companies receiving financing but at significantly lower valuations than the preceding rounds, leading to very deep dilution for those who do not participate in the new rounds of investment. Our best estimate of this non-performance risk has been quantified and included in the valuation of our portfolio companies as of December 31, 2016.

All investments recorded at fair value are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels related to the amount of subjectivity associated with the inputs to fair valuation of these assets are as discussed above.

As of December 31, 2016, approximately 92 percent of our portfolio company investments were classified as Level 3 in the hierarchy, indicating a high level of judgment required in their valuation.

The values assigned to our assets are based on available information and do not necessarily represent amounts that might ultimately be realized, as these amounts depend on future circumstances and cannot be reasonably determined until the individual investments are actually liquidated or become readily marketable. Upon sale of investments, the values that are ultimately realized may be materially different from what is presently estimated.

Stock-Based Compensation

Determining the appropriate fair-value model and calculating the fair value of share-based awards on the date of grant requires judgment. Historically, we have used the Black-Scholes-Merton option pricing model to estimate the fair value of employee stock options.

Management uses the Black-Scholes-Merton option pricing model in instances where we lack historical data necessary for more complex models and when the share award terms can be valued within the model. Other models may yield fair values that are significantly different from those calculated by the Black-Scholes-Merton option pricing model.

Management uses a binomial lattice option pricing model in instances where it is necessary to include a broader array of assumptions. We used the binomial lattice model for the 10-year NQSOs granted on March 18, 2009, and for performance-based restricted stock awards. These awards included accelerated vesting provisions or target stock prices that were based on market conditions.

Option pricing models require the use of subjective input assumptions, including expected volatility, expected life, expected dividend rate, and expected risk-free rate of return. Variations in the expected volatility or expected term assumptions have a significant impact on fair value. As the volatility or expected term assumptions increase, the fair value of the stock option increases. The expected dividend rate and expected risk-free rate of return are not as significant to the calculation of fair value. A higher assumed dividend rate yields a lower fair value, whereas higher assumed interest rates yield higher fair values for stock options.

In the Black-Scholes-Merton model, we used the simplified calculation of expected term as described in the SEC's Staff Accounting Bulletin 107 because of the lack of historical information about option exercise patterns. In the binomial lattice model, we use an expected term that assumes the options will be exercised at two times the strike price because of the lack of option exercise patterns. Future exercise behavior could be materially different than that which is assumed by the model.

Expected volatility is based on the historical fluctuations in the Company's stock. The Company's stock has historically been volatile, which increases the fair value of the underlying share-based awards.

GAAP requires us to develop an estimate of the number of share-based awards that will be forfeited owing to employee turnover. Quarterly changes in the estimated forfeiture rate can have a significant effect on reported share-based compensation, as the effect of adjusting the rate for all expense amortization after the grant date is recognized in the period the forfeiture estimate is changed. If the actual forfeiture rate proves to be higher than the estimated forfeiture rate, then an adjustment will be made to increase the estimated forfeiture rate, which would result in a decrease to the expense recognized in the financial statements. If the actual forfeiture rate proves to be lower than the estimated forfeiture rate, then an adjustment will be made to decrease the estimated forfeiture rate, which would result in an increase to the expense recognized in the financial statements. Such adjustments would affect our operating expenses and additional paid-in capital, but would have no effect on our net asset value.

Pension and Post-Retirement Benefit Plan Assumptions

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. Our former President accrued benefits under this plan prior to his retirement, and the termination of the plan has no impact on his accrued benefits. Several statistical and other factors that attempt to anticipate future events are used in calculating the expense and liability values related to our post-retirement benefit plans. These factors include assumptions we make about the discount rate, the rate of increase in health care costs, and mortality, among others.

The discount rate reflects the current rate at which the post-retirement medical benefit and pension liabilities could be effectively settled considering the timing of expected payments for plan participants. In estimating this rate, we consider the Citigroup Pension Liability Index in the determination of the appropriate discount rate assumptions. The weighted average rate we utilized to measure our post-retirement medical benefit obligation as of December 31, 2016, and to calculate our 2016 expense was 3.94 percent. We used a discount rate of 3.25 percent to calculate our pension obligation for the Executive Mandatory Retirement Benefit Plan.

Recent Developments - Portfolio Companies

On January 17, 2017, 180 Degree Capital Corp., a privately held portfolio company, was dissolved, and the Company's invested capital of $150,000 was returned in full.

On February 3, 2017, the Company withdrew from participation in AgTech Accelerator Corporation.

On February 16, 2017, the Company made a $425,000 follow-on investment in Interome, Inc., a privately held portfolio company.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Our business activities contain elements of risk. We consider the principal types of market risk to be valuation risk, interest rate risk and foreign currency risk. Although we are risk-seeking rather than risk-averse in our investments, we consider the management of risk to be essential to our business.

Valuation Risk

Value, as defined in Section 2(a)(41) of the 1940 Act, is (i) the market price for those securities for which market quotations are readily available and (ii) fair value as determined in good faith by, or under the direction of, the Board of Directors for all other assets. (See the "Valuation Procedures" in the "Footnote to Consolidated Schedule of Investments" contained in "Item 8. Consolidated Financial Statements and Supplementary Data.")

Because there is typically no public market for our interests in the privately held small businesses in which we invest, the valuation of the equity interests in that portion of our portfolio is determined in good faith by our Board of Directors with the assistance of our Valuation Committee, comprised of the independent members of our Board of Directors, in accordance with our Valuation Procedures. In the absence of a readily ascertainable market value, the determined value of our portfolio of equity interests may differ significantly from the values that would be placed on the portfolio if a ready market for the equity interests existed. Determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment, although our valuation policy is intended to provide a consistent basis for determining fair value of the portfolio investments. Factors that may be considered include, but are not limited to, readily available public market quotations; the cost of the Company’s investment; transactions in the portfolio company’s securities or unconditional firm offers by responsible parties; the financial condition and operating results of the company; the long-term potential of the business and technology of the company; the estimated time to exit our investment; the values and volatilities of similar securities issued by companies in similar businesses; multiples to revenues, net income or EBITDA that similar securities issued by companies in similar businesses receive; the proportion of the company’s securities we own and the nature of any rights to require the company to register restricted securities under the applicable securities laws; management's assessment of non-performance risk; the achievement of milestones; and the rights and preferences of the class of securities we own as compared with other classes of securities the portfolio has issued.

In addition, with respect to our debt investments for which no readily available market quotations are available, we will generally consider the financial condition and current and expected future cash flows of the portfolio company; the creditworthiness of the portfolio company and its ability to meet its current debt obligations; the relative seniority of our debt investment within the portfolio company’s capital structure; the availability and value of any available collateral; and changes in market interest rates and credit spreads for similar debt investments. Any changes in valuation are recorded in our Consolidated Statements of Operations as "Net (increase) decrease in unrealized depreciation on investments." Changes in valuation of any of our investments in privately held companies from one period to another may be volatile.

Investments in privately held, immature companies are inherently more volatile than investments in more mature businesses. Such immature businesses are inherently fragile and easily affected by both internal and external forces. Our investee companies can lose much or all of their value suddenly in response to an internal or external adverse event. Conversely, these immature businesses can gain suddenly in value in response to an internal or external positive development.

The values assigned to our assets are based on available information and do not necessarily represent amounts that might ultimately be realized, as these amounts depend on future circumstances and cannot be reasonably determined until the individual investments are actually liquidated or become readily marketable. Upon sale of investments, the values that are ultimately realized may be materially different from what is presently estimated.

Interest Rate Risk

Interest rate sensitivity refers to the change in earnings that may result from changes in the level of interest rates. Our borrowings under our Loan Facility carried interest at a fixed rate of 10 percent per annum, and, therefore, changes in interest rate benchmarks, such as LIBOR, did not affect our earnings on any investments funded through draws from our Loan Facility.

We may also invest in both short- and long-term U.S. government and agency securities. To the extent that we invest in short- and long-term U.S. government and agency securities, changes in interest rates result in changes in the value of these obligations that result in an increase or decrease of our net asset value. The level of interest rate risk exposure at any given point in time depends on the market environment, the expectations of future price and market movements, and the quantity and duration of long-term U.S. government and agency securities held by the Company, and it will vary from period to period.

In addition, market interest rates for high-yield corporate debt are an input in determining value of our investments in debt securities of privately held and publicly traded companies. Significant changes in these market rates could affect the value of our debt securities as of the date of measurement of value. Our investment income could be adversely affected should such debt securities include floating interest rates. We do not currently have any investments in debt securities with floating interest rates.

Foreign Currency Risk

Most of our investments are denominated in U.S. dollars. We currently have one investment denominated in Canadian dollars. We are exposed to foreign currency risk related to potential changes in foreign currency exchange rates. The potential loss in fair value on this investment resulting from a 10 percent adverse change in quoted foreign currency exchange rates is $457,232 at December 31, 2016.

Item 8. Consolidated Financial Statements and Supplementary Data.

HARRIS & HARRIS GROUP, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

The following reports and consolidated financial schedules of Harris & Harris Group, Inc. are filed herewith and included in response to Item 8.

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Management's Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness of internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2016. In making its assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013). Based on the results of this assessment, management (including our Chief Executive Officer and Chief Financial Officer) has concluded that, as of December 31, 2016, the Company's internal control over financial reporting was effective.

The effectiveness of the Company's internal control over financial reporting has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in its report which appears on page 81 of this Annual Report on Form 10-K.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Harris & Harris Group, Inc.:

In our opinion, the accompanying consolidated statements of assets and liabilities, including the consolidated schedules of investments, and the related consolidated statements of operations, of comprehensive income (loss), of changes in net assets and of cash flows and the financial highlights (hereafter referred to as “financial statements”) present fairly, in all material respects, the financial position of Harris & Harris Group, Inc. and its subsidiaries at December 31, 2016 and December 31, 2015, and the results of their operations, and their cash flows and their changes in net assets for each of the three years in the period ended December 31, 2016, and the financial highlights for each of the five years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company’s management is responsible for these financial statements and the financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule and on the Company’s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits, which included confirmation of securities at December 31, 2016 and December 31, 2015 by correspondence with the custodian and the application of alternative auditing procedures where replies have not been received, provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

New York, New York
March 15, 2017

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

	December 31, 2016	December 31, 2015
ASSETS		
Investments, in portfolio securities at value:		
Unaffiliated privately held companies (cost: $12,408,878 and $18,857,235, respectively)	$ 7,738,637	$ 5,376,472
Unaffiliated rights to milestone payments (adjusted cost basis: $781,863 and $781,863, respectively)	2,539,353	3,362,051
Unaffiliated publicly traded securities (cost: $426,764 and $1,623,029, respectively)	79,675	957,544
Non-controlled affiliated privately held companies (cost: $43,832,202 and $49,262,921, respectively)	33,694,623	41,909,262
Non-controlled affiliated publicly traded companies (cost: $16,893,591 and $23,165,788, respectively)	4,338,665	18,371,105
Controlled affiliated privately held companies (cost: $27,405,677 and $23,205,336, respectively)	9,764,996	7,010,534
Equity method privately held company (adjusted cost basis: $178,360 and $165,936, respectively)	178,360	165,936
Total, investments in private portfolio companies, rights to milestone payments and public securities at value (cost: $101,927,335 and $117,062,108, respectively)	$ 58,334,309	$ 77,152,904
Cash	15,433,919	17,922,630
Funds held in escrow from sales of investments at value	116,978	374,565
Receivable from portfolio company	0	13,032
Interest receivable	290,586	10,333
Prepaid expenses	244,051	563,699
Other assets	202,225	424,123
Total assets	$ 74,622,068	$ 96,461,286
LIABILITIES & NET ASSETS		
Term loan credit facility	$ 0	$ 5,000,000
Post retirement plan liabilities	1,269,023	1,202,148
Accounts payable and accrued liabilities	877,132	1,268,355
Deferred rent	220,303	279,112
Total liabilities	$ 2,366,458	7,749,615
Commitments and contingencies (Note 11)		
Net assets	$ 72,255,610	$ 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 12/31/16 and 12/31/15; 33,242,031 and 33,183,576 issued at 12/31/16 and 12/31/15, respectively	332,420	331,836
Additional paid in capital	215,881,671	215,762,973
Accumulated net operating and realized loss	(96,060,167)	(83,377,629)
Accumulated unrealized depreciation of investments	(43,593,026)	(39,909,204)
Accumulated other comprehensive income	300,237	509,220
Treasury stock, at cost (2,337,822 shares at 12/31/16 and 12/31/15)	(4,605,525)	(4,605,525)
Net assets	$ 72,255,610	$ 88,711,671
Shares outstanding	30,904,209	30,845,754
Net asset value per outstanding share	$ 2.34	$ 2.88

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31, 2016		Year Ended December 31, 2015		Year Ended December 31, 2014	
Investment income:						
Interest from:						
Unaffiliated companies	$ 16,947		$ 31,273		$ 121,345	
Non-controlled affiliated companies	360,960		358,662		91,768	
Controlled affiliated companies	290,616		235,425		155,827	
Cash and U.S. Treasury securities and other	4,307		12,746		9,583	
Fees for providing managerial assistance to portfolio companies	1,002,853		191,609		86,667	
Yield-enhancing fees on debt securities	116,507		87,280		52,610	
Total investment income	1,792,190		916,995		517,800	
Expenses:						
Salaries, benefits and stock-based compensation (Note 7)	2,540,762		4,221,983		4,869,716	
Administration and operations	558,897		516,347		679,630	
Professional fees	1,365,689		1,511,880		1,384,716	
Rent	262,024		301,828		299,048	
Insurance expense	258,860		287,720		321,713	
Directors' fees and expenses	346,565		358,441		373,627	
Interest and other debt expense	886,874		771,408		377,658	
Custody fees	43,118		61,817		60,070	
Depreciation	45,509		48,081		53,349	
Total expenses	6,308,298		8,079,505		8,419,527	
Net operating loss	(4,516,108	)	(7,162,510	)	(7,901,727	)
Net realized (loss) gain:						
Realized (loss) gain from investments:						
Unaffiliated companies	(5,852,067	)	2,045,013		4,031,521	
Controlled affiliated companies	9,295		1,559,235		0	
Unaffiliated rights to milestone payments	0		1,261,108		536,813	
Non-controlled affiliated companies	2,408,459		(384,077	)	(11,199,639	)
Publicly traded companies	(4,639,095	)	52,569		1,333,497	
Written call options	0		0		232,079	
Realized (loss) gain from investments	(8,073,408	)	4,533,848		(5,065,729	)
Income tax expense	1,767		2,148		17,896	
Net realized (loss) gain from investments	(8,075,175	)	4,531,700		(5,083,625	)
Net increase in unrealized depreciation on investments:						
Unaffiliated companies	8,815,818		(5,031,622	)	(6,938,919	)
Controlled affiliated companies	(1,445,876	)	377,466		(200,955	)
Unaffiliated rights to milestone payments	(822,698	)	1,773,601		608,904	
Non-controlled affiliated companies	(2,789,218	)	(5,350,661	)	5,479,589	
Publicly traded non-controlled affiliated companies	(11,045,900	)	(8,749,120	)	3,937,669	
Publicly traded unaffiliated companies	3,604,052		(322,393	)	(3,462,429	)
Written call options	0		0		(8,882	)
U.S. Treasury securities/other	0		0		(45	)
Net increase in unrealized depreciation on investments	(3,683,822	)	(17,302,729	)	(585,068	)
Net realized and unrealized loss on investments	(11,758,997	)	(12,771,029	)	(5,668,693	)

Share of loss on equity method investment	(91,255)	(312,291)	0
Net decrease in net assets resulting from operations:			
Total	$ (16,366,360)	$ (20,245,830)	$ (13,570,420)
Per average basic and diluted outstanding share	$ (0.53)	$ (0.65)	$ (0.43)
Average outstanding shares – basic and diluted	30,864,815	31,174,758	31,222,877

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

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

	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
Net decrease resulting from operations	$(16,366,360)	$(20,245,830)	$(13,570,420)
Other comprehensive loss:			
Prior service cost	0	0	0
Amortization of prior service cost	(208,983)	(208,983)	(208,983)
Other comprehensive loss	(208,983)	(208,983)	(208,983)
Comprehensive loss	$(16,575,343)	$(20,454,813)	$(13,779,403)

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
Cash flows provided by (used in) operating activities:			
Net decrease in net assets resulting from operations	$(16,366,360)	$(20,245,830)	$(13,570,420)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided by (used in) operating activities:			
Net realized loss and change in unrealized depreciation on investments	11,757,230	12,768,881	5,650,797
Depreciation of fixed assets, amortization of premium or discount on U.S. government securities and prepaid assets and accretion of bridge note interest	(353,161)	(469,224)	(109,857)
Share of loss on equity method investee	91,255	312,291	0
Stock-based compensation expense	158,973	798,965	857,006
Amortization of prior service cost	(208,983)	(208,983)	(208,983)
Purchase of U.S. government securities	0	0	(19,999,044)
Sale of U.S. government securities	0	0	38,998,052
Purchase of equity method investment	(103,680)	(262,215)	0
Purchase of affiliated portfolio companies	(9,219,323)	(11,386,285)	(14,016,308)
Purchase of unaffiliated portfolio companies	(1,198,300)	(314,521)	(240,500)
Payments received on debt investments	0	885,369	953,997
Proceeds from sale of investments of unaffiliated portfolio companies	3,094,171	5,557,846	6,695,082
Proceeds from sale of investments of affiliated portfolio companies	12,224,153	2,463,298	2,397,215
Proceeds from sale of publicly traded portfolio companies	2,829,352	170,662	2,492,666
Proceeds from milestone payments of unaffiliated portfolio companies	0	2,866,522	2,070,955
Proceeds from call option premiums	0	0	338,229
Payments for put and call option purchases	0	0	(218,532)
Changes in assets and liabilities:			
Receivable from portfolio company	13,032	147,845	(106,717)
Interest receivable	(280,253)	52,149	(39,678)
Prepaid expenses	319,648	191,157	236,553
Other assets	177,821	(167,068)	(619)
Post retirement plan liabilities	66,875	(65,467)	147,353
Accounts payable and accrued liabilities	(391,223)	426,440	56,307
Deferred rent	(58,809)	(51,792)	(22,097)
Net cash provided by (used in) operating activities	2,552,418	(6,529,960)	12,361,457
Cash flows from investing activities:			
Purchase of fixed assets	(1,438)	(8,816)	(26,940)
Net cash used in investing activities	(1,438)	(8,816)	(26,940)
Cash flows from financing activities:			
Proceeds from drawdown of loan facility	0	5,000,000	0
Repayment of loan facility	(5,000,000)	0	0
Purchase of treasury stock	0	(1,199,994)	0
	(39,691)	(86,914)	(124,751)

Payment of withholdings related to net settlement of restricted stock			
Net cash (used in) provided by financing activities	(5,039,691)	3,713,092	(124,751)
Net (decrease) increase in cash	(2,488,711)	(2,825,684)	12,209,766
Cash at beginning of the year	17,922,630	20,748,314	8,538,548
Cash at end of the year	$ 15,433,919	$ 17,922,630	$ 20,748,314
Supplemental disclosures of cash flow information:			
Income taxes paid	$ 1,767	$ 2,148	$ 17,896
Interest paid	$ 466,667	$ 431,944	$ 0

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

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

	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
Changes in net assets from operations:			
Net operating loss	$ (4,516,108)	$ (7,162,510)	$ (7,901,727)
Net realized (loss) gain on investments	(8,075,175)	4,531,700	(5,083,625)
Net increase in unrealized depreciation on investments	(3,683,822)	(17,302,729)	(576,186)
Net increase in unrealized depreciation on written call options	0	0	(8,882)
Share of loss on equity method investment	(91,255)	(312,291)	0
Net decrease in net assets resulting from operations	(16,366,360)	(20,245,830)	(13,570,420)
Changes in net assets from capital stock transactions:			
Purchase of treasury stock	0	(1,199,994)	0
Acquisition of vested restricted stock awards to pay required employee withholding tax	(39,691)	(86,914)	(124,751)
Stock-based compensation expense	158,973	798,965	857,006
Net increase (decrease) in net assets resulting from capital stock transactions	119,282	(487,943)	732,255
Changes in net assets from accumulated other comprehensive loss:			
Other comprehensive loss	(208,983)	(208,983)	(208,983)
Net (decrease) increase in net assets resulting from accumulated other comprehensive (loss) income	(208,983)	(208,983)	(208,983)
Net decrease in net assets	(16,456,061)	(20,942,756)	(13,047,148)
Net Assets:			
Beginning of the year	88,711,671	109,654,427	122,701,575
End of the year	$ 72,255,610	$ 88,711,671	$ 109,654,427

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF
INVESTMENTS AS OF DECEMBER 31, 2016

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Unaffiliated Companies (3) - 14.3% of net assets at value					
Private Placement Portfolio (Illiquid) (4) - 10.7% of net assets at value					
Fleet Health Alliance, LLC (5)(6)(7)		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)(6)		Life Sciences			
Developing antibody drug conjugates for cancer therapy					
Common Stock (acquired 7/27/12)	(H)		3,875,395	350,539	718,414
Series A-1 Convertible Preferred Stock (acquired 7/27/12-4/2/14)	(H)		683,538	635,081	1,339,343
Series B-1 Convertible Preferred Stock (acquired 2/20/15-6/14/16)	(H)		365,820	339,887	732,992
			4,924,753		2,790,749
Muses Labs, Inc. (5)(7)		Life Sciences			
Developing a data analytics platform for precision medicine					
Unsecured Convertible Bridge Note, 5%, (acquired 5/25/16)	(M)		218,418	$212,000	218,418
Nanosys, Inc.(5)(6)		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	531,914
Series D Convertible Preferred Stock (acquired 11/7/05)	(M)		3,000,003	1,016,950	1,217,890
Series E Convertible Preferred Stock (acquired 8/13/10)	(M)		496,573	433,688	618,332
			4,996,576		2,368,136
NanoTerra, Inc. (5)(6)		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	828
Warrants for Series A-3 Preferred Stock expiring on 11/15/22 (acquired 11/15/12)	(I)		35,403	47,508	99,680
			104,571		100,508

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 31, 2016

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Unaffiliated Companies (3) - 14.3% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (4) - 10.7% of net assets at value (Cont.)					
Petra Pharma Corporation (5)(6)		Life Sciences			
Developing small molecule inhibitors for treatment of cancer and metabolic diseases					
Series A Convertible Preferred Stock (acquired 12/23/15-10/27/16)	(I)		$1,525,050	1,525,050	$1,529,372
Phylagen, Inc. (5)		Life Sciences			
Developing technology to improve human health and business productivity					
Secured Convertible Bridge Note, 5%, (acquired 2/5/15)	(M)		219,068	$200,000	306,696
Secured Convertible Bridge Note, 5%, (acquired 6/5/15)	(M)		10,789	$10,000	15,105
			229,857		321,801
Xenio Corporation (5)(6)(7)(8)		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: $12,408,878)					$7,738,637
Rights to Milestone Payments (Illiquid) (9) - 3.5% of net assets at value					
Amgen, Inc. (5)(6)		Life Sciences			
Rights to Milestone Payments from Acquisition of BioVex Group, Inc. (acquired 3/4/11)	(I)		$548,998	$548,998	$2,305,239
Canon, Inc. (5)(6)		Electronics			
Rights to Milestone Payments from Acquisition of Molecular Imprints, Inc. (acquired 4/18/14)	(I)		232,865	$232,865	234,114
Laird Technologies, Inc. (5)(6)		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)	$2,539,353

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF
INVESTMENTS AS OF DECEMBER 31, 2016

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Publicly Traded Portfolio (10) - 0.1% of net assets at value					
Champions Oncology, Inc. (6)		Life Sciences			
Developing its TumorGraftTM platform for personalized medicine and drug development					
Warrants for Common Stock expiring 1/28/19 (acquired 1/28/13)	(I)		$400	5,500	$4,038
OpGen, Inc. (6)		Life Sciences			
Developing tools for genomic sequence assembly and analysis					
Warrants for the Purchase of Common Stock expiring 5/8/20 (acquired 5/5/15)	(M)		425,579	300,833	49,485
Warrants for the Purchase of Common Stock expiring 2/17/25 (acquired 5/5/15)	(I)		785	31,206	26,152
			426,364		75,637
Total Unaffiliated Publicly Traded Portfolio (cost: $426,764)					$79,675
Total Investments in Unaffiliated Companies (cost: $13,617,505)					$10,357,665
Investments in Non-Controlled Affiliated Companies (3) - 52.6% of net assets at value					
Private Placement Portfolio (Illiquid) (11) - 46.6% of net assets at value					
ABSMaterials, Inc. (5)		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	$204,832
Series B Convertible Preferred Stock (acquired 11/8/13-6/25/14)	(I)		1,217,644	1,037,751	904,433
Secured Convertible Bridge Note, 8%, (acquired 1/20/16)	(M)		107,605	$100,000	107,605
			1,760,249		1,216,870

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 31, 2016

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) - 52.6% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (11) - 46.6% of net assets at value (Cont.)					
AgBiome, LLC (5)(6)		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	$6,949,809
Series A-2 Convertible Preferred Stock (acquired 4/9/13-10/15/13)	(I)		521,740	417,392	1,499,004
Series B Convertible Preferred Stock (acquired 8/7/15)	(I)		500,006	160,526	766,184
			3,021,746		9,214,997
AgTech Accelerator Corporation (5)(6)(7)(12)		Life Sciences			
Identifying and managing emerging agriculture technologies companies					
Common Stock (acquired 5/4/16-11/17/16)	(M)		300,000	300,000	300
Class B Common Stock (acquired 11/17/16)	(M)		0	138,000	138
			300,000		438
D-Wave Systems, Inc. (5)(6)(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	2,137,105
Series 1 Class C Convertible Preferred Stock (acquired 9/30/08)	(H)		487,804	450,450	843,457
Series 1 Class D Convertible Preferred Stock (acquired 9/30/08)	(H)		748,473	855,131	1,601,213
Series 1 Class E Convertible Preferred Stock (acquired 11/24/10)	(H)		248,049	269,280	509,938
Series 1 Class F Convertible Preferred Stock (acquired 11/24/10)	(H)		238,323	258,721	489,942
Series 1 Class H Convertible Preferred Stock (acquired 6/27/14)	(H)		909,088	460,866	932,321
Series 2 Class D Convertible Preferred Stock (acquired 9/30/08)	(H)		736,019	678,264	1,270,033
Series 2 Class E Convertible Preferred Stock (acquired 6/1/12-3/22/13)	(H)		659,493	513,900	977,728
Series 2 Class F Convertible Preferred Stock (acquired 6/1/12-3/22/13)	(H)		633,631	493,747	939,386
Warrants for Common Stock expiring 5/12/19 (acquired 5/12/14)	(I)		26,357	20,415	13,336
			5,689,311		9,714,459

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF
INVESTMENTS AS OF DECEMBER 31, 2016

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) - 52.6% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (11) - 46.6% of net assets at value (Cont.)					
EchoPixel, Inc. (5)		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	$930,056
Series Seed-2 Convertible Preferred Stock (acquired 1/22/16)	(I)		500,000	1,476,668	332,650
Unsecured Convertible Bridge Note, 0%, (acquired 7/12/16)	(M)		350,000	$350,000	410,234
			2,100,000		1,672,940
Ensemble Therapeutics Corporation (5)(6)		Life Sciences			
Developing DNA-Programmed ChemistryTM 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	872,469
			2,679,754		872,469
Genome Profiling, LLC (5)(7)		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)		Electronics			
Developing novel industrial coatings that protect electronics against damage from liquids					
Common Stock (acquired 6/23/14)	(I)		666,667	405,729	465,269
Series I Convertible Preferred Stock (acquired 6/23/14)	(I)		5,709,835	2,266,894	4,126,543
Series II Convertible Preferred Stock (acquired 6/23/14-8/3/15)	(I)		2,500,006	674,638	1,741,033
Series II-A Convertible Preferred Stock (acquired 9/9/16)	(I)		226,070	69,053	255,888
Warrants for Series II-A Convertible Preferred Stock expiring 7/15/23 (acquired 7/15/16)	(I)		29,820	6,577	24,313
			9,132,398		6,613,046

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF
INVESTMENTS AS OF DECEMBER 31, 2016

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) - 52.6% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (11) - 46.6% of net assets at value (Cont.)					
Laser Light Engines, Inc. (5)(6)(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
Lodo Therapeutics Corporation (5)(6)		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	659,762

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 31, 2016

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Non-Controlled Affiliated Companies (3) - 52.6% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (11) - 46.6% of net assets at value (Cont.)					
ORIG3N, Inc. (5)(6)		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	$985,936
Series A Convertible Preferred Stock (acquired 11/25/15-9/7/16)	(I)		1,500,000	1,364,666	1,271,006
			2,000,000		2,256,942
Produced Water Absorbents, Inc. (5)(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	50,243,350	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)		1,982,142	$2,533,766	1,242,700
			9,717,673		1,242,700
Total Non-Controlled Affiliated Private Portfolio (cost: $43,832,202)					$33,694,623
Publicly Traded Portfolio (16) - 6.0% of net assets at value					
Adesto Technologies Corporation (6)(17)		Electronics			
Developing low-power, high-performance memory devices					
Common Stock (acquired 10/27/15)	(M)		$11,482,417	1,769,868	$3,274,256
Enumeral Biomedical Holdings, Inc. (6)		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	1,035,628
	(I)		57,567	255,120	22,896

Warrants to purchase Common Stock expiring 2/2/2024 (acquired 7/31/14)				
Warrants to purchase Common Stock expiring 7/30/2019 (acquired 7/31/14)	(I)	360,250	1,000,000	5,885
		5,411,174		1,064,409

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 31, 2016

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Total Non-Controlled Affiliated Publicly Traded Portfolio (cost: $16,893,591)					$4,338,665
Total Investments in Non-Controlled Affiliated Companies (cost: $60,725,793)					$38,033,288
Investments in Controlled Affiliated Companies (3) - 13.5% of net assets at value					
Private Placement Portfolio (Illiquid) (18) - 13.5% of net assets at value					
180 Degree Capital Corp. (5)(6)(7)		Other			
Entity originally formed as spinout vehicle that was subsequently dissolved					
Common Stock (acquired 12/28/16)	(M)		$150,000	10,000,000	$150,000
Black Silicon Holdings, Inc. (5)(14)(19)		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)		1,315,102	$1,278,453	262,477
			7,740,979		262,477
Essential Health Solutions, Inc. (5)(6)(7)		Life Sciences			
Developing software for information transfer amongst healthcare providers and consumers					
Common Stock (acquired 11/18/16)	(I)		20	200,000	116,767
Series A Convertible Preferred Stock (acquired 11/18/16)	(I)		2,750,000	2,750,000	2,747,905
			2,750,020		2,864,672

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF
INVESTMENTS AS OF DECEMBER 31, 2016

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Controlled Affiliated Companies (3) - 13.5% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (18) - 13.5% of net assets at value (Cont.)					
Interome, Inc. (5)(7)(20)		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
Secured Convertible Bridge Note, 12%, (acquired 11/4/16)	(M)		30,000	$30,000	30,000
Secured Convertible Bridge Note, 12%, (acquired 11/30/16)	(M)		50,000	$50,000	50,000
Secured Convertible Bridge Note, 12%, (acquired 12/22/16)	(M)		375,000	$375,000	375,000
			1,455,010		1,455,010
NGX Bio, Inc. (5)(21)		Life Sciences			
Developing translational genomics solutions					
Series Seed Convertible Preferred Stock (acquired 6/6/14-1/10/16)	(I)		500,002	666,667	706,423
Series A Convertible Preferred Stock (acquired 8/20/15-9/30/15)	(I)		499,999	329,989	447,338
Unsecured Convertible Bridge Note, 6% (acquired 4/6/16)	(M)		522,192	$500,000	580,211
			1,522,193		1,733,972

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 31, 2016

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Controlled Affiliated Companies (3) - 13.5% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (18) - 13.5% of net assets at value (Cont.)					
ProMuc, Inc. (5)		Life Sciences			
Developing synthetic mucins for the nutritional, food and health care markets					
Common Stock (acquired 12/18/13)	(I)		$ 1	1,000	$ 0
Secured Convertible Bridge Note, 8%, (acquired 12/18/13)	(I)		350,000	$350,000	8,374
Secured Convertible Bridge Note, 8%, (acquired 8/13/14)	(I)		100,000	$100,000	2,393
Secured Convertible Bridge Note, 8%, (acquired 8/5/15)	(I)		75,000	$75,000	1,794
Secured Convertible Bridge Note, 8%, (acquired 12/7/15)	(I)		55,000	$55,000	1,316
			580,001		13,877
Senova Systems, Inc. (5)(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	455,050
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
			3,662,247		455,050
SynGlyco, Inc. (5)(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)		72,432	$67,823	30,000
			7,657,876		30,000

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 31, 2016

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
Investments in Controlled Affiliated Companies (3) - 13.5% of net assets at value (Cont.)					
Private Placement Portfolio (Illiquid) (18) - 13.5% of net assets at value (Cont.)					
TARA Biosystems, Inc. (5)		Life Sciences			
Developing human tissue models for toxicology and drug discovery applications					
Common Stock (acquired 8/20/14)	(I)		$20	2,000,000	$702,904
Secured Convertible Bridge Note, 8%, (acquired 8/20/14)	(M)		356,877	$300,000	396,530
Secured Convertible Bridge Note, 8%, (acquired 5/18/15)	(M)		226,038	$200,000	251,153
Secured Convertible Bridge Note, 8%, (acquired 12/1/15)	(M)		1,304,416	$1,200,000	1,449,351
			1,887,351		2,799,938
Total Controlled Private Placement Portfolio (cost: $27,405,677)					$9,764,996
Total Investments in Controlled Affiliated Companies (cost: $27,405,677)					$9,764,996
Total Investments in Private Placement and Publicly Traded Portfolio (cost: $101,748,975)					$58,155,949
Equity Method Investments (23) - 0.2% of net assets at value					
Private Placement Portfolio (Illiquid) (23) - 0.2% of net assets at value					
Accelerator IV-New York Corporation (5)(6)(24)		Life Sciences			
Identifying and managing emerging biotechnology companies					
Series A Common Stock (acquired 7/21/14-1/29/16)	(E)		$178,360	581,907	$178,360
Total Equity Method Investments (cost: $178,360)					$178,360
Total Investments (cost: $101,927,335)					$58,334,309

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

HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS
AS OF DECEMBER 31, 2016

Notes to Consolidated Schedule of Investments

(1) See "Footnote to Consolidated Schedule of Investments" on page 116 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 December 31, 2016.

(4) The aggregate cost for federal income tax purposes of investments in unaffiliated privately held companies is $12,408,878. The gross unrealized appreciation based on the tax cost for these securities is $96,266. The gross unrealized depreciation based on the tax cost for these securities is $4,766,507.

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

(6) 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.

(7) Initial investment was made in 2016.

(8) We received shares of Xenio Corporation 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.

(9) 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 $1,757,490. The gross unrealized depreciation based on the tax cost for these securities is $0.

(10) The aggregate cost for federal income tax purposes of investments in unaffiliated publicly traded companies is $426,764. The gross unrealized appreciation based on the tax cost for these securities is $3,638. The gross unrealized depreciation based on the tax cost for these securities is $350,727.

(11) The aggregate cost for federal income tax purposes of investments in non-controlled affiliated privately held companies is $43,832,202. The gross unrealized appreciation based on the tax cost for these securities is $10,476,913. The gross unrealized depreciation based on the tax cost for these securities is $20,614,492.

(12) Our initial investment in AgTech Accelerator Corporation was on May 4, 2016, and from the date of initial investment through September 30, 2016, the investment was accounted for using the equity method of accounting. On February 3, 2017, we withdrew from participation in AgTech Accelerator. The value reflects the price per share at which our ownership may be purchased by other investors in the entity within 90 days of notice of our intent to withdraw. We have yet to receive notification of such interest from other investors. In the event that the other investors do not complete the purchase of our shares of AgTech Accelerator within the 90 days of notice, we would retain our shares of AgTech Accelerator and the investment would again be accounted for using equity method of accounting.

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

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(13) 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. We were over this threshold at the time of acquisition of these securities.

(14) 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.

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

(16) The aggregate cost for federal income tax purposes of investments in non-controlled affiliated publicly traded companies is $16,893,591. 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 $12,554,926.

(17) 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.

(18) The aggregate cost for federal income tax purposes of investments in controlled affiliated companies is $27,405,677. The gross unrealized appreciation based on the tax cost for these securities is $1,239,018. The gross unrealized depreciation based on the tax cost for these securities is $18,879,699.

(19) 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.

(20) In 2017, Interome, Inc., changed its name to HALE.life Corporation.

(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 $178,360. 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 owns approximately 9 percent or Accelerator IV-New York Corporation.

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

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					
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.
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HARRIS & HARRIS GROUP, INC.
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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

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 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.
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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.
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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.
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HARRIS & HARRIS GROUP, INC.
CONSOLIDATED SCHEDULE OF
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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

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 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.
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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.

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.
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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)				