

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**Form 10-K**

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

For the fiscal year ended December 31, 2015

or

**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 (State or Other Jurisdiction of Incorporation or Organization)	13-3119827 (I.R.S. Employer Identification No.)
1450 Broadway, 24th Floor, New York, New York (Address of Principal Executive Offices)	10018 (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.  Yes  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.  Yes  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.  Yes  No

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).  Yes  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.

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

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

(Do not check if a smaller reporting company)

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

The aggregate market value of the common stock held by non-affiliates of Registrant as of June 30, 2015 was \$84,276,533 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 14, 2016, the registrant had 30,845,754 shares of common stock, par value \$.01 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

INCORPORATED AT

Harris & Harris Group, Inc. Proxy Statement for the  
2016 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.<sup>®</sup> (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"). 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 advisor.

Harris & Harris Group builds transformative companies enabled by disruptive science by identifying and investing in such companies and then providing strategic, operational and management resources, and creative financial solutions.

We believe we provide four core benefits to our shareholders. First, we provide shareholders with access to what we believe are disruptive science-enabled companies, particularly ones that are targeting opportunities in the precision health and precision medicine markets that would otherwise be difficult to access or inaccessible for most current and potential shareholders. Second, we have an existing portfolio of companies in emerging industries at varying stages of maturity that provide for a potential pipeline of investment returns over time. Third, we provide access for accredited investors to co-invest with us in our portfolio companies through our pre-emptive rights. Fourth, we are able to invest opportunistically in a range of types of securities to take advantage of market inefficiencies.

Historically, our investment objective has been to achieve long-term capital appreciation investing in venture capital investments. We defined venture capital investments as the money and resources made available to privately held and publicly traded small businesses that we believe have exceptional growth potential. Since 2008, the focus of our initial investments has narrowed to primarily BIOLOGY+ companies. We define BIOLOGY+ as investments in interdisciplinary life sciences companies where biology innovation is intersecting with innovations in areas such as electronics, physics, materials science, chemistry, information technology, engineering and mathematics. Since 2008, more than 80 percent of our initial investments have been in BIOLOGY+ companies.

We believe our future growth will be driven by building BIOLOGY+ companies that are targeting the growing market of precision health and precision medicine. We believe that by operating these precision health and precision medicine companies as majority-owned subsidiaries or controlled partner companies rather than as traditional venture capital investments we can provide more meaningful growth for our shareholders. Our team is already actively engaged in this market and in operating these companies.

## Precision Health and Precision Medicine

We define precision health as a focus on preventative care and well-being at the individual level. It includes medical technologies, digital technologies, genetic and biochemical technologies, and machine learning technologies that permit individuals to take control of their health and well-being at all stages of their lives, especially ahead of the period in their lives when chronic disease becomes more prevalent and even potentially dominant. Our specific expertise is in areas where phenotypic or environmental information is intersecting with genotypic information.

We believe there are four trends that will drive the opportunity in precision health:

- 1) As investment banks, Macquarie and Barclays, indicated in recent reports, there is a general shift towards consumerism in health and health care decisions;
- 2) The movement of digital technologies into the life sciences market is putting far more information at the fingertips of the individual and placing a high value on business models that can translate the power of aggregated data to the individual decision maker;
- 3) The merging of new genomic data with phenotypic or environmental data will finally provide medically actionable information; and
- 4) Baby boomers are now entering a period in their lives where disease becomes prevalent, and millennials are digitally savvy and taking control of their health care decisions; both represent large segments of the population.

We believe the best way to generate value for our shareholders is to operate these companies as majority-owned subsidiaries or controlled portfolio companies where we are actively involved, influencing development through board representation and management support, in addition to the influence we exert through our equity ownership. This level of control and influence was difficult for us to maintain and exert while making traditional venture capital investments owing to our relatively small asset base as compared with other venture capital investors. Our structure as a permanent entity also created conflicts with the interests of investors with finite-life funds that we believe influenced business decisions of our investee companies. We believe our ability to be a long-term, patient partner that can generate returns on invested capital through dividends, consulting income, fee income and other sources of cash flows in addition to the sale of our securities of our investee companies is a competitive advantage for us and provides flexibility in how we build and invest in companies.

As of December 31, 2015, we had eight portfolio companies focused on the precision health and precision medicine market. We had controlling positions in three of these eight companies. These eight companies include:

*Champions Oncology, Inc. (NASDAQ:CSBR)* - Champions Oncology is engaged in the development of advanced technology solutions and services to personalize the development and use of oncology drugs.

*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.

*Metabolon, Inc.* - We believe Metabolon is among the pioneers and leaders in metabolomics, an integrative, powerful phenotyping technology for assessing health. Its proprietary platforms and informatics systems are delivering biomarker discoveries, innovative diagnostic tests, breakthroughs in precision medicine, and robust partnerships in genomics-based health initiatives.

*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.

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

*ProMuc, Inc.* (Controlled Investment) - ProMuc develops synthetic mucins for the nutritional, food and health care markets.

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

We believe there are very few people and very few investment firms remaining that have the expertise to find, incubate and build these types of companies. The foundational disruptive science comes from leading laboratories at premier research institutions. It takes time, experience and often partnerships with leading, global scientific companies to get access to such foundational technology and to bring the technology to market. Our team and our network of advisors and consultants, with scientific backgrounds in chemistry, biochemical engineering, physics, genetics and material science, are uniquely qualified to identify, diligence and invest in these opportunities.

We spend a tremendous amount of time with these companies, often playing managerial roles in the earliest stages of their development. Our technical knowledge and company-building experience are important at this stage. As these companies develop, we continue to invest in them. In many of these companies, there is a round of capital that has an asymmetric or outsized return potential compared with other rounds. By being in the companies early and by recognizing this opportunity, we believe we have the potential to deliver outsized returns even though the investment time period may be long.

#### **Other BIOLOGY+ and Active Legacy Portfolio**

We have a legacy portfolio of investments outside of the precision health and precision medicine sector that we believe has the potential to generate meaningful returns for shareholders over the coming years. Over the last five years, we have demonstrated that we have the ability to discover, diligence, invest, build and realize gains from our investments.

Our other BIOLOGY+ investments include:

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

*Accelerator IV New York Corporation* - Accelerator 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.

*Ensemble Therapeutics Corporation* - Ensemble Therapeutics is focused on the discovery and development of breakthrough small molecule therapies for patients with cancer and other serious diseases.

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

*Lodo Therapeutics Corporation* - Lodo Therapeutics develops novel therapeutics derived from the company's metagenomics-based small molecule discovery platform.

*Mersana Therapeutics, Inc.* - Mersana Therapeutics develops immunoconjugate therapies by leveraging its Fleximer platform to create precisely targeted and highly tailored drugs.

*OpGen, Inc. (NASDAQ:OPGN)* - OpGen uses molecular testing and bioinformatics to assist health care providers to combat multi-drug resistant bacterial infections.

*Petra Pharma Corporation* - Petra Pharma develops small molecule inhibitors for the treatment of cancer and metabolic diseases.

*Senova Systems, Inc.* - Senova Systems developed the industry's first revolutionary pH sensor platform aimed at replacing current glass electrodes with solid state smart sensors that contain no glass and require no user calibration.

Our remaining active legacy investments include:

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

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

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

*Magic Leap, Inc.* - Magic Leap is developing the next computing platform that will enable users to seamlessly combine and experience digital and physical lives.

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

*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.

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 the companies in the existing portfolio than we have owned historically.

In previous communications with shareholders, we have discussed how we are managing our portfolio, feeding the "fat hogs" and starving the "lean hogs" to maximize our value at exit. We currently believe our non-precision health and precision medicine companies like D-Wave Systems, Inc., Adesto Technologies Corporation, HZO, Inc., and AgBiome, LLC, may have the potential to be real drivers of realized returns from our portfolio in the coming years.

We plan to return to shareholders a much greater portion of future realized gains from these maturing investments in the form of dividends and share repurchases than we have historically. 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. To date, we have repurchased 509,082 shares. During the first quarter of 2016, our Board of Directors re-authorized 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 of such reauthorization.

As of December 31, 2015, our investments comprise 80 percent of our total assets. Within this percentage, our precision health and precision medicine portfolio comprised 22.3 percent and our active legacy portfolio comprised 50.3 of our total assets. We note that the segmentation of our precision health and precision medicine portfolio and our other BIOLOGY+ and legacy portfolio in this section is for informational purposes only. We currently manage and plan to continue to manage our portfolio, allocate capital and budget our investments on a wholistic basis and not in separate segments. Our cash comprised 18.6 percent of our total assets and other assets comprised the remaining 1.4 percent of our total assets. As of December 31, 2015, we had \$5,000,000 in debt outstanding.

#### **Co-Investment Opportunities**

Beginning in 2016, we may also seek from time to time to provide accredited investors in Harris & Harris Group 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, upon the exercise of pre-emptive rights. Harris & Harris Group will serve as the managing member and investment adviser to H&H Co-Investment Partners. We anticipate earning management and incentive fees in connection with our management of each series issued by H&H Co-Investment Partners.



## **Investments that Generate Current Income**

Historically, generation of current income was a secondary objective. In our letter to shareholders for the third quarter of 2015, we announced that we are increasing the priority of generation of current income, particularly related to our initial investments made after January 1, 2016. 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. We expect such sources of income to increase as we increase the number of controlled and partner companies. During 2015, we generated short-term income through payment of such consulting fees from five of the 31 companies in our portfolio (16 percent).

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 types 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 to 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 lifecycles provides us with extensive knowledge and experience in understanding the needs and risks of investing in such companies; 2) We are able to design creative investment options and solutions for investee companies that may be difficult to secure from alternative sources of capital.

## **Involvement in Our Investee Companies**

As a BDC, we invest in and offer managerial assistance to our portfolio companies. We have always been involved with founding, incubating and building what we believe are transformative companies from disruptive science. In fact, we have been the first institutional investor or a member of the first syndicate of institutional investors in two-thirds of the companies we have invested in since our founding. 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 have not 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 will never realize their potential, and some will be unprofitable or result in complete loss of our investment. Some of our investments 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 expect to 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. Particularly during the early stages of an investment, we may conduct the operations of the portfolio company. As an early-stage company emerges from the developmental stage with greater management depth and experience, we expect that our role in the portfolio company's day-to-day operations will diminish.

## **Industry Sectors of Investment**

We generally classify our existing investments in one of three industry sectors: Life Sciences, Energy and Electronics. Historically, the interdisciplinary nature of science-based inventions enables 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, 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 portfolio companies that do not provide short-term cash flows to us, we plan to focus a large portion of our future initial investments in securities of companies that provide short-term income to us through consulting agreements, fees, dividends or interest income. These businesses can range in stage from pre-revenue to generating positive cash flow. Substantially all of our long-term investments are in thinly capitalized, unproven, small companies focused on commercializing risky technologies. We do not 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 through due diligence and close involvement with management of our portfolio companies. We currently invest our capital directly into portfolio companies. We may in the future seek to invest our capital alongside capital from other investors through 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 on 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 one or more corporations, 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 employ an option strategy of writing (selling) covered call options or purchasing put options on one or more of our public portfolio companies once any restrictions and/or lock-up periods expire. Call options are contracts representing the right to purchase a common stock at a specified price (the "strike price") at a specified future date (the "expiration date"). Selling a covered call option represents an obligation to sell a specified number of shares of common stock at a strike price by an expiration date if the stock achieves the strike price and if it is called. A call option whose strike price is above the current price of the underlying stock is called "out-of-the-money." A call option whose strike price is below the current price of the underlying stock is called "in-the-money." When stocks in the portfolio rise, call options that were out-of-the-money when written may become in-the-money, thereby increasing the likelihood that they could be exercised, and we would be forced to sell the stock. While this may be desirable in some instances, we may minimize undesirable option assignments by repurchasing the call options prior to expiration, generating a gain or loss in the options. If the options were not to be repurchased, the option holder could exercise its rights and buy the stock from us at the strike price if the stock traded at a higher price than the strike price. We will only "sell" or "write" options on common stocks held in our portfolio. We will not sell "naked" call options, *i.e.*, options representing more shares of the stock than are held in the portfolio. For conventional listed call options, the options' expiration dates are commonly up to nine months from the date the call options are first listed for trading. Longer-term call options can have expiration dates up to three years from the date of listing. We currently expect the majority of written call options to have expirations of equal to or less than one year from the date the call option is first listed for trading.

We may also purchase put options as a method of limiting the downside risk that the price per share of these companies may decrease substantially from current levels. A put option gives its holder the right to sell a specified number of shares of a specific security at a specific price (known as the exercise strike price) by a certain date. The buyer of a put option is betting that the price of the security will decrease before the option expires. The risk for us as the option holder is that the option expires unexercised, and we would have lost the money spent on buying the option.

We believe this strategy of selling covered call options on our publicly traded portfolio companies provides at least three benefits:

- 1) We receive payment of a premium in cash at the time of the sale of the call option. The amount of the premium received is negotiated between the buyer and us and is influenced generally by the market price of the underlying stock, the volatility of the stock and the length of time between the date of sale of the call option and the expiration date. If the option expires out-of-the-money, we retain the premium as a gain on our investment.
- 2) If the option is exercised, it enables the monetization of the stock held by us in an orderly transaction that yields known returns. Our publicly traded portfolio companies currently trade at small average daily volumes of shares compared with our positions in these companies. As such, a decision by us to sell a portion or all of our shares in these companies in the public markets through brokers could negatively affect the price at which we would be able to sell these shares and, therefore, our ultimate returns. The sale of a call option sets a price at which our shares would sell if the option is exercised, which negates the potential impact of illiquidity or other market dynamics on our returns from the sale of these shares. That said, it also sets an upper limit for the proceeds we would receive in such sale. We plan to enter into such contracts at a price per share and in a timeframe that we would be willing to sell those shares. While we may repurchase call options when advantageous to us, we commonly do not sell call options with the expectation that we will repurchase them at a future date.
- 3) The sale of options may help generate interest and liquidity in the stock of our publicly traded portfolio companies. Current market dynamics make it difficult for small capitalization stocks to attract interest from institutional and retail investors. This difficulty leads to low average trading volumes and low liquidity options for existing shareholders. We believe the sale of call options may aid in increasing the interest and liquidity in the stock of these companies and may be beneficial to our future potential returns on these investments.

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, 2015, the debt obligations held in our portfolio consisted of convertible bridge notes and subordinated 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. 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**

Private venture capital and private equity 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 firm at various points within the lifetime of the fund. 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 lengthy 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 private venture capital and private equity 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 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. Accordingly, it is crucial that we operate the company with a substantial balance of liquid capital for this reason and for four additional reasons.

- 1) We manage the company and our investment criteria and pace such that our projected needs for capital to make new and follow-on investments do not exceed the total of our liquid investments. Although we use best efforts to predict when this capital will be required for use in new and follow-on investments, we cannot predict with certainty the timing for these investments. We would be unable to make new or follow-on investments in our portfolio companies without having substantial liquid resources of capital available to us.
- 2) We rarely commit the total amount of cumulative capital intended for investment in any portfolio company at one point in time. Instead, our investments consist of multiple rounds of financing of a given portfolio company, in which we typically participate if we believe that the merits of such an investment outweigh the risks. We also commonly have preemptive rights to invest additional capital in our privately held portfolio companies. These rights are useful to protect and potentially increase the value of our positions in our portfolio companies as they mature. Sometimes, the terms of such financings in privately held companies also include penalties for those investors that do not invest in these subsequent rounds of financing. Without available capital at the time of investment, our ownership in the company would be subject to these penalties that can lead to a partial or complete loss of the capital invested prior to that round of financing.
- 3) As we focus on maintaining and increasing ownership positions in our best portfolio companies, we will need to make sure to reserve enough capital to fund these companies as we will become less reliant on outside investment in order to maintain these control ownership positions.
- 4) We may have the opportunity to increase ownership in late rounds of financing in some of our most mature companies. We may also have the opportunity to purchase controlling ownership in these companies. Having permanent, liquid capital available for investment and access to the capital markets allows us to take advantage of these opportunities as they arise.

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

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 provides for a multi-draw credit facility (the "Loan Facility") that may be used by the Company to fund investments in portfolio companies. We have pledged our assets to secure any borrowings. As of December 31, 2015, we had \$5,000,000 in outstanding debt.

We believe the Loan Facility is beneficial for three primary reasons. First, we currently believe our existing portfolio of mid- and late-stage companies will generate meaningful returns in the next two-to-three years. That said, the exact timing of these realizations is uncertain. We currently believe our strong balance sheet of liquid assets (that is, cash and publicly traded securities) combined with this facility will allow us time and capital resources to realize these meaningful returns without materially compromising the rate of deployment of capital into investment opportunities that have the potential to build value for us.

Second, as we have said historically, there are a substantial number of investment opportunities in existing and new portfolio companies that we believe have the potential to build value through increasing our future returns on investment. The Loan Facility expands our financial resources for making such investments without resulting in dilution to our shareholders through the issuance of additional shares of our common stock.

Third, the Loan Facility establishes a relationship between us and Orix Corporate Capital that could be beneficial to our portfolio companies, and thus us, in the future. Many of our portfolio companies secure lines of credit and other forms of access to capital. Orix Corporate Capital has the resources and capability to address many of these needs. We believe the combination of the financial and other resources of each of our firms will be a powerful collaboration that helps to build value in our portfolio companies, and thus value for us.

Borrowings for leverage accentuate any increase or decrease in the market value of our investments and thus our net asset value. Because any decline in the net asset value of our investments will be borne first by holders of common stock, the effect of leverage in a declining market would be a greater decrease in net asset value applicable to the common stock than if we were not leveraged. Any decrease would likely be reflected in a decline in the market price of our common stock. To the extent the income derived from assets acquired with borrowed funds exceeds the interest and other expenses associated with borrowing, our total income will be greater than if borrowings were not used. Conversely, if the income from assets is not sufficient to cover the borrowing costs, our total income will be less than if borrowings were not used. If our current income is not sufficient to meet our borrowing costs (repayment of principal and interest), we might have to liquidate some or all of our investments when it may be disadvantageous to do so. Our borrowings for the purpose of buying most liquid equity securities will be subject to the margin rules, which require excess liquid collateral marked to market daily. If we are unable to post sufficient collateral, we will be required to sell securities to remain in compliance with the margin rules. These sales might be at disadvantageous times or prices.

## **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 to position us 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 expect turnover of our investments to be especially low for our our investments in controlled and partner companies as our focus with respect to these investments is to grow the companies and generate value and returns through mechanisms other than solely through the sale of our securities of those companies. We expect that our portfolio company turnover will increase from historical rates as we make more investments in securities that produce near-term cash flows through payments of interest and yield-enhancing fees and that have fixed periods of time for repayment of the original invested capital.

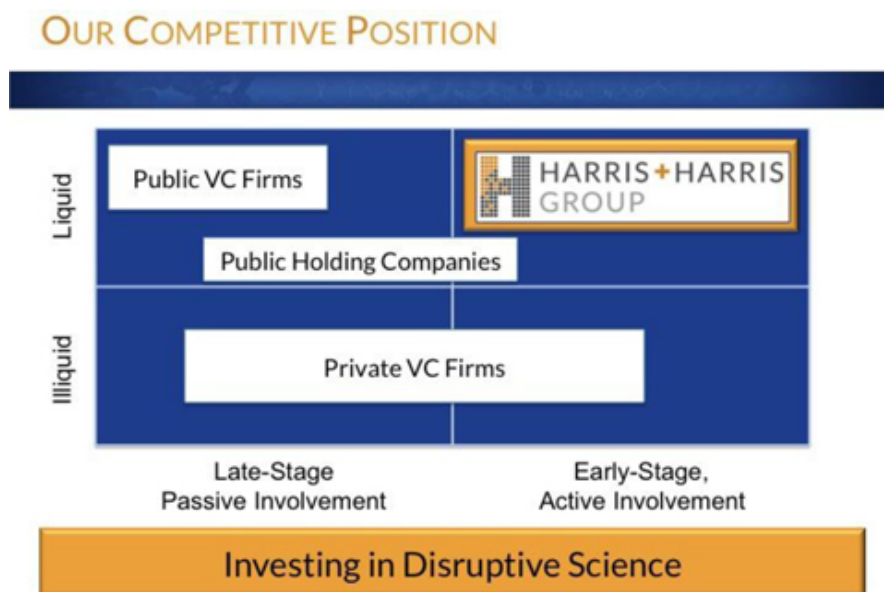
## **Management**

Achievement of our investment objective is primarily dependent upon the judgment of Douglas W. Jamison and Daniel B. Wolfe, full-time members of management who are designated as Managing Directors and members of our deal team. Blake Stevens, Senior Associate, and Alexei Andreev, a part-time employee who is a Venture Partner, are also members of our deal team. The Managing Directors have expertise in investing, company building, finance, credit underwriting, intellectual property and science and technology. 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.

Misti Ushio was a Managing Director as of December 31, 2015, but resigned her position with the Company on February 29, 2016, to pursue her role as Chief Executive Officer of TARA Biosystems, Inc., one of our controlled precision health and precision medicine portfolio companies.

## Competition

Numerous companies and individuals are engaged in investing in privately held or small publicly traded businesses and company-building 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 and in the commercialization of precision health and wellness-related breakthroughs while many of the leading companies are still private. 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 the formation and building of companies founded on disruptive science as a liquid, U.S. exchange-listed, publicly traded company.



We believe that we have invested in more science-enabled small businesses than any U.S.-based publicly traded investment firm. We believe we have assembled a team of investment professionals that, in addition to a proven track record of successful investing in such companies and securities, have scientific and intellectual property expertise that is relevant to investing in science-related breakthroughs. Nevertheless, 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 added the provisions of the 1940 Act applicable only to 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. Such 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 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 as 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 of an investment 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 beginning 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").

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:
  - o 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
  - o 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 2014, 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). We intend to apply for certification for 2015. 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 or Annual Distribution Requirement for such year. In the event we do not satisfy the 90 Percent Income Test, the Diversification Tests and 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 and consulting payments generally does not qualify as good RIC income under the 90 Percent Income Test. As we generate more income from such payments, it is possible that we may fail to qualify as a RIC for a taxable year owing to an inability to satisfy the 90 Percent Income Test. While we believe this income will be greater in 2016 than in past years, we expect that we will satisfy the 90 Percent Income Test in 2016, allowing us to qualify as a RIC for such year. Furthermore, our ownership percentages in our portfolio have grown 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 want to invest more 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 continue to qualify as a RIC. Rather than selling portfolio companies that are performing well in order to pass our RIC diversification tests, we may opt instead not to qualify as a RIC. 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 Internal Revenue Service, RICs are permitted to treat certain distributions payable in up to 80 percent in their stock, as taxable dividends that 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 and 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 Internal Revenue Service (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 or the Diversification Tests 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.<sup>SM</sup> ("Ventures"), formerly Harris & Harris Enterprises, Inc.<sup>SM</sup>, 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.<sup>SM</sup>, 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](http://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, 2015, we employed nine full-time employees and one part-time employee. As of March 1, 2016, 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 impair 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 investments.*

**Approximately 56.1 percent of the net asset value attributable to our equity-focused investment portfolio, or 46.6 percent of our net asset value, as of December 31, 2015, is concentrated in Adesto Technologies Corporation, Metabolon, Inc., HZO, Inc., and D-Wave Systems, Inc.**

At December 31, 2015, we valued our investment in Adesto, which had a historical cost to us of \$11,482,417, at \$13,645,682, our investment in Metabolon, which had a historical cost to us of \$7,231,212, at \$13,621,844, our investment in HZO, which had a historical cost to us of \$8,876,508, at \$7,126,786, and our investment in D-Wave, which had a historical cost to us of \$5,689,311, at \$6,931,138, which collectively represent 56.1 percent of the net asset value attributable to our equity-focused investment portfolio, excluding our rights to potential future milestone payments, or 46.6 percent of our net asset value.

Any downturn in the business outlook and/or substantial changes in the funding requirements of Metabolon, Adesto, HZO or D-Wave 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 invest, 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 venture capital investment 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, 2015, our shares of Adesto Technologies Corporation and OpGen, Inc., and a portion of our shares of Enumeral Biomedical Holdings, Inc., which trade on an OTC exchange, 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, OpGen 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 of 2015, the Federal Reserve raised the federal funds rate. 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 may seek to invest in publicly traded small businesses that we believe have exceptional growth potential. 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 to not have attained profitability. Companies commercializing products enabled by disruptive science are especially risky, involving scientific, technological and commercialization risks. 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. All of our life sciences investments can be characterized 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. Our focus for new investments is in companies focused on precision health and precision medicine, which operate in life science-related industries and markets.

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.

This life sciences industry is dominated by large multinational corporations with substantial greater financial and technical resources than generally will be available to the portfolio companies. Such large corporations may be better able to adapt to the challenges presented by continuing rapid and major scientific, regulatory and technological changes as well as related changes in governmental and third-party reimbursement policies.

Within the life sciences industry, the development of products generally is a costly and time-consuming process. Many highly promising products ultimately fail to prove to be safe and effective. There can be no assurance that the research or product development efforts of our portfolio companies or those of their collaborative partners will be successfully completed, that specific products can be manufactured in adequate quantities at an acceptable cost and with appropriate quality, or that such products can be successfully marketed or achieve customer acceptance. There can be no assurance that a product will be relevant and/or be competitive with products from other companies following the costly, time-consuming process of its development.



The research, development, manufacturing, and marketing of products developed by some life sciences companies are subject to extensive regulation by numerous government authorities in the United States and other countries. There can be no assurance that products developed by the portfolio companies will ever be approved by such governmental authorities.

Many life sciences portfolio companies will depend heavily upon intellectual property for their competitive position. There can be no assurance that the portfolio companies will be able to obtain patents for key inventions. Moreover, within the life sciences industry, patent challenges are frequent. Even if patents held by the portfolio companies are upheld, any challenges thereto may be costly and distracting to the portfolio companies' management.

Some of the life sciences portfolio companies will be at least partially dependent for their success upon governmental and third-party reimbursement policies that are under constant review and are subject to change at any time. Any such change could adversely affect the viability of one or more portfolio companies.

We will continue to make follow-on investments in our energy companies. 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.

We will continue to make follow-on investments in our electronics companies. 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.

**The three main industry sectors around which our investments have developed are all capital intensive.**

The industry 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. Our focus on precision health and precision medicine 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 invest in illiquid securities and may not be able to dispose of them when it is advantageous to do so, or ever.**

Most of our investments are or will be equity, equity-linked, or debt securities acquired directly from 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.

On September 30, 2013, the Company entered into the Loan Facility, which is a multi-draw credit facility that may be used by the Company to fund investments in portfolio companies. The Loan Facility requires payment of an unused commitment fee of one percent per annum on any unused borrowings. Borrowings under the Loan Facility bear interest at 10 percent per annum in cash. The Company has the option to have interest accrue at a rate of 13.5 percent per annum if the Company decides not to pay interest in cash when due. The Company currently pays interest in cash on its outstanding borrowings. As of December 31, 2015, we had \$5,000,000 in outstanding debt.

**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 private equity, venture capital funds and investment banking firms.**

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.

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 reduce 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 the substantially greater regulation under the 1940 Act as a registered closed-end investment company. Compliance with such regulations would significantly decrease our operating flexibility and could significantly increase our costs of doing business and adversely impact your investment in us.

**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 2015. 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 31, 2015, our stock closed at \$2.20 per share, a discount of \$0.68, or 23.6 percent, to our net asset value per share of \$2.88 as of December 31, 2015. On March 14, 2016, our stock closed at \$1.90 per share, a discount of \$0.98, or 34 percent, to our net asset value per share as of December 31, 2015.

**Because we do not choose investments based on a strategy of diversification, nor do we 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 (such as venture capital 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 terms of our Loan Facility require that Douglas W. Jamison and Daniel B. Wolfe, or replacements suitable to our lender, devote substantially all of their time to Company matters, and failure to do so could trigger default.

**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. 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 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, 2015, we had \$5,000,000 in debt outstanding pursuant to the Loan Facility, and we did not have any preferred stock outstanding.

**If we are unable to comply with the covenants or restrictions of the Loan Facility, our business could be materially adversely affected.**

The Loan Facility contains certain affirmative and negative covenants, including without limitation: (a) maintenance of certain minimum liquidity requirements; (b) maintenance of an eligible asset leverage ratio of not less than 4.0:1.0; (c) limitations on liens; (d) limitations on the incurrence of additional indebtedness; and (e) limitations on structural changes, mergers and disposition of assets (other than in the normal course of our business activities). Complying with these restrictions may prevent the Company from taking actions that we believe would help it to grow its business or are otherwise consistent with its investment objectives. These restrictions could also limit the Company's ability to plan for or react to market conditions or meet extraordinary capital needs or otherwise restrict corporate activities. For example, these restrictions, as currently in effect, would prohibit the Company from, or subject it to limitations on, incurring any additional indebtedness, which would include issuing any debt securities and buying back shares of the Company's stock.



The breach of any of the covenants or restrictions, unless cured within the applicable grace period, would result in a default under the Loan Facility that would permit the lenders thereunder to declare all amounts outstanding to be due and payable. Because the Loan Facility is secured by all the assets of the Company, in such an event, the Company may be forced to sell assets to repay such indebtedness. As a result, any default could cause the Company to sell portfolio company securities at a time that may not be advantageous and could have serious consequences to our financial condition. The Company may not be granted waivers or amendments to the Loan Facility if, for any reason, it is unable to comply with it, and the Company may not be able to refinance the Loan Facility on terms acceptable to it, or at all.

**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 and have qualified as a RIC under the Code. While we currently intend to continue to qualify as a RIC under the Code, we may generate more non-qualifying RIC income in 2016 than in previous years, which could result in us not qualifying as a RIC in 2016. 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. If we failed to qualify for RIC status in 2014 or beyond, 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. 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. Because our ownership percentages in our portfolio have grown over the last several years, as of December 31, 2015, we had at least nine companies with significant valuations that are not qualifying assets for the purpose of the RIC test. 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 strategy of writing covered calls and buying put options on public portfolio company securities held by us could result in us receiving a lower return for such investments than if we had not employed such strategy.**

There are several risks associated with transactions in options on securities. For example, there are significant differences between the securities and options markets that could result in an imperfect correlation between these markets, causing a given transaction not to achieve its objectives. A decision as to whether, when and how to use options involves the exercise of skill and judgment, and even a well-conceived transaction may be unsuccessful to some degree because of market behavior or unexpected events. As the writer of a covered call option, the Company forgoes, during the option's life, the opportunity to profit from increases in the market value of the security covering the call option above the sum of the premium and the strike price of the call, but has retained the risk of loss should the price of the underlying security decline. The writer of an option has no control over the time when it may be required to fulfill its obligation as a writer of the option. Once an option writer has received an exercise notice, it cannot effect a closing purchase transaction in order to terminate its obligation under the option and must deliver the underlying security at the exercise price.

As the buyer of a put option, we may incur losses if the price per share of the underlying stock to that option is above the strike price of the put option at the time of expiration, which would result in our put option expiring without value. Such expiration would reduce our overall returns on our investment in those publicly traded securities once they are sold.

**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, 2015, salaries and benefits (excluding compensation costs related to restricted stock) accounted for approximately 3.5 percent of total assets. Owing primarily to a reduction in the number of full-time employees, we currently expect salaries and benefits to be approximately 2.8 percent of total assets for the fiscal year ending December 31, 2016, under the assumption that our total assets remains constant with those as of the end of 2015. This percentage could be higher if our total assets decrease as of the end of 2016 or could be lower if our total assets increase as of the end of 2016. 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 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 2015, approximately 100,500 shares of restricted stock vested based on time, and no restricted stock vested based on stock price. The company recognized approximately \$798,965 in non-cash compensation expense related to restricted stock in 2015. 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 2015, we would not have paid incentive compensation to our adviser.

**The Board of Directors intends to grant restricted stock pursuant to the Amended and Restated Harris & Harris Group, Inc. 2012 Equity Incentive Plan (the "Stock Plan"). These equity awards may have a dilutive effect on existing shareholders.**

In accordance with the Stock Plan, the Company's Board of Directors plans to grant equity awards in the form of restricted stock from time to time for up to 10 percent of the total shares of stock issued and outstanding as of the effective date of the Stock Plan (June 7, 2012). Issuance of shares of restricted stock results in existing shareholders owning a smaller percentage of the shares outstanding.

**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.



## 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.

Quarter Ended	Market Price		Net Asset Value ("NAV") Per Share at End of Period	Premium or (Discount) as a % of NAV	
	High	Low		High	Low
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)%
March 31, 2014	\$ 3.94	\$ 2.83	\$ 3.73	5.6%	(24.1)%
June 30, 2014	\$ 3.91	\$ 3.12	\$ 3.87	1.0%	(19.4)%
September 30, 2014	\$ 3.43	\$ 2.90	\$ 3.85	(10.9)%	(24.7)%
December 31, 2014	\$ 3.09	\$ 2.51	\$ 3.51	(12.0)%	(28.5)%

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 31, 2015, was \$2.20 per share, which was a 23.6 percent discount to our net asset value of \$2.88 as of December 31, 2015.

#### Shareholders

As of March 11, 2016, 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 2015 or 2014. 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 in this period was \$1,199,994, leaving a maximum of \$1,300,006 available for future program purchases as of December 31, 2015. The 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. As of March 14, 2016, 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) of shares that may yet be repurchased under the program.

<b>Period</b>	<b>(a) Total Number of Shares Purchased</b>	<b>(b) Average Price Paid per Share</b>	<b>(c) Total Number of Shares Purchased as Part of Publicly Announced Program</b>	<b>(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Program</b>
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, 2015

Plan Category	Number of securities to be issued upon exercise of out- standing options, warrants and rights <sup>(1)</sup>	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in Column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	1,402,912	\$ 9.85	(2)
Equity compensation plans not approved by security holders	-	-	-
<b>TOTAL</b>	1,402,912	\$ 9.85	(2)

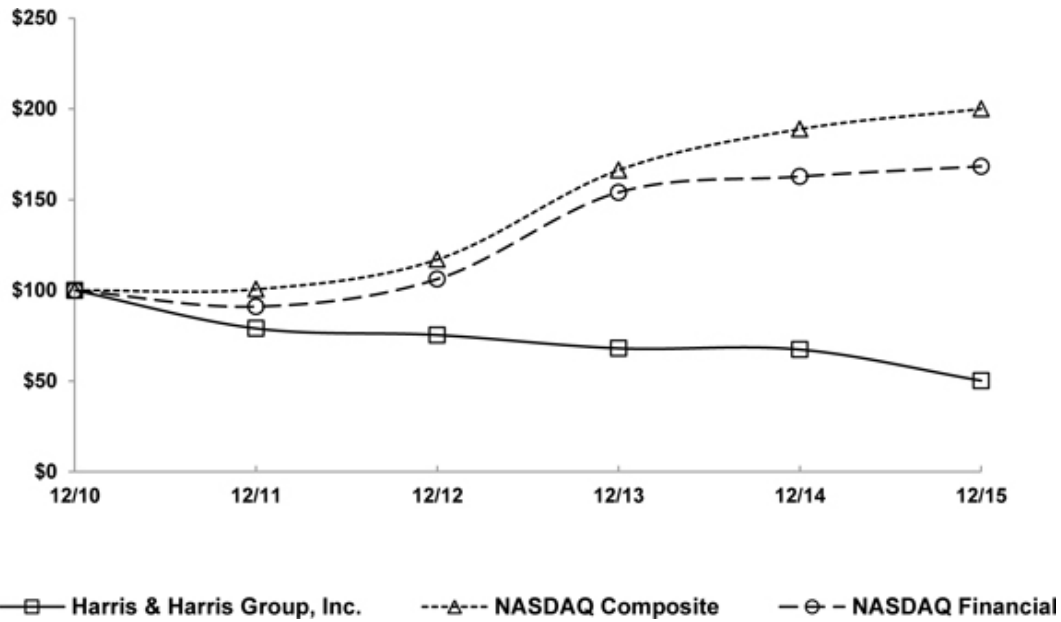
(1) Represents shares subject to options.

(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, 2015, there were 3,734,879 shares remaining available for issuance under the Stock Plan, 2,037,731 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, cancelled, 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, 2010, and tracks it through December 31, 2015.

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



\*\$100 invested on 12/31/10 in stock or index, including reinvestment of dividends.  
 Fiscal year ending December 31.

	12/10	12/11	12/12	12/13	12/14	12/15
<b>Harris &amp; Harris Group, Inc.</b>	100.00	79.00	75.34	68.04	67.35	50.23
<b>NASDAQ Composite</b>	100.00	100.53	116.92	166.19	188.78	199.95
<b>NASDAQ Financial</b>	100.00	91.04	106.16	153.95	162.67	168.32

*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:**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Total assets	\$96,461,286	\$112,094,861	\$125,063,946	\$131,990,250	\$150,343,653
Total liabilities	\$ 7,749,615	\$ 2,440,434	\$ 2,362,371	\$ 3,553,476	\$ 4,645,246
Net assets	\$88,711,671	\$109,654,427	\$122,701,575	\$128,436,774	\$145,698,407
Net asset value per outstanding share	\$ 2.88	\$ 3.51	\$ 3.93	\$ 4.13	\$ 4.70
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	30,845,754	31,280,843	31,197,438	31,116,881	31,000,601

**Operating Data for Year Ended December 31:**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Total investment income	\$ 916,995	\$ 517,800	\$ 470,902	\$ 722,227	\$ 702,765
Total expenses <sup>1</sup>	\$ 8,079,505	\$ 8,419,527	\$ 8,493,108	\$ 9,525,570	\$ 9,041,130
Net operating loss	\$ (7,162,510)	\$ (7,901,727)	\$ (8,022,206)	\$ (8,803,343)	\$ (8,338,365)
Total tax expense	\$ 2,148	\$ 17,896	\$ 27,994	\$ 15,236	\$ 6,922
Net realized gain (loss) income from investments	\$ 4,531,700	\$ (5,083,625)	\$ 18,516,268	\$ 2,406,433	\$ 2,449,705
Net (increase) decrease in unrealized depreciation on investments	\$(17,302,729)	\$ (585,068)	\$(18,283,020)	\$(13,589,990)	\$ 2,347,297
Share of loss on equity investment	\$ (312,291)	\$ 0	\$ 0	\$ 0	\$ 0
Net decrease in net assets resulting from operations	\$(20,245,830)	\$(13,570,420)	\$ (7,788,958)	\$(19,986,900)	\$ (3,541,363)
Decrease in net assets resulting from operations per average outstanding share	\$ (0.65)	\$ (0.43)	\$ (0.25)	\$ (0.65)	\$ (0.12)

<sup>1</sup> Included in total expenses is non-cash, stock-based compensation expense of \$798,965 in 2015; \$857,006 in 2014; \$1,249,756 in 2013; \$2,928,943 in 2012; and \$1,894,800 in 2011.

## **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 2015 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 build transformative companies enabled by disruptive science by identifying and investing in such companies and then providing strategic, operational and management resources, and creative financial solutions.

We believe we provide four core benefits to our shareholders. First, we provide shareholders with access to disruptive science-enabled companies, particularly ones that are targeting opportunities in the precision health and precision medicine markets that would otherwise be difficult to access or inaccessible for most current and potential shareholders. Second, we have an existing portfolio of companies in exciting markets at varying stages of maturity that provide for a potential pipeline of investment returns over time. Third, we provide access for accredited investors to co-invest with us in our portfolio companies through our pre-emptive rights. Fourth, we are able to invest opportunistically in a range of types of securities to take advantage of market inefficiencies.

## Review of 2015

We believe accomplishments and adjustments to our business made during 2015 position us for potential future growth. These items include:

- Two of our portfolio companies, Adesto Technologies Corporation and OpGen, Inc., completed IPOs and are now traded on the NASDAQ stock exchange under the symbols IOTS and OPGN, respectively.
- Molecular Imprints, Inc., and SiOnyx, Inc., were sold to undisclosed buyers. We hold shares in the buyer of Molecular Imprints and have an economic interest in future returns from the buyer of SiOnyx. CordenPharma International bought out SynGlyco, Inc.'s rights to future payments.
- We sold our shares of Nantero, Inc., to an undisclosed current investor in the company at a gain on our investment.
- We received milestone payments related to the sales of BioVex Group, Inc., to Amgen, Inc., and Molecular Imprints, Inc., to Canon, Inc.
- We received the final principal payment from our initial set of non-convertible debt investments made between 2010 and 2012. We believe these investments generated an attractive return on investment, provided us with short-term income and all principal was repaid in full.
- We repurchased 509,082 shares of our stock for approximately \$1.2 million at an average price per share of \$2.36.
- We ended 2015 with \$17.9 million in cash and \$19.1 million in secondary liquidity (publicly traded positions).
- We decreased our expenses for the third consecutive year. Additionally, in 2016, we are positioned to significantly reduce our net operating loss by an additional 20-30 percent.
- AgBiome LLC, EchoPixel, Inc., Magic Leap, Inc., Metabolon, Inc., NGX Bio, Inc., and ORIG3N, Inc., raised rounds of capital from new and current investors at higher prices per share than each company's respective prior round of financing.
- HZO, Inc., raised capital from current investors at the same price per share as the prior round of financing and TARA Biosystems, Inc., attracted capital from two new investors in a convertible note financing.
- A number of our portfolio companies announced significant developments including:



- o D-Wave secured multi-year agreements with Lockheed Martin and Google/NASA/USRA and a order from Los Alamos National Laboratory. The company also announced and shipped its first 1,000 qubit computers. Google announced that D-Wave's quantum computer was able to find solutions to complicated problems of nearly 1,000 variables up to 108 (100,000,000) times faster than classical computers.
- o AgBiome formed a strategic partnership with Genective, a leading developer of biotech crops, to accelerate the discovery of a new generation of insect control traits.
- o HZO announced partnerships with Dell and Motorola. HZO's solutions are incorporated into Dell's Latitude 12 Rugged Tablet and Motorola's Moto Surround earbuds.
- o OpGen announced the acquisition of AdvanDx, a developer of advanced molecular diagnostic products. Through this deal, OpGen gained a family of FDA approved and CE marked rapid molecular tests for use with the company's Acuitas MDRO Gene tests and bioinformatics for multi-drug resistant organisms.

We also faced the following challenges during the year:

- Net asset value per share decreased from \$3.51 as of December 31, 2014, to \$2.88 as of December 31, 2015.
- Our share price decreased from \$2.95 as of December 31, 2014, to \$2.20 as of December 31, 2015, and \$1.92 as of March 11, 2016.
- 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 2015.
- 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 values of public equities, particularly those of microcapitalization companies, are highly volatile. While Adesto Technologies Corporation is trading above its IPO price, Champions Oncology, Enumeral and OpGen all decreased in value during 2015. Our own stock price has been under considerable pressure from these and other headwinds.
- We had three companies, Cobalt Technologies, Inc., Cambrios Technologies Corporation and Ultora, Inc., cease operations and assign each company's assets to a trustee for liquidation for the benefit of creditors. We did not receive any proceeds from Cobalt Technologies, and we do expect to receive proceeds from Cambrios Technologies and Ultora.
- The downturn in the oil and gas sector has negatively affected the business operations of at least one of our portfolio companies, Produced Water Absorbents, Inc.
- While Bridgelux, Inc., agreed to be acquired by a consortium of buyers in July 2015, the transaction has yet to close and we are uncertain if and when it will close.

## 2016 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 believe major changes are coming to the American health care system over the next decade. The promise of precision medicine will be leading many of these changes. We believe we are in a unique position to build certain of our current and our future portfolio companies addressing precision health and precision medicine as majority-owned subsidiaries or controlled-partner companies. Our team is already actively engaged in this market with our companies.
- 2) We will continue to cultivate our maturing companies that have the potential to generate substantial returns. When these maturing companies exit, we plan to return to shareholders a much greater portion of future realized gains from these investments in the form of dividends and share repurchases than we have historically.
- 3) We will continue to reduce our net operating loss (defined as our investment income less our expenses). We will see a further reduction in net operating loss of 20-30 percent in 2016, after an 11 percent reduction over the period of time from 2013 through 2015. We believe this will take us to an expense level we believe is at a minimum to operate a publicly traded BDC in the current regulatory environment. 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.

We will also 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 Harris & Harris Group.

### Reduction of Net Operating Loss

During 2015, we reduced our net operating loss from approximately \$7.9 million to \$7.2 million. We aim to reduce this net operating loss further in 2016. This reduction will be achieved through three primary sources. First, we will generate more short-term income from our investments primarily through interest payments on debt securities and through consulting agreements where we will provide management, financial and other services to our portfolio companies, particularly those we control. Second, we are focused on building companies. The expenses incurred in doing so will be borne by those companies and we will reduce certain expenses historically borne by us. Third, we have 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 venture partner role in December of 2015 and is now a part-time employee of the Company. Misti Ushio, another of our former managing directors, resigned on February 29, 2016, in order to pursue her role as CEO of one of our precision health and precision medicine portfolio companies, TARA Biosystems, Inc. She will provide consulting services to us on certain of our portfolio companies and on an as-needed basis.

## Portfolio Summary

As of December 31, 2015, we had 20 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. These do not include 1) our publicly traded and unrestricted securities of Champions Oncology, Inc.; 2) our publicly traded securities of Adesto Technologies Corporation, Enumeral Biomedical Holdings, Inc., and OpGen, Inc., which are subject to restrictions on their sale; 3) our venture debt deal with NanoTerra, Inc.; 4) our rights to milestone payments from Amgen, Inc., Laird Technologies, Inc., and Canon, Inc.; 5) our portfolio companies that are in the process of liquidating their assets or have shut down, including Cambrios Technologies Corporation, Laser Light Engines, Inc., and Ultora, Inc.; and 6) our portfolio companies, Black Silicon Holdings, Inc., and SynGlyco, Inc., that exist to collect payments from the sale of subsidiaries or assets, and Bridgelux, Inc., that entered into an acquisition agreement. As of December 31, 2015, we valued these 20 privately held equity-focused companies at \$50,636,074. Including the companies referenced above, we valued our total portfolio at \$77,152,904 as of December 31, 2015.

## Summary of Returns

Since our investment in Otisville in 1983 through December 31, 2015, we have made a total of 107 equity-focused investments. We have completely exited 76 and partially exited two of these 107 investments, recognizing aggregate net realized gains of \$88,888,217 on invested capital of \$135,891,182, or 1.7 times invested capital. For the securities of the 26 privately held companies in our equity-focused portfolio held at December 31, 2015, we have net unrealized depreciation of \$36,986,842 on invested capital of \$91,386,857. We have aggregate net realized gains on our exited companies, offset by unrealized depreciation for our 26 currently held equity-focused investments of \$51,901,375 on invested capital of \$227,278,039. The above net realized gains do not take into consideration our annual operating expenses over the period from 1983 to December 31, 2015, which expenses are directly or indirectly borne by our shareholders. At December 31, 2015, from first dollar in, the average and median holding periods for the 26 privately held equity-focused investments were 5.4 years and 4.5 years, respectively. Historically, as measured from first dollar in to last dollar out, the average and median holding periods for the 76 investments we have fully exited were 4.6 years and 3.6 years, respectively.

The amount of net realized gains includes the following exits in 2015:

- Realized gains of \$1,790,891 from the repayment of certain bridge notes of Black Silicon Holdings, Inc., from the proceeds received from the sale of its wholly owned subsidiary, SiOnyx, Inc. On August 3, 2015, SiOnyx, Inc., reorganized its corporate structure to become a subsidiary of a new company, Black Silicon Holdings. At the time of reorganization, our warrants in SiOnyx were cancelled, and we realized a loss of \$231,656 on those securities. Our security holdings of SiOnyx converted into securities of Black Silicon Holdings. SiOnyx was then acquired by an undisclosed buyer. Black Silicon Holdings received cash and a profit interest in the undisclosed buyer that is held through our ownership in Black Silicon Holdings;

- Realized gains of \$3,109,347 from the sale of our investment in Nantero, Inc., on invested capital of \$1,718,706;
- Realized gains of \$242,485 from the sale of the non-semiconductor business of Molecular Imprints, Inc., on invested capital of \$928,884;
- Realized gains of \$398,762 on our rights to milestone payments from Canon, Inc., associated with the sale of Molecular Imprints, Inc.,
- Realized gains of \$862,346 from rights to milestone payments resulting from the achievement during the fourth quarter of 2015 of the second milestone associated with Amgen, Inc.'s acquisition of BioVex Group, Inc.;
- Realized loss of \$995,143 on our investment in Cobalt Technologies, Inc., owing to its securities declared worthless on December 31, 2015.
- Realized losses totaling \$689,243 on the expiration of certain warrants in Bridgelux, Inc., D-Wave Systems, Inc., and Metabolon, Inc.

The aggregate net realized gains and the cumulative invested capital do not reflect the cost or value of our freely tradable shares of Champions Oncology, Inc., or OpGen, Inc., that we owned as of December 31, 2015. The aggregate net realized gains also do not include potential milestone payments that could occur as part of the acquisitions of BioVex Group, Inc., Nextreme Thermal Solutions, Inc., or Molecular Imprints, Inc., at points in time in the future. If these amounts were included as of December 31, 2015, our aggregate net realized gains and cumulative invested capital from 1983 through December 31, 2015, would be \$89,522,284 and \$143,961,382, respectively, or 1.6 times invested capital. These amounts also do not include our shares of Adesto Technologies Corporation and Enumeral Biomedical Holdings, Inc., that, while traded publicly, are restricted, are companies with which we are currently considered an affiliate, and/or are subject to lock-up agreements.

#### **Recent and Potential Liquidity Events From Our Portfolio as of December 31, 2015**

On June 11, 2015, the Company and an undisclosed buyer entered into a Share Purchase Agreement for the purchase by such buyer of the Company's shares of preferred stock of Nantero, Inc. Upon execution of the Agreement, the Company received \$4,828,052 in proceeds from the sale.

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. We could receive an additional \$625,000 from amounts held in escrow as well as up to \$938,926 upon the achievement of certain additional milestones. As of December 31, 2015, we valued the remaining potential milestone payments from the sale of Molecular Imprints at \$461,819. 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.

On May 1, 2015, this new spin-out of Molecular Imprints, Inc.'s non-semiconductor business was acquired. Upon closing of the transaction, we received our initial payment of \$705,794 and 24,897 shares of Series B Preferred Stock of the acquiring company. As of December 31, 2015, additional proceeds of \$126,972 and 4,394 shares of Series B Preferred Stock of the acquiring party are held in an indemnity escrow and \$3,386 is held in a stockholder representative funding escrow until May 1, 2016. There can be no assurance as to how much of these amounts we will ultimately realize. As of December 31, 2015, we valued the funds and the shares of stock held in escrow from the sale of Molecular Imprints at \$63,428 and \$28,299, respectively.

As of December 31, 2015, we valued the remaining potential milestone payments from the sale of BioVex Group, Inc., at \$2,900,232. If all the remaining milestone payments were to be paid by Amgen, Inc., we would receive an additional \$4,141,910. There can be no assurance as to the timing and how much of this amount we will ultimately realize in the future.

As of December 31, 2015, we valued potential milestone payments from the sale of Nextreme Thermal Solutions, Inc., to Laird Technologies, Inc., at \$0.

Enumeral Biomedical Holdings is traded publicly on the OTC market under the symbol ENUM. Certain of the Company's shares of Enumeral Biomedical Holdings are subject to restrictions on transfer, and we are also subject to a lock-up agreement that restricts our ability to trade all securities of Enumeral owned by us, exclusive of the general restriction on the transfer of unregistered securities. The lock-up period on our 7,966,368 shares of Enumeral Biomedical Holdings expired on January 31, 2016. ENUM's stock closed trading on March 14, 2016, at \$0.19 per share.

On May 5, 2015, OpGen, Inc., completed an IPO. As of that date, the company's common stock and warrants trade on the NASDAQ Capital Market under the symbols OPGN and OPGNW, respectively. With the close of the offering, our preferred stock and certain of our bridge notes were converted into shares of common stock of OpGen. We invested \$1.8 million in the IPO, inclusive of \$650,000 in outstanding demand notes. OpGen's common stock closed trading on March 14, 2016, at \$1.58 per share.

In July 2015, SynGlyco negotiated the acceleration and settlement of payments due to it from the sale of its synthesis business to Corden Pharmaceuticals. This acceleration of payments yielded proceeds that paid off in full our senior secured debt investment with a payment to us of \$567,500. We received additional repayments for our outstanding secured convertible bridge notes of approximately \$750,000 during the first quarter of 2016. Additionally, SynGlyco entered into two license agreements that may provide additional payments in the future. These payments may bring our total cash distributions from this investment to approximately \$1.7 million. We invested a total of \$8.8 million in SynGlyco, beginning with our initial investment in 2007 and valued our securities of the company at \$908,444 as of December 31, 2015.

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

In August 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. We received proceeds of \$2,429,202 and a profit interest in the undisclosed buyer that is held through our ownership in Black Silicon Holdings.

On October 27, 2015, Adesto Technologies Corporation completed an IPO priced at \$5.00 per share, trading on the NASDAQ Capital Market under the symbol "IOTS." The Company invested \$1,000,000 in the offering. We are subject to a lock-up agreement that restricts our ability to trade all securities of Adesto owned by us. This lock-up agreement expires on April 25, 2016. On March 14, 2016, the closing price of Adesto's shares of common stock was \$5.65.

Our companies often plan for and/or begin the process of pursuing potential sales and/or IPOs of those companies by hiring bankers and/or advisors to attempt to pursue such liquidity events. 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 acceptance of letters of intent to acquire a company and/or the beginning of a road show to pursue an IPO.

#### **Review of Transactions Involving Our Publicly Traded Positions**

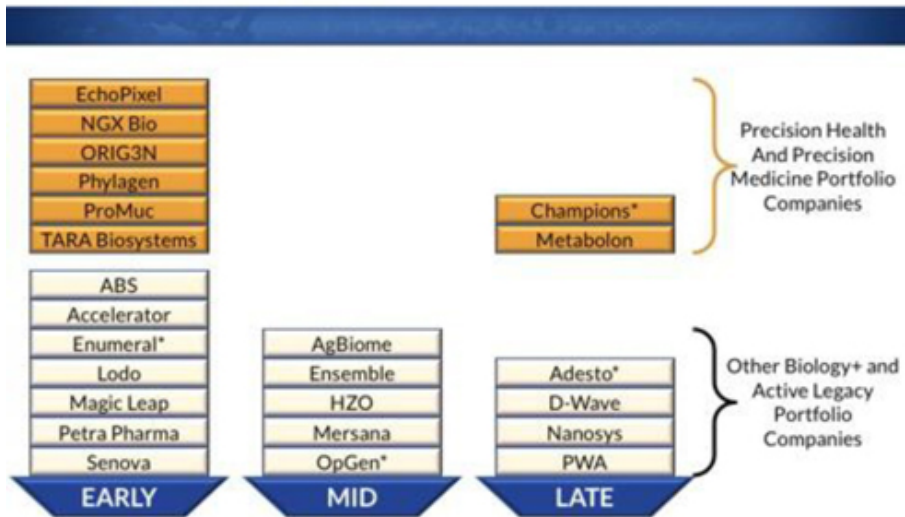
We have generated \$2,469,676 in net cash premiums on call options sold and put options purchased of Solazyme since the company completed an IPO in May 2011. We have sold all of our shares of Solazyme since its IPO for net proceeds, after commission, of \$22,571,157 or an average sale price of \$9.80 per share. Including premiums from call and put options, the average sale price for these shares was \$10.87 per share. Our average cost basis in Solazyme is \$2.36 per share. During the year ended December 31, 2015, we sold 50,000 shares of Solazyme.

We have sold 769,295 shares of our position in Champions Oncology, Inc., in open market transactions for net proceeds, after commission, of \$873,944 or an average sale price of \$1.14 per share. Our average cost basis in Champions is \$0.67 per share. During the year ended December 31, 2015, we did not sell any shares of Champions.

#### **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. Our pipeline of investment maturities for the 24 equity-focused companies in our portfolio that are not in the process of being sold or shut down are shown in the figure below (our "Active Portfolio").

## PORTFOLIO BY STAGE



\* Indicates publicly traded company as of December 31, 2015.

Note: Equity-focused portfolio companies and stage classifications as of December 31, 2015, not including 1) our rights to milestone payments associated with the acquisitions of BioVex Group, Nextreme Thermal Solutions and Molecular Imprints; and 2) portfolio companies currently in the process of being liquidated or sold, have ceased or are in the process of ceasing operations and/or are seeking a sale of their assets, including Cambrios, Laser Light Engines, Ultora, SynGlyco, Bridgelux, and Black Silicon.

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 an increase in non-performance risk, which reduces valuation. We discuss non-performance risk and its implications on value below in the section titled "Valuation of Investments."

We categorized our five new portfolio companies in 2015, Lodo Therapeutics Corporation, Magic Leap, Inc., ORIG3N, Inc., Petra Pharma Corporation and Phylagen, Inc., as early-stage companies.

## Portfolio Company Revenue

We aggregate the revenues of our equity-focused portfolio companies on an annual basis and report these aggregated amounts for the prior three calendar years. These revenues include contributions solely from those equity-focused portfolio companies that have yet to complete liquidity events (e.g., IPOs, up-listings, or M&A transactions) and are not in the process of being shut down as of December 31, 2015. This approach enables the comparison of aggregate revenues for our portfolio as of the end of a given year with those generated by the same set of companies in prior years. As such, the total revenues in a given historical year will fluctuate owing to the change of the composition of our equity-focused portfolio companies.

We had 20 of our 26 companies in our Active Portfolio as of December 31, 2015, that generate revenues ranging from nominal to significant from commercial sales of products and/or services, from commercial partnerships and/or from government grants. The following table lists the aggregate revenues and change between years for these 20 portfolio companies in 2013, 2014 and 2015, grouped by stage of development, as of December 31, 2015, and in total.

	2015 Aggregate Revenue (\$ Million)	2014 Aggregate Revenue (\$ Million)	Change in Revenues from 2014 to 2015	2013 Aggregate Revenue (\$ Million)	Change in Revenues from 2013 to 2014
Early Stage	\$ 2.7	\$ 1.7	59%	\$ 1.8	-6%
Mid Stage	\$ 45.4	\$ 23.3	95%	\$ 18.3	27%
Late Stage	\$ 190.6	\$ 239.7	-20%	\$ 217.3	10%
Total	\$ 238.7	\$ 264.7	-10%	\$ 237.4	11%
Combined Mid and Late Stage	\$ 236.0	\$ 263.0	-10%	\$ 235.6	12%

The revenue amounts listed in the table above include revenues generated by our portfolio companies in the years reported, but do not include revenues from acquired businesses prior to the consummation of those transactions.

## Ownership of Our Portfolio Companies

By studying our portfolio in greater detail, it is evident to us that 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 the 20 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. Phylagen, Inc., which we consider an equity-focused company, is not included in the chart below. Our ownership of Phylagen is solely in a note in a series seed financing for which we do not have any voting rights.



Portfolio Company	Voting Ownership Range
EchoPixel, Inc. NGXBio, Inc.* Produced Water Absorbents, Inc. ProMuc, Inc.* Senova Systems, Inc.*	>20%
ABSMaterials, Inc. TARA Biosystems, Inc.*	15-20%
HZO, Inc. ORIG3N, Inc.	10-15%
Accelerator IV-New York Corporation AgBiome, L.L.C. Ensemble Therapeutics Corp. Metabolon, Inc. Petra Pharma Corp.	5-10%
Mersana Therapeutics, Inc.	2.5-5%
D-Wave Systems, Inc.** Lodo Therapeutics Corp. Magic Leap, Inc. Nanosys, 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% range.

#### 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, 2015, we held at least one board seat or observer rights on 17 of our 20 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 (85 percent).

## Investments and Current Investment Pace

The following is a summary of our initial and follow-on equity-focused investments from January 1, 2011, to December 31, 2015. We consider a "round led" to be a round where we were the new investor or the leader of a group of investors in an investee company. Typically, but not always, the lead investor negotiates the price and terms of the deal with the investee company.

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

	2011	2012	2013	2014	2015
Total Incremental Investments	\$ 17,688,903	\$ 15,141,941	\$ 18,076,288	\$ 14,276,808	\$ 11,963,021
No. of New Investments	4	2	2	3	4
No. of Follow-On Investment Rounds	31	26	37	33	31
No. of Rounds Led	4	3	9	8	8
Average Dollar Amount – Initial	\$ 1,339,744	\$ 1,407,500	\$ 550,001	\$ 338,677	\$ 395,738
Average Dollar Amount – Follow-On	\$ 397,740	\$ 474,113	\$ 449,359	\$ 401,842	\$ 334,841

## 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, 2015, and December 31, 2014, our total primary and secondary liquidity was \$37,053,638 and \$29,620,665, respectively. We do not include funds available and undrawn from our credit facility as primary or secondary liquidity. 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, 2015, we held \$17,922,630 in cash and \$30,427 in certain receivables. As of December 31, 2014, we held \$20,748,314 in cash and \$230,478 in certain receivables.

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, 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. The proceeds from these transactions added to our primary liquidity during the year ended December 31, 2015. Future payments upon achieving milestones from the sale of BioVex Group, Inc., and the sale of Molecular Imprints, Inc., to Canon, Inc., would also add to our primary liquidity in future years 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 stock of both unrestricted and restricted 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, 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 quarter 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 expires on April 25, 2016.

During the year ended December 31, 2014, proceeds from several transactions added to our primary liquidity. We sold 117,834 shares of our investment in Solazyme, Inc., in open market sales. We received \$1,407,520 in net proceeds from these transactions. We also sold 575,756 shares of our investment in Champions Oncology, Inc., in open market sales. We received \$636,259 in net proceeds from these transactions. We purchased and sold call option contracts on our publicly traded positions generating net proceeds of \$119,697. On April 18, 2014, we received proceeds of \$6,486,461 from the sale of Molecular Imprints, Inc.'s semiconductor lithography equipment business to Canon, Inc. We received proceeds of \$2,374,827 from the sale of Xradia, Inc., which were released from escrow during the year. On August 1, 2014, the Company received \$549,238 in payment of the outstanding principal, interest and warrants of OHSO Clean, Inc. On November 17, 2014, the Company received \$2,070,955 upon achievement of the BLA filing milestone associated with the acquisition of BioVex Group, Inc., by Amgen, Inc. On December 18, 2014, the Company received \$48,071 from Nanosys, Inc., in payment of the principal amount plus accrued interest of a convertible promissory note. On December 24, 2014, the Company received \$79,310 of total proceeds due of \$158,621 from the sale of certain warrants of GEO Semiconductor, Inc. The remaining proceeds due of \$79,311 are included in our receivables as of December 31, 2014.

As of December 31, 2014, our secondary liquidity was \$8,641,873. Solazyme, Inc., accounts for \$129,000 of the total amount of secondary liquidity based on the closing price of its common stock of \$2.58 as of December 31, 2014. Champions Oncology accounts for \$1,261,695 of the total amount of secondary liquidity based on the closing price of its common stock of \$0.50 as of December 31, 2014. Enumeral Biomedical accounts for \$7,251,178 of the total amount of secondary liquidity based on the closing price of its common stock of \$1.05 as of December 31, 2014, less a liquidity discount to reflect that these shares are subject to restrictions on transfer. We were also subject to a lock-up agreement that restricts our ability to trade our securities of Enumeral Biomedical, exclusive of the general restriction on the transfer of unregistered securities. The lock-up period on our 7,966,368 shares of Enumeral Biomedical expired on January 31, 2016. Secondary liquidity did not include the value of warrants or options we hold in Champions Oncology, Inc., or Enumeral Biomedical Holdings, Inc.

We also have the \$20,000,000 Loan Facility, which we can draw on to increase liquidity. As of December 31, 2015, we had \$5,000,000 in debt outstanding relating to this Loan Facility.

### **Current Business Environment**

The success of our business is predicated on our ability to build 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. 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. The IPO of our portfolio company, Adesto Technologies Corporation, is an example of this situation where the values of publicly traded comparable companies were substantially above the value at which Adesto was able to raise capital in the transaction. We believe this situation will continue for the foreseeable future given the decrease in investors willing to invest in small capitalization companies. 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 significant decrease in the price of oil during 2015 and continuing into 2016. Our exposure to this market is limited to our investment in Produced Water Absorbents, Inc., which is valued at less than two percent of our total 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). The valuations of microcapitalization indices decreased during 2015, and such decreases in value continued into 2016. We believe the current business environment is relatively risk-adverse, which leads to liquid capital being shifted from risky companies, which are often microcapitalization companies, to less risky companies and results in a decrease in the overall value of those companies. Given the uncertainty over future interest rates, the U.S. election, the oil and gas markets, and the global economy, particularly in China, we expect that the values of microcapitalization companies will continue to be volatile and under pressure, 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.

According to Thomson Reuters and the National Venture Capital Association ("NVCA"), 2015 was the slowest year for venture-backed M&A transactions since 2009. We believe the uncertainties of the current business environment discussed above will continue to affect the market for M&A transactions. This uncertainty may lead to deals taking longer to close than originally expected or may result in deals not closing at all.

Our short-term income is generated through interest income from convertible and non-convertible debt investments, yield-enhancing fees on debt investments and fees for providing managerial assistance to our investee 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 regardless of near-term improvements in the overall global economy and public markets and that these factors can also affect value.

We note that while the valuations of our privately held, venture capital-backed companies may decrease, sometimes substantially, such decrease may facilitate an increase in our ownership of the overall company in conjunction with a follow-on investment in such company. In these cases, the ultimate return on our overall invested capital could be greater than it would have been without such interim decrease 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:

- Last Round Price per Share
- 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 an M&A scenario, but not in public offering scenarios where it is common to have all classes of preferred stock converted to common stock. Liquidation preferences are business terms that are common in the venture capital industry and are generally 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.

Four of our portfolio companies trade in public exchanges and are subject to the volatility inherent in the public markets. The following table illustrates the range of values of these securities.

#### Public Companies' Trading History

	Price per Share on March 14, 2016	Q4 2015 Trading Range	H& H Ownership Value in Q4 2015 Trading Range*	January - December 2015 Trading Range	H& H Ownership Value in January - December 2015 Trading Range*
Adesto Technologies Corporation	\$ 5.65	\$5.00 - \$8.50	\$8.8 - \$15.0 Million	\$5.00 - \$8.50	\$8.8 - \$15.0 Million
Champions Oncology, Inc.**	\$ 3.50	\$3.22 - \$5.49	\$0.8 - \$1.3 Million	\$2.40 - \$9.00	\$0.6 - \$2.2 Million
Enumeral Biomedical Holdings, Inc.	\$ 0.19	\$0.18 - \$0.42	\$1.4 - \$3.3 Million	\$0.18 - \$1.07	\$1.4 - \$8.5 Million
OpGen, Inc.	\$ 1.58	\$1.45 - \$2.79	\$2.0 - \$3.9 Million	\$1.45 - \$5.44	\$2.0 - \$7.7 Million
Total:			\$13.0- \$23.5 Million		\$12.8- \$33.4 Million

\*Calculated based on common shares held as of December 31, 2015.

\*\*On August 12, 2015, Champions Oncology effected a 12:1 reverse stock split; trading range reported on a split-adjusted basis.

In each of the years in the period of 2011 through 2015, 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

	2011	2012	2013	2014	2015
Net Asset Value, BOY	\$146,853,912	\$145,698,407	\$128,436,774	\$122,701,575	\$109,654,427
Gross Write-Downs During Year	\$ (11,375,661)	\$ (19,604,046)	\$ (19,089,816)	\$ (14,050,501)	\$ (15,710,180)
Gross Write-Ups During Year	11,997,991	\$ 14,099,904	\$ 10,218,994	\$ 4,587,923	\$ 6,628,025
Gross Write-Downs as a Percentage of Net Asset Value, BOY	(7.8)%	(13.5)%	(14.9)%	(11.5)%	(14.3)%
Gross Write-Ups as a Percentage of Net Asset Value, BOY	8.2%	9.7%	8.0%	3.8%	6.0%
Net Change as a Percentage of Net Asset Value, BOY	0.4%	(3.8)%	(6.9)%	(7.7)%	(8.3)%

From December 31, 2014, to December 31, 2015, the value of our equity-focused portfolio, including our rights to potential future milestone payments from the sales of BioVex Group, Inc., Nextreme Thermal Solutions, Inc., and Molecular Imprints, Inc., decreased by \$12,201,330, from \$89,292,045 to \$77,090,715.

Not including our rights to potential future milestone payments from the sale of BioVex Group, Inc., Nextreme Thermal Solutions, Inc., and Molecular Imprints, Inc., our equity-focused portfolio companies decreased in value by \$12,369,516 from \$86,098,180 to \$73,728,664.

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 on an OTC exchange, or the value of our shares of Adesto Technologies Corporation or the unrestricted or registered shares and a portion of our warrants for the purchase of common stock of OpGen, Inc., which both trade on the NASDAQ Capital Market. For the fourth quarter of 2015, our Valuation Committee set the value of Champions Oncology, Inc., owing to the determination that it did not trade in an active market.

Five portfolio companies, Adesto Technologies Corporation, D-Wave Systems, Inc., Enumeral Biomedical Holdings, Inc., Nanosys, Inc., and Produced Water Absorbents, Inc., accounted for \$20.9 million, or 84.3 percent, of the gross write-downs of our portfolio companies held as of December 31, 2015.

The change in value of Adesto Technologies Corporation was primarily owing to the pricing terms of its IPO and subsequent public market transactions, which valued the company at a substantial discount to the average multiple to revenues of comparable publicly traded companies that were used to value the company as of December 31, 2014.

We note that a portion of our securities of Enumeral Biomedical Holdings and OpGen were not fair valued by the Valuation Committee as of December 31, 2015, because those securities were registered, unrestricted securities that traded in an active market and were, therefore, valued based on the closing price of the shares on the date of valuation. The primary contributing factor for the decrease in valuation of our restricted shares and our warrants of Enumeral Biomedical Holdings was a decrease in the stock price of the company from \$1.05 as of January 2, 2015, to \$0.23 as of December 31, 2015. The primary contributing factor for the decrease in valuation of OpGen was a decrease in the stock price of the company from \$6.00 as of May 6, 2015, the date of its IPO, to \$1.90 as of December 31, 2015.

The primary contributing factor for the decrease in valuation of Nanosys, Inc., was the changes in the revenues and multiples of revenues of publicly traded comparable companies used to derive the value of our securities of the company. The primary contributing factor for the decrease in valuation of Produced Water Absorbents, Inc., was the market downturn in the oil and gas industries. The primary contributing factor for the decrease in valuation of D-Wave Systems, Inc., was foreign currency fluctuations.



As of December 31, 2015, our top ten investments by value accounted for approximately 79 percent of the value of our equity-focused portfolio.

<b>Top Ten Equity-Focused Investments by Value</b>		
<b><u>Portfolio Company</u></b>	<b><u>Value as of 12/31/2015</u></b>	<b><u>Cumulative % of Equity Focused Venture Capital Portfolio</u></b>
Adesto Technologies Corp.*	\$13,645,682	19%
Metabolon, Inc.	\$13,621,844	37%
HZO, Inc.	\$7,126,786	47%
D-Wave Systems, Inc.	\$6,931,138	56%
AgBiome, L.L.C.	\$5,490,289	64%
OpGen, Inc.*	\$2,806,415	67%
Bridgelux, Inc.	\$2,538,884	71%
Senova Systems, Inc.	\$2,111,748	74%
Ensemble Therapeutics Corp.	\$2,110,902	76%
TARA Biosystems, Inc.	\$2,023,439	79%

\* Adesto Technologies and OpGen ranks by value include the value of their Level 1 asset shares.

### **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, 2015, and December 31, 2014, our average holdings of U.S. government securities were \$0 and \$2,999,955, respectively.

#### ***Comparison of Years Ended December 31, 2015, 2014, and 2013***

During the years ended December 31, 2015, December 31, 2014, and December 31, 2013, we had net decreases in net assets resulting from operations of \$20,245,830, \$13,570,420 and \$7,788,958, respectively.

#### **Investment Income and Expenses:**

During the years ended December 31, 2015, 2014, and 2013, we had net operating losses of \$7,162,510, \$7,901,727 and \$8,022,206, 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 \$798,965 in 2015, \$857,006 in 2014, and \$1,249,756 in 2013. During the years ended December 31, 2015, 2014, and 2013, total investment income was \$916,995, \$517,800 and \$470,902, respectively. During the years ended December 31, 2015, 2014, and 2013, total operating expenses were \$8,079,505, \$8,419,527 and \$8,493,108, respectively.

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 12 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 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 by \$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, 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.

During the year ended December 31, 2014, as compared with the year ended December 31, 2013, investment income increased primarily owing to increases in interest income from convertible bridge notes, interest income from a non-convertible promissory note, income from yield-enhancing fees on debt securities and fees for providing managerial assistance to one of our portfolio companies, offset by a write-off of \$77,268 of previously accrued bridge note interest, a decrease in interest income from subordinated and senior secured debt and senior secured debt through a participation agreement, rental income from the sublet of our office space at 420 Florence Street, Palo Alto, CA, owing to the expiration of the lease in 2013, and a decrease in our average holdings of U.S. government securities. During the year ended December 31, 2014, our average holdings of U.S. government securities were \$2,999,955 as compared with \$18,353,323 during the year ended December 31, 2013, 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 \$8,419,527 and \$8,493,108 for the year ended December 31, 2014, and December 31, 2013, respectively. The decrease in operating expenses for the year ended December 31, 2014, as compared with the year ended December 31, 2013, was primarily owing to decreases in salaries, benefits and stock-based compensation expense, rent expense and insurance expense, offset by increases in administration and operations expense, professional fees, interest and other debt expense, directors' fees and expenses and custody fees.

Salaries, benefits and stock-based compensation expense decreased by \$482,956, or 9.0 percent, for the year ended December 31, 2014, as compared with December 31, 2013, primarily as a result of decreases in compensation cost for restricted stock awards associated with the Stock Plan owing to a reversal of compensation expense of \$256,334 for stock awards that were forfeited as a result of the voluntary termination of one of our employees on June 30, 2014, and the voluntary termination of two of our employees on December 31, 2014, a decrease in employee bonus expense of \$165,500, and a decrease in salary and benefits owing to the aforementioned voluntary termination of one of our employees on June 30, 2014, net of increases in costs associated with the salary and benefits for one of our employees whose status changed from a part-time employee in 2013 to a full-time employee in 2014 and the hiring of a new full-time employee effective August 18, 2014. While the non-cash, stock-based compensation expense for the Stock Plan increased our operating expenses by \$857,006, this increase was offset by a corresponding increase to our additional paid-in capital, resulting in no net impact to our net asset value. Rent expense decreased by \$77,312, or 20.5 percent, for the year ended December 31, 2014, as compared with December 31, 2013, owing primarily to the expiration of the lease for our office space at 420 Florence Street, Palo Alto, CA, on August 30, 2013. Our rent expense of \$299,048 for the year ended December 31, 2014, includes \$321,145 of rent paid in cash, net of \$22,097 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 \$321,145 includes \$24,565 of real estate tax escalation charges on our corporate headquarters located at 1450 Broadway in New York City. Insurance expense decreased by \$55,832, or 14.8 percent, for the year ended December 31, 2014, as compared with December 31, 2013, primarily as a result of a decrease in overall annual renewal premiums.

Administration and operations expense increased by \$24,681, or 3.8 percent, for the year ended December 31, 2014, as compared with December 31, 2013, primarily as a result of net increases in general office and administration expenses, including costs of \$31,235 associated with a Meet the Portfolio Day event, offset by decreases in managing directors' travel-related expenses. We did not hold a Meet the Portfolio Day during the comparable period in 2013. Professional fees increased by \$128,920, or 10.3 percent, for the year ended December 31, 2014, as compared with December 31, 2013, primarily as a result of an increase in certain accounting fees and consulting fees associated with investor outreach and marketing efforts, offset by a decrease in certain legal fees. Interest and other debt expense increased by \$261,237, or 224.4 percent, for the year ended December 31, 2014, as compared with December 31, 2013, primarily as a result of non-utilization fees and amortization of closing fees associated with our Loan Facility. Directors' fees and expenses increased by \$127,826, or 52.0 percent, for the year ended December 31, 2014, as compared with December 31, 2013, primarily owing to an increase in overall fees and the addition of a new member to our Board of Directors in 2014. Custody fees increased by \$1,612, or 2.8 percent, for the year ended December 31, 2014, as compared with December 31, 2013.

### Realized Gains and Losses from Investments:

During the years ended December 31, 2015, 2014, and 2013, we realized net gains (losses) on investments of \$4,531,700, \$(5,083,625) and \$18,516,268, respectively. For the years ended December 31, 2015, 2014, and 2013, we realized net gains (losses) from investments, before taxes, of \$4,533,848, \$(5,065,729) and \$18,544,262, respectively. Income tax expense for the years ended December 31, 2015, 2014, and 2013 was \$2,148, \$17,896 and \$27,994, respectively.

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.

During the year ended December 31, 2013, we realized net gains of \$18,544,262, consisting primarily of a net realized gain on our investment in Xradia, Inc., of \$10,624,634, a realized gain of \$12,570,595 on the sale of 1,629,956 shares of Solazyme, Inc., of which 884,800 shares were called subject to the terms of written call option contracts, a realized gain of \$148,729 on our escrow payment from the sale of Crystal IS, Inc., a realized gain of \$105,313 on the early repayments of the senior secured and subordinated secured debt by GEO Semiconductor, Inc., and a realized gain of \$92,529 on the sale of 193,539 shares of Champions Oncology, Inc., offset by a realized loss on the value of our investment in Nextreme Thermal Solutions, Inc., of \$4,384,762, a realized loss of \$540,106 on the sale of 50,807 shares of NeoPhotonics Corporation, of which 50,800 shares were called subject to the terms of written call option contracts, a realized loss of \$282 on the repurchase and expiration of certain Solazyme and NeoPhotonics written call option contracts, and a realized loss of \$72,209 on the expiration of certain Solazyme purchased put option contracts. At December 31, 2013, we still owned 3,099,651 and 167,834 shares of Champions Oncology and Solazyme, respectively. At December 31, 2013, we did not hold any shares of NeoPhotonics.

Net Unrealized Appreciation and Depreciation of Portfolio Securities:

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, 2013, net unrealized depreciation on total investments increased by \$18,283,020.

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:

<u>Investment</u>	<u>Amount of Write-Down</u>
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

<b>Investment</b>	<b>Amount of Write-Down</b>
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 twelve months ended December 31, 2015, were partially offset by write-ups in the valuations of the following portfolio company investments:

<b>Investment</b>	<b>Amount of Write-Up</b>
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:

<u>Investment</u>	<u>Amount of Write-Down</u>
SiOnyx, Inc.	4,993,851
Cambrios Technologies Corporation	2,868,013
H2O, 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:

<u>Investment</u>	<u>Amount of Write-Up</u>
Enumeral Biomedical Corp.	3,937,669
D-Wave Systems, Inc.	2,448,031
Produced Water Absorbents, Inc.	1,491,898
Nantero, Inc.	399,158



<b>Investment</b>	<b>Amount of Write-Up</b>
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.

During the year ended December 31, 2013, net unrealized depreciation on our investments increased by \$18,281,703, from net unrealized depreciation of \$3,748,631 at December 31, 2012, to net unrealized depreciation of \$22,030,334 at December 31, 2013, owing primarily to a decrease in unrealized appreciation of \$8,303,684 on our investment in Xradia, Inc., resulting from realized gains on the sale of its securities and a decrease in unrealized appreciation of \$8,451,603 on our investment in Solazyme, Inc., resulting from realized gains on the partial sale of its securities. We also had write-downs in the valuations of the following portfolio company investments:

<b>Investment</b>	<b>Amount of Write-Down</b>
SiOnyx, Inc.	4,014,690
Contour Energy Systems, Inc.	3,746,352
OpGen, Inc.	3,260,000
Laser Light Engines, Inc.	2,259,495
Kovio, Inc.	1,771,912
Enumeral Biomedical Corp.	1,443,004
Ultora, Inc.	885,042
SynGlyco, Inc.	655,935
Cobalt Technologies, Inc.	295,132

<b>Investment</b>	<b>Amount of Write-Down</b>
Senova Systems, Inc.	292,887
GEO Semiconductor, Inc.	65,507
Produced Water Absorbents, Inc.	28,170
D-Wave Systems, Inc.	177

The write-downs for the year ended December 31, 2013, were offset by write-ups in the valuations of the following portfolio company investments:

<b>Investment</b>	<b>Amount of Write-Up</b>
Metabolon, Inc.	3,376,119
Champions Oncology, Inc.	2,340,011
Ensemble Therapeutics Corporation	1,429,780
Molecular Imprints, Inc.	1,317,999
HzO, Inc.	1,225,523
Bridgelux, Inc.	865,062
Cambrios Technologies Corporation	854,586
AgBiome, LLC	500,000
ABSMaterials, Inc.	384,017
Nanosys, Inc.	178,329
Adesto Technologies Corporation	34,542
OhSo Clean, Inc.	33,302
NanoTerra, Inc.	19,735

We had an increase in unrealized appreciation of \$4,384,762 on our investment in Nextreme Thermal Solutions, Inc., owing to a realized loss on the sale of its securities.

We had an increase in unrealized appreciation of \$88,699 on the rights to milestone payments from Amgen, Inc.'s acquisition of BioVex Group, Inc.

We had a decrease in unrealized appreciation of \$371,513 on our investment in D-Wave Systems, Inc., owing to foreign currency translation.

We had an increase in unrealized appreciation of \$530,934 on our investment in NeoPhotonics Corporation owing to realized losses on the sale of its securities.

Unrealized appreciation on our U.S. government securities portfolio decreased from unrealized appreciation of \$2,744 at December 31, 2012, to \$45 at December 31, 2013.

## Financial Condition

### 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 twelve months ended December 31, 2015:

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

<b>Follow-On Investments</b>	<b>Amount of Investment</b>
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
Nantero, 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
<b>Total</b>	<b>\$ 11,963,021</b>

**December 31, 2014**

At December 31, 2014, our total assets and net assets were \$112,094,861 and \$109,654,427, respectively. At December 31, 2013, they were \$125,063,946 and \$122,701,575, respectively.

At December 31, 2014, our net asset value per share was \$3.51, as compared with \$3.93 at December 31, 2013. At December 31, 2014, and December 31, 2013, our shares outstanding were 31,280,843 and 31,197,438, respectively.

Significant developments in the year ended December 31, 2014, included a decrease in the holdings of our investments of \$4,134,619 and a decrease in our cash and treasury holdings of \$6,790,044. The decrease in the value of our investments from \$93,899,459 at December 31, 2013, to \$89,764,840 at December 31, 2014, resulted primarily from a net decrease of \$2,043,780 owing to the sale of certain of our shares of Solazyme, Inc., and Champions Oncology, Inc., and a decrease in the net value of our investments of \$16,367,647, offset by new and follow-on investments of \$14,276,808. The decrease in our cash and treasury holdings from \$27,538,358 at December 31, 2013, to \$20,748,314 at December 31, 2014, is primarily owing to new and follow-on investments totaling \$14,276,808 and to the payment of cash for operating expenses of \$7,547,034, offset by net proceeds of \$2,043,780 received from the sale of certain of our shares of Solazyme and Champions Oncology, net premium proceeds of \$119,697 received from certain Solazyme written call options, \$2,374,827 received from the portion of our payment held in escrow from the sale of Xradia, Inc., \$6,486,461 received from the sale of Molecular Imprints, Inc., \$2,070,955 received from our rights to milestone payments from Amgen, Inc., associated with the sale of BioVex Group, Inc., \$549,238 received from the repayment of the senior secured debt of OHSO Clean, Inc., \$48,071 from the payment of the principal amount plus accrued interest of a convertible promissory note invested in Nanosys, Inc., and \$79,310 received from the sale of certain warrants held in GEO Semiconductor, Inc.

The following table is a summary of additions to our portfolio of investments made during the year ended December 31, 2014:

<u>New Investments</u>	<u>Amount of Investment</u>
UberSeq, Inc.	\$ 500,000
TARA Biosystems, Inc.	300,020
Accelerator IV-New York Corporation	216,012
<u>Follow-On Investments</u>	<u>Amount of Investment</u>
HZO, Inc.	\$ 2,000,003
Enumeral Biomedical Holdings, Inc.	1,500,000
Produced Water Absorbents, Inc.	1,000,268
Produced Water Absorbents, Inc.	1,000,000
Enumeral Biomedical Corp.	935,000
D-Wave Systems, Inc.	762,568
Produced Water Absorbents, Inc.	750,000
ABSMaterials, Inc.	500,000
Senova Systems, Inc.	500,000
EchoPixel, Inc.	500,000
SiOnyx, Inc.	415,635
Senova Systems, Inc.	350,000

<u>Follow-On Investments</u>	<u>Amount of Investment</u>
Produced Water Absorbents, Inc.	330,677
Enumeral Biomedical Corp.	250,000
Senova Systems, Inc.	250,000
OpGen, Inc.	250,000
OpGen, Inc.	245,017
Mersana Therapeutics, Inc.	240,500
OpGen, Inc.	209,020
HZO, Inc.	206,997
OpGen, Inc.	200,000
D-Wave Systems, Inc.	170,043
OpGen, Inc.	120,000
ProMuc, Inc.	100,000
OpGen, Inc.	100,000
SiOnyx, Inc.	93,976
Ultora, Inc.	86,039
SiOnyx, Inc.	68,999
Enumeral Biomedical Corp.	65,000
Laser Light Engines, Inc.	19,331
Ultora, Inc.	17,208
Laser Light Engines, Inc.	13,745
Ultora, Inc.	10,750
<b>Total</b>	<b>\$ 14,276,808</b>

The following table summarizes the value of our portfolio of investments as compared with its cost at December 31, 2015, and December 31, 2014:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Venture capital investments, at cost	\$ 117,062,108	\$ 112,371,315
Net unrealized (depreciation)	(39,909,204)	(22,606,475)
<b>Venture capital investments, at value</b>	<b>\$ 77,152,904</b>	<b>\$ 89,764,840</b>

#### Cash Flow

Net cash used in 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 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.

***Year Ended December 31, 2013***

Net cash provided by operating activities for the year ended December 31, 2013, was \$295,923, primarily reflecting the net purchase of U.S. government securities of \$5,005,360, the purchase of investments of \$18,076,288 and the payment of operating expenses, partially offset by proceeds from the sale of investments of \$30,363,727 and net proceeds from call options of \$1,040,127.

Net cash used in investing activities for the year ended December 31, 2013, was \$13,303, primarily reflecting the purchase of fixed assets.

Cash used in financing activities for the year ended December 31, 2013, was \$123,183, 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 venture 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, 2015, and December 31, 2014, we had no investments in money market mutual funds.

Our Loan Facility may be used to fund our investments and not for the payment of day-to-day operating expenses. As of December 31, 2015, we had \$5,000,000 in debt outstanding. We have not issued any debt securities, and, therefore, are not subject to credit agency downgrades.

As a venture capital 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, 2015, our net asset value per share was \$2.88 per share and our closing market price was \$2.20 per share. We do not currently have shareholder approval to issue or sell shares below our net asset value per share.

#### ***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 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 have \$5,000,000 in debt outstanding.

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 57<sup>th</sup> Street in New York City. 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 \$301,828 in 2015; \$299,048 in 2014; and \$376,360 in 2013. Aggregate future minimum lease payments in each of the following years are: 2016 - \$287,690; 2017 - \$294,882; 2018 - \$302,254; and 2019 - \$309,811.

#### ***December 31, 2014***

At December 31, 2014, and December 31, 2013, our total net primary and secondary liquidity was \$29,620,665 and \$33,620,478, respectively.

At December 31, 2014, and December 31, 2013, our total net primary liquidity was \$20,978,792 and \$28,073,184, respectively. Our primary liquidity is principally comprised of our cash, U.S. government securities, when applicable, and certain receivables. The decrease in our primary liquidity from December 31, 2013, to December 31, 2014, is primarily owing to the use of funds for investments totaling \$14,276,808 and payment of net operating expenses, offset by the receipt of \$2,070,955 from our rights to milestone payments from Amgen, Inc., associated with the sale of BioVex Group, Inc., \$2,374,827 from the portion of our upfront payment held in escrow from the sale of Xradia, Inc., \$6,486,461 from the sale of Molecular Imprints, Inc., \$549,238 from the payment of the senior secured debt of OHSO Clean, Inc., \$48,071 from the payment of the principal amount plus accrued interest of a convertible promissory note invested in Nanosys, Inc., \$79,310 of total proceeds due of \$158,621 from the sale of certain warrants of GEO Semiconductor, Inc., with the remaining proceeds due of \$79,311 included in our receivables as of December 31, 2014, and net proceeds of \$2,043,780 from the sales of certain of our shares of Solazyme, Inc., and Champions Oncology, Inc. During the year ended December 31, 2014, we also purchased and sold call option contracts on our publicly traded positions generating net proceeds of \$119,697.

At December 31, 2014, and December 31, 2013, our secondary liquidity was \$8,641,873 and \$5,547,294, respectively. Secondary liquidity does not include the value of warrants or options we hold in Champions Oncology, Inc., or Enumeral Biomedical Holdings, 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, 2014, our publicly traded securities of Enumeral Biomedical were restricted from sale.

### **Borrowings**

On September 30, 2013, the Company entered into the Loan Facility, which may be used to fund investments in portfolio companies. The Loan Facility replaced the Company's prior credit facility with TD Bank, NA. The Loan Facility, among other things, matures on September 30, 2017, and bears interest at 10 percent per annum in cash. The Company has the option to have interest accrue at a rate of 13.5 percent per annum if the Company decides not to pay interest in cash monthly. The Company currently pays interest in cash on its outstanding borrowings. The Loan Facility also requires payment of a draw fee on each borrowing equal to 1.0 percent of such borrowing and an unused commitment fee of 1.0 percent per annum. Interest and fee payments under the Loan Facility are made quarterly in arrears. The Company may prepay the loans or reduce the aggregate commitments under the Loan Facility at any time prior to the maturity date, as long as certain conditions are met, including payment of required prepayment or termination fees. The Loan Facility is secured by all of the assets of the Company and its wholly owned subsidiaries, subject to certain customary exclusions. The Loan Facility contains certain affirmative and negative covenants, including without limitation: (a) maintenance of certain minimum liquidity requirements; (b) maintenance of an eligible asset leverage ratio of not less than 4.0:1.0; (c) limitations on liens; (d) limitations on the incurrence of additional indebtedness; and (e) limitations on structural changes, mergers and disposition of assets (other than in the normal course of our business activities). There were no borrowings at closing.

On September 30, 2013, the Company terminated its prior credit facility with TD Bank, N.A. As of December 31, 2013, there was no principal outstanding under the prior credit facility and no termination fees were incurred in connection with terminating the prior credit facility.

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 are included as "Prepaid expenses" as of December 31, 2015. These amounts are 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.

At December 31, 2014, the Company had no outstanding debt. The weighted average annual interest rate for the year ended December 31, 2014, was zero percent, exclusive of amortization of closing fees and other expenses related to establishing the prior credit facility. The remaining capacity under the Loan Facility was \$20,000,000 at December 31, 2014. Unamortized fees and expenses of \$480,921 related to establishing the Loan Facility are included as "Prepaid expenses" as of December 31, 2014. These amounts are amortized over the term of the Loan Facility. At December 31, 2014, 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 113<sup>th</sup> 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, 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
Multi-Draw Loan Facility <sup>(1)</sup>	\$ 5,886,111	\$ 506,944	\$ 5,379,167	\$ 0	\$ 0
Operating leases	1,194,637	287,690	597,136	309,811	0
Total	\$ 7,080,748	\$ 794,634	\$ 5,976,303	\$ 309,811	\$ 0

<sup>(1)</sup> As of December 31, 2015, we had \$15,000,000 of unused borrowing capacity under our Loan Facility. Amounts include interest payable assuming \$5,000,000 remains outstanding through the maturity date in 2017.

On July 21, 2014, the Company made an investment in Accelerator IV-New York Corporation ("Accelerator") for a 9.6 percent interest in the company. This investment was diluted to 9.0 percent through follow-on financings by Accelerator in which the Company did not participate. Accelerator will be identifying emerging biotechnology companies for the Company to invest in directly 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.

The Company's aggregate operating and investment commitments in Accelerator amounted to \$666,667 and \$3,333,333, respectively. During the years ended December 31, 2015, and December 31, 2014, \$262,215 and \$216,012, respectively, in capital was called related to the operating commitment. During the years ended December 31, 2015, and December 31, 2014, \$1,132,950 and \$0, respectively, in capital was called related to the investment commitment. As of December 31, 2015, the Company had remaining unfunded commitments of \$188,440 and \$2,200,383, or approximately 28.3 percent and 66.0 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, 2015, our financial statements include investments fair valued at \$58,860,938, and equity method valued at \$165,936, the values of which were determined in good faith by, or under the direction of, the Board of Directors. As of December 31, 2015, approximately 67 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, 2015.

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, 2015, approximately 75 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, 2015, and to calculate our 2016 expense was 4.15 percent. We used a discount rate of 3.08 percent to calculate our pension obligation for the Executive Mandatory Retirement Benefit Plan.

#### **Recent Developments - Portfolio Companies**

On January 10, 2016, the Company exercised a warrant to purchase 166,667 shares of NGX Bio, Inc., a privately held portfolio company, for the total purchase price of \$1.67.

On January 15, 2016, the Company made a \$250,000 follow-on investment in Senova Systems, Inc., a privately held portfolio company.

On January 20, 2016, the Company made a \$100,000 follow-on investment in ABSMaterials, Inc., a privately held portfolio company.

On January 22, 2016, the Company made a \$500,000 follow-on investment in EchoPixel, Inc., a privately held portfolio company.

On January 29, 2016, the Company made a \$103,680 follow-on investment in Accelerator IV-New York Corporation, a privately held portfolio company. This investment was made pursuant to our operating commitment of which \$84,760 remains unfunded. We continue to have an unfunded investment commitment of \$2,200,383.

On February 16, 2016, the Company made a \$125,000 follow-on investment in Produced Water Absorbents, Inc., a privately held portfolio company.

On March 1, 2016, the Company made a \$300,010 new investment in Interome, Inc., a privately held portfolio company.

On March 10, 2016, the Company made an \$875,000 follow-on investment in Produced Water Absorbents, Inc., a privately held portfolio company.

#### **Recent Developments - Other**

On March 9, 2016, the Company announced that it will begin offering limited numbers of accredited investors the opportunity to co-invest with the Company in its portfolio companies. The opportunities to invest will be provided through H&H Co-Investment Partners, LLC, a newly formed entity that will be managed by the Company. The Company intends to solicit interest in separate series established by H&H Co-Investment Partners to invest in individual portfolio companies, ahead of potential future rounds of financing. The Company expects that accredited investors who have held its stock prior to the close of each financing will have priority in the allocation of these limited co-investment opportunities.

#### **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 bear interest at a fixed rate of 10 percent per annum, and, therefore, changes in interest rate benchmarks, such as LIBOR, will not affect our earnings on such investments if we decide to fund them 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 \$443,892 at December 31, 2015.

**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, 2015. 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, 2015, 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 114 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 present fairly, in all material respects, the financial position of Harris & Harris Group, Inc. and its subsidiaries (hereafter referred to as the "Company") at December 31, 2015 and December 31, 2014, the results of their operations, their cash flows, and the changes in their net assets for each of the three years in the period ended December 31, 2015, and the financial highlights for each of the five years in the period ended December 31, 2015, 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, 2015, 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, the financial highlights 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. Our procedures included confirmation of securities at December 31, 2015 by correspondence with the custodian and the application of alternative procedures where confirmation of securities had not been received. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 5, the financial statements include fair value measurements which have been estimated by the Board of Directors using significant unobservable inputs in the absence of observable inputs. As discussed in Note 5, at December 31, 2015, fair value measurements estimated using significant unobservable inputs are \$58,290,684 (65.71% of the net assets).

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, 2016

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

	December 31, 2015	December 31, 2014
<b>ASSETS</b>		
Investments, in portfolio securities at value:		
Unaffiliated privately held companies (cost: \$18,857,235 and \$22,304,047, respectively)	\$ 5,376,472	\$ 13,854,906
Unaffiliated rights to milestone payments (adjusted cost basis: \$781,863 and \$2,387,278, respectively)	3,362,051	3,193,865
Unaffiliated publicly traded securities (cost: \$1,623,029 and \$1,741,128, respectively)	957,544	1,398,085
Non-controlled affiliated privately held companies (cost: \$49,262,921 and \$67,236,533, respectively)	41,909,262	58,470,864
Non-controlled affiliated publicly traded companies (cost: \$23,165,788 and \$5,591,299, respectively)	18,371,105	8,384,641
Controlled affiliated privately held companies (cost: \$23,205,336 and \$13,111,030, respectively)	7,010,534	4,462,479
Equity method privately held company (adjusted cost basis: \$165,936 and \$0, respectively)	165,936	0
Total, investments in private portfolio companies, rights to milestone payments and public securities at value (cost: \$117,062,108 and \$112,371,315, respectively)	\$ 77,152,904	\$ 89,764,840
Cash	17,922,630	20,748,314
Funds held in escrow from sales of investments at value (Note 2)	374,565	306,802
Receivable from portfolio company	13,032	160,877
Interest receivable	10,333	62,482
Prepaid expenses	563,699	754,856
Other assets	424,123	296,690
<b>Total assets</b>	<b>\$ 96,461,286</b>	<b>\$ 112,094,861</b>
<b>LIABILITIES &amp; NET ASSETS</b>		
Term loan credit facility (Note 4)	\$ 5,000,000	\$ 0
Post retirement plan liabilities (Note 9)	1,202,148	1,267,615
Accounts payable and accrued liabilities	1,268,355	841,915
Deferred rent	279,112	330,904
<b>Total liabilities</b>	<b>\$ 7,749,615</b>	<b>\$ 2,440,434</b>
Commitments and contingencies (Note 11)		
<b>Net assets</b>	<b>\$ 88,711,671</b>	<b>\$ 109,654,427</b>
<b>Net assets are comprised of:</b>		
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 12/31/15 and 12/31/14; 33,183,576 and 33,109,583 issued at 12/31/15 and 12/31/14, respectively	331,836	331,096
Additional paid in capital (Note 7)	215,762,973	215,051,662
Accumulated net operating and realized loss	(83,377,629)	(80,434,528)
Accumulated unrealized depreciation of investments	(39,909,204)	(22,606,475)
Accumulated other comprehensive income (Note 9)	509,220	718,203
Treasury stock, at cost (2,337,822 shares at 12/31/15 and 1,828,740 shares at 12/31/14) (Note 12)	(4,605,525)	(3,405,531)
<b>Net assets</b>	<b>\$ 88,711,671</b>	<b>\$ 109,654,427</b>
<b>Shares outstanding</b>	<b>30,845,754</b>	<b>31,280,843</b>
<b>Net asset value per outstanding share</b>	<b>\$ 2.88</b>	<b>\$ 3.51</b>

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





**HARRIS & HARRIS GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Year Ended December 31, 2015	Year Ended December 31, 2014	Year Ended December 31, 2013
<b>Investment income:</b>			
Interest from:			
Unaffiliated companies	\$ 31,273	\$ 121,345	\$ 245,377
Non-controlled affiliated companies	358,662	91,768	(17,877)
Controlled affiliated companies	235,425	155,827	101,723
Cash and U.S. Treasury securities and other	12,746	9,583	15,436
Fees for providing managerial assistance to portfolio companies	191,609	86,667	0
Yield-enhancing fees on debt securities	87,280	52,610	46,243
Rental income from sublease	0	0	80,000
<b>Total investment income</b>	<u>916,995</u>	<u>517,800</u>	<u>470,902</u>
<b>Expenses:</b>			
Salaries, benefits and stock-based compensation (Note 7)	4,221,983	4,869,716	5,352,672
Administration and operations	516,347	679,630	654,949
Professional fees	1,511,880	1,384,716	1,255,796
Rent (Note 11)	301,828	299,048	376,360
Insurance expense	287,720	321,713	377,545
Directors' fees and expenses	358,441	373,627	245,801
Interest and other debt expense	771,408	377,658	116,421
Custody fees	61,817	60,070	58,458
Depreciation	48,081	53,349	55,106
<b>Total expenses</b>	<u>8,079,505</u>	<u>8,419,527</u>	<u>8,493,108</u>
<b>Net operating loss</b>	<u>(7,162,510)</u>	<u>(7,901,727)</u>	<u>(8,022,206)</u>
<b>Net realized gain (loss):</b>			
Realized gain (loss) from investments:			
Unaffiliated companies	2,045,013	4,031,521	105,313
Controlled affiliated companies	1,559,235	0	0
Unaffiliated rights to milestone payments	1,261,108	536,813	0
Non-controlled affiliated companies	(384,077)	(11,199,639)	6,388,601
Publicly traded companies	52,569	1,333,497	12,123,019
Written call options	0	232,079	(282)
Purchased put options	0	0	(72,209)
U.S. Treasury securities/other	0	0	(180)
<b>Realized gain (loss) from investments</b>	<u>4,533,848</u>	<u>(5,065,729)</u>	<u>18,544,262</u>
Income tax expense (Note 10)	2,148	17,896	27,994
<b>Net realized gain (loss) from investments</b>	<u>4,531,700</u>	<u>(5,083,625)</u>	<u>18,516,268</u>
<b>Net increase in unrealized depreciation on investments:</b>			
Unaffiliated companies	(5,031,622)	(6,938,919)	4,338,154
Controlled affiliated companies	377,466	(200,955)	(655,935)
Unaffiliated rights to milestone payments	1,773,601	608,904	88,699
Non-controlled affiliated companies	(5,350,661)	5,479,589	(16,471,963)
Publicly traded companies	(9,071,513)	475,240	(5,580,658)
Written call options	0	(8,882)	1,382
U.S. Treasury securities/other	0	(45)	(2,699)
<b>Net increase in unrealized depreciation on investments</b>	<u>(17,302,729)</u>	<u>(585,068)</u>	<u>(18,283,020)</u>
<b>Net realized and unrealized (loss) gain on investments</b>	<u>(12,771,029)</u>	<u>(5,668,693)</u>	<u>233,248</u>
<b>Share of loss on equity method investment</b>	<u>(312,291)</u>	<u>0</u>	<u>0</u>
<b>Net decrease in net assets resulting from operations:</b>			
<b>Total</b>	<u>\$ (20,245,830)</u>	<u>\$ (13,570,420)</u>	<u>\$ (7,788,958)</u>
<b>Per average basic and diluted outstanding share</b>	<u>\$ (0.65)</u>	<u>\$ (0.43)</u>	<u>\$ (0.25)</u>

<b>Average outstanding shares – basic and diluted</b>	<del>31,174,758</del>	<del>31,222,877</del>	<del>31,138,716</del>
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The accompanying notes are an integral part of these consolidated financial statements.

<b>HARRIS &amp; HARRIS GROUP, INC.</b> <b>CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)</b>
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	Year Ended December 31, 2015	Year Ended December 31, 2014	Year Ended December 31, 2013
<b>Net decrease resulting from operations</b>	\$ (20,245,830)	\$ (13,570,420)	\$ (7,788,958)
<b>Other comprehensive (loss) income:</b>			
Prior service cost (Note 9)	0	0	1,101,338
Amortization of prior service cost	<u>(208,983)</u>	<u>(208,983)</u>	<u>(174,152)</u>
<b>Other comprehensive (loss) income</b>	<u>(208,983)</u>	<u>(208,983)</u>	<u>927,186</u>
<b>Comprehensive loss</b>	<u>\$ (20,454,813)</u>	<u>\$ (13,779,403)</u>	<u>\$ (6,861,772)</u>

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, 2015	Year Ended December 31, 2014	Year Ended December 31, 2013
<b>Cash flows provided by (used in) operating activities:</b>			
Net decrease in net assets resulting from operations	\$ (20,245,830)	\$ (13,570,420)	\$ (7,788,958)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided by (used in) operating activities:			
Net realized loss (gain) and change in unrealized depreciation on investments	12,768,881	5,650,797	(261,242)
Depreciation of fixed assets, amortization of premium or discount on U.S. government securities and prepaid assets and accretion of bridge note interest	(469,224)	(109,857)	35,600
Share of loss on equity method investee	312,291	0	0
Stock-based compensation expense	798,965	857,006	1,249,756
Amortization of prior service cost	(208,983)	(208,983)	(174,152)
Purchase of U.S. government securities	0	(19,999,044)	(144,596,150)
Sale of U.S. government securities	0	38,998,052	139,590,790
Purchase of equity method investment	(262,215)	0	0
Purchase of affiliated portfolio companies	(11,386,285)	(14,016,308)	(17,257,408)
Purchase of unaffiliated portfolio companies	(314,521)	(240,500)	(818,880)
Payments received on debt investments	885,369	953,997	860,641
Proceeds from sale of investments and conversion of bridge notes	11,058,328	13,655,918	29,916,408
Proceeds from call option premiums	0	338,229	1,040,127
Payments for put and call option purchases	0	(218,532)	(410,363)
<b>Changes in assets and liabilities:</b>			
Restricted funds	0	0	10,015
Receivable from portfolio company	147,845	(106,717)	(30,330)
Interest receivable	52,149	(39,678)	26,264
Prepaid expenses	191,157	236,553	(193,999)
Other assets	(167,068)	(619)	12,937
Post retirement plan liabilities	(65,467)	147,353	17,753
Accounts payable and accrued liabilities	426,440	56,307	(216,910)
Deferred rent	(51,792)	(22,097)	(15,976)
Net cash (used in) provided by operating activities	<u>(6,529,960)</u>	<u>12,361,457</u>	<u>995,923</u>
<b>Cash flows from investing activities:</b>			
Purchase of fixed assets	(8,816)	(26,940)	(13,303)
Net cash used in investing activities	<u>(8,816)</u>	<u>(26,940)</u>	<u>(13,303)</u>
<b>Cash flows from financing activities:</b>			
Proceeds from drawdown of loan facility	5,000,000	0	0
Purchase of treasury stock	(1,199,994)	0	0
Payment of withholdings related to net settlement of restricted stock	(86,914)	(124,751)	(123,183)
Payment of loan facility closing fees	0	0	(700,000)
Net cash provided by (used in) financing activities	<u>3,713,092</u>	<u>(124,751)</u>	<u>(823,183)</u>
<b>Net (decrease) increase in cash</b>	<b>(2,825,684)</b>	<b>\$ 12,209,766</b>	<b>\$ 159,437</b>
Cash at beginning of the year	<u>20,748,314</u>	<u>8,538,548</u>	<u>8,379,111</u>
Cash at end of the year	<u><u>17,922,630</u></u>	<u><u>\$ 20,748,314</u></u>	<u><u>\$ 8,538,548</u></u>
<b>Supplemental disclosures of cash flow information:</b>			
Income taxes paid	\$ 2,148	\$ 17,896	\$ 24,177
Interest paid	\$ 431,944	\$ 0	\$ 0

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

<b>HARRIS &amp; HARRIS GROUP, INC.</b> <b>CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS</b>
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	Year Ended December 31, 2015	Year Ended December 31, 2014	Year Ended December 31, 2013
<b>Changes in net assets from operations:</b>			
Net operating loss	\$ (7,162,510)	\$ (7,901,727)	\$ (8,022,206)
Net realized gain (loss) on investments	4,531,700	(5,083,625)	18,516,268
Net (increase) in unrealized depreciation on investments	(17,302,729)	(576,186)	(18,284,402)
Net (decrease) increase in unrealized appreciation on written call options	0	(8,882)	1,382
Share of loss on equity method investment	<u>(312,291)</u>	<u>0</u>	<u>0</u>
<b>Net decrease in net assets resulting from operations</b>	<u>(20,245,830)</u>	<u>(13,570,420)</u>	<u>(7,788,958)</u>
<b>Changes in net assets from capital stock transactions:</b>			
Purchase of treasury stock	(1,199,994)	0	0
Acquisition of vested restricted stock awards to pay required employee withholding tax	(86,914)	(124,751)	(123,183)
Stock-based compensation expense	<u>798,965</u>	<u>857,006</u>	<u>1,249,756</u>
<b>Net (decrease) increase in net assets resulting from capital stock transactions</b>	<u>(487,943)</u>	<u>732,255</u>	<u>1,126,573</u>
<b>Changes in net assets from accumulated other comprehensive (loss) income:</b>			
Other comprehensive (loss) income	<u>(208,983)</u>	<u>(208,983)</u>	<u>927,186</u>
<b>Net (decrease) increase in net assets resulting from accumulated other comprehensive (loss) income</b>	<u>(208,983)</u>	<u>(208,983)</u>	<u>927,186</u>
<b>Net decrease in net assets</b>	(20,942,756)	(13,047,148)	(5,735,199)
<b>Net Assets:</b>			
Beginning of the year	<u>109,654,427</u>	<u>122,701,575</u>	<u>128,436,774</u>
End of the year	<u>\$ 88,711,671</u>	<u>\$ 109,654,427</u>	<u>\$ 122,701,575</u>

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**

	<u>Method of Valuation (1)</u>	<u>Primary Industry (2)</u>	<u>Cost</u>	<u>Shares/ Principal</u>	<u>Value</u>
<b>Investments in Unaffiliated Companies (3) – 11.0% of net assets at value</b>					
<b>Private Placement Portfolio (Illiquid) (4) – 6.1% of net assets at value</b>					
<b>Bridgelux, Inc. (5)(8)(9)(10)</b>					
		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
			<u>5,116,352</u>		<u>2,538,884</u>
<b>Cambrios Technologies Corporation (5)(8)(9)(11)</b>					
		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
			<u>3,418,349</u>		<u>0</u>
<b>Magic Leap, Inc. (8)(9)(12)</b>					
		Electronics			
Developing novel human computing interfaces and software					
Series B Convertible Preferred Stock (acquired 5/1/15)	(I)		338,604	29,291	348,994
<b>Mersana Therapeutics, Inc. (5)(8)(9)</b>					
		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
			<u>4,663,454</u>		<u>1,028,262</u>

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**

	<u>Method of Valuation (1)</u>	<u>Primary Industry (2)</u>	<u>Cost</u>	<u>Shares/ Principal</u>	<u>Value</u>
<b>Investments in Unaffiliated Companies (3) – 11.0% of net assets at value (Cont.)</b>					
<b>Private Placement Portfolio (Illiquid) (4) – 6.1% of net assets at value (Cont.)</b>					
Nanosys, Inc. (5)(8)(9) <span style="float: right;">Energy</span>					
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
			<u>4,996,576</u>		<u>1,178,814</u>
Nano Terra, Inc. (5)(8) <span style="float: right;">Energy</span>					
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
			<u>104,571</u>		<u>62,189</u>
Phylagen, Inc. (5)(8)(13) <span style="float: right;">Life Sciences</span>					
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
			<u>219,329</u>		<u>219,329</u>
<b>Total Unaffiliated Private Placement Portfolio (cost: \$18,857,235)</b>					<b><u>\$ 5,376,472</u></b>

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**

	<u>Method of Valuation (1)</u>	<u>Primary Industry (2)</u>	<u>Cost</u>	<u>Shares/ Principal</u>	<u>Value</u>
<b>Rights to Milestone Payments (Illiquid) (6) – 3.8% of net assets at value</b>					
Amgen, Inc. (8)(9) <span style="float: right;">Life Sciences</span>					
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) <span style="float: right;">Energy</span>					
Rights to Milestone Payments from Merger & Acquisition of Nextreme Thermal Solutions, Inc. (acquired 2/13/13)	(I)		0	\$ 0	0
Canon, Inc. (8)(9) <span style="float: right;">Electronics</span>					
Rights to Milestone Payments from Acquisition of Molecular Imprints, Inc. (acquired 4/18/14)	(I)		232,865	\$ 232,865	461,819
<b>Total Unaffiliated Rights to Milestone Payments (cost: \$781,863)</b>					<b>\$ 3,362,051</b>
<b>Publicly Traded Portfolio (7) – 1.1% of net assets at value</b>					
Champions Oncology, Inc. (5)(9) <span style="float: right;">Life Sciences</span>					
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
			<u>1,623,029</u>		<u>957,544</u>
<b>Total Unaffiliated Publicly Traded Portfolio (cost: \$1,623,029)</b>					<b>\$ 957,544</b>
<b>Total Investments in Unaffiliated Companies (cost: \$21,262,127)</b>					<b>\$ 9,696,067</b>

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**

	<u>Method of Valuation (1)</u>	<u>Primary Industry (2)</u>	<u>Cost</u>	<u>Shares/ Principal</u>	<u>Value</u>
<b>Investments in Non-Controlled Affiliated Companies (3) – 67.9% of net assets at value</b>					
<b>Private Placement Portfolio (Illiquid) (14) – 47.2% of net assets at value</b>					
<b>ABSMaterials, Inc. (5)(8)(9)</b>					
		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
			<u>1,652,644</u>		<u>983,622</u>
<b>AgBiome, LLC (5)(8)(9)</b>					
		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
			<u>3,021,746</u>		<u>5,490,289</u>
<b>D-Wave Systems, Inc. (8)(9)(15)</b>					
		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
			<u>5,689,311</u>		<u>6,931,138</u>
<b>EchoPixel, Inc. (5)(8)</b>					
		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
			<u>1,363,425</u>		<u>1,440,517</u>

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**

	<u>Method of Valuation (1)</u>	<u>Primary Industry (2)</u>	<u>Cost</u>	<u>Shares/ Principal</u>	<u>Value</u>
<b>Investments in Non-Controlled Affiliated Companies (3) – 67.9% of net assets at value (Cont.)</b>					
<b>Private Placement Portfolio (Illiquid) (14) – 47.2% of net assets at value (Cont.)</b>					
<b>Ensemble Therapeutics Corporation (5)(8)(9)</b> <span style="float: right;">Life Sciences</span>					
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
			<u>2,679,754</u>		<u>2,110,902</u>
<b>HZO, Inc. (5)(8)(9)</b> <span style="float: right;">Electronics</span>					
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
			<u>8,876,508</u>		<u>7,126,786</u>
<b>Laser Light Engines, Inc. (8)(9)</b> <span style="float: right;">Energy</span>					
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
			<u>6,542,881</u>		<u>0</u>
<b>Lodo Therapeutics Corporation (5)(8)(9)(13)</b> <span style="float: right;">Life Sciences</span>					
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.

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

	<u>Method of Valuation (1)</u>	<u>Primary Industry (2)</u>	<u>Cost</u>	<u>Shares/ Principal</u>	<u>Value</u>
<b>Investments in Non-Controlled Affiliated Companies (3) – 67.9% of net assets at value (Cont.)</b>					
<b>Private Placement Portfolio (Illiquid) (14) – 47.2% of net assets at value (Cont.)</b>					
Metabolon, Inc. (5)(8)(9) <span style="float: right;">Life Sciences</span>					
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
			<u>7,231,212</u>		<u>13,621,844</u>
ORIG3N, Inc. (5)(8)(9)(13) <span style="float: right;">Life Sciences</span>					
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
			<u>1,250,000</u>		<u>1,576,901</u>
Petra Pharma Corporation (5)(8)(9)(13) <span style="float: right;">Life Sciences</span>					
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
Produced Water Absorbents, Inc. (5)(8)(16) <span style="float: right;">Energy</span>					
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
			<u>8,577,535</u>		<u>1,500,227</u>

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**

	<u>Method of Valuation (1)</u>	<u>Primary Industry (2)</u>	<u>Cost</u>	<u>Shares/ Principal</u>	<u>Value</u>
<b>Investments in Non-Controlled Affiliated Companies (3) – 67.9% of net assets at value (Cont.)</b>					
<b>Private Placement Portfolio (Illiquid) (14) – 47.2% of net assets at value (Cont.)</b>					
<b>Ultora, Inc. (5)(8)(17)</b>					
		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
			<u>1,244,955</u>		<u>0</u>
<b>Total Non-Controlled Private Placement Portfolio (cost: \$49,262,921)</b>					<b><u>\$41,909,262</u></b>
<b>Publicly Traded Portfolio (18) – 20.7% of net assets at value</b>					
<b>Adesto Technologies Corporation (5)(8)(9)(19)</b>					
		Electronics			
Developing low-power, high-performance memory devices					
Common Stock (acquired 10/27/15)	(M)		<u>\$11,482,417</u>	1,769,868	<u>\$13,645,682</u>
<b>Enumeral Biomedical Holdings, Inc. (5)(8)(9)(20)</b>					
		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
			<u>5,591,299</u>		<u>1,919,008</u>

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**

	<u>Method of Valuation (1)</u>	<u>Primary Industry (2)</u>	<u>Cost</u>	<u>Shares/ Principal</u>	<u>Value</u>
<b>Publicly Traded Portfolio (18) – 20.7% of net assets at value (Cont.)</b>					
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
			<u>6,092,072</u>		<u>2,806,415</u>
<b>Total Non-Controlled Affiliated Publicly Traded Portfolio (cost: \$23,165,788)</b>					<b><u>\$18,371,105</u></b>
<b>Total Investments in Non-Controlled Affiliated Companies (cost: \$72,428,709)</b>					<b><u>\$60,280,367</u></b>
<b>Investments in Controlled Affiliated Companies (3) – 7.9% of net assets at value</b>					
<b>Private Placement Portfolio (Illiquid) (22) – 7.9% of net assets at value</b>					
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
			<u>7,746,945</u>		<u>316,613</u>

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**

	<u>Method of Valuation (1)</u>	<u>Primary Industry (2)</u>	<u>Cost</u>	<u>Shares/ Principal</u>	<u>Value</u>
<b>Investments in Controlled Affiliated Companies (3) – 7.9% of net assets at value (Cont.)</b>					
<b>Private Placement Portfolio (Illiquid) (22) – 7.9% of net assets at value (Cont.)</b>					
NGX Bio, Inc. (5)(8)(9)(24) <span style="float: right;">Life Sciences</span>					
Developing translational genomics solutions					
Series Seed Convertible Preferred Stock (acquired 6/6/14)	(I)		\$ 375,000	500,000	\$ 446,878
Series A Convertible Preferred Stock (acquired 8/20/15- 9/30/15)	(I)		499,999	329,989	403,538
Warrants for Series Seed Preferred Stock expiring 6/6/19 (acquired 6/6/15)	(I)		125,000	166,667	148,958
			<u>999,999</u>		<u>999,374</u>
ProMuc, Inc. (5)(8) <span style="float: right;">Life Sciences</span>					
Developing synthetic mucins for the nutritional, food and health care markets					
Common Stock (acquired 12/18/13)	(M)		1	1,000	1
Secured Convertible Bridge Note, 8%, (acquired 12/18/13)	(M)		407,074	\$ 350,000	407,074
Secured Convertible Bridge Note, 8%, (acquired 8/13/14)	(M)		111,091	\$ 100,000	111,091
Secured Convertible Bridge Note, 8%, (acquired 8/5/15)	(M)		77,449	\$ 75,000	77,449
Secured Convertible Bridge Note, 8%, (acquired 12/7/15)	(M)		55,301	\$ 55,000	55,301
			<u>650,916</u>		<u>650,916</u>
Senova Systems, Inc. (5)(8)(9) <span style="float: right;">Life Sciences</span>					
Developing next-generation sensors to measure pH					
Series B Convertible Preferred Stock (acquired 9/9/11- 7/18/12)	(I)		1,218,462	1,350,000	284,938
Series B-1 Convertible Preferred Stock (acquired 8/1/13- 1/15/14)	(I)		1,083,960	2,759,902	659,411
Series C Convertible Preferred Stock (acquired 10/24/14- 4/1/15)	(I)		1,208,287	1,611,049	1,127,419
Warrants for Series B Preferred Stock expiring 10/15/17 (acquired 10/15/12)	(I)		131,538	164,423	34,703
Warrants for Series B Preferred Stock expiring 4/24/18 (acquired 4/24/13)	(I)		20,000	25,000	5,277
			<u>3,662,247</u>		<u>2,111,748</u>
SynGlyco, Inc. (5)(8) <span style="float: right;">Life Sciences</span>					
Developed synthetic carbohydrates for pharmaceutical applications					
Common Stock (acquired 12/13/11)	(I)		\$ 2,729,817	57,463	0
Series A' Convertible Preferred Stock (acquired 12/13/11- 6/7/12)	(I)		4,855,627	4,855,627	100,343
Secured Convertible Bridge Note, 8%, (acquired 1/23/13)	(I)		438,931	\$ 350,000	438,931
Secured Convertible Bridge Note, 8%, (acquired 4/25/13)	(I)		369,170	\$ 300,000	369,170
			<u>8,393,545</u>		<u>908,444</u>

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**

	<u>Method of Valuation (1)</u>	<u>Primary Industry (2)</u>	<u>Cost</u>	<u>Shares/ Principal</u>	<u>Value</u>
<b>Investments in Controlled Affiliated Companies (3) – 7.9% of net assets at value (Cont.)</b>					
<b>Private Placement Portfolio (Illiquid) (22) – 7.9% of net assets at value (Cont.)</b>					
TARA Biosystems, Inc. (5)(8) <span style="float: right;">Life Sciences</span>					
Developing human tissue models for toxicology and drug discovery applications					
Common Stock (acquired 8/20/14)	(M)		\$ 20	2,000,000	\$ 20
Secured Convertible Bridge Note, 8%, (acquired 8/20/14)	(M)		333,516	\$ 300,000	500,274
Secured Convertible Bridge Note, 8%, (acquired 5/18/15)	(M)		209,995	\$ 200,000	314,992
Secured Convertible Bridge Note, 8%, acquired 12/1/15	(M)		1,208,153	\$ 1,200,000	1,208,153
			<u>1,751,684</u>		<u>2,023,439</u>
<b>Total Controlled Private Placement Portfolio (cost: \$23,205,336)</b>					<b>\$ 7,010,534</b>
<b>Total Investments in Controlled Affiliated Companies (cost: \$23,205,336)</b>					<b>\$ 7,010,534</b>
<b>Total Private Placement and Publicly Traded Portfolio (cost: \$116,896,172)</b>					<b>\$76,986,968</b>

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



<b>HARRIS &amp; HARRIS GROUP, INC.</b> <b>CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2015</b>
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	<u>Method of Valuation (1)</u>	<u>Primary Industry (2)</u>	<u>Cost</u>	<u>Shares/ Principal</u>	<u>Value</u>
<b>Equity Method Investments (25) – 0.2% of net assets at value</b>					
<b>Private Placement Portfolio (Illiquid) (25) – 0.2% of net assets at value</b>					
Accelerator IV-New York Corporation (8)(9)(26) Identifying and managing emerging biotechnology companies		Life Sciences			
Series A Common Stock (acquired 7/21/14-1/30/15)	(E)		\$ 165,936	478,227	<u>\$ 165,936</u>
<b>Total Equity Method Investments (cost: \$165,936)</b>					<b><u>\$ 165,936</u></b>
<b>Total Investments (cost: \$117,062,108)</b>					<b><u>\$77,152,904</u></b>

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

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

Notes to Consolidated Schedule of Investments

- (1) See "Footnote to Consolidated Schedule of Investments" on page 148 for a description of the "Valuation Procedures."
- (2) We classify "Energy" companies as those that seek to improve performance, productivity or efficiency, and to reduce environmental impact, waste, cost, energy consumption or raw materials. We classify "Electronics" companies as those that address problems in electronics-related industries, including semiconductors and computing. We classify "Life Sciences" companies as those that address problems in life sciences-related industries, including precision health and precision medicine, biotechnology, agriculture, advanced materials and chemicals, health care, bioprocessing, water, industrial biotechnology, food, nutrition and energy.
- (3) Investments in unaffiliated companies consist of investments in which we own less than five percent of the voting shares of the portfolio company. Investments in non-controlled affiliated companies consist of investments in which we own five percent or more, but less than 25 percent, of the voting shares of the portfolio company, or where we hold one or more seats on the portfolio company's board of directors but do not control the company. Investments in controlled affiliated companies consist of investments in which we own 25 percent or more of the voting shares of the portfolio company or otherwise control the company, including control of a majority of the seats on the board of directors, or more than 25 percent of the seats on the board of directors, with no other entity or person in control of more director seats than us. Among our controlled affiliated companies, ProMuc, Inc., was 100 percent owned by us at December 31, 2015.
- (4) The aggregate cost for federal income tax purposes of investments in unaffiliated privately held companies is \$18,857,235. The gross unrealized appreciation based on the tax cost for these securities is \$10,390. The gross unrealized depreciation based on the tax cost for these securities is \$13,491,153.
- (5) All or a portion of the investments or instruments are pledged as collateral under our Loan Facility with Orix Corporate Capital, Inc.
- (6) The aggregate cost for federal income tax purposes of investments in unaffiliated rights to milestone payments is \$781,863. The gross unrealized appreciation based on the tax cost for these securities is \$2,580,188. The gross unrealized depreciation based on the tax cost for these securities is \$0.
- (7) The aggregate cost for federal income tax purposes of investments in unaffiliated publicly traded companies is \$1,623,029. The gross unrealized appreciation based on the tax cost for these securities is \$0. The gross unrealized depreciation based on the tax cost for these securities is \$665,485.
- (8) We are subject to legal restrictions on the sale of our investment(s) in this company.
- (9) Represents a non-income producing security. Investments that have not paid dividends or interest within the last 12 months are considered to be non-income producing.
- (10) On July 21, 2015, Bridgelux, Inc., signed a definitive agreement to be acquired by an investment group led by China Electronics Corporation and ChongQing Linkong Development Investment Company. The close of this transaction is subject to customary regulatory approvals.

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

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

- (11) In February of 2016, Cambrios Technologies Corporation ceased operations and began liquidation of its assets through a general assignment for the benefit of creditors.
- (12) We received our shares of Magic Leap, Inc., as part of the consideration paid for one of our portfolio companies in an acquisition during the second quarter of 2015. A total of 4,394 shares of our 29,291 shares of Magic Leap are held in escrow to satisfy indemnity claims through May 1, 2016.
- (13) Initial investment was made in 2015.
- (14) The aggregate cost for federal income tax purposes of investments in non-controlled affiliated privately held companies is \$49,262,921. The gross unrealized appreciation based on the tax cost for these securities is \$10,504,995. The gross unrealized depreciation based on the tax cost for these securities is \$17,858,654.
- (15) D-Wave Systems, Inc., is located and is doing business primarily in Canada. We invested in D-Wave through Parallel Universes, Inc., a Delaware company. Our investment is denominated in Canadian dollars and is subject to foreign currency translation. See "Note 2. Summary of Significant Accounting Policies." D-Wave is not a qualifying asset under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire non-qualifying assets unless, at the time the acquisition is made, qualifying assets are at least 70 percent of our total assets.
- (16) Produced Water Absorbents, Inc., also does business as ProSep, Inc.
- (17) In March of 2015, Ultora, Inc., ceased operations and began liquidation of its assets through a general assignment for the benefit of creditors.
- (18) The aggregate cost for federal income tax purposes of investments in non-controlled affiliated publicly traded companies is \$23,165,788. The gross unrealized appreciation based on the tax cost for these securities is \$2,163,265. The gross unrealized depreciation based on the tax cost for these securities is \$6,957,948.
- (19) As of December 31, 2015, the Company's shares of Adesto Technologies Corporation were subject to a lock-up agreement that restricts our ability to trade these securities. A total of 200,000 shares are not qualifying assets under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire non-qualifying assets unless, at the time the acquisition is made, qualifying assets are at least 70 percent of our total assets.
- (20) As of December 31, 2015, a portion of the Company's shares and warrants of Enumeral Biomedical Holdings, Inc., were subject to a lock-up agreement that restricts our ability to trade these securities. The lock-up period on our securities of Enumeral Biomedical Holdings expired on January 31, 2016. A portion of our shares were held in escrow as of the end of 2015. This escrow period expired with no claims against the escrowed shares.
- (21) The Company's shares of OpGen, Inc., became freely tradeable on November 2, 2015. A total of 300,833 shares and 300,833 warrants are not qualifying assets under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire non-qualifying assets unless, at the time the acquisition is made, qualifying assets are at least 70 percent of our total assets.
- (22) The aggregate cost for federal income tax purposes of investments in controlled affiliated companies is \$23,205,336. The gross unrealized appreciation based on the tax cost for these securities is \$271,755. The gross unrealized depreciation based on the tax cost for these securities is \$16,466,557.

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

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

- (23) On August 4, 2015, SiOnyx, Inc., reorganized its corporate structure to become a subsidiary of a new company, Black Silicon Holdings, Inc. Our security holdings of SiOnyx converted into securities of Black Silicon Holdings. SiOnyx was then acquired by an undisclosed buyer. Black Silicon Holdings owns a profit interest in the undisclosed buyer.
- (24) On August 19, 2015, UberSeq, Inc., changed its name to NGX Bio, Inc.
- (25) The aggregate cost for federal income tax purposes of investments in privately held equity method investments is \$165,936. Under the equity method, investments are carried at cost, plus or minus the Company's equity in the increases and decreases in the investee's net assets after the date of acquisition and certain other adjustments.
- (26) As part of our initial investment in Accelerator IV-New York Corporation, the Company made an additional operating and investment commitment. See "Note 11. Commitments and Contingencies."

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

**HARRIS & HARRIS GROUP, INC.**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2014**

	<u>Method of Valuation (1)</u>	<u>Primary Industry (2)</u>	<u>Cost</u>	<u>Shares/ Principal</u>	<u>Value</u>
<b>Investments in Unaffiliated Companies (3) – 16.8% of net assets at value</b>					
<b>Private Placement Portfolio (Illiquid) (4) – 12.6% of net assets at value</b>					
<b>Bridgelux, Inc. (5)(8)(9)</b>					
		Energy			
Manufacturing high-power light emitting diodes (LEDs) and arrays					
Series B Convertible Preferred Stock	(M)		\$ 1,000,000	1,861,504	\$ 607,692
Series C Convertible Preferred Stock	(M)		1,352,196	2,130,699	826,294
Series D Convertible Preferred Stock	(M)		1,371,622	999,999	787,915
Series E Convertible Preferred Stock	(M)		672,599	440,334	724,344
Series E-1 Convertible Preferred Stock	(M)		386,073	399,579	499,686
Warrants for Series C Convertible Preferred Stock expiring 8/31/15	(I)		168,270	163,900	32,815
Warrants for Series D Convertible Preferred Stock expiring 8/31/15	(I)		128,543	166,665	35,139
Warrants for Series E Convertible Preferred Stock expiring 12/31/17	(I)		93,969	170,823	36,448
Warrants for Common Stock expiring 6/1/16	(I)		72,668	132,100	6,562
Warrants for Common Stock expiring 8/9/18	(I)		148,409	171,183	29,966
Warrants for Common Stock expiring 10/21/18	(I)		18,816	84,846	4,215
			<u>5,413,165</u>		<u>3,591,076</u>
<b>Cambrios Technologies Corporation (5)(8)(9)</b>					
		Electronics			
Developing nanowire-enabled electronic materials for the display industry					
Series B Convertible Preferred Stock	(I)		1,294,025	1,294,025	41,829
Series C Convertible Preferred Stock	(I)		1,300,000	1,300,000	42,022
Series D Convertible Preferred Stock	(I)		515,756	515,756	358,416
Series D-2 Convertible Preferred Stock	(I)		92,400	92,400	32,361
Series D-4 Convertible Preferred Stock	(I)		216,168	216,168	75,708
			<u>3,418,349</u>		<u>550,336</u>
<b>Cobalt Technologies, Inc. (5)(8)(9)(10)</b>					
		Energy			
Developing processes for making bio-butanol through biomass fermentation					
Series C-1 Convertible Preferred Stock	(M)		749,998	352,112	0
Series D-1 Convertible Preferred Stock	(M)		122,070	48,828	0
Series E-1 Convertible Preferred Stock	(M)		114,938	46,089	0
Warrants for Series E-1 Pref. Stock expiring on 10/9/22	(I)		2,781	1,407	0
Warrants for Series E-1 Pref. Stock expiring on 3/11/23	(I)		5,355	2,707	0
			<u>995,142</u>		<u>0</u>

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

**HARRIS & HARRIS GROUP, INC.**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2014**

	<u>Method of Valuation (1)</u>	<u>Primary Industry (2)</u>	<u>Cost</u>	<u>Shares/ Principal</u>	<u>Value</u>
<b>Investments in Unaffiliated Companies (3) – 16.8% of net assets at value (Cont.)</b>					
<b>Private Placement Portfolio (Illiquid) (4) – 12.6% of net assets at value (Cont.)</b>					
<b>GEO Semiconductor Inc. (5)(11)</b>					
Electronics					
Developing programmable, high-performance video and geometry processing solutions					
Loan and Security Agreement with GEO Semiconductor relating to the following assets:					
Warrants for Series A Pref. Stock expiring on 3/1/18	(I)		\$ 7,512	10,000	\$ 10,919
Warrants for Series A-1 Pref. Stock expiring on 6/29/18	(I)		7,546	10,000	12,010
			<u>15,058</u>		<u>22,929</u>
<b>Mersana Therapeutics, Inc. (5)(8)(9)(12)</b>					
Life Sciences					
Developing antibody drug conjugates for cancer therapy					
Series A-1 Convertible Preferred Stock	(I)		683,538	635,081	434,387
Common Stock	(I)		3,875,395	350,539	138,048
			<u>4,558,933</u>		<u>572,435</u>
<b>Molecular Imprints, Inc. (5)(8)(9)(13)</b>					
Electronics					
Manufacturing nanoimprint lithography capital equipment for non-semiconductor manufacturing markets					
Series A Convertible Preferred Stock	(M)		928,884	928,884	928,884
<b>Nanosys, Inc. (5)(8)</b>					
Energy					
Developing inorganic nanowires and quantum dots for use in LED-backlit devices					
Series C Convertible Preferred Stock	(M)		1,500,000	803,428	932,035
Series D Convertible Preferred Stock	(M)		3,000,003	1,016,950	2,530,003
Series E Convertible Preferred Stock	(M)		496,573	433,688	844,004
			<u>4,996,576</u>		<u>4,306,042</u>

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

**HARRIS & HARRIS GROUP, INC.**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2014**

	<u>Method of Valuation (1)</u>	<u>Primary Industry (2)</u>	<u>Cost</u>	<u>Shares/ Principal</u>	<u>Value</u>
<b>Investments in Unaffiliated Companies (3) – 16.8% of net assets at value (Cont.)</b>					
<b>Private Placement Portfolio (Illiquid) (4) – 12.6% of net assets at value (Cont.)</b>					
Nano Terra, Inc. (5) <span style="float: right;">Energy</span>					
Developing surface chemistry and nano-manufacturing solutions					
Senior secured debt, 12.0%, maturing on 12/1/15	(I)		\$ 349,966	\$ 385,369	\$ 383,180
Warrants for Series A-2 Pref. Stock expiring on 2/22/21	(I)		69,168	446,248	13
Warrants for Series C Pref. Stock expiring on 11/15/22	(I)		35,403	241,662	66,673
			<u>454,537</u>		<u>449,866</u>
Nantero, Inc. (5)(8)(9) <span style="float: right;">Electronics</span>					
Developing a high-density, nonvolatile, random access memory chip, enabled by carbon nanotubes					
Series A Convertible Preferred Stock	(I)		489,999	345,070	1,440,529
Series B Convertible Preferred Stock	(I)		323,000	207,051	871,532
Series C Convertible Preferred Stock	(I)		571,329	188,315	941,639
Series D Convertible Preferred Stock	(I)		139,075	35,569	179,638
			<u>1,523,403</u>		<u>3,433,338</u>
<b>Total Unaffiliated Private Placement Portfolio (cost: \$22,304,047)</b>					<b><u>\$13,854,906</u></b>
<b>Rights to Milestone Payments (Illiquid) (6) – 2.9% of net assets at value</b>					
Amgen, Inc. (8)(9) <span style="float: right;">Life Sciences</span>					
Rights to Milestone Payments from Acquisition of BioVex Group, Inc.					
	(I)		\$ 1,757,608	\$ 1,757,608	\$ 2,564,917
Laird Technologies, Inc. (8)(9) <span style="float: right;">Energy</span>					
Rights to Milestone Payments from Merger & Acquisition of Nextreme Thermal Solutions, Inc					
	(I)		<u>0</u>	\$ 0	<u>0</u>
Canon, Inc. (8)(9) <span style="float: right;">Electronics</span>					
Rights to Milestone Payments from Acquisition of Molecular Imprints, Inc					
	(I)		<u>629,670</u>	\$ 629,670	<u>628,948</u>
<b>Total Unaffiliated Rights to Milestone Payments (cost: \$2,387,278)</b>					<b><u>\$ 3,193,865</u></b>

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

**HARRIS & HARRIS GROUP, INC.**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2014**

	<u>Method of Valuation (1)</u>	<u>Primary Industry (2)</u>	<u>Cost</u>	<u>Shares/ Principal</u>	<u>Value</u>
<b>Publicly Traded Portfolio (7) – 1.3% of net assets at value</b>					
<b>Solazyme, Inc. (5)(9)</b>					
		Energy			
Developing algal biodiesel, industrial chemicals and specialty ingredients using synthetic biology					
Common Stock	(M)		\$ 118,099	50,000	\$ 129,000
<b>Champions Oncology, Inc. (5)(9)</b>					
		Life Sciences			
Developing its TumorGraft™ platform for personalized medicine and drug development					
Common Stock	(M)		1,622,629	2,523,895	1,261,695
Warrants for Common Stock expiring 1/29/18	(I)		400	40,000	7,390
			<u>1,623,029</u>		<u>1,269,085</u>
<b>Total Unaffiliated Publicly Traded Portfolio (cost: \$1,741,128)</b>					<b>\$ 1,398,085</b>
<b>Total Investments in Unaffiliated Companies (cost: \$26,432,453)</b>					<b>\$18,446,856</b>

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



**HARRIS & HARRIS GROUP, INC.**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2014**

	<u>Method of Valuation (1)</u>	<u>Primary Industry (2)</u>	<u>Cost</u>	<u>Shares/ Principal</u>	<u>Value</u>
<b>Investments in Non-Controlled Affiliated Companies (3) – 61.0% of net assets at value</b>					
<b>Private Placement Portfolio (Illiquid) (14) – 53.3% of net assets at value</b>					
<b>ABSMaterials, Inc. (5)(8)(9)</b>					
Energy					
Developing nano-structured absorbent materials for environmental remediation					
Series A Convertible Preferred Stock	(I)		\$ 435,000	390,000	\$ 291,875
Series B Convertible Preferred Stock	(I)		1,217,644	1,037,751	1,255,717
			<u>1,652,644</u>		<u>1,547,592</u>
<b>Accelerator IV-New York Corporation (8)(9)(15)(16)</b>					
Life Sciences					
Identifying and managing emerging biotechnology companies					
Series A Common Stock	(I)		216,012	216,012	51,627
<b>Adesto Technologies Corporation (5)(8)(9)(17)</b>					
Electronics					
Developing low-power, high-performance memory devices					
Series A Convertible Preferred Stock	(H)		2,200,000	6,547,619	1,652,609
Series B Convertible Preferred Stock	(H)		2,200,000	5,952,381	1,527,457
Series C Convertible Preferred Stock	(H)		1,485,531	2,122,187	632,526
Series D Convertible Preferred Stock	(H)		1,393,147	1,466,470	612,462
Series D-1 Convertible Preferred Stock	(H)		703,740	987,706	356,159
Series E Convertible Preferred Stock	(H)		2,499,999	3,508,771	10,042,110
			<u>10,482,417</u>		<u>14,823,323</u>
<b>AgBiome, LLC (5)(8)(9)</b>					
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	(I)		2,000,000	2,000,000	2,406,210
Series A-2 Convertible Preferred Stock	(I)		521,740	417,392	583,494
			<u>2,521,740</u>		<u>2,989,704</u>

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

**HARRIS & HARRIS GROUP, INC.**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2014**

	Method of Valuation (1)	Primary Industry (2)	Cost	Shares/ Principal	Value
<b>Investments in Non-Controlled Affiliated Companies (3) – 61.0% of net assets at value (Cont.)</b>					
<b>Private Placement Portfolio (Illiquid) (14) – 53.3% of net assets at value (Cont.)</b>					
<b>D-Wave Systems, Inc. (8)(18)</b>					
		Electronics			
Developing high-performance quantum computing systems					
Series 1 Class B Convertible Preferred Stock	(H)		\$ 1,002,074	1,144,869	\$ 1,766,715
Series 1 Class C Convertible Preferred Stock	(H)		487,804	450,450	699,457
Series 1 Class D Convertible Preferred Stock	(H)		748,473	855,131	1,327,843
Series 1 Class E Convertible Preferred Stock	(H)		248,049	269,280	435,260
Series 1 Class F Convertible Preferred Stock	(H)		238,323	258,721	418,193
Series 1 Class H Convertible Preferred Stock	(H)		909,088	460,866	870,998
Series 2 Class D Convertible Preferred Stock	(H)		736,019	678,264	1,053,205
Series 2 Class E Convertible Preferred Stock	(H)		659,493	513,900	839,844
Series 2 Class F Convertible Preferred Stock	(H)		633,631	493,747	806,909
Warrants for Common Stock expiring 6/30/15	(I)		98,644	153,890	108,479
Warrants for Common Stock expiring 5/12/19	(I)		26,357	20,415	8,351
			<u>5,787,955</u>		<u>8,335,254</u>
<b>EchoPixel, Inc. (5)(8)(9)</b>					
		Life Sciences			
Developing algorithms and software to improve visualization of data for life science and health care applications					
Series Seed Convertible Preferred Stock	(I)		1,250,000	4,194,630	1,312,425
<b>Ensemble Therapeutics Corporation (5)(8)</b>					
		Life Sciences			
Developing DNA-Programmed Chemistry™ for the discovery of new classes of therapeutics					
Series B Convertible Preferred Stock	(I)		2,000,000	1,449,275	1,060,023
Series B-1 Convertible Preferred Stock	(I)		679,754	492,575	1,833,862
			<u>2,679,754</u>		<u>2,893,885</u>
<b>HZO, Inc. (5)(8)(9)</b>					
		Electronics			
Developing novel industrial coatings that protect electronics against damage from liquids					
Common Stock	(I)		666,667	405,729	322,832
Series I Convertible Preferred Stock	(I)		5,709,835	2,266,894	4,482,097
Series II Convertible Preferred Stock	(I)		2,000,003	539,710	2,113,002
			<u>8,376,505</u>		<u>6,917,931</u>

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

**HARRIS & HARRIS GROUP, INC.**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2014**

	<u>Method of</u> <u>Valuation (1)</u>	<u>Primary</u> <u>Industry (2)</u>	<u>Cost</u>	<u>Shares/</u> <u>Principal</u>	<u>Value</u>
<b>Investments in Non-Controlled</b>					
<b>Affiliated Companies (3) –</b>					
<b>61.0% of net assets at value (Cont.)</b>					
<b>Private Placement Portfolio (Illiquid) (14) –</b>					
<b>53.3% of net assets at value (Cont.)</b>					
<b>Laser Light Engines, Inc. (5)(8)</b>					
		Energy			
Manufactured solid-state light sources for digital cinema and large-venue projection displays					
Series A Convertible Preferred Stock	(M)		\$ 2,000,000	7,499,062	\$ 0
Series B Convertible Preferred Stock	(M)		3,095,802	13,571,848	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
			<u>6,542,881</u>		<u>0</u>
<b>Metabolon, Inc. (5)(8)(9)</b>					
		Life Sciences			
Developing service and diagnostic products through the use of a metabolomics, or biochemical, profiling platform					
Series B Convertible Preferred Stock	(H)		2,500,000	371,739	2,781,374
Series B-1 Convertible Preferred Stock	(H)		706,214	148,696	1,158,654
Series C Convertible Preferred Stock	(H)		1,000,000	1,000,000	2,535,525
Series D Convertible Preferred Stock	(H)		1,499,999	835,882	2,179,624
Series E Convertible Preferred Stock	(H)		1,225,000	444,404	1,556,847
Warrants for Series B-1 Convertible Preferred Stock expiring 3/25/15	(I)		293,786	74,348	484,535
			<u>7,224,999</u>		<u>10,696,559</u>
<b>OpGen, Inc. (8)(19)</b>					
		Life Sciences			
Developing tools for genomic sequence assembly and analysis					
Series A Convertible Preferred Stock	(H)		610,017	610,017	606,252
Common Stock	(H)		3,260,000	29,883	22,752
Secured Convertible Bridge Note, 8%, acquired 7/11/14	(H)		216,991	\$ 209,020	273,908
Secured Convertible Bridge Note, 8%, acquired 10/16/14	(H)		254,278	\$ 250,000	256,571
Secured Convertible Bridge Note, 8%, acquired 11/14/14	(H)		202,133	\$ 200,000	203,633
Secured Convertible Bridge Note, 8%, acquired 12/29/14	(H)		100,067	\$ 100,000	100,561
			<u>4,643,486</u>		<u>1,463,677</u>

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

**HARRIS & HARRIS GROUP, INC.**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2014**

	<u>Method of Valuation (1)</u>	<u>Primary Industry (2)</u>	<u>Cost</u>	<u>Shares/ Principal</u>	<u>Value</u>
<b>Investments in Non-Controlled Affiliated Companies (3) – 61.0% of net assets at value (Cont.)</b>					
<b>Private Placement Portfolio (Illiquid) (14) – 53.3% of net assets at value (Cont.)</b>					
<b>Produced Water Absorbents, Inc. (5)(8)</b>					
		Energy			
Developing nano-structured absorbent materials for environmental remediation of contaminated water in the oil and gas industries					
Series A Convertible Preferred Stock	(M)		\$ 1,000,000	1,000,000	\$ 300,215
Series B Convertible Preferred Stock	(M)		1,496,865	5,987,460	2,188,272
Series B-2 Convertible Preferred Stock	(M)		1,015,427	4,322,709	1,579,844
Series B-3 Convertible Preferred Stock	(M)		978,641	3,914,564	1,430,677
Series C Convertible Preferred Stock	(M)		1,000,268	2,667,380	755,130
Subordinated Secured Debt, 12%, maturing on 6/30/15	(M)		979,253	\$ 1,000,000	979,450
Warrants for Series B-2 Preferred Stock expiring upon liquidation event	(I)		65,250	300,000	44,014
			<u>6,535,704</u>		<u>7,277,602</u>
<b>SiOnyx, Inc. (5)(8)</b>					
		Electronics			
Developing silicon-based optoelectronic products enabled by its proprietary Black Silicon					
Series A Convertible Preferred Stock	(I)		750,000	233,499	0
Series A-1 Convertible Preferred Stock	(I)		890,000	2,966,667	0
Series A-2 Convertible Preferred Stock	(I)		2,445,000	4,207,537	0
Series B-1 Convertible Preferred Stock	(I)		1,169,561	1,892,836	0
Series C Convertible Preferred Stock	(I)		1,171,316	1,674,030	0
Secured Convertible Bridge Note, 8%, acquired 1/31/14	(I)		1,281,125	\$ 1,281,125	0
Secured Convertible Bridge Note, 8%, acquired 5/9/14	(I)		76,966	\$ 93,976	0
Secured Convertible Bridge Note, 10%, acquired 12/12/14	(I)		69,382	\$ 68,999	161,285
Warrants for Series B-1 Convertible Preferred Stock expiring 2/23/17	(I)		130,439	247,350	0
Warrants for Common Stock expiring 3/28/17	(I)		84,207	418,507	0
Warrants for Common Stock expiring 5/9/19	(I)		17,010	3,208	0
			<u>8,085,006</u>		<u>161,285</u>

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

**HARRIS & HARRIS GROUP, INC.**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2014**

	<u>Method of Valuation (1)</u>	<u>Primary Industry (2)</u>	<u>Cost</u>	<u>Shares/ Principal</u>	<u>Value</u>
<b>Investments in Non-Controlled Affiliated Companies (3) – 61.0% of net assets at value (Cont.)</b>					
<b>Private Placement Portfolio (Illiquid) (14) – 53.3% of net assets at value (Cont.)</b>					
Ultora, Inc. (5)(8) <span style="float: right;">Energy</span>					
Developing energy-storage devices enabled by carbon nanotubes					
Series A Convertible Preferred Stock	(I)		\$ 886,830	17,736	\$ 0
Series B Convertible Preferred Stock	(I)		236,603	2,347,254	0
Secured Convertible Bridge Note, 5%, acquired 5/7/14	(I)		86,039	\$ 86,039	0
Secured Convertible Bridge Note, 5%, acquired 8/20/14	(I)		17,208	\$ 17,208	0
Secured Convertible Bridge Note, 5%, acquired 10/14/14	(I)		10,750	\$ 10,750	0
			<u>1,237,430</u>		<u>0</u>
<b>Total Non-Controlled Private Placement Portfolio (cost: \$67,236,533)</b>					<b><u>\$58,470,864</u></b>
<b>Publicly Traded Portfolio (20) – 7.7% of net assets at value</b>					
Enumeral Biomedical Holdings, Inc. (5)(21) <span style="float: right;">Life Sciences</span>					
Developing therapeutics and diagnostics through functional assaying of single cells					
Common Stock	(M)		\$ 4,993,357	7,966,368	\$ 7,251,178
Warrants for Common Stock expiring 7/30/19	(I)		540,375	1,500,000	874,594
Warrants for Common Stock expiring 2/2/24	(I)		57,567	255,120	208,179
Options to Purchase Common Stock at \$1.00 expiring 8/4/24	(I)		0	56,667	50,690
			<u>5,591,299</u>		<u>8,384,641</u>
<b>Total Non-Controlled Publicly Traded Portfolio (cost: \$5,591,299)</b>					<b><u>\$ 8,384,641</u></b>
<b>Total Investments in Non-Controlled Affiliated Companies (cost: \$72,827,832)</b>					<b><u>\$66,855,505</u></b>

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

**HARRIS & HARRIS GROUP, INC.**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2014**

	<u>Method of Valuation (1)</u>	<u>Primary Industry (2)</u>	<u>Cost</u>	<u>Shares/ Principal</u>	<u>Value</u>
<b>Investments in Controlled Affiliated Companies (3) – 4.1% of net assets at value</b>					
<b>Private Placement Portfolio (Illiquid) (22) – 4.1% of net assets at value</b>					
ProMuc, Inc. (5)(8) <span style="float: right;">Life Sciences</span>					
Developing synthetic mucins for the nutritional, food and health care markets					
Common Stock	(M)		\$ 1	1,000	\$ 1
Secured Convertible Bridge Note, 8%, acquired 12/18/13	(M)		379,074	\$ 350,000	379,074
Secured Convertible Bridge Note, 8%, acquired 8/13/14	(M)		103,090	\$ 100,000	103,090
			<u>482,165</u>		<u>482,165</u>
Senova Systems, Inc. (5)(8) <span style="float: right;">Life Sciences</span>					
Developing next-generation sensors to measure pH					
Series B Convertible Preferred Stock	(I)		1,218,462	1,350,000	403,123
Series B-1 Convertible Preferred Stock	(I)		1,083,960	2,759,902	899,187
Series C Convertible Preferred Stock	(I)		608,287	811,049	609,349
Warrants for Series B Preferred Stock expiring 10/15/17	(I)		131,538	164,423	49,098
Warrants for Series B Preferred Stock expiring 4/24/18	(I)		20,000	25,000	7,465
			<u>3,062,247</u>		<u>1,968,222</u>
SynGlyco, Inc. (5)(8) <span style="float: right;">Life Sciences</span>					
Developed synthetic carbohydrates for pharmaceutical applications					
Common Stock	(I)		2,729,817	57,463	0
Series A' Convertible Preferred Stock	(I)		4,855,627	4,855,627	0
Senior Secured Debt, 12.00%, maturing on 12/11/14	(I)		424,101	\$ 500,000	820,119
Secured Convertible Bridge Note, 8%, acquired 1/23/13	(I)		406,417	\$ 350,000	204,763
Secured Convertible Bridge Note, 8%, acquired 4/25/13	(I)		341,825	\$ 300,000	172,220
			<u>8,757,787</u>		<u>1,197,102</u>
TARA Biosystems, Inc. (5)(8)(15) <span style="float: right;">Life Sciences</span>					
Developing human tissue models for toxicology and drug discovery applications					
Common Stock	(M)		20	2,000,000	20
Secured Convertible Bridge Note, 8%, acquired 8/20/14	(M)		308,811	\$ 300,000	308,811
			<u>308,831</u>		<u>308,831</u>

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

<b>HARRIS &amp; HARRIS GROUP, INC.</b> <b>CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2014</b>
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	<u>Method of Valuation (1)</u>	<u>Primary Industry (2)</u>	<u>Cost</u>	<u>Shares/ Principal</u>	<u>Value</u>
<b>Investments in Controlled Affiliated Companies (3) – 4.1% of net assets at value (Cont.)</b>					
<b>Private Placement Portfolio (Illiquid) (22) – 4.1% of net assets at value (Cont.)</b>					
UberSeq, Inc. (5)(8)(9)(15)		Life Sciences			
Developing translational genomics solutions					
Series Seed Convertible Preferred Stock	(1)		\$ 500,000	500,000	\$ 506,159
<b>Total Controlled Private Placement Portfolio (cost: \$13,111,030)</b>					<b>\$ 4,462,479</b>
<b>Total Investments in Controlled Affiliated Companies (cost: \$13,111,030)</b>					<b>\$ 4,462,479</b>
<b>Total Private Placement and Publicly Traded Portfolio (cost: \$112,371,315)</b>					<b>\$89,764,840</b>
<b>Total Investments (cost: \$112,371,315)</b>					<b>\$89,764,840</b>

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

**HARRIS & HARRIS GROUP, INC.**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2014**

Notes to Consolidated Schedule of Investments

- (1) See "Footnote to Consolidated Schedule of Investments" on page 148 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. We classify "Life Sciences" companies as those that address problems in life sciences-related industries, including 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.
- (4) The aggregate cost for federal income tax purposes of investments in unaffiliated privately held companies is \$22,304,047. The gross unrealized appreciation based on the tax cost for these securities is \$7,872. The gross unrealized depreciation based on the tax cost for these securities is \$8,457,013.
- (5) All or a portion of the investments or instruments are pledged as collateral under our Loan Facility.
- (6) The aggregate cost for federal income tax purposes of investments in unaffiliated rights to milestone payments is \$2,387,278. The gross unrealized appreciation based on the tax cost for these securities is \$807,309. The gross unrealized depreciation based on the tax cost for these securities is \$722.
- (7) The aggregate cost for federal income tax purposes of investments in unaffiliated publicly traded companies is \$1,741,128. The gross unrealized appreciation based on the tax cost for these securities is \$10,901. The gross unrealized depreciation based on the tax cost for these securities is \$353,944.
- (8) We are subject to legal restrictions on the sale of our investment(s) in this company.
- (9) Represents a non-income producing security. Investments that have not paid dividends or interest within the last 12 months are considered to be non-income producing.
- (10) Cobalt Technologies, Inc., also does business as Cobalt Biofuels.
- (11) On March 11, 2015, we submitted notice to exercise our put option for our remaining warrants of GEO Semiconductor, Inc.

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



**HARRIS & HARRIS GROUP, INC.**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2014**

- (12) With our investment in the Mersana Therapeutics, Inc., Series A-1 financing, we received a warrant to purchase 277,760 shares of Series A-2 Convertible Preferred Stock. The ability to exercise the warrant is contingent upon Mersana's achievement of certain milestones. Mersana has not achieved those milestones as of December 31, 2014, and, therefore, this warrant is a contingent asset as of that date. In January 2015, the holders of these warrants, including the Company, elected to cancel them owing to the milestones being impossible to achieve.
- (13) Upon the closing of Canon, Inc.'s acquisition of Molecular Imprints, Inc.'s semiconductor lithography equipment business, a new spin-out company, which retained the name Molecular Imprints, Inc., was formed. These shares represent our investment in the new company.
- (14) The aggregate cost for federal income tax purposes of investments in non-controlled affiliated privately held companies is \$67,236,533. The gross unrealized appreciation based on the tax cost for these securities is \$11,846,184. The gross unrealized depreciation based on the tax cost for these securities is \$20,611,853.
- (15) Initial investment was made in 2014.
- (16) As part of our initial investment in Accelerator IV-New York Corporation, the Company made an additional operating and investment commitment. See "Note 11. Commitments and Contingencies."
- (17) Adesto Technologies Corporation's Series E shares have certain rights and preferences in a sale or IPO that are not ascribed to the other classes of stock.
- (18) D-Wave Systems, Inc., is located and is doing business primarily in Canada. We invested in D-Wave through Parallel Universes, Inc., a Delaware company. Our investment is denominated in Canadian dollars and is subject to foreign currency translation. See "Note 2. Summary of Significant Accounting Policies." D-Wave is not a qualifying asset under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire non-qualifying assets unless, at the time the acquisition is made, qualifying assets are at least 70 percent of our total assets.
- (19) On March 3, 2015, OpGen, Inc., filed a registration statement on Form S-1 to seek an IPO. There can be no assurances if or when such IPO will occur or if it will be successful.
- (20) The aggregate cost for federal income tax purposes of investments in non-controlled affiliated publicly traded companies is \$5,591,299. The gross unrealized appreciation based on the tax cost for these securities is \$2,793,342. The gross unrealized depreciation based on the tax cost for these securities is \$0.
- (21) The Company's shares of Enumeral Biomedical Holdings, Inc., are subject to restrictions on transfer, and we are also subject to a lock-up agreement that restricts our ability to trade these shares, exclusive of the general restriction on the transfer of unregistered securities. The lock-up period on our 7,966,368 shares of Enumeral Biomedical Holdings expires on January 31, 2016.
- (22) The aggregate cost for federal income tax purposes of investments in controlled affiliated companies is \$13,111,030. The gross unrealized appreciation based on the tax cost for these securities is \$6,159. The gross unrealized depreciation based on the tax cost for these securities is \$8,654,710.

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

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

**VALUATION PROCEDURES**

**I. Determination of Net Asset Value**

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

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

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

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

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

**II. Approaches to Determining Fair Value**

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

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

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

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

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

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

### **III. Investment Categories**

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

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

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

#### **A. EQUITY-RELATED SECURITIES**

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

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

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

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

The Company values one investment using the equity method.

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

## **B. LONG-TERM FIXED-INCOME SECURITIES**

1. Readily Marketable. Long-term fixed-income securities for which market quotations are readily available are valued using the most recent bid quotations when available.
2. Not Readily Marketable. Long-term fixed-income securities for which market quotations are not readily available are fair valued using the income approach. The factors that may be considered when valuing these types of securities by the income approach include:
  - Credit quality;
  - Interest rate analysis;
  - Quotations from broker-dealers;
  - Prices from independent pricing services that the Board believes are reasonably reliable; and
  - Reasonable price discovery procedures and data from other sources.

## **C. SHORT-TERM FIXED-INCOME SECURITIES**

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

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

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

- The cost of the Company's investment;
- Investments in the same or substantially similar intellectual property or patents or research and development in technology or product development or offers by responsible third parties;
- The results of research and development;
- Product development and milestone progress;
- Commercial prospects;
- Term of patent;
- Projected markets; and
- Other subjective factors.

#### **E. ALL OTHER SECURITIES**

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

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

#### **IV. Frequency of Valuation**

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

## **V. Regular Review**

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

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

## **VI. Other Assets**

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### **NOTE 1. THE COMPANY**

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

H&H Ventures Management, Inc.<sup>SM</sup> ("Ventures") is a 100 percent wholly owned subsidiary of the Company. Ventures is taxed under Subchapter C (a "C Corporation") of the Internal Revenue Code of 1986 (the "Code"). Harris Partners I, L.P. is a limited partnership and, from time to time, may be used to hold certain interests in portfolio companies. The partners of Harris Partners I, L.P., are Ventures (sole general partner) and the Company (sole limited partner). Ventures pays taxes on income generated by its operations as well as on any non-passive investment income generated by Harris Partners I, L.P. For the years ended December 31, 2015, 2014 and 2013, there was no non-passive investment income generated by Harris Partners I, L.P. Ventures, as the sole general partner, consolidates Harris Partners I, L.P. The Company consolidates its wholly owned subsidiary, Ventures, for financial reporting purposes.

### **NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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



Portfolio Investment Valuations. Investments are stated at "value" as defined in the 1940 Act and in the applicable regulations of the Securities and Exchange Commission ("SEC") and in accordance with GAAP. Value, as defined in Section 2(a)(41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) the fair value as determined in good faith by, or under the direction of, the Board of Directors for all other assets. (See "Valuation Procedures" in the "Footnote to Consolidated Schedule of Investments.") As of December 31, 2015, our financial statements include investments fair valued by the Board of Directors at \$58,860,938 and one investment valued under the equity method at \$165,936. The fair values and equity method value were determined in good faith by, or under the direction of, the Board of Directors. The fair value amount includes the values of our privately held investments as well as the securities of Champions Oncology, Inc., certain warrants, options and restricted securities of Enumeral Biomedical Holdings, Inc., and the warrants of OpGen, Inc., which are publicly traded companies. Our investment in Accelerator-New York IV is accounted for under the equity method of accounting as it represents a non-controlling interest in an operating entity that provides investment advisory services to the Company. Under the equity method, investments are carried at cost, plus or minus the Company's equity in the increases and decreases in the investee's net assets after the date of acquisition and certain other adjustments. The Company's share of the net income or loss of the investee is included in "Equity in earnings/(loss) from equity method investees" on the Company's "Consolidated Statements of Operations." Upon sale of investments, the values that are ultimately realized may be different from the fair value presented in the Company's financial statements. The difference could be material.

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

Unaffiliated Rights to Milestone Payments. At December 31, 2015, and December 31, 2014, the outstanding potential milestone payments from Amgen, Inc.'s acquisition of BioVex Group, Inc., were valued at \$2,900,232 and \$2,564,917, respectively. The milestone payments are derivatives and valued using the probability-adjusted, present value of proceeds from future payments that would be due upon successful completion of certain regulatory and sales milestones. On November 17, 2014, the Company received a payment of \$2,070,955 owing to the achievement of the first milestone. On November 23, 2015, the Company received a payment of \$2,070,955 owing to the achievement of the second milestone. If all the remaining milestones are met, we would receive \$4,141,910. There can be no assurance as to how much of this amount we will ultimately realize or when it will be realized, if at all. At December 31, 2015, and December 31, 2014, the outstanding potential milestone payments from Canon, Inc.'s acquisition of Molecular Imprints, Inc., were valued at \$461,819 and \$628,948, respectively. On October 1, 2015, the Company received a payment of \$795,567 owing to the achievement of the first milestone. If all the remaining milestones are met, we would receive an additional \$938,926. There can be no assurance as to how much of this amount we will ultimately realize or when it will be realized, if at all. At December 31, 2015, and December 31, 2014, the outstanding potential milestone payments from Laird Technologies, Inc.'s acquisition of Nextreme Thermal Solutions, Inc., were valued at \$0. If all the remaining milestones are met, we would receive approximately \$400,000. There can be no assurance as to how much of this amount we will ultimately realize or when it will be realized, if at all.

Funds Held in Escrow from Sale of Investment. At December 31, 2015, and December 31, 2014, there were funds held in escrow fair valued at \$311,137 and \$306,802, respectively, relating to the sale of Molecular Imprints, Inc.'s semiconductor lithography equipment business to Canon, Inc., that are expected to be released in April of 2016 and April of 2017, net of settlement of any indemnity claims and expenses related to the transaction. If the funds held in escrow for this transaction are released in full, we would receive \$625,000 and realize a gain of \$313,863. At December 31, 2015, and December 31, 2014, there were funds held in escrow fair valued at \$63,428 and \$0, respectively, relating to the sale of Molecular Imprints' non-semiconductor business to Magic Leap, Inc., that are expected to be released in May of 2016, net of settlement of any indemnity claims and expenses related to the transaction. If the funds held in escrow for this transaction are released in full, we would receive \$126,972 and realize a gain of \$63,544.

Prepaid Expenses. We include prepaid insurance premiums and deferred financing charges in "Prepaid expenses." Prepaid insurance premiums are recognized over the term of the insurance contract and are included in "Insurance expense" in the Consolidated Statements of Operations. Deferred financing charges consist of fees and expenses paid in connection with the closing of loan facilities and are capitalized at the time of payment. Deferred financing charges are amortized over the term of the loan facility discussed in "Note 4. Debt." Amortization of the financing charges is included in "Interest and other debt expense" in the Consolidated Statements of Operations.

Property and Equipment. Property and equipment are included in "Other assets" and are carried at \$180,089 and \$219,729 at December 31, 2015, and December 31, 2014, respectively, representing cost, less accumulated depreciation of \$445,476 and \$399,373, respectively. Depreciation is provided using the straight-line method over the estimated useful lives of the property and equipment. We estimate the useful lives to be five to ten years for furniture and fixtures, three years for computer equipment, and the lesser of ten years or the remaining life of the lease for leasehold improvements. All of our fixed assets are pledged as collateral under the Company's four-year \$20,000,000 Multi-Draw Term Loan Facility Credit Agreement, by and among the Company, as borrower, Orix Corporate Capital, Inc., as administrative agent and lender and the other lenders party thereto from time to time (the "Loan Facility").

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

Interest Income Recognition. Interest income, including amortization of premium and accretion of discount, is recorded on an accrual basis. When accrued interest is determined not to be recoverable, the Company ceases accruing interest and writes off any previously accrued interest. Securities are deemed to be non-income producing if, on their last interest or dividend date, no cash was paid or no cash or in-kind dividends were declared. These write-offs are reversed through interest income. During the years ended December 31, 2015, December 31, 2014, and December 31, 2013, the Company earned \$193,689, \$207,782, and \$276,878, respectively, in interest on U.S. government securities, senior secured debt, participation agreements, subordinated secured debt, non-convertible promissory notes and interest-bearing accounts. During the years ended December 31, 2015, December 31, 2014, and December 31, 2013, the Company recorded, on a net basis, \$444,417, \$170,741, and \$67,781, respectively, of bridge note interest. The total for the years ended December 31, 2015, December 31, 2014, and December 31, 2013, included a partial write-off of previously accrued bridge note interest of \$1,427, \$77,268, and \$218,213, respectively.

Yield-Enhancing Fees on Debt Securities. Yield-enhancing fees received in connection with our venture debt investments are deferred. The unearned fee income is accreted into income based on the effective interest method over the life of the investment. During the years ended December 31, 2015, December 31, 2014, and December 31, 2013, total yield-enhancing fees accreted into investment income were \$87,280, \$52,610, and \$46,243, respectively.

Rental Income From Sublease. During the year ended December 31, 2013, the Company earned \$80,000 in rental income from the sublet of our office space at 420 Florence Street, Palo Alto, CA. This lease expired in August of 2013, and, accordingly, we had no rental income from the sublease in 2015 and 2014.

Fees for Providing Managerial Assistance to Portfolio Companies. During the years ended December 31, 2015, and December 31, 2014, the Company earned income of \$191,609 and \$86,667, respectively, owing to certain of its employees providing managerial assistance to certain portfolio companies. There was no such income for the year ended December 31, 2013.

Call Options. The Company writes covered call options on publicly traded securities with the intention of earning option premiums. Option premiums may increase the Company's realized gains and, therefore, may help increase distributable income, but may limit the realized gains on the security. When a company writes (sells) an option, an amount equal to the premium received by the Company is recorded in the Consolidated Statements of Assets and Liabilities as a liability. The amount of the liability is subsequently marked-to-market to reflect the current market value of the option written. When an option expires, the Company realizes a gain on the option to the extent of the premiums received. Premiums received from writing options that are exercised or closed are added to the proceeds or offset against the amount paid on the transaction to determine the realized gain or loss. Previously recorded unrealized gains and losses on expired, exercised or closed options are reversed at the time of such transactions. At December 31, 2015, and December 31, 2014, the Company did not have shares covered by call option contracts.

Stock-Based Compensation. The Company has a stock-based employee compensation plan. The Company accounts for the Amended and Restated Harris & Harris Group, Inc. 2012 Equity Incentive Plan (the "Stock Plan") by determining the fair value of all share-based payments to employees, including the fair value of grants of employee stock options and restricted stock awards, and records these amounts as an expense in the Consolidated Statements of Operations over the vesting period with a corresponding increase to our additional paid-in capital. For the years ended December 31, 2015, 2014, and 2013, the increase to our operating expenses was offset by the increase to our additional paid-in capital, resulting in no net impact to our net asset value. Additionally, the Company does not record the potential tax benefits associated with the expensing of stock options or restricted stock because the Company currently intends to qualify as a regulated investment company ("RIC") under Subchapter M of the Code, and the deduction attributable to such expensing, therefore, is unlikely to provide any additional tax savings. The amount of non-cash, stock-based compensation expense recognized in the Consolidated Statements of Operations is based on the fair value of the awards the Company expects to vest, recognized over the vesting period on a straight-line basis for each award, and adjusted for actual awards vested and pre-vesting forfeitures. The forfeiture rate is estimated at the time of grant and revised, if necessary, in subsequent periods if the actual forfeiture rate differs from the estimated rate and is accounted for in the current period and prospectively. See "Note 7. Stock-Based Compensation" for further discussion.

Rent expense. Our lease at 1450 Broadway, New York, New York, commenced on January 21, 2010. The lease expires on December 31, 2019. The base rent is \$36 per square foot with a 2.5 percent increase per year over the 10 years of the lease, subject to a full abatement of rent for four months and a rent credit for six months throughout the lease term. We apply these rent abatements, credits, escalations and landlord payments on a straight-line basis in the determination of rent expense over the lease term. Certain leasehold improvements were also paid for on our behalf by the landlord, the cost of which is accounted for as property and equipment and "Deferred rent" in the accompanying Consolidated Statements of Assets and Liabilities. These leasehold improvements are depreciated over the lease term. We also leased office space in California until December 31, 2015, and in North Carolina until December 31, 2014.

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

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

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

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

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

Concentration of Investor Risk. As of December 31, 2015, two investors, Granahan Investment Management and Ariel Investments, owned approximately 6.3 percent and 11.4 percent of our outstanding shares, respectively.

Recent Accounting Pronouncements. On April 7, 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2015-03, "*Simplifying the Presentation of Debt Issuance Costs*" ("ASU 2015-03"), which requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of related debt liability, consistent with debt discounts. Under the former accounting standards, such costs were recorded as an asset. On August 18, 2015, the FASB clarified that the guidance in ASU 2015-03 does not apply to line of credit arrangements. Accordingly, companies may continue to present debt issuance costs for line of credit arrangements as an asset and subsequently amortize the deferred debt costs ratably over the term of the arrangement. The new guidance in ASU 2015-03 was effective for the Company beginning January 1, 2016, and the impact on the Company's Consolidated Financial Statements is still being evaluated.

On February 18, 2015, the FASB issued ASU 2015-02, "*Consolidation (Topic 810): Amendments to the Consolidation Analysis*" that amends the current consolidation guidance. The amendments affect both the variable interest entity and voting interest entity consolidation models. The new guidance was effective for the Company beginning January 1, 2016, and the impact on the Company's Consolidated Financial Statements is still being evaluated.

On May 28, 2014, the FASB and the International Accounting Standards Board ("IASB") issued their final converged standard on revenue recognition. The standard, issued as ASU 2014-09, "*Revenue from Contracts with Customers*" by the FASB, provides a single, comprehensive revenue recognition model for all contracts with customers and supersedes current revenue recognition guidance. The revenue standard contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The new standard also includes enhanced disclosures which are significantly more comprehensive than those in existing revenue standards. ASU 2014-09 was to be effective for the Company beginning January 1, 2017. However, on July 9, 2015, the FASB voted to approve a one-year deferral of the effective date. This new guidance is now expected to be effective for the Company beginning January 1, 2018. The standard allows for either "full retrospective" adoption, meaning the standard is applied to all of the periods presented, or "modified retrospective" adoption, meaning the standard is applied only to the most current period presented in the financial statements. While the Company is currently assessing the impact of the new standard, it does not expect this new guidance to have a material impact on its Consolidated Financial Statements.

In June 2014, the FASB issued ASU No. 2014-12, "Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could be Achieved after the Requisite Service Period." This ASU provides more explicit guidance for treating share-based payment awards that require a specific performance target that affects vesting and that could be achieved after the requisite service period as a performance condition. The new guidance is effective for annual and interim reporting periods beginning after December 15, 2015. While the Company is currently assessing the impact of the new standard, it does not expect this new guidance to have a material impact on its Consolidated Financial Statements.

In August of 2014, the FASB issued ASU No. 2014-15, "Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern." This ASU requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued and provides guidance on determining when and how to disclose going concern uncertainties in the financial statements. Certain disclosures will be required if conditions give rise to substantial doubt about an entity's ability to continue as a going concern. The new guidance applies to all entities and is effective for annual and interim reporting periods ending after December 15, 2016, with early adoption permitted. While the Company is currently assessing the impact of the new standard, it does not expect this new guidance to have a material impact on its Consolidated Financial Statements.

### **NOTE 3. BUSINESS RISKS AND UNCERTAINTIES**

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

We do not choose investments based on a strategy of diversification. We also do not rebalance the portfolio should one of our portfolio companies increase in value substantially relative to the rest of the portfolio. Therefore, the value of our portfolio may be more vulnerable to microeconomic events affecting a single sector, industry or portfolio company and to general macroeconomic events that may be unrelated to our portfolio companies. These factors may subject the value of our portfolio to greater volatility than a company that follows a diversification strategy. As of December 31, 2015, and December 31, 2014, our largest 10 investments by value accounted for approximately 79 percent and 82 percent, respectively, of the value of our equity-focused portfolio. Our largest three investments, by value, Adesto Technologies Corporation, Metabolon, Inc., and HZO, Inc., accounted for approximately 19 percent, 18 percent and 10 percent, respectively, of our equity-focused portfolio at December 31, 2015. Our largest three investments, by value, Adesto Technologies Corporation, Metabolon, Inc., and Enumeral Biomedical Holdings, Inc., accounted for approximately 17 percent, 12 percent and 10 percent, respectively, of our equity-focused portfolio at December 31, 2014. Metabolon and HZO are privately held portfolio companies. Adesto Technologies and Enumeral Biomedical Holdings are publicly traded portfolio companies.

Approximately 75 percent of the portion of our equity-focused portfolio that was fair valued was comprised of securities of 25 privately held companies, the securities of publicly traded Champions Oncology, Inc., the warrants of OpGen, Inc., and certain warrants and restricted securities of Enumeral Biomedical Holdings, Inc. Approximately 0.2 percent of the portion of our equity-focused portfolio that was valued according to the equity method was comprised of one privately held company. Because there is typically no public or readily ascertainable market for our interests in the small privately held companies in which we invest, the valuation of the securities in that portion of our portfolio is determined in good faith by our Valuation Committee, which is comprised of all of the independent members of our Board of Directors. The values are determined in accordance with our Valuation Procedures and are subject to significant estimates and judgments. The fair value of the securities in our portfolio may differ significantly from the values that would be placed on these securities if a ready market for the securities existed. Any changes in valuation are recorded in our Consolidated Statements of Operations as "Net decrease (increase) in unrealized depreciation on investments." Changes in valuation of any of our investments in privately held companies from one period to another may be significant.

#### **NOTE 4. DEBT**

The Company has a \$20 million Loan Facility with Orix Corporate Capital, Inc., which may be used to fund investments in portfolio companies. The Loan Facility, among other things, matures on September 30, 2017, and bears interest at 10 percent per annum in cash. The Company has the option to have interest accrue at a rate of 13.5 percent per annum if the Company decides not to pay interest in cash monthly. The Company currently pays interest in cash on its outstanding borrowings. The Loan Facility also requires payment of a draw fee on each borrowing equal to 1.0 percent of such borrowing and an unused commitment fee of 1.0 percent per annum. Fee payments under the Loan Facility are made quarterly in arrears. The Company may prepay the loans or reduce the aggregate commitments under the Loan Facility at any time prior to the maturity date, as long as certain conditions are met, including payment of required prepayment or termination fees. The Loan Facility is secured by all of the assets of the Company and its wholly owned subsidiaries, subject to certain customary exclusions. The Loan Facility contains certain affirmative and negative covenants, including without limitation: (a) maintenance of certain minimum liquidity requirements; (b) maintenance of an eligible asset leverage ratio of not less than 4.0:1.0; (c) limitations on liens; (d) limitations on the incurrence of additional indebtedness; and (e) limitations on structural changes, mergers and disposition of assets (other than in the normal course of our business activities).

At December 31, 2015, and December 31, 2014, the Company had outstanding debt of \$5,000,000 and \$0, respectively. The weighted average annualized interest rate for the year ended December 31, 2015, was 10 percent, exclusive of amortization of closing fees and other expenses. We had no debt outstanding during 2014, and, therefore, there was no applicable interest rate for that period. The weighted average debt outstanding for the years ended December 31, 2015, and December 31, 2014, was \$5,000,000 and \$0, respectively. The remaining capacity under the Loan Facility was \$15,000,000 at December 31, 2015. Unamortized fees and expenses of \$306,040 and \$480,921 related to establishing the Loan Facility are included as "Prepaid expenses" in the Consolidated Statements of Assets and Liabilities as of December 31, 2015, and December 31, 2014, respectively. These amounts are amortized over the term of the Loan Facility, and \$174,880, \$174,880 and \$44,199 was amortized in the years ended December 31, 2015, 2014 and 2013, respectively. The Company paid \$164,583, \$202,778 and \$51,111 in non-utilization fees during the years ended December 31, 2015, 2014 and 2013, respectively. The Company paid \$381,944, \$0 and \$0 in interest expense for the years ended December 31, 2015, 2014 and 2013, respectively. During the year ended December 31, 2015, the Company paid a \$50,000 utilization fee associated with a drawdown of the Loan Facility. At December 31, 2015, the Company was in compliance with all covenants required by the Loan Facility.

On September 30, 2013, the Company terminated the \$10,000,000 Revolving Loan Agreement by and between the Company and TD Bank, N.A., dated February 24, 2011. At the date of termination, there was no principal outstanding under this credit facility, and no termination fees were incurred in connection with ending this credit facility. During the year ended December 31, 2013, the Company amortized \$9,736 related to the TD Bank credit facility. During the year ended December 31, 2013, the Company paid \$11,375 in non-utilization fees related to the TD Bank credit facility.

## **NOTE 5. FAIR VALUE OF INVESTMENTS**

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

### *Fair Value Measurement at Reporting Date Using:*

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

### *Financial Instruments Disclosed, but not Carried, at Fair Value*

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

<b>Description</b>	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Term Loan Credit Facility <sup>(1)</sup>	\$ 5,000,000	\$ 5,000,000	\$ 0	\$ 0	\$ 5,000,000
<b>Total</b>	<b>\$ 5,000,000</b>	<b>\$ 5,000,000</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 5,000,000</b>

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



### Significant Unobservable Inputs

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

	Fair Value at December 31, 2015	Valuation Technique(s)	Unobservable Input	Range (Weighted Average <sup>(a)</sup> )
Preferred Stock	\$ 7,648,727	Hybrid Approach	Private Offering Price Volatility Time to Exit	\$1.08 - \$2.17 (\$2.07) 48.8% - 131.2% (56.5%) 1.25 - 1.5 Years (1.48)
Preferred Stock	22,784,347	Income Approach	Private Offering Price Non-Performance Risk Volatility Time to Exit	\$0.02 - \$23.03 (\$2.65) 0% - 48% (4.4%) 0% - 112.8% (68.4%) 1.0 - 5.0 Years (2.8)
Preferred Stock	18,135,131	Market Approach	Volatility Revenue Multiples Time to Exit Discount for Lack of Marketability	0% - 54.1% (45.5%) 0 - 5.9 (4.76) 0.2 - 2 Years (1.2) 0% - 16.7% (12.9%)
Bridge Notes	1,124,714	Income Approach	Private Offering Price	\$1.00 (\$1.00)
Bridge Notes	3,151,014	Market Approach	Private Offering Price	\$0.56 - \$1.00 (\$0.98)
Common Stock	309,963	Hybrid Approach	Private Offering Price Volatility Time to Exit	\$1.08 (\$1.08) 131.2% (131.2%) 1.25 Years (1.25)
Common Stock	329,802	Income Approach	Volatility Time to Exit	\$0 - \$3.71 (\$3.71) 50.8% (50.8%) 3 Years (3)
Common Stock	21	Market Approach	Private Offering Price	\$0.0001 - \$0.001 (\$0.0001)
Warrants	101,431	Market Approach	Volume Weighted Average Price	0.34 (0.34)
Warrants	378,594	Income Approach	Stock Price Volatility Expected Term	\$0.21 - \$3.88 (\$1.04) 48.8% - 101.9% (64%) 0.03 - 9.14 Years (3.34)

*Cont'd*

	<u>Fair Value at December 31, 2015</u>	<u>Valuation Technique(s)</u>	<u>Unobservable Input</u>	<u>Range (Weighted Average<sup>(a)</sup>)</u>
		Probability Weighted	Probability of Achieving Independent Milestones	25% - 100% (58%)
Rights to Milestone Payments	3,362,051	Discounted Cash Flow	Probability of Achieving Dependent Milestones	0% - 75% (36%)
Subordinated Secured Debt	560,538	Market Approach	Market Price	0.56 (0.56)
Funds Held in Escrow From Sales of Investments	374,565	Market Approach	Escrow Discount	50% (50%)
			Stock Price	\$0.23 (\$0.23)
			Volatility	79% (79%)
Options	54	Income Approach	Expected Term	0.58 Years (0.58)
OTC Traded Common Stock	<u>29,732</u>	Market Approach	Stock Price	\$0.23 (\$0.23)
<b>Total</b>	<b><u>\$ 58,290,684</u></b>			

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

Valuation Methodologies and Inputs for Level 3 Assets

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

### ***Preferred Stock, Bridge Notes and Common Stock***

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

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

Bridge notes commonly contain terms that provide for the conversion of the full amount of principal, and sometimes interest, into shares of preferred stock at a defined price per share and/or the price per share of the next round of financing. The use of a discount for non-performance risk in the valuation of bridge notes would indicate the potential for conversion of only a portion of the principal, plus interest when applicable, into shares of preferred stock or the potential that a conversion event will not occur and that the likely outcome of a liquidation of assets would result in payment of less than the remaining principal outstanding of the note. An increase in non-performance risk would result in a lower fair value measurement.

### ***Warrants and Options***

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

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

### ***Rights to Milestone Payments***

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

### ***Subordinated Secured Debt and Senior Secured Debt***

We invest in venture debt investments through subordinated secured debt and senior secured debt. We value these securities using an income approach. The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present value amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts. Common inputs for valuing Level 3 debt investments include: the effective yield of the debt investment or, in the case where we have received warrant coverage, the warrant-adjusted effective yield of the security, adjustments for changes in the yields of comparable publicly traded high-yield debt funds and risk-free interest rates and an assessment of non-performance risk. For venture debt investments, an increase in yields would result in a lower fair value measurement. Furthermore, yields would decrease, and value would increase, if the company is exceeding targets and risk has been substantially reduced from the level of risk that existed at the time of investment. Yields would increase, and values would decrease, if the company is failing to meet its targets and risk has been increased from the level of risk that existed at the time of investment. Historically, we also invested in venture debt through participation agreements. As of December 31, 2014, the amounts held in participation agreements consisted solely of warrants. These warrants were valued using the Black-Scholes-Merton pricing model as discussed in "Warrants and Options." The participation agreements were sold in 2015.

The following chart shows the components of change in the financial assets categorized as Level 3 for the year ended December 31, 2015.

	<u>Beginning Balance 1/1/2015</u>	<u>Total Realized Gains (Losses) Included in Changes in Net Assets</u>	<u>Transfers</u>	<u>Total Unrealized (Depreciation) Appreciation Included in Changes in Net Assets</u>	<u>Investments in Portfolio Companies, Interest on Bridge Notes, and Amortization of Loan Fees, Net</u>	<u>Disposals and Settlements</u>	<u>Ending Balance 12/31/2015</u>	<u>Amount of Total (Depreciation) Appreciation for the Period Included in Changes in Net Assets Attributable to the Change in Unrealized Gains or Losses Relating to Assets Still Held at the Reporting Date</u>
Preferred Stock	\$ 70,969,603	\$ 2,364,8277	\$ (15,054,684) <sup>1,3</sup>	\$ (9,744,679)	\$ 5,566,984	\$ (5,533,846)	\$ 48,568,205	\$ (8,821,750)
Bridge Notes	2,163,916	1,790,891 <sup>5</sup>	(1,630,121) <sup>2</sup>	(4,488)	4,384,732	(2,429,202)	4,275,728	(1,270,676)
Common Stock	535,280	0	(74,379) <sup>2</sup>	178,885	0	0	639,786	178,885
Warrants	2,026,864	(920,093) <sup>8</sup>	0	(875,095)	272,349	(24,000)	480,025	(1,135,291)
Rights to Milestone Payments	3,193,865	1,261,108 <sup>5</sup>	0	1,773,600	0	(2,866,522)	3,362,051	1,773,600
Senior Secured Debt	1,203,299	35,403 <sup>5</sup>	0	(429,232)	75,899	(885,369)	0	0
Subordinated Secured Debt	979,450	0	0	(430,293)	11,381	0	560,538	(430,293)
Funds Held in Escrow From Sales of Investments	306,802	(59,209) <sup>6</sup>	126,972 <sup>1</sup>	0	0	0	374,565	0
Options	50,690	0	0	(50,636)	0	0	54	(50,636)
OTC Traded Common Stock	7,251,178	0	(8,020,281) <sup>4</sup>	(83,817)	882,652	0	29,732	(83,817)
<b>Total</b>	<b>\$ 88,680,947</b>	<b>\$ 4,472,927</b>	<b>\$ (24,652,493)</b>	<b>\$ (9,665,755)</b>	<b>\$ 11,193,997</b>	<b>\$ (11,738,939)</b>	<b>\$ 58,290,684</b>	<b>\$ (9,839,978)</b>

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

<sup>2</sup> Represents gross transfers.

<sup>3</sup> Represents gross transfers out of \$15,556,547, net of gross transfers in of \$501,863.

<sup>4</sup> Represents gross transfers out of \$8,894,891, net of gross transfers in of \$874,610.

<sup>5</sup> Represents a gross realized gain.

<sup>6</sup> Represents gross realized losses of \$63,544, net of gross realized gains of \$4,335.

<sup>7</sup> Represents gross realized gains of \$3,351,834, net of gross realized losses of \$987,007.

<sup>8</sup> Represents gross realized losses of \$929,035, net of gross realized gains of \$8,942.

For the year ended December 31, 2015, there were transfers out of Level 3 investments totaling \$24,652,493. Our shares of Accelerator IV-New York Corporation transferred from a Level 3 investment owing to its qualification as an equity method investment. A total of 1,769,868 of our shares of Adesto Technologies Corporation, 7,837,041 of our shares of Enumeral Biomedical Holdings, Inc., and 1,409,796 of our shares of OpGen, Inc., transferred from Level 3 investments to Level 1 investments owing to the use of their unadjusted closing share price on their respective stock exchanges on December 31, 2015, to derive their value. Our shares of Champions Oncology, Inc., transferred from a Level 1 investment to a Level 2 investment owing to the fact that the shares did not trade in an active market at December 31, 2015.

At December 31, 2014, our financial assets were categorized as follows in the fair value hierarchy:

Description	December 31, 2014	<i>Fair Value Measurement at Reporting Date Using:</i>		
		Unadjusted Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Privately Held Portfolio Companies:</b>				
Preferred Stock	\$ 70,969,603	\$ 0	\$ 0	\$ 70,969,603
Bridge Notes	2,163,916	0	0	2,163,916
Warrants	2,026,864	0	0	2,026,864
Rights to Milestone Payments	3,193,865	0	0	3,193,865
Common Stock	535,280	0	0	535,280
Senior Secured Debt	1,203,299	0	0	1,203,299
Subordinated Secured Debt	979,450	0	0	979,450
Options	50,690			50,690
<b>Publicly Traded Portfolio Companies:</b>				
Common Stock	\$ 8,641,873	\$ 1,390,695	\$ 0	\$ 7,251,178
Total Investments:	\$ 89,764,840	\$ 1,390,695	\$ 0	\$ 88,374,145
<b>Funds Held in Escrow From Sales of Investments:</b>				
	\$ 306,802	\$ 0	\$ 0	\$ 306,802
Total Financial Assets:	\$ 90,071,642	\$ 1,390,695	\$ 0	\$ 88,680,947

#### ***Significant Unobservable Inputs***

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

	<u>Fair Value at December 31, 2014</u>	<u>Valuation Technique(s)</u>	<u>Unobservable Input</u>	<u>Range (Weighted Average<sup>(a)</sup>)</u>
Preferred Stock	\$ 33,860,023	Hybrid Approach	Private Offering Price	
			Volatility	\$0.71 - 2.90 (\$1.66)
			Time to Exit	46.6% - 58.8% (49.4%)
			Discount for Lack of Marketability	0.33 - 2 Years (1.12)
Preferred Stock	22,174,585	Income Approach	Private Offering Price	\$0 - \$5.97 (\$2.60)
			Non-Performance Risk	0% - 50% (1.2%)
			Volatility	51.4% - 94.4% (62%)
			Time to Exit	2 - 4.5 Years (2.8)
Preferred Stock	14,934,995	Market Approach	Private Offering Price	\$0 - \$1.75 (\$1.03)
			Non-Performance Risk	0% (0%)
			Volatility	0% (0%)
			Revenue Multiples	33.90% - 64.2% (47%)
			Time to Exit	2.2 - 4.6 (3.5)
Preferred Stock			Discount for Lack of Marketability	2 - 4.5 Years (2.2)
				0% - 21% (10%)
Bridge Notes	834,673	Hybrid Approach	Private Offering Price	\$1.00 (\$1.00)
			Non-Performance Risk	0% (0%)
			Volatility	58.8% (58.8%)
			Time to Exit	0.33 Years (0.33)
Bridge Notes	376,983	Income Approach	Private Offering Price	\$1.00 (\$1.00)
			Non-Performance Risk	0% (0%)
Bridge Notes	952,260	Market Approach	Private Offering Price	\$1.00 (\$1.00)
			Non-Performance Risk	0% (0%)
Common Stock	22,752	Hybrid Approach	Private Offering Price	\$1.00 (\$1.00)
			Non-Performance Risk	0% (0%)
			Volatility	58.8% (58.8%)
			Time to Exit	0.33 Years (0.33)
Common Stock	512,507	Income Approach	Private Offering Price	\$1.00 - \$3.71 (\$2.72)
			Non-Performance Risk	0% (0%)
			Volatility	52.7% - 94.4% (65%)
			Time to Exit	3 Years (3)
Common Stock	21	Market Approach	Private Offering Price	\$0.0001 - \$0.001 (\$0.0001)
			Non-Performance Risk	0% (0%)
Warrants	2,026,864	Income Approach	Private Offering Price	\$0.30 - 2.66 (\$1.46)
			Volatility	33.9% - 107% (73.1%)
			Expected Term	0.23 - 9.10 Years (3.5)

*Cont'd*

	<u>Fair Value at December 31, 2014</u>	<u>Valuation Technique(s)</u>	<u>Unobservable Input</u>	<u>Range (Weighted Average<sup>(a)</sup>)</u>
Rights to Milestone Payments	3,193,865	Probability Weighted Discounted Cash Flow	Probability of Achieving Independent Milestones Probability of Achieving Dependent Milestones	0% - 80% (45%) 0% - 75% (24%)
Subordinated Secured Debt	979,450	Income Approach	Effective Yield	17.8% (17.8%)
Senior Secured Debt	1,203,299	Income Approach	Effective Yield	0 - 15.8% (5.0%)
Funds Held in Escrow From Sales of Investments	306,802	Market Approach	Escrow Discounts	50% (50%)
Options	50,690	Income Approach	Stock Price Volatility Expected Term	\$1.05 (\$1.05) 88.9% (88.9%) 9.6 Years (9.6)
OTC Traded Common Stock	<u>7,251,178</u>	Market Approach	Volatility of Public Comparables Discount for Lack of Marketability Escrow Discounts	0% - 88.9% (68.7%) 0% - 16.4% (12.7%) 0% - 50% (0.4%)
<b>Total</b>	<b><u>\$ 88,680,947</u></b>			

(a) Weighted average based on fair value at December 31, 2014.



The following chart shows the components of change in the financial assets categorized as Level 3 for the year ended December 31, 2014.

	<u>Beginning Balance 1/1/2014</u>	<u>Total Realized (Losses) Gains Included in Changes in Net Assets</u>	<u>Transfers</u>	<u>Total Unrealized Appreciation (Depreciation) Included in Changes in Net Assets</u>	<u>Investments in Portfolio Companies, Interest on Bridge Notes, and Amortization of Loan Fees, Net</u>	<u>Disposals and Settlements</u>	<u>Ending Balance 12/31/2014</u>	<u>Amount of Total (Depreciation) Appreciation for the Period Included in Changes in Net Assets Attributable to the Change in Unrealized Gains or Losses Relating to Assets Still Held at the Reporting Date</u>
Preferred Stock	\$ 71,577,059	\$ (7,472,760)	\$ (371,644) <sup>1,2</sup>	\$ 5,555,721	\$ 8,191,037	\$ (6,509,810)	\$ 70,969,603	\$ (6,283,994)
Bridge Notes	6,044,114	(50,000)	(4,968,041) <sup>1</sup>	(2,253,312)	3,434,976	(43,821)	2,163,916	(2,303,312)
Common Stock	108,668	0	1,130,362 <sup>1</sup>	(919,782)	216,032	0	535,280	(919,782)
Warrants	800,487	0	65,250 <sup>1</sup>	519,818	641,309	0	2,026,864	519,818
Rights to Milestone Payments	3,489,433	536,813	629,670	608,904	0	(2,070,955)	3,193,865	608,904
Participation Agreements	777,195	84,371	0	(68,196)	5,892	(799,262)	0	0
Senior Secured Debt	1,511,828	0	0	17,364	(12,536)	(313,357)	1,203,299	17,364
Subordinated Secured Debt	0	0	0	197	979,253	0	979,450	197
Funds Held in Escrow From Sales of Investments	1,786,390	270,241	625,000 <sup>2</sup>	0	0	(2,374,829)	306,802	0
Options	0	0	0	50,690	0	0	50,690	50,690
OTC Traded Common Stock	0	0	2,889,403 <sup>1</sup>	3,402,150	959,625	0	7,251,178	3,402,150
<b>Total</b>	<b>\$ 86,095,174</b>	<b>\$ (6,631,335)</b>	<b>\$ 0</b>	<b>\$ 6,913,554</b>	<b>\$ 14,415,588</b>	<b>\$ (12,112,034)</b>	<b>\$ 88,680,947</b>	<b>\$ (4,907,965)</b>

<sup>1</sup>Transfers among asset classes are owing to conversions at financing events. These do not represent transfers in or out of Level 3.

<sup>2</sup> There was a \$625,000 transfer from "Preferred Stock" into "Funds Held in Escrow From Sales of Investments" owing to the sale of Molecular Imprints, Inc., to Canon, Inc.

There were no transfers out of Level 3 investments during the year ended December 31, 2014.

## **NOTE 6. DERIVATIVES**

At December 31, 2015, and December 31, 2014, we had rights to milestone payments from Amgen, Inc.'s acquisition of our former portfolio company, BioVex Group, Inc. These milestone payments were fair valued at \$2,900,232 and \$2,564,917 as of December 31, 2015, and December 31, 2014, respectively. At December 31, 2015, and December 31, 2014, we had rights to milestone payments from Laird Technologies, Inc.'s acquisition of our former portfolio company, Nextreme Thermal Solutions, Inc. These milestone payments were fair valued at \$0 as of December 31, 2015, and December 31, 2014. At December 31, 2015, and December 31, 2014, we had rights to milestone payments from Canon, Inc.'s acquisition of our former portfolio company, Molecular Imprints, Inc. These milestone payments were fair valued at \$461,819 and \$628,948 as of December 31, 2015, and December 31, 2014, respectively. These milestone payments are contingent upon certain milestones being achieved in the future.

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

### **Statements of Assets and Liabilities:**

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

**Statements of Operations  
for the Year Ended  
December 31, 2015:**

<u>Derivatives</u>	<u>Location</u>	<u>Realized Gain/(Loss)</u>	<u>Change in unrealized Appreciation</u>
Amgen, Inc. Rights to Milestone Payments from Acquisition of BioVex Group, Inc.	Net Realized and Unrealized Gain (Loss)	\$ 862,346	\$ 1,543,924
Laird Technologies, Inc. Rights to Milestone Payments from Acquisition of Nextreme Thermal Solutions, Inc.	Net Realized and Unrealized Gain (Loss)	\$ 0	\$ 0
Canon, Inc. Rights to Milestone Payments from Acquisition of Molecular Imprints, Inc.	Net Realized and Unrealized Gain (Loss)	\$ 398,762	\$ 229,676

The following tables present the value of derivatives held at December 31, 2014, and the effect of derivatives held during the year ended December 31, 2014, along with the respective location in the financial statements.

**Statements of Assets and Liabilities:**

<u>Derivatives</u>	<u>Assets</u>		<u>Liabilities</u>	
	<u>Location</u>	<u>Fair Value</u>	<u>Location</u>	<u>Fair Value</u>
Equity Contracts	—	—	Written call options payable	\$ 0
Amgen, Inc. Rights to Milestone Payments from Acquisition of BioVex Group, Inc.	Investments	\$ 2,564,917	—	—
Laird Technologies, Inc. Rights to Milestone Payments from Acquisition of Nextreme Thermal Solutions, Inc.	Investments	\$ 0	—	—
Canon, Inc. Rights to Milestone Payments from Acquisition of Molecular Imprints, Inc.	Investments	\$ 628,948	—	—

**Statements of Operations:**

<b>Derivatives</b>	<b>Location</b>	<b>Realized Gain/(Loss)</b>	<b>Change in unrealized (Depreciation)/ Appreciation</b>
Equity Contracts	Net Realized and Unrealized (Loss) Gain	\$ 232,079	\$ (8,882)
Amgen, Inc. Rights to Milestone Payments from Acquisition of BioVex Group, Inc.	Net Realized and Unrealized (Loss) Gain	\$ 536,813	\$ 609,626
Laird Technologies, Inc. Rights to Milestone Payments from Acquisition of Nextreme Thermal Solutions, Inc.	Net Realized and Unrealized (Loss) Gain	\$ 0	\$ 0
Canon, Inc. Rights to Milestone Payments from Acquisition of Molecular Imprints, Inc.	Net Realized and Unrealized (Loss) Gain	\$ 0	\$ (722)

During the year ended December 31 2014, the Company had written covered call options on its holdings of one of its publicly traded portfolio companies in exchange for the receipt of a premium. The option provides the holder the right, but not the obligation, to purchase the shares on which the option is held at a specified price over a specified future period. The call options were sold at a strike price above the market price on the date of the sale allowing the Company to receive potential appreciation in addition to the premium.

Transactions in written call options during the year ended December 31, 2014, were as follows:

	<b>Number of Contracts</b>	<b>Premium</b>
Call options outstanding at December 31, 2013	1,500	\$ 112,382
Call options written	1,500	342,735
Call options expired	(1,500)	(342,735)
Call options called in assignment transactions	0	0
Call options terminated in closing transactions	(1,500)	(112,382)
Call options outstanding at December 31, 2014	<u>0</u>	<u>\$ 0</u>

## **NOTE 7. STOCK-BASED COMPENSATION**

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

Under the Stock Plan, a maximum of 20 percent (6,200,120 shares) of our total shares of common stock issued and outstanding as of the 2012 Annual Meeting date, calculated on a fully diluted basis (31,000,601 shares), were available for awards under the Stock Plan. Under the Stock Plan, no more than 50 percent of the shares of stock reserved for the grant of the awards under the Stock Plan (up to an aggregate of 3,100,060 shares) may be restricted stock awards at any time during the term of the Stock Plan. If any shares of restricted stock are awarded, such awards will reduce on a percentage basis the total number of shares of stock for which options may be awarded. No more than 1,000,000 shares of our common stock may be made subject to awards under the Stock Plan to any individual in any year. Although the Stock Plan permits us to continue to grant stock options, our Board of Directors has discontinued further grants of stock options. As of December 31, 2015, 1,062,329 shares of restricted stock, or 3.4 percent, of the 31,000,601 total shares outstanding as of the effective date of the Stock Plan were outstanding. As of December 31, 2015, 1,402,912 options, or 4.5 percent, of the 31,000,601 total shares outstanding as of the effective date of the Stock Plan were outstanding, of which 1,128,261, or 80.4 percent, of all options outstanding were held in the estate of Charles E. Harris.

The Stock Plan will expire on June 7, 2022. The expiration of the Stock Plan will not by itself adversely affect the rights of plan participants under awards that are outstanding at the time the Stock Plan expires.

### ***Stock Option Awards***

During the years ended December 31, 2015, 2014 and 2013, the Compensation Committee of the Board of Directors of the Company did not grant any stock options. The Compensation Committee does not plan to grant new stock options to employees.

For the years ended December 31, 2015, December 31, 2014, and December 31, 2013, the Company recognized \$0, \$92,758, and \$215,394, respectively, of compensation expense in the Consolidated Statements of Operations related to stock options. As of December 31, 2015, and December 31, 2014, the stock options outstanding were fully vested and, therefore, fully expensed.

No options were exercised during the years ended December 31, 2015, December 31, 2014, and December 31, 2013. Upon exercise, shares would be issued from our previously authorized but unissued shares.

A summary of the changes in outstanding stock options for the year ended December 31, 2015, is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Options Outstanding at January 1, 2015	1,423,912	\$ 9.77	\$ 6.28	1.68	\$ 0
Granted	0	0	0	0	
Exercised	0	0	0	0	
Forfeited or Expired	(21,000)	4.80	2.21	0	
Options Outstanding and Exercisable at December 31, 2015	<u>1,402,912</u>	\$ 9.85	\$ 6.34	0.70	\$ 0

The aggregate intrinsic value in the table above with respect to outstanding options is calculated as the difference between the Company's closing stock price of \$2.20 on December 31, 2015, and the exercise price, multiplied by the number of in-the-money options. This amount represents the total pre-tax intrinsic value that would have been received by the option holders had all option holders exercised their awards on December 31, 2015.

At December 31, 2015, and December 31, 2014, there were no unvested options. The grant date fair value of options vested during the year ended December 31, 2014, was \$189,743. During the year ended December 31, 2014, a total of 25,445 options vested having a weighted average grant date fair value of \$7.46.

#### ***Restricted Stock***

On June 11, 2012, the Compensation Committee granted the employees a total of 1,780,000 shares of restricted stock. A total of 1,068,000 awards (60 percent) vest when the volume-weighted stock price is at or above pre-determined stock price targets over a 30-day period. These pre-determined stock price targets range from \$5.00 per share to \$9.00 per share. The remaining 712,000 of these shares (40 percent) have vesting dates ranging from December 31, 2012, through June 30, 2017, based on the employee's continued service to the Company. On March 6, 2014, the Compensation Committee granted 26,360 shares of restricted stock to a new employee under service terms and volume weighted market price conditions matching those of the June 11, 2012, employee grant. Pursuant to the Exemptive Order, non-employee directors receive up to 2,000 shares of restricted stock annually, which vest pro rata over a three-year period from the date of the grant. On May 2, 2013, 12,000 shares of restricted stock were granted to the non-employee directors. On May 1, 2014, an additional 14,000 shares of restricted stock were granted to the non-employee directors. On June 5, 2015, an additional 10,000 shares of restricted stock were granted to the non-employee directors.

The compensation expense for the service-based award is determined by the market price of our stock at the date of grant applied to the total number of shares we anticipate to fully vest. The market price for the March 6, 2014, employee service-based award was \$3.05. The market price for the May 1, 2014, grant to the non-employee directors was \$3.60. The market price for the June 5, 2015, grant to the non-employee directors was \$2.72.

The compensation expense for the market-based award is determined by the fair value of the award applied to the number of shares granted, net of estimated forfeitures. The fair value of the market-based award granted on March 6, 2014, was determined using a lattice model. The fair value of this award ranges from \$2.40 per share to \$2.64 per share and will be expensed over derived service periods ranging from approximately 44 to 86 months.

For the year ended December 31, 2015, we recognized \$798,965 of compensation expense related to restricted stock awards. As of December 31, 2015, there was unrecognized compensation cost of \$1,074,141 related to restricted stock awards. This cost is expected to be recognized over a remaining weighted average period of approximately 1.0 year.

Non-vested restricted stock awards as of December 31, 2015, and changes during the year ended December 31, 2015, were as follows:

	<u>Shares</u>	<u>Weighted-Average Grant Date Fair Value Per Share</u>
Outstanding at January 1, 2015	1,165,495	\$ 2.73
Granted	10,000	2.72
Vested based on service	(73,992)	3.38
Shares withheld related to net share settlement of restricted stock	(35,175)	3.37
Forfeited	<u>(3,999)</u>	<u>3.44</u>
Outstanding at December 31, 2015	<u>1,062,329</u>	<u>\$ 2.66</u>

During 2014, a total of 255,379 shares of restricted stock were forfeited in connection with the voluntary termination of three of our employees and the resignation of one non-employee director. As a result, compensation cost of \$256,334 related to these awards was reversed, which reduced stock-based compensation cost for the period. For the year ended December 31, 2014, we recognized \$764,248 of compensation expense related to restricted stock awards. As of December 31, 2014, there was unrecognized compensation cost of \$1,859,672 related to restricted stock awards.

Non-vested restricted stock awards as of December 31, 2014, and changes during the year ended December 31, 2014, were as follows:

	<u>Shares</u>	<u>Weighted-Average Grant Date Fair Value Per Share</u>
Outstanding at January 1, 2014	1,504,518	\$ 2.78
Granted	40,360	3.01
Vested based on service	(83,404)	3.34
Shares withheld related to net share settlement of restricted stock	(40,600)	3.37
Forfeited	<u>(255,379)</u>	<u>2.74</u>
Outstanding at December 31, 2014	<u>1,165,495</u>	<u>\$ 2.73</u>

Under net settlement procedures currently applicable to our outstanding restricted stock awards for current employees, upon each settlement date, restricted stock awards are withheld to cover the required withholding tax, which is based on the value of the restricted stock award on the settlement date as determined by the closing price of our common stock on the vesting date. The remaining amounts are delivered to the recipient as shares of our common stock. During 2015, 109,167 restricted stock awards vested, of which 100,500 restricted stock awards were net settled by withholding 35,175 shares, which represented the employees' minimum statutory obligation for each such employee's applicable income and other employment taxes and remitted cash totaling of \$86,914 to the appropriate tax authorities. During 2014, 124,004 restricted stock awards vested, of which 116,000 restricted stock awards were net settled by withholding 40,600 shares, which represented the employees' minimum statutory obligation for each such employee's applicable income and other employment taxes and remitted cash totaling of \$124,751 to the appropriate tax authorities. The amount remitted to the tax authorities for the employees' tax obligation was reflected as a financing activity within our Consolidated Statements of Cash Flows. The shares withheld by us as a result of the net settlement of restricted stock awards are not considered issued and outstanding, thereby reducing our shares outstanding used to calculate net asset value per share.

#### **NOTE 8. DISTRIBUTABLE EARNINGS**

As of December 31, 2015, December 31, 2014, and December 31, 2013, there were no distributable earnings. The difference between the book basis and tax basis components of distributable earnings is primarily nondeductible deferred compensation and net operating losses.

The Company did not declare dividends for the years ended December 31, 2015, 2014 or 2013.

#### **NOTE 9. EMPLOYEE BENEFITS**

##### **401(k) Plan**

We adopted a 401(k) Plan covering substantially all of our employees. Matching contributions to the plan are at the discretion of the Compensation Committee. For the year ended December 31, 2015, the Compensation Committee approved a 100 percent match, which amounted to \$180,690. The 401(k) Company match for the years ended December 31, 2014, and December 31, 2013, was \$216,420 and \$219,600, respectively.

##### **Medical Benefit Retirement Plan**

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



Our accumulated postretirement benefit obligation was re-measured as of the plan amendment date, which resulted in a \$1,101,338 decrease in our liability. A deferred gain of \$1,101,338 owing to this amendment was included in "Accumulated other comprehensive income" as of March 31, 2013. This amount is being amortized over a service period of 5.27 years. During the years ended December 31, 2015, December 31, 2014, and December 31, 2013, a total of \$208,983, \$208,983 and \$174,152, respectively, was amortized and included as a reduction of "Salaries, benefits and stock-based compensation" on our Consolidated Statements of Operations. All of the amounts reported in the Consolidated Statements of Comprehensive Income (Loss) relate to the plan amendment.

The plan is unfunded and has no assets. The following disclosures about changes in the benefit obligation under our plan to provide medical and dental insurance for retirees are as of the measurement date of December 31:

	<u>2015</u>	<u>2014</u>
Accumulated Postretirement Benefit Obligation at Beginning of Year	\$ 1,042,730	\$ 897,923
Service Cost	25,362	41,433
Interest Cost	39,186	42,075
Actuarial Loss (Gain)	(94,174)	84,245
Benefits Paid	<u>(21,675)</u>	<u>(22,946)</u>
<b>Accumulated Postretirement Benefit Obligation at End of Year</b>	<b><u>\$ 991,429</u></b>	<b><u>\$ 1,042,730</u></b>

In accounting for the plan, the assumption made for the discount rate was 4.15 percent and 3.83 percent for the years ended December 31, 2015, and 2014, respectively. The assumed health care cost trend rates in 2015 were eight percent grading to five percent over six years for medical and five percent per year for dental. The assumed health care cost trend rates in 2014 were eight percent grading to five percent over six years for medical and five percent per year for dental. The effect on disclosure information of a one percentage point change in the assumed health care cost trend rate for each future year is shown below.

	<u>1% Decrease in Rates</u>	<u>Assumed Rates</u>	<u>1% Increase in Rates</u>
Aggregated Service and Interest Cost	\$ 57,921	\$ 64,548	\$ 72,645
Accumulated Postretirement Benefit Obligation	\$ 889,958	\$ 991,429	\$ 1,113,489

The net periodic postretirement benefit cost for the year is determined as the sum of service cost for the year, interest on the accumulated postretirement benefit obligation and amortization of the prior service cost and actuarial gains/losses over the average remaining service period of employees expected to receive plan benefits. The following is the net periodic postretirement benefit cost for the years ended December 31, 2015, 2014, and 2013:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Service Cost	\$ 25,362	\$ 41,433	\$ 69,277
Interest Cost on Accumulated Postretirement Benefit Obligation	39,186	42,075	43,033
Amortization of Prior Service Cost	(208,983)	(208,983)	(174,152)
Amortization of Net (Gain)/Loss	<u>17,077</u>	<u>11,833</u>	<u>10,496</u>
<b>Net Periodic Post Retirement Benefit Cost</b>	<b><u>\$ (127,358)</u></b>	<b><u>\$ (113,642)</u></b>	<b><u>\$ (51,346)</u></b>

A total of \$208,983 in accumulated other comprehensive income is expected to be recognized as a component of net periodic post retirement benefit cost in 2016.

The Company estimates the following benefits to be paid in each of the following years:

2016	\$ 21,778
2017	\$ 24,917
2018	\$ 28,791
2019	\$ 33,596
2020	\$ 38,875
2021 through 2025	\$ 269,732

For the year ended December 31, 2015, net unrecognized actuarial gains, which resulted primarily from an increase in the discount rate, increased by \$111,251, which represents \$94,174 of actuarial gains arising during the year and a reclassification adjustment of \$17,077 that increased the net periodic benefit cost for the year.

For the year ended December 31, 2014, net unrecognized actuarial losses, which resulted primarily from the decrease in the discount rate, increased by \$72,412, which represents \$84,245 of actuarial losses arising during the year, offset by \$11,833 reclassification adjustment that increased the net periodic benefit cost for the year.

For the year ended December 31, 2013, net unrecognized actuarial gains, which resulted primarily from the increase in the discount rate, increased by \$58,344, which represents \$47,848 of actuarial gains arising during the year and a \$10,496 reclassification adjustment that increased the net periodic benefit cost for the year.

#### **Executive Mandatory Retirement Benefit Plan**

On May 5, 2011, the Board of Directors of Harris & Harris Group, Inc., terminated the Amended and Restated Executive Mandatory Retirement Benefit Plan. The plan was adopted in 2003 in order to begin planning for eventual management succession for individuals who are employed by us in a bona fide executive or high policy-making position. The plan provided benefits required by age discrimination laws as a result of the Company's policy of mandatory retirement when such individuals attained the age of 65. Our former President accrued benefits under this plan prior to his retirement, and the termination of this plan has no impact on his accrued benefits. At December 31, 2015, and 2014, we had \$210,718 and \$224,883, respectively, accrued for benefits for this former employee under the plan, which is included in "Post retirement plan liabilities" on the Consolidated Statements of Assets and Liabilities.

## **NOTE 10. INCOME TAXES**

In the case of a RIC that furnishes capital to development corporations, there is an exception to certain of the rules relating to the diversification of investments required to qualify for RIC treatment. This exception is available only to registered investment companies that the SEC determines to be principally engaged in the furnishing of capital to other corporations that are principally engaged in the development or exploitation of inventions, technological improvements, new processes, or products not previously generally available ("SEC Certification"). We have received SEC Certification since 1999, including for 2014, but it is possible that we may not receive SEC Certification in future years. We intend to apply for certification for 2015.

We filed for the 1999 tax year to elect treatment as a RIC under Subchapter M of the Code and qualified for the same treatment for the years 2000 through 2014. We believe that the Company met the requirements for RIC status for 2015, assuming we receive SEC certification for 2015. However, there can be no assurance that we will qualify as a RIC for 2015 or subsequent years.

In addition, under certain circumstances, even if we qualified for Subchapter M treatment for a given year, we might take action in a subsequent year to ensure that we would be taxed in that subsequent year as a C Corporation, rather than as a RIC. As a RIC, we must, among other things, distribute at least 90 percent of our investment company taxable income and may either distribute or retain our realized net capital gains on investments.

For federal tax purposes, the Company's 2012 through 2015 tax years remain open for examination by the tax authorities under the normal three-year statute of limitations. Generally, for state tax purposes, the Company's 2011 through 2015 tax years remain open for examination by the tax authorities under a four-year statute of limitations.

During 2015, the Company recorded a consolidated expense of \$2,148 in federal, state and local income taxes. At December 31, 2015, we had \$0 accrued for federal, state and local taxes payable by the Company.

We pay federal, state and local taxes on behalf of Ventures, which is taxed as a C Corporation. For the years ended December 31, 2015, 2014, and 2013, our income tax expense for Ventures was \$1,125, \$16,968, and \$27,053, respectively.

Tax expense included in the Consolidated Statement of Operations consists of the following:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Current	\$ 2,148	\$ 17,896	\$ 27,994
Total income tax expense	<u>\$ 2,148</u>	<u>\$ 17,896</u>	<u>\$ 27,994</u>

The Company realized short- and long-term gains of \$4,533,848 and \$15,648,618 in 2015 and 2013, respectively. The Company realized short- and long-term capital losses of \$5,899,525 in 2014. The Company offsets these gains with capital loss carryforwards and neither owed federal income taxes on the gains nor was required to distribute any portion of the gains to shareholders.

On December 22, 2010, the Regulated Investment Company Modernization Act of 2010 (the "Act") was enacted, which changed various technical rules governing the tax treatment of RICs. The changes are generally effective for taxable years beginning after the date of enactment. One of the more prominent changes addresses capital loss carryforwards. Under the Act, the Company will be permitted to carry forward capital losses incurred in taxable years beginning after the date of enactment for an unlimited period. However, any losses incurred during those future taxable years will be required to be utilized prior to the losses incurred in pre-enactment taxable years, which carry an expiration date. As a result of this ordering rule, pre-enactment capital loss carryforwards may be more likely to expire unused. Additionally, post-enactment capital loss carryforwards will retain their character as either short-term or long-term capital losses rather than being considered all short term as permitted under previous regulation.

As of December 31, 2015, we had post-enactment loss carryforwards under the provisions of the Act of \$612,621 short term and \$674,631 long term. Post-enactment losses have no expiration date. As of December 31, 2015, we had pre-enactment loss carryforwards totaling \$3,875,967, expiring in 2018. We had post-October losses of \$89,327.

Continued qualification as a RIC requires us to satisfy certain investment asset diversification requirements in future years. Our ability to satisfy those requirements may not be controllable by us. There can be no assurance that we will qualify as a RIC in subsequent years.

#### **NOTE 11. COMMITMENTS AND CONTINGENCIES**

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 \$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 has a \$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.

The Company's aggregate operating and investment commitments in Accelerator amounted to \$666,667 and \$3,333,333, 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 was called. As of December 31, 2015, the Company had remaining unfunded commitments of \$188,440 and \$2,200,383, or approximately 28.3 percent and 66.0 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.

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 57<sup>th</sup> Street in New York City. 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.

We have one option to extend the lease term for a five-year period, provided that we are not in default under the lease. Annual rent during the renewal period will equal 95 percent of the fair market value of the leased premises, as determined in accordance with the lease. Upon an event of default, the lease provides that the landlord may terminate the lease and require us to pay all rent that would have been payable during the remainder of the lease or until the date the landlord re-enters the premises.

Total rent expense for all of our office space, including rent on expired leases, was \$301,828 in 2015; \$299,048 in 2014; and \$376,360 in 2013. Aggregate future minimum lease payments in each of the following years are: 2016 - \$287,690; 2017 - \$294,882; 2018 - \$302,254; and 2019 - \$309,811.

In the ordinary course of business, we indemnify our officers and directors, subject to certain regulatory limitations, for loss or liability related to their service on behalf of the Company, including serving on the boards of directors or as officers of portfolio companies. At December 31, 2015, and 2014, we believed our estimated exposure was minimal, and accordingly we have no liability recorded.

#### **NOTE 12. SHARE REPURCHASE PROGRAM**

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 in this period was \$1,199,994, leaving a maximum of \$1,300,006 available for future program purchases as of December 31, 2015. The 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. As of March 14, 2016, no additional repurchases have occurred, leaving a maximum of \$2.5 million available for future repurchases.

**NOTE 13. CHANGE IN NET ASSETS PER SHARE**

The following table sets forth the computation of basic and diluted per share net decreases in net assets resulting from operations for the years ended December 31, 2015, 2014, and 2013.

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Numerator for decrease in net assets per share resulting from operations	\$ (20,245,830)	\$ (13,570,420)	\$ (7,788,958)
Denominator for basic weighted average shares	31,174,758	31,222,877	31,138,716
Basic net decrease in net assets per share resulting from operations	\$ (0.65)	\$ (0.43)	\$ (0.25)
Denominator for diluted weighted average shares	31,174,758	31,222,877	31,138,716
Diluted net decrease in net assets per share resulting from operations <sup>1</sup>	\$ (0.65)	\$ (0.43)	\$ (0.25)
Anti-dilutive shares by type:			
Stock options	1,402,912	1,423,912	1,425,372
Restricted stock	169,329	268,705	436,518
Total anti-dilutive shares	<u>1,572,241</u>	<u>1,692,617</u>	<u>1,861,890</u>

<sup>1</sup>A total of 893,000, 893,000, and 1,068,000 market-based shares of restricted stock were outstanding at December 31, 2015, December 31, 2014, and December 31, 2013. These shares vest when the volume-weighted stock price is at or above pre-determined stock price targets over a 30-day period. These pre-determined stock price targets range from \$5.00 per share to \$9.00 per share. These shares were not included in the computation of diluted net asset value per share because as of the end of the reporting period none of the pre-determined stock price targets were met.

For the years ended December 31, 2015, 2014 and 2013, the calculation of net decrease in net assets resulting from operations per diluted share did not include stock options or shares of restricted stock because such shares were anti-dilutive. Stock options and restricted stock awards may be dilutive in future periods in which there are both a net increase in net assets resulting from operations and either significant increases in our average stock price or significant decreases in the amount of unrecognized compensation cost during the period.

**NOTE 14. RELATED PARTY TRANSACTIONS**

As a BDC, we provide managerial assistance to our portfolio companies. In certain cases, we receive fees for providing such assistance. During the years ended December 31, 2015, and 2014, we received fees totaling \$191,609 and \$86,667, respectively. During the year ended December 31, 2013, we did not receive any fees for managerial assistance.

#### **NOTE 15. SUBSEQUENT EVENTS**

On January 10, 2016, the Company exercised a warrant to purchase 166,667 shares of NGX Bio, Inc., a privately held portfolio company, for the total purchase price of \$1.67.

On January 15, 2016, the Company made a \$250,000 follow-on investment in Senova Systems, Inc., a privately held portfolio company.

On January 20, 2016, the Company made a \$100,000 follow-on investment in ABSMaterials, Inc., a privately held portfolio company.

On January 22, 2016, the Company made a \$500,000 follow-on investment in EchoPixel, Inc., a privately held portfolio company.

On January 29, 2016, the Company made a \$103,680 follow-on investment in Accelerator IV-New York Corporation, a privately held portfolio company. This investment was made pursuant to our operating commitment of which \$84,760 remains unfunded. We continue to have an unfunded investment commitment of \$2,200,383.

On February 16, 2016, the Company made a \$125,000 follow-on investment in Produced Water Absorbents, Inc., a privately held portfolio company.

On March 1, 2016, the Company made a \$300,010 new investment in Interome, Inc., a privately held portfolio company.

On March 9, 2016, the Company announced that it will begin offering limited numbers of accredited investors the opportunity to co-invest with the Company in its portfolio companies. The opportunities to invest will be provided through H&H Co-Investment Partners, LLC, a newly formed entity that will be managed by the Company. The Company intends to solicit interest in separate series established by H&H Co-Investment Partners to invest in individual portfolio companies, ahead of potential future rounds of financing. The Company expects that accredited investors who have held its stock prior to the close of each financing will have priority in the allocation of these limited co-investment opportunities.

On March 10, 2016, the Company made an \$875,000 follow-on investment in Produced Water Absorbents, Inc., a privately held portfolio company.

**NOTE 16. SELECTED QUARTERLY DATA (UNAUDITED)**

	2015			
	<u>1<sup>st</sup> Quarter</u>	<u>2<sup>nd</sup> Quarter</u>	<u>3<sup>rd</sup> Quarter</u>	<u>4<sup>th</sup> Quarter</u>
Total investment income	\$ 142,832	\$ 288,195	\$ 244,402	\$ 241,566
Net operating loss	\$ (2,036,345)	\$ (1,585,307)	\$ (1,587,808)	\$ (1,953,050)
Net (decrease) increase in net assets resulting from operations	\$ (3,922,038)	\$ (1,529,496)	\$ (16,904,625)	\$ 2,110,329
Net (decrease) increase in net assets resulting from operations per average outstanding share	\$ (0.13)	\$ (0.05)	\$ (0.54)	\$ 0.07
	2014			
	<u>1<sup>st</sup> Quarter</u>	<u>2<sup>nd</sup> Quarter</u>	<u>3<sup>rd</sup> Quarter</u>	<u>4<sup>th</sup> Quarter</u>
Total investment income	\$ 146,291	\$ 133,835	\$ 93,373	\$ 144,301
Net operating loss	\$ (1,975,372)	\$ (2,084,855)	\$ (1,877,603)	\$ (1,963,897)
Net (decrease) increase in net assets resulting from operations	\$ (6,475,677)	\$ 4,328,055	\$ (910,852)	\$ (10,511,946)
Net (decrease) increase in net assets resulting from operations per average outstanding share	\$ (0.21)	\$ 0.14	\$ (0.03)	\$ (0.33)



**HARRIS & HARRIS GROUP, INC.**  
**FINANCIAL HIGHLIGHTS**

	<u>Year Ended</u> <u>Dec. 31, 2015</u>	<u>Year Ended</u> <u>Dec. 31, 2014</u>	<u>Year Ended</u> <u>Dec. 31, 2013</u>	<u>Year Ended</u> <u>Dec. 31, 2012</u>	<u>Year Ended</u> <u>Dec. 31, 2011</u>
<b>Per Share Operating Performance</b>					
Net asset value per share, beginning of year	\$ 3.51	\$ 3.93	\$ 4.13	\$ 4.70	\$ 4.76
Net operating loss*	(0.23)	(0.25)	(0.26)	(0.28)	(0.27)
Net realized gain (loss) on investments*	0.15	(0.16)	0.59	0.08	0.08
Net (decrease) increase in unrealized appreciation on investments and written call options*(1)	(0.56)	(0.02)	(0.58)	(0.44)	0.07
Share of loss on equity method investment(2)	(0.01)	0	0	0	0
Total from investment operations*	<u>(0.65)</u>	<u>(0.43)</u>	<u>(0.25)</u>	<u>(0.64)</u>	<u>(0.12)</u>
Net increase as a result of stock-based compensation expense*	0.03	0.03	0.04	0.09	0.06
Net increase as a result of purchase of treasury stock	0.01	0.00	0.00	0.00	0.00
Net decrease as a result of acquisition of vested restricted stock awards related to employee withholding(2)	<u>(0.01)</u>	<u>(0.01)</u>	<u>(0.01)</u>	<u>(0.02)</u>	<u>0.00</u>
Total increase from capital stock transactions	<u>0.03</u>	<u>0.02</u>	<u>0.03</u>	<u>0.07</u>	<u>0.06</u>
Net increase as a result of other comprehensive income*(2)	<u>(0.01)</u>	<u>(0.01)</u>	<u>0.02</u>	<u>0.00</u>	<u>0.00</u>
Net (decrease) increase in net asset value	<u>(0.63)</u>	<u>(0.42)</u>	<u>(0.20)</u>	<u>(0.57)</u>	<u>(0.06)</u>
Net asset value per share, end of year	<u>2.88</u>	<u>\$ 3.51</u>	<u>\$ 3.93</u>	<u>\$ 4.13</u>	<u>\$ 4.70</u>
Stock price per share, end of year	2.20	\$ 2.95	\$ 2.98	\$ 3.30	\$ 3.46
Total return based on stock price	(25.42)%	(1.01)%	(9.70)%	(4.62)%	(21.0)%
<b>Supplemental Data:</b>					
Net assets, end of year	\$ 88,711,671	\$ 109,654,427	\$ 122,701,575	\$ 128,436,774	\$ 145,698,407
Ratio of expenses, excluding taxes, to average net assets(3)	8.15%	7.14%	6.62%	6.57%	6.08%
Ratio of expenses, including taxes, to average net assets(3)	8.15%	7.15%	6.65%	6.58%	6.09%
Ratio of net operating loss to average net assets(3)	(7.22)%	(6.70)%	(6.26)%	(6.07)%	(5.61)%
Average debt outstanding	\$ 3,780,822	\$ 0.00	\$ 0.00	\$ 1,679,781	\$ 1,254,247
Average debt per share	0.12	\$ 0.00	\$ 0.00	\$ 0.05	\$ 0.04
Number of shares outstanding, end of year	30,845,754	31,280,843	31,197,438	31,116,881	31,000,601

\*Based on average shares outstanding.

(1) Net unrealized gains (losses) include rounding adjustments to reconcile change in net asset value per share. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for a description of unrealized losses on investments.

(2) Amounts listed as zero are amounts calculated as less than \$0.005.

(3) Not annualized.

The accompanying notes are an integral part of this schedule.

**Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. Controls and Procedures.**

Disclosure Controls and Procedures

As of the end of the period covered by this report, the Company's management, under the supervision and with the participation of our chief executive officer and chief financial officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as required by Rules 13a-15 of the Exchange Act). Disclosure controls and procedures means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the issuer's management, as appropriate, to allow timely decisions regarding required disclosures. As of December 31, 2015, based upon this evaluation of our disclosure controls and procedures, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective.

Internal Control Over Financial Reporting

Management's Report on Internal Control Over Financial Reporting and the Report of Independent Registered Public Accounting Firm, on the Company's internal control over financial reporting, is included in Item 8 of this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fourth quarter of 2015 to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Item 9B. Other Information.**

None.

## PART III

### **Item 10. Directors, Executive Officers and Corporate Governance.**

The information set forth under the captions "Nominees," "Executive Officers," "Section 16(a) Beneficial Ownership Reporting Compliance" and "Audit Committee" in our Proxy Statement for the Annual Meeting of Shareholders to be held on June 7, 2016, to be filed pursuant to Regulation 14A under the Exchange Act (the "2016 Proxy Statement"), is herein incorporated by reference.

We have adopted a Code of Conduct for Directors and Employees, which also applies to our Chief Executive Officer, Chief Financial Officer, Treasurer and Senior Controller, which is posted on our website at <http://ir.hhvc.com/governance.cfm>.

The Board of Directors has determined that W. Dillaway Ayres, Jr., Stacy R. Bandom and Richard P. Shanley are all "Audit Committee Financial Experts" serving on our Audit Committee. Messrs. Ayres and Shanley and Ms. Bandom are not "interested persons" as defined under Section 2(a)(19) of the 1940 Act and are independent under the rules of the Nasdaq Stock Market.

### **Item 11. Executive Compensation.**

The information set forth under the captions "Executive Compensation," "Compensation Committee Interlocks and Insider Participation" and "Compensation Committee Report on Executive Compensation" in the 2016 Proxy Statement is herein incorporated by reference.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The information set forth under the caption "How Many Shares Do the Company's Principal Shareholders, Directors and Executive Officers Own?" in the 2016 Proxy Statement is herein incorporated by reference. The "Equity Compensation Plan Information" chart is set forth herein under Item 5.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence.**

The information set forth under the captions "Nominees" and "Related Party Transactions" in the 2016 Proxy Statement is herein incorporated by reference.

### **Item 14. Principal Accountant Fees and Services.**

The information set forth under the captions "Audit Committee's Pre-Approval Policies" and "Fees Paid to PwC for 2015 and 2014" in the 2016 Proxy Statement is herein incorporated by reference.

## PART IV

### Item 15. Exhibits and Financial Statements Schedules.

(a) The following documents are filed as a part of this report:

(1) Listed below are the financial statements which are filed as part of this report:

- Consolidated Statements of Assets and Liabilities as of December 31, 2015, and 2014;
- Consolidated Statements of Operations for the years ended December 31, 2015, 2014, and 2013;
- Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2015, 2014, and 2013
- Consolidated Statements of Cash Flows for the years ended December 31, 2015, 2014, and 2013;
- Consolidated Statements of Changes in Net Assets for the years ended December 31, 2015, 2014, and 2013;
- Consolidated Schedule of Investments as of December 31, 2015;
- Consolidated Schedule of Investments as of December 31, 2014;
- Footnote to Consolidated Schedule of Investments;
- Notes to Consolidated Financial Statements; and
- Financial Highlights for the years ended December 31, 2015, 2014, 2013, 2012 and 2011.

(2) Schedule 12-14 – "Investments and Advances to Affiliates"

(3) The following exhibits are filed with this report or are incorporated herein by reference to a prior filing, in accordance with Rule 12b-32 under the Exchange Act.

3.1(a)\* Restated Certificate of Incorporation of Harris & Harris Group, Inc., dated September 23, 2005.

3.1(b) Certificate of Amendment of the Certificate of Incorporation of Harris & Harris Group, Inc., dated May 19, 2006, incorporated by reference to Exhibit 3.1(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 2011 (File No. 814-00176) filed on March 14, 2012.

- 3.1(c)\* Certificate of Change of the Certificate of Incorporation of Harris & Harris Group, Inc., dated August 5, 2010.
- 3.2 Amended and Restated By-laws, incorporated by reference as Exhibit 3.1 to the Company's Form 8-K (File No. 814-00176) filed on December 28, 2015.
- 4 Form of Specimen Certificate of Common Stock, incorporated by reference to Exhibit 4 to the Company's Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 814-00176) filed on March 16, 2015.
- 10.1\* Custody Agreement by and between Harris & Harris Group, Inc. and Union Bank, dated March 11, 2011.
- 10.2\* Custody Agreement by and between Harris & Harris Group, Inc. and TD Bank, N.A., dated February 24, 2011.
- 10.3 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, incorporated by reference as Exhibit 10.1 to the Company's Form 8-K (File No. 814-00176) filed on September 30, 2013.
- 10.4 Form of Indemnification Agreement which has been established with all directors and executive officers of the Company, incorporated by reference as Exhibit 10.1 to the Company's Form 8-K (File No. 814-00176) filed on November 1, 2013.
- 10.5 Amended and Restated Harris & Harris Group, Inc. 2012 Equity Incentive Plan, incorporated by reference as Exhibit 10.6 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011 (File No 814-00176) filed on March 14, 2012.
- 10.6 Form of Non-Qualified Stock Option Agreement, incorporated by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 814-00176) filed on March 16, 2015.
- 10.7 Form of Director Restricted Stock Agreement, incorporated by reference as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 (File No. 814-00176) filed on May 10, 2012.
- 10.8 Form of Employee Restricted Stock Agreement, incorporated by reference as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 (File No. 814-00176) filed on May 10, 2012.

- 10.9 Lease Agreement, dated September 24, 2009, between Rosh 1450 Properties LLC and Harris & Harris Group, Inc., incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 814-00176) filed on March 16, 2015.
- 10.10 Harris & Harris Group, Inc. Employee Stock Purchase Plan, incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011 (File No. 814-00176) filed on March 14, 2012.
- 10.11 Employment Agreement between Harris & Harris Group, Inc., and Alexei A. Andreev, dated December 2, 2015, incorporated by reference as Exhibit 99.1 to the Company's Form 8-K (File No. 814-00176) filed on December 4, 2015.
- 10.12 Form of Executive Severance and Change in Control Agreement, which was established with executive management of the Company, incorporated by reference as Exhibit 99.1 to the Company's Form 8-K (File No. 814-00176) filed on December 28, 2015.
- 10.13 Form of Venture Partner Severance and Change in Control Agreement, which was established with Alexei A. Andreev, incorporated by reference as Exhibit 99.2 to the Company's Form 8-K (File No. 814-00176) filed on December 28, 2015.
- 14.1 Code of Conduct for Directors and Employees of Harris & Harris Group, Inc., incorporated by reference to Exhibit 14.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 814-00176) filed on March 16, 2015.
- 21 Subsidiaries of Registrant and Jurisdiction of Incorporation/Organization, incorporated by reference as Exhibit 21 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012 (File No. 814-00176) filed on March 15, 2013.
- 31.01\* Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.02\* Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.01\* Certification of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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\*Filed herewith

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HARRIS & HARRIS GROUP, INC.

Date: March 15, 2016

By: /s/ Douglas W. Jamison  
Douglas W. Jamison  
Chairman of the Board and  
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

<u>Signatures</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Douglas W. Jamison</u> Douglas W. Jamison	Chairman of the Board and Chief Executive Officer	March 15, 2016
<u>/s/ Patricia N. Egan</u> Patricia N. Egan	Chief Financial Officer	March 15, 2016
<u>/s/ W. Dillaway Ayres, Jr.</u> W. Dillaway Ayres, Jr.	Director	March 15, 2016
<u>/s/ Phillip A. Bauman</u> Phillip A. Bauman	Director	March 15, 2016
<u>/s/ Stacy R. Brandom</u> Stacy R. Brandom	Director	March 15, 2016
<u>/s/ Charles E. Ramsey</u> Charles E. Ramsey	Director	March 15, 2016
<u>/s/ Richard P. Shanley</u> Richard P. Shanley	Director	March 15, 2016



## EXHIBIT INDEX

The following exhibits are filed with this report in accordance with Rule 12b-32 under the Securities Exchange Act of 1934.

<b>Exhibit No.</b>	<b>Description</b>
3.1(a)	Restated Certificate of Incorporation of Harris & Harris Group, Inc., dated September 23, 2005.
3.1(c)	Certificate of Change of the Certificate of Incorporation of Harris & Harris Group, Inc., dated August 5, 2010.
10.1	Custody Agreement by and between Harris & Harris Group, Inc. and Union Bank, dated March 11, 2011.
10.2	Custody Agreement by and between Harris & Harris Group, Inc. and TD Bank, N.A., dated February 24, 2011.
31.01	Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.02	Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.01	Certification of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**HARRIS & HARRIS GROUP, INC.**  
**INVESTMENTS IN AND ADVANCES TO AFFILIATES**

Name of Issuer	Title of Issue or Nature of Indebtedness <sup>(A)</sup>	Amount of Dividends or Interest Credited to Income <sup>(B)</sup>	Value as of December 31, 2014	Gross Additions <sup>(C)</sup>	Gross Reductions <sup>(D)</sup>	Value as of December 31, 2015
<b>MAJORITY OWNED CONTROLLED INVESTMENTS:</b>						
<b>Black Silicon Holdings, Inc.</b>	Series A Convertible Preferred Stock	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
	Series A-1 Convertible Preferred Stock	0	0	0	0	0
	Series A-2 Convertible Preferred Stock	0	0	0	0	0
	Series B-1 Convertible Preferred Stock	0	0	0	0	0
	Series C Convertible Preferred Stock	0	0	0	0	0
	Secured Convertible Bridge Notes	221,146	161,285	155,328	0	316,613
<b>NGX Bio, Inc.</b>	Series Seed Convertible Preferred Stock	\$ 0	\$ 506,159	\$ 0	\$ (59,281)	\$ 446,878
	Series A Convertible Preferred Stock	0	0	499,999	(96,461)	403,538
	Warrants for Series Seed Preferred Stock	0	0	148,958	0	148,958
<b>ProMuc, Inc.</b>	Common Stock	\$ 0	\$ 1	\$ 0	\$ 0	\$ 1
	Secured Convertible Bridge Note	38,751	482,165	168,750	0	650,915
<b>SynGlyco, Inc.</b>	Common Stock	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
	Series A' Convertible Preferred Stock	0	0	100,343	0	100,343
	Senior Secured Debt	113,232	820,119	0	(820,119)	0
	Secured Convertible Bridge Notes	59,859	376,983	431,118	0	808,101
<b>TARA Biosystems, Inc.</b>	Common Stock	\$ 0	\$ 20	\$ 0	\$ 0	\$ 20
	Secured Convertible Bridge Notes	42,853	308,811	1,714,608	0	2,023,419
<b>Total Majority Owned Controlled Investments</b>		<b>\$ 475,841</b>	<b>\$ 2,655,543</b>	<b>\$ 3,219,104</b>	<b>\$ (975,861)</b>	<b>\$ 4,898,786</b>

<u>Name of Issuer</u>	<u>Title of Issue or Nature of Indebtedness<sup>(A)</sup></u>	<u>Amount of Dividends or Interest Credited to Income<sup>(B)</sup></u>	<u>Value as of December 31, 2014</u>	<u>Gross Additions<sup>(C)</sup></u>	<u>Gross Reductions<sup>(D)</sup></u>	<u>Value as of December 31, 2015</u>
<b>OTHER CONTROLLED INVESTMENTS:</b>						
<b>Senova Systems, Inc.</b>	Series B Convertible Preferred Stock	\$ 0	\$ 403,123	\$ 0	\$ (118,185)	\$ 284,938
	Series B-1 Convertible Preferred Stock	0	899,187	0	(239,776)	659,411
	Series C Convertible Preferred Stock	0	609,349	600,000	(81,930)	1,127,419
	Warrants for Series B Preferred Stock	0	56,563	0	(16,583)	39,980
<b>Total Other Controlled Investments</b>		<b>\$ 0</b>	<b>\$ 1,968,222</b>	<b>\$ 600,000</b>	<b>\$ (456,474)</b>	<b>\$ 2,111,748</b>
<b>Total Controlled Investments</b>		<b>\$ 475,841</b>	<b>\$ 4,623,765</b>	<b>\$ 3,819,104</b>	<b>\$ (1,432,335)</b>	<b>\$ 7,010,534</b>
<b>AFFILIATED INVESTMENTS:</b>						
<b>ABSMaterials, Inc.</b>	Series A Convertible Preferred Stock	\$ 0	\$ 291,875	\$ 0	\$ (131,572)	\$ 160,303
	Series B Convertible Preferred Stock	0	1,255,717	0	(432,398)	823,319
<b>AgBiome, LLC</b>	Series A-1 Convertible Preferred Stock	\$ 0	\$ 2,406,210	\$ 1,616,512	\$ 0	\$ 4,022,722
	Series A-2 Convertible Preferred Stock	0	583,494	308,094	0	891,588
	Series B Convertible Preferred Stock	0	0	575,979	0	575,979
<b>D-Wave Systems, Inc.</b>	Series 1 Class B Convertible Preferred Stock	\$ 0	\$ 1,766,715	\$ 0	\$ (280,772)	\$ 1,485,943
	Series 1 Class C Convertible Preferred Stock	0	699,457	0	(110,613)	588,844
	Series 1 Class D Convertible Preferred Stock	0	1,327,843	0	(209,985)	1,117,858
	Series 1 Class E Convertible Preferred Stock	0	435,260	0	(66,875)	368,385
	Series 1 Class F Convertible Preferred Stock	0	418,193	0	(64,253)	353,940
	Series 1 Class H Convertible Preferred Stock	0	870,998	0	(138,026)	732,972

Name of Issuer	Title of Issue or Nature of Indebtedness <sup>(A)</sup>	Amount of Dividends or Interest Credited to Income <sup>(B)</sup>	Value as of December 31, 2014	Gross Additions <sup>(C)</sup>	Gross Reductions <sup>(D)</sup>	Value as of December 31, 2015
<b>D-Wave Systems, Inc. (Cont'd)</b>	Series 2 Class D Convertible Preferred Stock	\$ 0	\$ 1,053,205	\$ 0	\$ (166,554)	\$ 886,651
	Series 2 Class E Convertible Preferred Stock	0	839,844	0	(127,968)	711,876
	Series 2 Class F Convertible Preferred Stock	0	806,909	0	(122,950)	683,959
	Warrants for Common Stock	0	116,830	0	(116,120)	710
<b>EchoPixel, Inc.</b>	Series Seed Convertible Preferred Stock	\$ 0	\$ 1,312,425	\$ 14,667	\$ 0	\$ 1,327,092
	Convertible Bridge Note	925	0	113,425	0	113,425
<b>Ensemble Therapeutics Corporation</b>	Series B Convertible Preferred Stock	\$ 0	\$ 1,060,023	\$ 0	\$ (397,416)	\$ 662,607
	Series B-1 Convertible Preferred Stock	0	1,833,862	0	(385,567)	1,448,295
<b>HZO, Inc.</b>	Common Stock	\$ 0	\$ 322,832	\$ 6,970	\$ 0	\$ 329,802
	Series I Convertible Preferred Stock	0	4,482,097	0	(200,277)	4,281,820
	Series II Convertible Preferred Stock	0	2,113,002	500,003	(97,841)	2,515,164
<b>Laser Light Engines, Inc.</b>	Series A Convertible Preferred Stock	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
	Series B Convertible Preferred Stock	0	0	0	0	0
	Convertible Bridge Notes <sup>(E)</sup>	0	0	0	0	0
<b>Lodo Therapeutics Corporation</b>	Series A Convertible Preferred Stock	\$ 0	\$ 0	\$ 107,900	\$ (619)	\$ 107,281
<b>Metabolan, Inc.</b>	Series B Convertible Preferred Stock	\$ 0	\$ 2,781,374	\$ 917,746	\$ 0	\$ 3,699,120
	Series B-1 Convertible Preferred Stock	0	1,158,654	320,993	0	1,479,647
	Series C Convertible Preferred Stock	0	2,535,525	853,382	0	3,388,907
	Series D Convertible Preferred Stock	0	2,179,624	707,993	0	2,887,617
	Series E-1 Convertible Preferred Stock	0	1,556,847	220,140	0	1,776,987
	Series E-2 Convertible Preferred Stock	0	0	389,566	0	389,566
	Warrants for Series B-1 Preferred Stock	0	484,535	0	(484,535)	0

<u>Name of Issuer</u>	<u>Title of Issue or Nature of Indebtedness<sup>(A)</sup></u>	<u>Amount of Dividends or Interest Credited to Income<sup>(B)</sup></u>	<u>Value as of December 31, 2014</u>	<u>Gross Additions<sup>(C)</sup></u>	<u>Gross Reductions<sup>(D)</sup></u>	<u>Value as of December 31, 2015</u>
<b>ORIG3N, Inc.</b>	Series I Convertible Preferred Stock	\$ 0	\$ 0	\$ 826,563	\$ 0	\$ 826,563
	Series A Convertible Preferred Stock	0	0	750,338	0	750,338
<b>Petra Pharma Corporation</b>	Series A Convertible Preferred Stock	\$ 0	\$ 0	\$ 1,025,050	\$ (5,295)	\$ 1,019,755
<b>Produced Water Absorbents, Inc.</b>	Series A Convertible Preferred Stock	\$ 0	\$ 300,215	\$ 0	\$ (222,666)	\$ 77,549
	Series B Convertible Preferred Stock	0	2,188,272	0	(1,973,970)	214,302
	Series B-2 Convertible Preferred Stock	0	1,579,844	0	(1,425,126)	154,718
	Series B-3 Convertible Preferred Stock	0	1,430,677	0	(1,290,568)	140,109
	Series C Convertible Preferred Stock	0	755,130	0	(679,549)	75,581
	Series D Convertible Preferred Stock	0	0	984,203	(850,873)	133,330
	Warrants for Series B-2 Convertible Preferred Stock	0	44,014	0	(43,840)	174
	Subordinated Secured Non-Convertible Debt	133,048	979,450	0	(418,912)	560,538
	Secured Convertible Bridge Note	46,247	0	1,044,384	(900,458)	143,926
<b>Ultora, Inc.</b>	Series A Convertible Preferred Stock	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
	Series B Convertible Preferred Stock	0	0	0	0))	0
	Unsecured Bridge Notes <sup>(E)</sup>	0	0	7,525	(7,525)	0
<b>Total Affiliated Private Investments</b>		<u>\$ 180,220</u>	<u>\$ 41,970,952</u>	<u>\$ 11,291,433</u>	<u>\$ (11,353,123)</u>	<u>\$ 41,909,262</u>

Name of Issuer	Title of Issue or Nature of Indebtedness <sup>(A)</sup>	Amount of Dividends or Interest Credited to Income <sup>(B)</sup>	Value as of December 31, 2014	Gross Additions <sup>(C)</sup>	Gross Reductions <sup>(D)</sup>	Value as of December 31, 2015
<b>PUBLICLY TRADED AFFILIATED INVESTMENTS:</b>						
Adesto Technologies Corporation	Common Stock	\$ 0	\$ 14,823,323	\$ 1,000,000	\$ (2,177,641)	\$ 13,645,682
Enumeral Biomedical Holdings, Inc.	Common Stock	\$ 0	\$ 7,251,178	\$ 0	\$ (5,419,710)	\$ 1,831,468
	Warrants for Common Stock	0	1,082,773	0	(995,287)	87,486
	Options to Purchase Common Stock	0	50,690	0	(50,636)	54
OpGen, Inc.	Common Stock	\$ 0	\$ 1,463,677	\$ 1,335,232	\$ (120,297)	\$ 2,678,612
	Warrants for Common Stock	0	0	127,803	0	127,803
<b>Total Non-Controlled Affiliated Public Investments</b>		<b>\$ 0</b>	<b>\$ 24,671,641</b>	<b>\$ 2,463,035</b>	<b>\$ (8,763,571)</b>	<b>\$ 18,371,105</b>
<b>Total Non-Controlled Affiliated Investments</b>		<b>\$ 180,220</b>	<b>\$ 66,642,593</b>	<b>\$ 13,754,468</b>	<b>\$ (20,116,694)</b>	<b>\$ 60,280,367</b>
<b>EQUITY METHOD INVESTMENT:</b>						
Accelerator IV-New York Corporation	Series A Common Stock	\$ 0	\$ 51,627	\$ 262,215	\$ (147,906)	\$ 165,936
<b>Total Equity Method Investment</b>		<b>\$ 0</b>	<b>\$ 51,627</b>	<b>\$ 262,215</b>	<b>\$ (147,906)</b>	<b>\$ 165,936</b>

(A) Common stock, warrants, options, membership units and, in some cases, preferred stock are generally non-income producing and restricted. The principal amount of debt and the number of shares of common and preferred stock and number of membership units are shown in the accompanying *Consolidated Schedules of Investments* as of December 31, 2015, and December 31, 2014.

(B) Represents the total amount of interest or dividends and yield-enhancing fees on debt securities credited to income for the portion of the year an investment was a control or affiliate investment, as appropriate. Amounts credited to preferred or common stock represent accrued bridge note interest related to conversions that occurred during 2015.

(C) Gross additions include increases in investments resulting from new portfolio investments, paid-in-kind interest or dividends, the amortization of discounts and fees. Gross additions also include net increases in unrealized appreciation or decreases in unrealized depreciation.

(D) Gross reductions include decreases in investments resulting from principal collections related to investment repayments or sales, the amortization of premiums and acquisition costs. Gross reductions also include net increases in unrealized depreciation or decreases in unrealized appreciation.

\*\*Information related to the amount of equity in the net profit and loss for the year for the investments listed has not been included in this schedule. This information is not considered to be meaningful owing to the complex capital structures of the portfolio companies, with different classes of equity securities outstanding with different preferences in liquidation. These investments are not consolidated, nor are they accounted for under the equity method of accounting, with the exception of Accelerator IV-New York Corporation, which is accounted for under the equity method.

**RESTATED**  
**CERTIFICATE OF INCORPORATION**  
**OF**  
**HARRIS & HARRIS GROUP, INC.**

**Under Section 807 of the Business Corporation Law**

HARRIS & HARRIS GROUP, INC. (hereinafter called the "Corporation"), a corporation organized and existing under and by virtue of the Business Corporation Law of the State of New York, does hereby certify as follows:

FIRST: The name of the corporation is Harris & Harris Group, Inc.

SECOND: The certificate of incorporation of the Corporation was filed with the Department of State on August 19, 1981 under the original name Sovereign Thoroughbreeders, Inc.

THIRD: The certificate of incorporation of the Corporation is hereby amended to change the post-office address to which the Secretary of State shall mail a copy of any process against the corporation served upon him.

FOURTH: To accomplish the foregoing amendment, Article 7 of the certificate of incorporation of the Corporation, relating to the post-office address is hereby amended to read as set forth in the same numbered article of the certificate of incorporation of the Corporation as hereinafter restated.

FIFTH: The restatement of the certificate of incorporation of the Corporation herein provided for was authorized by the Board of Directors of the Corporation pursuant to Section 803(b)(2) of the Business Corporation Law.

SIXTH: The text of the certificate of incorporation of the Corporation is hereby restated as further amended or changed herein to read as follows:

1. The name of the Corporation is Harris & Harris Group, Inc.
2. The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the Business Corporation Law. The Corporation is not formed to engage in any act or activity requiring the consent or approval of any state official, department, board, agency or other body without such consent or approval first being obtained.
3. The office of the Corporation is to be located in the County of New York and State of New York.

4. The aggregate number of shares which the Corporation shall have authority to issue is 32,000,000 shares, consisting of 30,000,000 shares of Common Stock, par value one cent (\$.01) per share, and 2,000,000 shares of Preferred Stock, par value ten cents (\$.10) per share.(3) The designations, relative rights, preferences and limitations of the shares of each class shall be as follows: Subject to the provisions hereof the Board of Directors is hereby expressly authorized to divide shares of Preferred Stock into one or more series, to issue the shares of Preferred Stock in such series, and to fix the number of shares to be included in each series, and the designation, relative rights, preferences and limitations of all shares of each series. The authority of the Board of Directors with respect to each series shall include, without limitation, the determination of any or all of the following matters:

(a) the number of shares constituting such series and the designation thereof to distinguish the shares of such series from the shares of all other series;

(b) the annual dividend rate on the shares of such series and whether such dividends shall be cumulative and, if cumulative, the date from which dividends shall accumulate;

(c) the redemption price or prices for shares of such series, if redeemable, and the terms and conditions of such redemption;

(d) the preference, if any, of shares of such series in the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation;

(e) the voting rights (including but not limited to, the number of votes per share), if any, of shares of such series in addition to voting rights prescribed by law, and the terms, if any, of such voting rights;

(f) the rights, if any, of shares of such series to be converted into shares of any other class or series, including Common Stock, and the terms and conditions of such conversion;

(g) the terms or amount of any sinking fund provided for the purchase or redemption of such series; and

(h) any other relative rights, preferences and limitations of such series.

The shares of each series of Preferred Stock may vary from the shares of any other series of Preferred Stock as to any of such matters.

5. Each share of Common Stock shall be equal in all respects to every other share of Common Stock.

6. No shareholder of the Corporation shall have preemptive or preferential rights to any shares of any class of stock of the Corporation or obligations convertible into stock of the Corporation whether now or hereafter authorized.



7. The Secretary of State is designated as the agent of the Corporation upon whom process against it may be served. The post office address to which the Secretary of State shall mail a copy of any process against the Corporation served upon him is:

111 West 57<sup>th</sup> Street  
Suite 1100  
New York, New York 10019  
Attention: General Counsel

8. Each person who at any time is or was a director or officer of the Corporation shall be indemnified by the Corporation to the fullest extent permitted by the New York Business Corporation Law as it may be amended or interpreted from time to time, including the advancing of expenses, subject to any limitations imposed by the Investment Company Act of 1940 and the Rules and Regulations promulgated thereunder. Furthermore, to the fullest extent permitted by New York law, as it may be amended or interpreted from time to time, subject to the limitations imposed by the Investment Company Act of 1940 and the Rules and Regulations promulgated thereunder, no director or officer of the Corporation shall be personally liable to the Corporation or its stockholders for any act or failure to act in any capacity for which such person would be entitled to indemnification hereunder. No amendment of the Certificate of Incorporation of the Corporation or repeal of any of its provisions shall limit or eliminate any of the benefits provided to any person who at any time is or was a director or officer of the Corporation under this Article in respect of any act or omission that occurred prior to such amendment or repeal.

IN WITNESS WHEREOF, the Corporation has caused this Restated Certificate of Incorporation to be signed by its duly authorized officers and the foregoing facts stated herein are true and correct as of this 23<sup>rd</sup> day of September, 2005.

/s/ Douglas W. Jamison  
Douglas W. Jamison, President

/s/ Susan T. Harris  
Susan T. Harris, Corporate Secretary

*State of New York*        }  
*Department of State*    }    SS:

*I hereby certify that the annexed copy has been compared with the original document in the custody of the Secretary of State and that the same is a true copy of said original.*

*Witness my hand and seal of the Department of State on*

**September 27, 2005**



A handwritten signature in black ink, appearing to be "R. H. ...", is written over the seal area.

*Special Deputy Secretary of State*

DOS-1266 (9/05)

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RESTATED  
CERTIFICATE OF INCORPORATION  
OF  
HARRIS & HARRIS GROUP, INC.

Under Section 807 of the Business Corporation Law

STATE OF NEW YORK  
DEPARTMENT OF STATE  
FILED SEP 27 2005  
TAX\$ 0

BY: PAP  
New York

Skadden, Arps, Slate, Meagher & Flom LLP  
One Rodney Square  
Wilmington, DE 19899-0636

DRAWDOWN

N.Y.S. DEPARTMENT OF STATE  
DIVISION OF CORPORATIONS AND STATE RECORDS

ALBANY, NY 12231 - 0001

FILING RECEIPT

ENTITY NAME: HARRIS & HARRIS GROUP, INC.

DOCUMENT TYPE: CHANGE (DOM. BUSINESS)  
PROCESS

COUNTY: NEWY

FILED:08/11/2010 DURATION:\*\*\*\*\* CASH#:100811000971 FILM #:100811000903

FILER:

HARRIS & HARRIS GROUP, INC.  
1450 BROADWAY, 24TH FLOOR

NEW YORK, NY 10018

ADDRESS FOR PROCESS:

THE CORPORATION  
ATTENTION: GENERAL COUNSEL  
NEW YORK, NY 10018

1450 BROADWAY, 24TH FLOOR

REGISTERED AGENT:



SERVICE COMPANY: \*\* NO SERVICE COMPANY \*\*

SERVICE CODE: 00

FEES	30.00	PAYMENTS	30.00
FILING	30.00	CASH	0.00
TAX	0.00	CHECK	30.00
CERT	0.00	CHARGE	0.00
COPIES	0.00	DRAWDOWN	0.00
HANDLING	0.00	OPAL	0.00
		REFUND	0.00

New York State Department of State  
Division of Corporations, State Records and Uniform Commercial Code  
One Commerce Plaza, 99 Washington Avenue  
Albany, NY 12231  
www.dos.state.ny.us

CERTIFICATE OF CHANGE  
OF  
Harris & Harris Group, Inc.  
*(Insert Name of Domestic Corporation)*

Under Section 805-A of the Business Corporation Law

FIRST: The name of the corporation is:

Harris & Harris Group, Inc

If the name of the corporation has been changed, the name under which it was formed is:

Sovereign Thoroughbreeders, Inc.

SECOND: The certificate of incorporation was filed by the Department of State on:

August 19, 1981

THIRD: The change(s) effected hereby are: *(Check appropriate statement(s))*

The county location, within this state, in which the office of the corporation is located, is changed to:

The address to which the Secretary of State shall forward copies of process accepted on behalf of the corporation is changed to read in its entirety as follows:

Harris & Harris Group, Inc.  
1450 Broadway, 24th Floor  
New York, N.Y. 10018  
Attention: General Counsel

The corporation hereby: *(Check one)*

Designates

as its registered agent upon whom process against the corporation may be served.  
The street address of the registered agent is:

Changes the designation of its registered agent to:

The street address of the registered agent is:

Changes the address of its registered agent to:

Revokes the authority of its registered agent.

FOURTH: The change was authorized by the board of directors.

/s/ Sandra M. Forman  
*(Signature)*

Sandra M. Forman  
*(Name of Signer)*

Corporate Secretary  
*(Title of Signer)*

CERTIFICATE OF CHANGE

OF

Harris & Harris Group, Inc.

*(Insert Name of Domestic Corporation)*

Under Section 805-A of the Business Corporation Law

Filer's Name Harris & Harris Group, Inc.

Address 1450 Broadway, 24th Floor

City, State and Zip Code New York, N.Y. 10018

NOTE: This form was prepared by the New York State Department of State. You are not required to use this form. You may draft your own form or use forms available at legal stationery stores. The Department of State recommends that all documents be prepared under the guidance of an attorney. The certificate must be submitted with a \$30 filing fee.

*For Office Use Only*

DOS-1556-f-1 (Rev. 05/10)



**GLOBAL CUSTODY AGREEMENT  
For Foreign and Domestic Securities**

This Custodian Agreement (“Agreement”) is made as of March 11, 2011 by and between Harris & Harris Group, Inc. (“Principal”) and Union Bank, N.A. (“Custodian”).

**WHEREAS**, the Custodian is a bank meeting the qualifications required by Section 17(f)(1) of the Act to act as custodian of the portfolio securities and other assets of investment companies; and

**WHEREAS**, Principal wishes to retain the Custodian to act as custodian of its portfolio securities and other assets in compliance with Section 17(f) of the Act (as defined below), and the Custodian has indicated its willingness to so act;

**NOW, THEREFORE**, in consideration of the promises and mutual covenants herein contained, and intending to be legally bound hereby, the parties hereto agree as follows:

**1. DEFINITIONS.** Certain terms used in this Agreement are defined as follows:

*1.1 “Account”* means, collectively, each account maintained by Custodian on behalf of Principal pursuant to Paragraph 4 of this Agreement.

*1.2 “Act”* means the Investment Company Act of 1940, as amended, and the rules and regulations adopted by the U.S. Securities and Exchange Commission (“SEC”) thereunder, including §270.17f-4, §270.17f-5 and §270.17f-7, all as may be amended from time to time.

*1.3 “Board”* means the Board of Trustees or the Board of Directors of Principal.

*1.4 “Depository”* means both any “securities depository” within the meaning of §270.17f-4 of the Act and any Eligible Securities Depository

*1.5 “Eligible Foreign Custodian”* means an entity that is incorporated or organized under the laws of a country other than the United States and that is a Qualified Foreign Bank, as defined in §270.17f-5(a)(5) of the Act.

*1.6 “Eligible Securities Depository”*, (“Depository”, or collectively “Depositories”) means a system for the central handling of securities as defined in §270.17f-7(b)(1) of the Act.

*1.7 “Emerging Market”* means each market so identified in Appendix A attached hereto.

*1.8 “Foreign Account”* means an Account in which Foreign Currencies or Securities are held by the Custodian for the benefit of clients whether in comingled accounts or accounts designated for each beneficiary owner as is required under the regulatory jurisdiction where the Foreign Account is established.

*1.9 “Foreign Assets”* has the meaning provided in §270.17f-5(a)(2) of the Act.

*1.10 “Foreign Currency”* (“Currencies”) means any currency or any composite currency unit issued by a government or entity other than the United States Department of Treasury.

*1.11 “Foreign Market”* means each market so identified in Appendix A attached hereto.

*1.12 “Global Sub-Agent Network”* (“Sub-Agent Network” or “Sub-Agents”) means the countries and markets where Eligible Foreign Sub-Custodians and Eligible Foreign Depositories are maintained by Custodian.



1.13 “*Governing Documents*” means, with respect to each of the portfolios, (i) the declaration of trust or other constituting document of the Principal of which the portfolio is a series or portfolio, (ii) the currently effective prospectus under the Securities Act, (iii) the most recent statement of additional information, and (iv) a certified copy of the Board approving the engagement of the Custodian to act as custodian of the Securities.

1.14 “*Monitoring System*” means the policies and procedures established by Custodian to fulfill its duties to monitor the custody risks associated with maintaining Securities with a Sub-Custodian or Depository on a continuing basis, pursuant to this Agreement.

1.15 “*Securities*” means securities as defined in §2(a)(36) of the Act together with cash or any currency or other property of Principal and all income and proceeds of sale of such securities or other property of Principal that are held by Custodian in the Account.

1.16 “*Securities Act*” means the Securities Act of 1933, as amended.

1.17 “*Sub-Custodian*” means an entity, including an Eligible Foreign Custodian, that Custodian retains to hold Securities.

## **2. APPOINTMENT**

2.1 Principal hereby appoints the Custodian as the custodian of the Securities of each of its Portfolios.

2.2 Principal has provided the Custodian with a copy of its Governing Documents, and will provide the Custodian with a copy of amendments, supplements and modifications thereof from time to time.

2.3 The Custodian hereby accepts appointment as custodian of the Securities of Principal and agrees to perform the duties of such custodian in accordance with the provisions of this Agreement.

## **3. REPRESENTATIONS AND ACKNOWLEDGEMENTS**

3.1 *Power to Enter Agreement.* Principal represents that, with respect to the Account, Principal is authorized to enter into this Agreement and to retain Custodian on the terms and conditions and for the purposes described herein.

3.2 *Foreign Custody Manager.* The custodian agrees to serve as Principal’s “Foreign Custody Manager” as defined in Rule §270.17f-5(a) (3) of the Act, in respect of Principal’s Foreign Assets held from time to time by the Custodian with any Sub-Custodian that is an Eligible Foreign Custodian or with any Eligible Securities Depository.

3.3 *Custodian’s Sub-Agent Network.* Principal hereby acknowledges receiving appropriate notice of Custodian’s selection of the use of those Eligible Foreign Custodians and Eligible Securities Depositories that are identified in Appendix A of this Agreement.

## **4. ESTABLISHMENT OF ACCOUNT.**

4.1 Custodian shall open and maintain a separate Account or Accounts in the name of Principal and shall hold in such Account or Accounts, subject to the provisions hereof, all Securities and non-cash property received by it from or for the Account of the Principal. Custodian, in its sole discretion, may reasonably refuse to accept any property now or hereafter delivered to it for inclusion in the Account. Principal shall be notified promptly of such refusal and any such property shall be immediately returned to Principal. Custodian shall be under no duty to take any action hereunder on behalf of the Principal except as specifically set forth herein or as may be specifically agreed to by Custodian and the Principal in a written amendment hereto.

4.2 Subject at all times to the instruction of Principal pursuant to the terms of this Agreement, the Custodian shall have no power or authority to assign, hypothecate, pledge or otherwise dispose of any such Securities and investments except pursuant to the direction of Principal under terms of the Agreement.

## **5. CUSTODY AND REGISTRATION.**

Custodian may (i) maintain possession of all or any portion of the Securities, including possession in a foreign branch or other office of Custodian; or (ii) retain, in accordance with this Paragraph 5 and Paragraph 6 of this Agreement, one or more Sub-Custodians to hold all or any portion of the Securities. Custodian and any Sub-Custodian may, in accordance with this Paragraph 5 and Paragraph 6 of this Agreement, deposit definitive or book-entry Securities with one or more Depositories.

*5.1 Identification of Securities.* Custodian shall ensure the Securities are at all times properly identified as being held for the appropriate Account. Custodian shall segregate physically the Securities and non-cash property from other securities owned by Custodian. Custodian shall not be required to segregate physically Securities held from other securities or property held by Custodian for third parties as custodian or other representative capacity, but Custodian shall maintain adequate records showing the true ownership of the Securities.

*5.2 Use of Depositories and Sub-Custodians.* Custodian may, in its discretion, deposit any Securities which, under applicable law, are eligible to be so deposited in a Depository or Sub-Custodian account. Securities and Foreign Currencies held by a Sub-Custodian or Depository will be held subject to the rules, terms and conditions of such securities markets or securities depositories. If Custodian deposits Securities with a Sub-Custodian or Depository, Custodian shall maintain adequate records showing the identity and location of the Sub-Custodian or Depository, the Securities held by the Sub-Custodian or Depository and each account to which such Securities belong. With respect to Securities that are held for Custodian or any Sub-Custodian at a Depository, as defined in of §270.17f-4 of the Act, Custodian shall satisfy or cause the Sub-Custodian to satisfy the requirements of §270.17f-4 of the Act.

*5.3 Use of Nominees.* Custodian shall have the right to hold or cause to be held all Securities in the name of the Custodian, or for any Sub-Custodian or Depository, or in the name of a nominee of any of them as Custodian shall determine to be appropriate under the circumstances.

*5.4 Foreign Currency Deposits.* The Custodian may in accordance with customary practices hold any currency in which any cash is denominated on deposit, and effect transaction relating thereto, through an account with an affiliate of Union Bank, or Sub-Custodian or Depository in the country where such currency is the lawful currency or in other countries where such currency may be lawfully held on deposit.

*5.5 Transferability and Convertibility of Currency.* Custodian shall have no liability for any loss or damage arising from the applicability of any law or regulation now or hereafter in effect, or from the occurrence of any event, which may affect the transferability, convertibility, or availability of any currency in the countries where such Foreign Accounts are maintained and in no event shall Custodian be obligated to substitute another currency for a currency whose transferability, convertibility, or availability has been affected by such law, regulation or event. To the extent that any such law, regulation or event imposes a cost or charge upon Custodian in relation to the transferability, convertibility, or availability of any such currency, such cost or charge shall be for the Account.

*5.6 Delivery of Securities.* If Principal directs Custodian to deliver assets, certificates or other physical evidence of ownership of Securities to any broker or other party, other than a Sub-Custodian or Depository employed by Custodian for purposes of maintaining the Account, Custodian's sole responsibility shall be to exercise care and diligence in effecting the delivery as instructed by Principal. Upon completion of the delivery, Custodian shall be discharged completely of any further liability or responsibility with respect to the safekeeping and custody of Securities so delivered.

*5.7 Transferability of Securities.* Except as otherwise provided under this Agreement or as the parties may otherwise agree, Custodian shall ensure that (i) the Securities will not be subject to any right, charge, security interest, lien, or claim of any kind in favor of Custodian or any Sub-Custodian or any person claiming through any of them except for as discussed in Section 9.2, and in the case of cash deposits at an Eligible Foreign Custodian, liens or rights in favor of the creditors of the Eligible Foreign Custodian arising under bankruptcy, insolvency, or similar laws, and (ii) the beneficial ownership of the Securities will be freely transferable without the payment of money or value other than for safe custody or administration.

*5.8 Access to Account Records.* Principal or its designee, shall have access, upon reasonable prior notice to Custodian, during regular business hours to the books and records relating to the Accounts, or shall be given confirmation of the contents of the books and records, maintained by Custodian or any Sub-Custodian holding Securities hereunder to verify the accuracy of such books and records. Custodian shall notify Principal promptly of any applicable law or regulation in any country where Securities are held that would restrict such access or confirmation.

## **6. SELECTION AND MONITORING OF GLOBAL SUB-AGENT NETWORK.**

Upon written notice to Principal, as provided in Subparagraph 6.4 of this Agreement, Custodian may from time to time select one or more Eligible Foreign Custodians and, subject to the provisions of Subparagraph 6.7, one or more Eligible Securities Depositories, to hold Securities hereunder.

*6.1 Governing Sub-Agent Agreement.* Any relationship Custodian establishes with an Eligible Foreign Custodian with respect to Securities shall be governed by a written contract providing for the reasonable care of Securities based on the standards specified in section §270.17(f)-5(c)(1) of the Act, and including the provisions set forth in sections §270.17(f)-5(c)(2)(i)(A) through (F) of the Act, or provisions which Custodian determines provide the same or greater protection of Principal's Securities.

### *6.2 Sub-Agent Network Selection.*

*6.2.1 Foreign Sub-Custodian.* In selecting an Eligible Foreign Custodian, Custodian shall exercise reasonable care, prudence and diligence and shall consider whether the Securities will be subject to reasonable care, based on the standards applicable to custodians in the relevant market, including (i) the Eligible Foreign Custodian's practices, procedures, and internal controls, including, but not limited to, the physical protections available for certificated securities (if applicable), the method of keeping custodial records, and the security and data protection practices; (ii) the Eligible Foreign Custodian's financial strength, general reputation and standing in the country in which it is located, its ability to provide efficiently the custodial services required, and the relative cost of such services; and, (iii) whether the Eligible Foreign Custodian has branch offices in the United States, or consents to service of process in the United States, in order to facilitate jurisdiction over and enforcement of judgments against it.

*6.2.2 Securities Depository.* In selecting an Eligible Securities Depository, Custodian shall exercise reasonable care, prudence, and diligence in evaluating the custody risks associated with maintaining Securities with the Eligible Securities Depository under Custodian's custody arrangements with any relevant Eligible Foreign Custodian and the Eligible Securities Depository.

*6.3 Notices to Principal.* Custodian shall give 30 days' written notice to Principal of its intention to deposit Securities with an Eligible Foreign Custodian or, directly or through an Eligible Foreign Sub-Custodian, with an Eligible Securities Depository. The notice shall identify the proposed Eligible Foreign Custodian or Eligible Securities Depository and shall include reasonably available information relied on by Custodian in making the selection.

*6.4 Monitoring of Sub-Agent Network.* Custodian shall monitor under its Monitoring System the appropriateness of the continued custody or maintenance of Principal's Securities with each Eligible Foreign Custodian or Eligible Securities Depository.

*6.4.1* Custodian shall evaluate and determine at least annually the continued eligibility of each Eligible Foreign Custodian and Eligible Securities Depository approved by Principal to act as such hereunder. In discharging this responsibility, Custodian shall (i) monitor on a continuing basis the day to day services and reports provided by each Eligible Foreign Custodian or Eligible Securities Depository; (ii) at least annually, obtain and review the annual financial report published by each Eligible Foreign Custodian, and to the extent such reports are publicly available, each Eligible Securities Depository, and other reports on each Eligible Foreign Custodian or Eligible Securities Depository which Custodian may obtain from a reputable independent analyst; and, (iii) periodically as deemed appropriate, physically inspect the operations of each Eligible Foreign Custodian or Eligible Securities Depository.

6.4.2 Custodian shall provide to the Board annually and at such other times as the Board may reasonably request based on the circumstances of the Principal's foreign custody arrangements, written reports notifying the Board of the placement of Securities of the Principal with a particular foreign Eligible Foreign Custodian within a Foreign Market or an Emerging Market and of any material change in the arrangements (including any material changes in any contracts governing such arrangements or any material changes in the established practices or procedures of Depositories) with respect to Securities of the Principal held by the Eligible Foreign Custodian.

6.4.3 If Custodian determines that (i) any Eligible Foreign Custodian or Eligible Securities Depository no longer satisfies the applicable requirements described in Subparagraph 1.5 of this Agreement (in the case of an Eligible Foreign Custodian) or Subparagraph 1.6 of this Agreement (in the case of an Eligible Securities Depository); or, (ii) any Eligible Foreign Custodian or Eligible Securities Depository is otherwise no longer capable or qualified to perform the functions contemplated herein; or (iii) any change in a contract with a Eligible Foreign Custodian or any change in established Eligible Securities Depository or market practices or procedures shall cause a custody arrangement to no longer meet the requirements of the Act, Custodian shall promptly give written notice thereof to Principal. The notice shall, in addition, either indicate Custodian's intention to transfer Securities held by the removed Eligible Foreign Custodian or Eligible Securities Depository to another Eligible Foreign Custodian or Eligible Securities Depository previously identified to Principal, or include a notice pursuant to Subparagraph 6.4 of this Agreement of Custodian's intention to deposit Securities with a new Eligible Foreign Custodian or Eligible Securities Depository, in either instance such transfer of Securities to be effected as soon as reasonably practical.

6.5 *Compulsory Depositories.* Notwithstanding the foregoing sub-sections of this Paragraph 6, Custodian shall have no responsibility for the selection or monitoring of any Eligible Securities Depository or Eligible Securities Depository's agent ("Compulsory Depository") (i) the use of which is mandated by law or regulation; (ii) because securities cannot be withdrawn from the depository; or (iii) because maintaining securities outside the securities depository is not consistent with prevailing market practices in the relevant market; provided however, that Custodian shall notify Principal if Principal has directed a trade in a market containing a Compulsory Depository, so Principal and Advisor shall have an opportunity to determine the appropriateness of investing in such market.

6.6 *Assessment of Custody Risk.* Principal and Custodian agree that, for purposes of this Paragraph 6, Custodian's determination of appropriateness shall only include custody risk, and shall not include any evaluation of "country risk" or systemic risk associated with the investment or holding of assets in a particular country or market, including, but not limited to (i) the use of Compulsory Depositories, (ii) the country's or market's financial infrastructure, (iii) the country's or market's prevailing custody and settlement practices, (iv) risk of nationalization, expropriation or other governmental actions, (v) regulation of the banking or securities industries, (vi) currency controls, restrictions, devaluation or fluctuation, and (vii) country or market conditions which may affect the orderly execution of securities transactions or affect the value of the transactions. Principal and Custodian further agree that the evaluation of any such country and systemic risks shall be solely the responsibility of Principal.

## **7. TRANSACTIONS**

*7.1 Instructions and Immediately Available Funds.* Principal is responsible for ensuring that Custodian receives timely instructions and sufficient immediately available funds for all transactions by such time and date as conditions in the relevant market dictate. As used herein, "sufficient immediately available funds" shall mean either (a) sufficient cash denominated in the currency of Principal's home jurisdiction to purchase the necessary foreign currency, or (b) sufficient applicable foreign currency, to settle the transaction. If Custodian does not receive such timely instructions and/or immediately available funds, Custodian shall have no liability of any kind to any person, including Principal, for failing to effect settlement. However, Custodian shall use reasonable efforts to effect settlement as soon as possible after receipt of appropriate instructions.

*7.2.1 Customary or Established Settlement Practices.* Principal acknowledges settlement of and payment for Securities received for and delivered from the Account may be made in accordance with the customary or established securities trading and securities processing practices in the market in which the transaction occurs. Principal understands that when Custodian is instructed to deliver Foreign Securities or Foreign Currencies against payment, delivery of such Foreign Securities and Foreign Currencies and receipt of payment therefore may not be completed simultaneously. Principal assumes full responsibility for all credit risks involved in connection with Custodian's delivery of Foreign Securities or Foreign Currencies pursuant to instructions of Principal.

*7.2.2 Additions to and Withdrawals from Account.* Custodian shall make all additions and withdrawals of Securities to and from this Account only upon receipt of and pursuant to written instructions from Principal.

*7.3 Purchases or Sales.* Principal from time to time may instruct Custodian regarding the purchase or sale of Securities in accordance with this paragraph 7.3.

*7.3.1 Purchases.* Custodian shall settle purchases by charging the Account with the amount necessary to make the purchase and effecting payment to the seller or broker for the Securities. Custodian shall have no liability of any kind to any person, including Principal, if Custodian effects payment on behalf of the Account, and the settler or broker specified by Principal fails to deliver the Securities purchased. Custodian shall exercise such ordinary care and diligence as would be employed by a reasonably prudent custodian in examining and verifying the certificates or other indicia of ownership of the Securities purchased before accepting them, except with respect to assets described in Paragraph 7.4.

*7.3.2 Sales.* Custodian shall settle sales by delivering certificates or other indicia of ownership of the Securities, and as instructed, shall receive cash for such sales. Custodian shall have no liability of any kind to any person, including Principal, if Custodian exercises due diligence and delivers such certificates or indicia of ownership and the purchaser or broker fails to effect payment.

*7.4 Depository Settlement.* If a purchase or sale is settled through a Sub-Custodian or Depository, Custodian shall exercise such ordinary care and diligence as would be employed by a reasonably prudent custodian in verifying proper consummation of the transaction by the Sub-Custodian or Depository.

*7.5 Income and Principal.* Custodian or its designated Sub-Agents are authorized, as Principal's agent, to surrender against payment maturing obligations and obligations called for redemption, and to collect and receive payments of interest and principal, dividends, warrants, and other things of value in connection with Securities. Absent written instructions from Principal, funds will remain in the currency of collection upon receipt of payment.

*7.6 Foreign Currency Transactions.* At the direction of Principal, Custodian shall convert currency in the Account to other currencies through customary channels including, without limitation, Custodian or any of its affiliates, as shall be necessary to effect any transaction directed by Principal.

*7.7 Taxes.* Custodian shall pay or cause to be paid from the Account upon receipt of instructions from Principal all taxes and levies in the nature of taxes imposed on the Account or the Foreign Securities thereof by any country. Custodian will use reasonable efforts to give the Principal advance notice of the imposition of such taxes. The Custodian shall have no responsibility or liability for any obligations now or hereafter imposed on the Principal or the Custodian as custodian of the Principal by the tax law of the United States or of any state or political subdivision thereof or any foreign jurisdiction. The sole responsibilities of the Custodian with regard to such tax law shall be to use reasonable efforts to effect the withholding of local taxes and related charges with regard to market entitlement/payment in accordance with local law and subject to local market practice or custom and to assist the Principal with respect to any claim for exemption or refund under the tax law of countries for which such Principal has provided such information. Except as specifically provided in this Agreement or otherwise agreed to in writing by the Custodian, the Custodian shall have no independent obligation to determine the tax obligations now or hereafter imposed on the Principal by any taxing authority or to obtain or provide information relating thereto, and shall have no obligation or liability with respect to such tax obligations.

*7.8 Foreign Tax Reclamation.* Custodian shall use reasonable efforts to obtain refunds of taxes withheld on Foreign Securities or the income thereof that are available under applicable tax laws, treaties and regulations subject to Principal's provision of all documentation and certifications as required by U.S. and foreign tax authorities to establish the eligibility of Principal for tax reclamation under applicable law or treaty. Principal hereby agrees to indemnify and hold harmless Custodian and its agents in respect to any liability arising from any under withholding or underpayment of any Tax which results from the inaccuracy or invalidity of any such forms or other documentation, and such obligation to indemnify shall be a continuing obligation of Principal, its successor and assignees, notwithstanding the termination of this agreement. The Custodian is authorized to disclose any information required by any such tax or other governmental authority in relation to processing any claim for exemption from or reduction or refund of any taxes relating to the Principal's transactions and holdings.

*7.9 Collection Obligations.* Custodian shall diligently collect income and principal of Securities which the Custodian has received actual notice in accordance with normal industry practices. However, Custodian shall be under no obligation or duty to take any action to effect collection of any amount if the Securities upon which such amount is payable are in default, or if payment is refused after due demand. Custodian shall notify Principal promptly of such default or refusal to pay. Custodian shall have no duty to file or pursue any bankruptcy or class action claims with respect to Account, unless indemnified by Principal in manner and amount satisfactory to Custodian.

*7.10 Capital Changes.* Custodian may, without further instruction from Principal, exchange temporary certificates and may surrender and exchange Securities for other securities in connection with any reorganization, recapitalization or similar transaction in which the owner of the Securities is not given an option. Custodian has no responsibility to effect any such exchange unless it has received notice of the event permitting or requiring such exchange at its processing center in San Francisco or at the office of Custodian's designated agents.

*7.11 Fractional Interest.* Custodian shall receive and retain all stock distributed by a corporation as a dividend, stock split, or otherwise; however, in connection therewith, if a fractional share is received, Custodian shall sell such fractional shares when such market facility is available.

## **8. CREDITS TO ACCOUNT**

*8.1 Payment.* Custodian may as a matter of bookkeeping convenience or by separate agreement with the Principal, credit the account with the proceeds from the sale, redemption or other disposition of Securities or interest or dividends or other distributions payable on Securities prior to its actual receipt of final payment; therefore, all such credits shall be conditional until the Custodian's actual receipt of final payment and may be reversed by Custodian to the extent that final payment is not received. Payment with respect to a transaction will not be final until Custodian receives immediately available funds under which applicable local law, rule and/or practice, are irreversible and not subject to any security interest, levy or other encumbrance, and which are specifically applicable to such transaction. Principal acknowledges and agrees that any currency risk associated with such credits will be born by Principal.

*8.2. Emerging Market Settlement Dates.* Notwithstanding the foregoing Paragraph 8.1, Principal understands and agrees that settlement of Securities transactions is available only on settlement date basis in certain Emerging Markets, which are identified in Appendix A, as amended from time to time by written notice to Principal.

*8.2.1 Cash Deposits.* For Emerging Markets with restricted settlement conditions, cash of any currency deposited or delivered to the Account shall be available for use by Principal only on the business day on which actual receipt of final payment and funds of good value are available to Sub-Custodian in the Account.

*8.2.2 Securities.* For Emerging Markets with restricted settlement conditions, Securities deposited or delivered to the Account shall be available for use by Principal only on the business day on which such Securities are held in the nominee name or are otherwise subject to the control of, and in a form for good delivery by, the Sub-Custodian.

## **9. OVERDRAFT AND INDEBTEDNESS**

*9.1 Advance Funds.* If Custodian advances funds to or for the benefit of Account in connection with the settlement of securities or currency transactions or other activity in the Account including overdrafts or other indebtedness incurred in connection with the settlement of securities transactions, maturity or income payments or funds transfers, Principal agrees to reimburse Custodian on demand the amount of the advance or overdraft and all related fees as established in Custodian's published fee schedule. Principal will bear the risk from any currency valuation differences associated with Principal's reimbursement obligations to Custodian.

*9.2 Repayment.* If Principal requires the Custodian, its affiliates, subsidiaries or agents, to advance cash or securities for any purpose (including but not limited to securities settlements, foreign exchange contracts and assumed settlement), or in the event that the Custodian or its nominee shall incur or be assessed any taxes, charges, expenses, assessments, claims or liabilities in connection with the performance of this Agreement, except such as may arise from its or its nominee's own negligent action, negligent failure to act or willful misconduct, or if Principal fails to compensate the Custodian pursuant to Paragraph 17 hereof, any cash at any time held for the account of Principal shall be security therefor and should Principal fail to repay the Custodian promptly, the Custodian shall be entitled to utilize available cash to the extent necessary to obtain reimbursement.

## **10. CORPORATE ACTIONS, PROXIES AND LITERATURE**

*10.1 Corporate Actions.* Custodian shall notify Principal of the receipt of notices of redemptions, conversions, exchanges, calls, puts, subscription rights, and scrip certificates ("Corporate Action(s)"). Custodian need not monitor financial publications for notices of Corporate Actions and shall not be obligated to take any action unless actual notice has been received by Custodian at its processing center in San Francisco, California, or at the offices of the Sub-Agent where the security is held in Custodian's Foreign Account. Custodian's sole responsibility in this regard shall be to give such notices to Principal within a reasonable time after Custodian receives them. Custodian has no responsibility to respond or otherwise act with respect to any such notice unless and until Custodian has received timely and appropriate instructions from Principal. Principal is responsible for ensuring required documentation and funds are available to Custodian and its agents as required under the terms of the offer or by legal jurisdiction in order for Custodian and its agent to take action on behalf of Account.

*10.2 Proxies.* Neither Custodian nor any nominee of Custodian shall vote any of the securities held hereunder by or for the account of Principal, except in accordance with the instructions contained in an officers' certificate. Custodian shall promptly deliver, or cause to be executed and delivered, to Principal all notices, proxies and proxy soliciting materials with relation to such securities, such proxies to be executed by the beneficial owner of such securities (if registered otherwise than in the name of Principal), but without indicating the manner in which such proxies are to be voted.

Custodian shall transmit promptly to Principal all written information (including, without limitation, pendency of calls and maturities of securities and expirations of rights in connection therewith) received by Custodian from issuers of the securities being held for Principal. With respect to tender or exchange offers, Custodian shall transmit promptly to Principal all written information received by the Custodian from issuers of the securities whose tender or exchange is sought and from the party (or his agents) making the tender or exchange offer.

Principal acknowledges that proxy services are limited in foreign markets and Custodian's sole responsibility with respect to such proxy materials will be to forward the proxy and accompanying material received by Custodian to Principal. Custodian shall have no duty to translate or retain any material received unless required to do so by law.

*10.3 Corporate Literature.* Custodian shall have no duty to forward or to retain any other corporate material received by Custodian for the Account unless required to do so by law. Custodian shall have no duty to translate or retain any material received from its Global Sub-Agent Network unless required to do so by law.

*10.4 Disclosure to Issuers of Securities.* Unless Principal directs Custodian in writing to the contrary, Principal agrees that Custodian or its Sub-Agents may disclose the name and address of the party with the authority to vote the proxies of the Securities held in this Account as well as the number of shares held, to any issuer of said Securities or its agents upon the written request of such issuer or agent in conformity with the provisions of the applicable law. Principal acknowledges that Custodian or its Sub-Agents may be required under jurisdictional law to disclose to issuers beneficial owner information regardless of Principal's instructions otherwise.

## **11. INSTRUCTIONS**

*11.1 Written.* All instructions from Principal with respect to the Accounts must be from an authorized person and shall be in writing, and shall continue in force until changed by subsequent instructions. For purposes of this Paragraph 11, an authorized person means any of the persons duly authorized by the Board to give instructions on behalf of the Principal as set forth in a certificate along with any limitations on such Persons' scope of authority, such certificate to be executed by the Secretary or Assistant Secretary of the Principal, as the same may be revised from time to time. Pending receipt of written authority, Custodian may in its absolute discretion at any time accept oral, faxed, wired and electronically transmitted instructions from Principal provided Custodian believes in good faith that the instructions are genuine. If oral instructions are received, Principal shall promptly confirm such instructions in writing or by facsimile or other means permitted hereunder. Principal will hold Custodian harmless for the failure of Principal to send confirmation in writing, the failure of such confirmation to conform to the telephone instructions received or Custodian's failure to produce such confirmation at any subsequent time.

*11.2 Reliance on Instructions.* Except as otherwise provided herein, all instructions shall be in writing, and shall continue in force until changed by subsequent instructions.

## **12. RIGHT TO RECEIVE ADVICE**

*12.1 Advice of the Principal.* If Custodian is in doubt as to any action it should or should not take under this Agreement, Custodian may request directions or advice, including oral instructions or written instructions, from the Principal.

*12.2 Advice of Counsel.* If Custodian shall be in doubt as to any question of law pertaining to any action it should or should not take, Custodian may request advice from counsel of its own choosing (who may be counsel for the Principal or Custodian, at the option of Custodian). Principal shall pay the reasonable cost of any counsel retained by Custodian with prior notice to Principal.

*12.3 Conflicting Advice.* In the event of a conflict between directions or advice or oral instructions or written instructions Custodian receives from the Principal, and the advice it receives from counsel, Custodian shall be entitled to rely upon and follow the advice of counsel.

*12.4 Protection of Custodian.* Custodian shall be indemnified by Principal and without liability for any action Custodian takes or does not take in reliance upon directions or advice or oral instructions or written instructions Custodian receives from or on behalf of the Principal, or from counsel and which Custodian believes, in good faith, to be consistent with those directions or advice or oral instructions or written instructions. Nothing in this paragraph shall be construed so as to impose an obligation upon Custodian (i) to seek such directions or advice or oral instructions or written instructions, or (ii) to act in accordance with such directions or advice or oral instructions or written instructions.



## **13. ACCOUNTING AND REPORTING**

*13.1 Cost and Nominal Value.* Principal agrees to furnish Custodian with the income tax cost basis and dates of acquisition of all Securities held in the Account to be carried on its records. If Principal does not furnish such information, Custodian shall carry the Securities at any such nominal value it determines, such value to be for bookkeeping purposes only. All statements and reporting of any matters requiring this information will use this nominal value. Custodian shall have no duty to verify the accuracy of the cost basis and dates of acquisition furnished by Principal. Securities purchased in the Account shall be carried at cost.

*13.2 Valuations.* To the extent that Custodian has agreed to provide pricing or other information services, Custodian is authorized to utilize any vendor (including brokers and dealers of Securities and pricing services embedded in Custodian's securities processing or accounting systems) reasonably believed by Custodian to be reliable to provide such information. Principal understands that certain pricing information with respect to complex financial instruments including, without limitation, derivatives, may be based on calculated amounts rather than actual market transactions and may not reflect actual market values, and that the variance between such calculated amounts and actual market values may or may not be material. Where pricing vendors used by Custodian do not provide information for Securities, Principal or authorized party may advise Custodian regarding the fair market value of, or provide other information with respect to, such held Securities. If Principal does not provide such information, Custodian shall use the cost or nominal value for such Securities, solely for administrative convenience. Custodian shall not be liable for any loss, damage or expense incurred as a result of errors or omissions with respect to any pricing or other information utilized by Custodian hereunder and shall have no responsibility or duty to ascertain or authenticate the value of pricing applied to any such Security.

*13.3 Activity Reports.* Custodian shall make available daily to Principal a statement summarizing all transactions and entries for the account of Principal.

*13.4 Statements.* Custodian shall provide Principal Account statements and other reports periodically by means of the Custodian's Online Trust and Custody Service or as otherwise as agreed to by Principal and Custodian showing all income and principal transactions and cash positions, and a list of securities. Principal may approve or disapprove any such statement within thirty (30) days of its receipt, and, if no written objections are received within the thirty (30) day period, such statement of Account shall be deemed approved.

## **14. USE OF OTHER BANK SERVICES**

### *14.1 HighMark Mutual Funds*

Principal may direct Custodian to invest available funds in the HighMark<sup>SM</sup> Funds mutual funds advised by an affiliate of Custodian and for which Custodian may also act as custodian and provide other services for the purpose of cash management. Principal shall designate the particular HighMark Fund that Principal deems appropriate for the Account. Principal hereby acknowledges that Custodian will receive fees for such services in addition to those fees charged by Custodian as agent for the Principal's custody Account.

*14.2 Other Fund Investments.* Principal may invest in third party mutual funds, for which the Custodian or its affiliates may provide shareholder, recordkeeping or other services. Principal hereby acknowledges that Custodian or its affiliates may receive fees for such services in addition to those fees charged by Custodian under this Agreement.

*14.3 Foreign Exchange.* The Custodian makes available to Principal its foreign exchange services to convert currencies in conjunctions with transactions in Principal's Account. Principal acknowledges that (a) the foreign currency exchange department is a part of Custodian or one of its affiliates or subsidiaries; (b) the Account is not obligated to effect foreign currency exchange with Custodian; (c) Custodian will receive benefits for such foreign currency transactions which are in addition to the compensation which Custodian receives for administering the Account; and (d) Custodian will make available the relevant data so that Principal can determine that the foreign currency exchange transaction are as favorable to the Account as terms generally available in arm's length transaction between unrelated parties. Principal acknowledges that foreign currency transactions will be performed in accordance with Union Bank's Foreign Exchange Agreement in the form of Exhibit I hereto and incorporated herein by reference and Principal hereby agrees and acknowledges the terms and conditions thereof. If Principal elects to give standing instructions to Custodian to execute foreign currency exchange transactions on their behalf, or in the event a foreign currency exchange transaction is initiated in the absence of the specific Foreign Exchange Agreement, such transaction will be performed at the Bank's prevailing rate. Principal acknowledges that a Foreign Exchange transaction in which Custodian's foreign exchange services is the counterparty to Principal are subject to Paragraph 9 of this Agreement.

*14.4 Interest Bearing Deposits.* Principal may direct that assets of the Account be invested in deposits with Union Bank as a sweep vehicle or other deposit held in the Custodian's street name for the benefit of it's clients. Such deposits are covered by FDIC insurance up to the designated value in effect for each beneficial owner.

*14.5 Brokerage Services.* Principal may direct Custodian to utilize for this Account other services or facilities provided by Custodian, its subsidiaries or affiliates. Such services may include, but are not be limited to (i) the purchase or sale of securities as principal, or (ii) the placing of orders for the purchase, sale, exchange, investment or reinvestment of securities through any affiliated brokerage service, or (iii) the placing of orders for the purchase or sale of units of any investment company that Custodian, UnionBanCal Corporation, or their subsidiaries or affiliates, manage, advise act as custodian or provide other services.

*14.6 Credit Facilities.* The Custodian may in accordance with its commercial lending practices enter into a credit facility with the Principal for use with the operation of the Account. Such credit facility will be agreed to under separate agreement and subject to the terms and conditions, therein. Principal acknowledges that any such credit facility is subject to the lien provisions of Paragraph 9.2 of this Agreement.

## **15. CUSTODIAN'S RESPONSIBILITIES AND LIABILITIES:**

*15.1 Standard of Care.* In performing the responsibilities delegated to it under this Agreement, the Custodian agrees to exercise reasonable care, prudence and diligence and shall not be liable for any damages arising out of the Custodian's performance of or failure to perform its duties under this Agreement except to the extent that damages arise directly out of the Custodian's willful misfeasance, bad faith, gross negligence or otherwise from a material breach of the Custodian's standard of care under this Agreement.

*15.2 Investment Authority.* The parties intend that Custodian shall not be considered a fiduciary of the Account.

*15.3 Insurance and Force Majeure.* Without limiting the generality of Paragraph 14.1 or of any other provision of this Agreement the Custodian shall not be liable so long as and to the extent that it exercises reasonable care, for any defect in the title, validity or genuineness of any Security or in the evidence of title thereto received by it or delivered by it pursuant to this Agreement. In addition, Custodian (i) shall not be required to maintain any special insurance for the benefit of Principal, and (ii) shall not be liable or responsible for any loss, damage, expense, failure to perform or delay caused by accidents, strikes, fire, flood, war, riot, electrical or mechanical or communication line or facility failures, acts of third parties (including without limitation any messenger, telephone or delivery service), acts of God, war, government action, civil commotion, fire, earthquake, or other casualty or disaster or any other cause or causes which are beyond Custodian's reasonable control. However, Custodian shall use reasonable efforts to replace Securities lost or damaged due to such causes with securities of the same class and issue with all rights and privileges pertaining thereto. Custodian shall not be liable to Principal for any loss which shall occur as the result of the failure of a Sub-Custodian to exercise reasonable care with respect to the safekeeping of assets.

## **15.4 Legal Proceedings**

*15.4.1* Custodian shall not be required to appear in or defend any legal proceedings with respect to the Account or the Securities unless Custodian has been indemnified to its reasonable satisfaction against loss and expense (including reasonable attorneys' fees).

*15.4.2* With respect to legal proceedings Custodian may consult with counsel acceptable to it after written notification to Principal concerning its duties and responsibilities under this Agreement, and shall not be liable for any action taken or not taken in good faith on the advice of such counsel.

*15.4.3* To the extent permissible by law or regulation and upon Principal's request, the Principal shall be subrogated to the rights of the Custodian with respect to any claim for any loss, damage or claim suffered by Principal, in each case to the extent that the Custodian fails to pursue any such claim or Principal is not made whole in respect of such loss, damage or claim.

*15.4.4* Custodian shall create and maintain all records relating to its activities and obligations under this Agreement in such manner as will meet Principal's obligations under the Act, including Section 31 thereof and Rules 31a-1 and 31a-2 thereunder. To the extent that Custodian is able to do so, Custodian shall provide assistance to Principal providing sub-certifications regarding certain of its services performed hereunder to Principal in connection with Principal's Sarbanes-Oxley Act of 2002 certification requirements.

## **16. INDEMNITIES AND LIMITATION OF LIABILITY.**

*16.1* In addition to the indemnification provisions contained in this Agreement, Principal agrees to indemnify, defend and hold harmless Custodian and its affiliates providing services under this Agreement, including their respective officers, directors, agents and employees from all taxes, charges, expenses, assessments, claims and liabilities including, without limitation, reasonable attorneys' fees and disbursements and liabilities ("Claims") arising directly or indirectly from any action or omission to act which Custodian takes in connection with the provision of services to Principal. Neither Custodian, nor any of its affiliates, including their respective officers, directors, agents and employees shall be indemnified against any liability (or any expenses incident to such liability) caused by Custodian's or its affiliates' own willful misfeasance, bad faith, gross negligence or reckless disregard in the performance of Custodian's or its affiliates' activities under this Agreement. The provisions of this Paragraph 16 shall survive termination of this Agreement.

*16.2* In all cases, Custodian's liability under this Agreement shall be limited to the resulting direct loss, if any, incurred by Principal. Under no circumstances shall Custodian be liable for any incidental, consequential, indirect, punitive, or special damage which Principal may incur or suffer in connection with this Agreement.

## **17. COMPENSATION AND OTHER CHARGES**

*17.11 Compensation.* Principal shall pay Custodian compensation for its services hereunder as specified in Appendix B. Fees shall accrue and be taken in arrears as specified on the active fee schedule and charged to the Account unless Principal has requested that it be billed directly. However, any fees not paid within 60 days of billing will be charged to the Account.

*17.2 Expenses.* Principal shall reimburse Custodian for all reasonable out-of-pocket expenses and processing costs incurred by Custodian in the administration of the Account including, without limitation, reasonable counsel fees incurred by Custodian pursuant to Subparagraph 14.4 of this Agreement.

**18. AMENDMENT AND TERMINATION.**

*18.1 Amendment.* This Agreement may be amended at any time by a written instrument signed by the parties or by Custodian immediately if required by applicable law or upon thirty (30) days written notice to Principal.

*18.2 Termination.*

In addition, either party may terminate this Agreement and the Account upon 60 days' written notice. Upon such termination, Custodian shall deliver or cause to be delivered the Securities, less any amounts due and owing to Custodian under this Agreement, to a successor custodian designated by Principal. Upon completion of such delivery Custodian shall be discharged of any further liability or responsibility with respect to the Securities so delivered. In the event that Securities or other properties remain in the possession of the Custodian after the date of termination hereof owing to failure of Principal to provide proper instructions, the Custodian shall be entitled to fair compensation for its services during such period as the Custodian retains possession of such securities, funds and other properties and the provisions of this Agreement relating to the duties and obligations of the Custodian shall remain in full force and effect. In the event that no proper instructions designating a successor custodian or alternative arrangements shall have been delivered to the Custodian on or before the date when such termination shall become effective, then the Custodian shall have the right to deliver to a bank or trust company, which is a "bank" as defined in the Act of its own selection, having an aggregate capital, surplus, and undivided profits, as shown by its last published report, of not less than \$25,000,000, all Securities held by the Custodian on behalf of Principal and all instruments held by the Custodian relative thereto held by it under this Agreement on behalf of Principal, and to transfer to an account of such successor custodian all of the Securities held in an Account. Thereafter, such bank or trust company shall be the successor of the Custodian under this Agreement. All expenses associated with the transfer of custody hereunder upon termination hereof shall be borne by the Principal (except as may be specifically agreed in writing by the parties in relation to special arrangements).

**19. SUCCESSORS.**

This Agreement shall be binding upon and inure to the benefit of the parties hereto and their successors in interest. This Agreement may not be assigned by either party, nor may the duties of either party hereunder be delegated, without the prior written consent of the other party.

**20. GOVERNING LAW.** The validity, construction, and administration of this Agreement shall be governed by the applicable laws of the United States from time to time in force and effect and, to the extent not preempted by such laws of the United States, by the laws of the State of California from time to time in force and effect. Any action or proceeding to enforce, interpret or adjudicate the rights and responsibilities of the parties hereunder shall be commenced in the State or Federal courts located in the State of California.

**21. ADDRESSES.** Until further notice from either party, al communications called for under this Agreement shall be in writing and addressed as follows:

**If to Principal:**

Name: Harris & Harris Group, Inc.  
Street Address: 1450 Broadway, 24<sup>th</sup> Floor  
City, State, Zip: New York, NY 10018  
Attn: \_\_\_\_\_  
Telephone: \_\_\_\_\_  
Facsimile: \_\_\_\_\_

**If to Custodian:**

Union Bank, N.A.  
Institutional Custody Services  
Attn: Ms. Margaret Bond, Vice President  
350 California Street, 6<sup>th</sup> Floor  
San Francisco, California 94104  
Telephone: (415) 705-7205  
Facsimile: (877) 823-3601

**22. EFFECTIVE DATE.**

This Agreement shall be effective as of the date appearing below, and shall supersede any prior or existing agreements between the parties pertaining to the subject matter hereof.

**23. COUNTERPARTS.**

This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. This Agreement and all exhibits, appendices, attachments and amendments hereto may be reproduced by any reasonable means. The parties hereto each agree that any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding, whether or not the original is in existence and whether or not such reproduction was made by a party in the regular course of business, and that any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence.

**23. MISCELLANEOUS.**

Each party agrees to perform such further acts and execute such further documents as are necessary to effectuate the purposes hereof. This Agreement embodies the entire agreement and understanding between the parties and supersedes all prior agreements and understandings relating to the subject matter hereof. The captions in this Agreement are included for convenience of reference only and in no way define or delimit any of the provisions hereof or otherwise affect their construction or effect.

**Date:** \_\_\_\_\_

**By: Harris & Harris Group, Inc.**

/s/ Daniel B. Wolfe  
Authorized Signature

Daniel B. Wolfe, President  
Name & Title

3/11/11  
Date

\_\_\_\_\_  
Authorized Signature

\_\_\_\_\_  
Name & Title

\_\_\_\_\_  
Date

**By: Union Bank, National Association, "Custodian"**

/s/ Margaret Bond

Authorized Signature

Margaret Bond, Vice President

Name & Title

3/11/2011

Date

\_\_\_\_\_  
Authorized Signature

\_\_\_\_\_  
Name & Title

\_\_\_\_\_  
Date

**Appendix A**

<b>COUNTRY/MARKET</b>	<b>SUB-CUSTODIAN</b>	<b>DEPOSITORY</b>	<b>COMPULSORY DEPOSITORY</b>	<b>FOREIGN/ EMERGING MARKET</b>	<b>SETTLEMENT STANDARD</b>
Australia	National Australia Bank	Government Debt: The Reserve Bank Information and Transfer System Corporate and Government Bond: Austraclear Equities: Clearing House Electronic Sub- register System	Yes	Foreign	Contractual
Austria	Bank Austria	Oesterreichischer Kontrollbank AG	Yes	Foreign	Contractual
Belgium	BNP Paribas Belgium	Government Instruments: Banque Nationale de Belgique Equities and Corporate Debt: Euroclear Belgium	Yes	Foreign	Actual
Canada	RBC Dexia Investor Services	The Canadian Depository for Securities Limited	Yes	Foreign	Contractual
Denmark	Danske Bank	VP Securities Services	Yes	Foreign	Contractual
Euroclear	Euroclear Bank	Not Applicable	NA	Foreign	Contractual
Finland	SEBanken Finland	Euroclear Finland	Yes	Foreign	Actual
France	CACEIS Bank	Euroclear France	Yes	Foreign	Contractual
Germany	Deutsche Bank	Clearstream Banking Frankfurt	Yes	Foreign	Contractual
Hong Kong	Standard Chartered Bank	Government Instruments: Hong Kong Monetary Authority Equities and Corporate Debt: Central Clearing and Settlement System	Yes	Foreign	Contractual
Ireland	Bank of Ireland	Euroclear UK	Yes	Foreign	Contractual
Italy	Deutsche Bank	Monte Titoli	Yes	Foreign	Contractual
Japan	The Bank of Tokyo Mitsubishi UFJ, Limited	Government Instruments: Bank of Japan Equities and Corporate Bonds: Japan Securities Depository Center	Yes	Foreign	Contractual
Netherlands	Fortis Bank	Euroclear Netherlands	Yes	Foreign	Contractual
New Zealand	National Nominees	New Zealand Central Securities Depository	Yes	Foreign	Contractual
Norway	Nordea Bank Norge	Verdipapirsentralen	Yes	Foreign	Contractual
Portugal	Millennium BCP	Central de Valores Mobiliarios	Yes	Foreign	Contractual
Singapore	DBS Bank	Central Depository (PTE) Limited	Yes	Foreign	Contractual
South Africa	Standard Bank of South Africa	Shares Transactions Totally Electronic (STRATE)	Yes	Foreign	Contractual
Spain	BNP Paribas	IBERCLEAR	Yes	Foreign	Contractual
Sweden	SEBanken	Vardepapperscentralen	Yes	Foreign	Contractual
Switzerland	UBS AG	SIX SIS AG	Yes	Foreign	Contractual
United Kingdom	HSBC Bank	Euroclear UK	Yes	Foreign	Contractual
United States	Union Bank N.A.	Equities and Fixed Income: The Depository	Yes	N/A	Contractual

<b>COUNTRY/MARKET</b>	<b>SUB-CUSTODIAN</b>	<b>DEPOSITORY</b>	<b>COMPULSORY DEPOSITORY</b>	<b>FOREIGN/ EMERGING MARKET</b>	<b>SETTLEMENT STANDARD</b>
		Trust Company (DTC)			
		Equities: Citibank N.A. Government			
Argentina	HSBC Bank Argentina	Bonds: Federal Reserve Bank Caja de Valores	Yes	Emerging	Actual
Bangladesh	Standard Chartered Bank	Central Depository Bangladesh Limited	Yes	Emerging	Actual
Bermuda	Bank of Bermuda*	Bermuda Securities Depository Limited	Yes	Emerging	Actual
Botswana	Standard Chartered Bank	Equities: Central Securities Depository of Botswana Government	No	Emerging	Actual
Brazil	Citibank	Bonds: Bank of Botswana	Yes	Emerging	Actual
		Equities: Companhia Brasileira de Liquidacao e Custodia Government			
		Bonds: Sistema Especial de Liquidacao e Custodia Other Fixed			
		Income: Central de Custodia e de Liquidacao de Titulos			
Bulgaria	Unicredit Bulbank	Central Securities Depository AD	Yes	Emerging	Actual
Chile	Citibank	Deposito Central de Valores	Yes	Emerging	Actual
China	Standard Chartered Bank	The China Securities Depository and Clearing Corporation Limited (CSDCC)	Yes	Emerging	Actual
Colombia	Citibank	Government Bonds: Deposito Central de Valores	Yes	Emerging	Actual
		Equities and Other Fixed Income: Deposito Centralizado de Valores			
Cyprus	BNP Paribas	Equities: Clearing, Settlement and Registration General Directoate (in Greece)	Yes	Emerging	Actual
Czech Republic	Ceskoslovenska Obchodni Banka	Government Bonds: Registracni Centrum Ceske Narodni Banky	Yes	Emerging	Actual
		Equities and Other Fixed Income: Stredisko Cennyh Papiru			
Egypt	Citibank	Misr for Central Clearing, Depository and Registry	Yes	Emerging	Actual
Estonia	SEBanken	Central Depository Limited	Yes	Emerging	Actual
Ghana	Stanbic Bank Ghana	Equities: Ghana Securities Depository Company Government	Yes	Emerging	Actual
		Debt: Bank of Ghana			
Greece	BNP Paribas	Equities: Clearing, Settlement and Registration General Directoate	Yes	Emerging	Actual
		Government Instruments: Bank of Greece			
Hungary	Unicredit Bank Hungary	Central Clearing House and Depository Limited	Yes	Emerging	Actual
Iceland	Deutsche Bank	Icelandic Securities Depository Limited	Yes	Emerging	Actual



<b>COUNTRY/MARKET</b>	<b>SUB-CUSTODIAN</b>	<b>DEPOSITORY</b>	<b>COMPULSORY DEPOSITORY</b>	<b>FOREIGN/ EMERGING MARKET</b>	<b>SETTLEMENT STANDARD</b>
India	Standard Chartered Bank	Government Bonds: Reserve Bank of India Equities and Corporate Bonds: National Securities Depository Ltd. Equities and Corporate Bonds: Central Depository Services Limited	Yes	Emerging	Actual
Indonesia	Standard Chartered Bank	PT. Kustodian Sentral Efek Indonesia	Yes	Emerging	Actual
Israel	Bank Leumi	Tel Aviv Stock Exchange Clearing House	Yes	Emerging	Actual
Kenya	Standard Chartered Bank	Central Depository Settlement Corporation	Yes	Emerging	Actual
Korea (Republic of)	Standard Chartered First Korea Bank	Korean Securities Depository	Yes	Emerging	Actual
Jordan	HSBC Bank Jordan	Securities Depository Centre	Yes	Emerging	Actual
Latvia	AS SEB Banka	Latvian Central Depository	Yes	Emerging	Actual
Lithuania	AB SEB Bankas	Central Securities Depository of Lithuania	Yes	Emerging	Actual
Malawi	Standard Bank Malawi	None	NA	Emerging	Actual
Malaysia	Standard Chartered Bank	Government Bonds: Bank Negara Malaysia Equities and Other Fixed Income: Bursa Malaysian Depository	Yes	Emerging	Actual
Mauritius	Standard Chartered Bank	Central Depository and Settlement Company	Yes	Emerging	Actual
Mexico	Banco Nacional de Mexico S.A. (a subsidiary of Citicorp)	Instituto Para el Deposito de Valores (S.D. INDEVAL)	Yes	Emerging	Actual
Morocco	Banque Marocaine de Commerce et d L'Industrie	Maroclear	Yes	Emerging	Actual
Namibia	Standard Bank Namibia	None	NA	Emerging	Actual
Nigeria	Stanbic IBTC Bank	Central Securities Clearing Systems	Yes	Emerging	Actual
Pakistan	Standard Chartered Bank	Equities and Other Fixed Income: Central Depository Company of Pakistan Ltd.	Yes	Emerging	Actual
Peru	Citibank	CAVALI	Yes	Emerging	Actual
Philippines	Standard Chartered Bank	Equities: Philippine Depository and Trust Company Government Bonds: Bureau of Treasury	Yes	Emerging	Actual
Poland	Citibank Handlowy w Warszawie (a subsidiary of Citibank)	Government Bonds: National Bank of Poland Equities and Other Fixed Income: National Depository of Securities	Yes	Emerging	Actual
Romania	Unicredit Bank Romania	Equities: Central Depository	Yes	Emerging	Actual
Russia	Citibank	Government Bonds: Bank for Foreign Trade of the Russian Federation Equities, GKO's and OFZ's: National Depository Center and the Depository Clearing Company	No	Emerging	Actual

<b>COUNTRY/MARKET</b>	<b>SUB-CUSTODIAN</b>	<b>DEPOSITORY</b>	<b>COMPULSORY DEPOSITORY</b>	<b>FOREIGN/ EMERGING MARKET</b>	<b>SETTLEMENT STANDARD</b>
Serbia	Unicredit Bank Serbia JSC	Central Registry, Depository and Clearing House	Yes	Emerging	Actual
Slovakia	Ceskoslovenska Obchodni Banka	Central Securities Depository	Yes	Emerging	Actual
Slovenia	Unicredit Banka Slovenija	Central Securities Clearing Corporation	Yes	Emerging	Actual
Sri Lanka	Standard Chartered Bank	Central Depository System	Yes	Emerging	Actual
Taiwan	Standard Chartered Bank	Taiwan Securities Depository and Clearing Corporation	Yes	Emerging	Actual
Tanzania	Standard Chartered Bank	Central Securities Depository	Yes	Emerging	Actual
Thailand	Standard Chartered Bank	Thailand Securities Depository Company Ltd.	Yes	Emerging	Actual
Tunisia	Banque Internationale Arabe de Tunisie	Societe Tunisienne Interprofessionnelle de Compenestion et de depot des Valeurs Mobilieres (STICODEVAM)	Yes	Emerging	Actual
Turkey	Citibank	Government Bonds: Central Bank of Turkey Equities and Other Fixed Income: Central Registry Agency	Yes	Emerging	Actual
Uganda	Standard Chartered Bank	Government Debt: Bank of Uganda Equities: Securities Central Depository (under conversion)	Yes No	Emerging	Actual
Ukraine	Unicredit Bank	Equities and Corporate Bonds: Inter-Regional Securities Union Government Securities: National Bank of Ukraine	Yes	Emerging	Actual
Venezuela	Citibank	Equities, Corporate and Government Debt: Caja de Valores de Venezuela	No	Emerging	Actual
Vietnam	Standard Chartered Bank	Vietnam Securities Depository	Yes	Emerging	Actual
Zambia	Standard Chartered Bank	LuSE Central Securities Depository	Yes	Emerging	Actual
Zimbabwe	Barclays Bank	None	NA	Emerging	Actual

\* Bermuda is available for settlement and safekeeping; however, additional documentation may be required.



SCHEDULE OF FEES  
**Harris & Harris Group**  
Effective December 2010

**INSTITUTIONAL CUSTODY SERVICES**

*New account set-up  
Free receipt of assets transferring into Union Bank  
Asset safekeeping  
Trade settlements  
Income collections  
Capital changes and proxy processing  
Daily cash sweep to HighMark Diversified Money Market Fund  
Account statement – Holdings and Transactions  
Dedicated relationship manager assigned to your account  
Account access to Online Trust & Custody*

**ANNUAL ADMINISTRATION FEE**

<i>Assets to \$500 Million</i>	<i>One basis point per annum* (1 BP on AUA)</i>
<i>Assets in excess of \$500 Million</i>	<i>Three Quarters of One basis point* (3/4ths of 1 BP on AUA)</i>
<i>Physical Securities</i>	<i>Five basis points per annum (5 BP on AUA)</i>

**ITEMIZED FEES**

<i>Transaction Fee</i>	
<i>Depository Eligible</i>	<i>\$5</i>
<i>Depository Ineligible</i>	<i>\$20</i>
<i>Disbursements – Wires/Checks</i>	<i>\$10</i>
<i>Additional Statements</i>	<i>\$10</i>
<i>Out-of-Pocket Expenses</i>	<i>As Incurred</i>

**MINIMUM ANNUAL FEE**

<i>Per Account</i>	<i>\$5000</i>
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**DISCLOSURES**

*Market value used for fee calculations on fee invoices may differ slightly from market values on client statements due to posting of accruals, late pricing of securities, and/or other timing issues.*

*A transaction is defined as any activity affecting assets including purchases, sales, tender offers, stock dividends, free deliveries, maturities, exchanges, redemptions, etc. Fees for foreign securities, foreign exchange transactions, international wires, and non-standard services are quoted separately. Union Bank retains the right to charge special fees for extraordinary services not covered in this fee schedule.*

*You may be assessed an overdraft charge for any negative balance in your account, provided such advance or overdraft is not related to Bank errors or omissions. Current overdraft charges are at the Bank's Prime Rate + 4% per annum for the amount and number of days any negative balance exists in your account. This rate may be subject to change upon notification. Please see your account Agreement for additional information.*

*Fees are charged quarterly against the Client's account unless otherwise agreed. This fee schedule is subject to change upon thirty (30) days written notice.*

*\*includes cash sweep*

**ACKNOWLEDGMENT**

<hr/>	
Client Name	
<hr/>	<hr/>
/s/ Daniel B. Wolfe	3/11/2011
Authorized Client Representative	Date
<hr/>	<hr/>
/s/ Margaret Bond	3/11/2011
<hr/>	<hr/>

Union Bank Representative

Date

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CUSTODY AGREEMENT

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dated as of February 24, 2011  
by and between

Harris & Harris Group, Inc.  
("Company")

and

TD Bank, N.A.  
("Custodian")

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THIS CUSTODY AGREEMENT (this "Agreement") is dated as of February 24, 2011 and is by and between Harris & Harris Group, Inc. (and any successor or permitted assign), a corporation organized under the laws of New York, having its principal place of business at 1450 Broadway, 24<sup>th</sup> Floor, New York, N.Y. 10018, and TD Bank, N.A. (or any successor or permitted assign acting as custodian hereunder, the "Custodian"), a national banking association having a place of business at 324 South Service Road, Melville, New York 11747.

#### RECITALS

WHEREAS, Harris & Harris Group, Inc. is a closed-end management investment company, which has elected to do business as a business development company under the Investment Company Act of 1940, as amended (the "1940 Act"), and is authorized to issue shares of common stock;

WHEREAS, the Company (as defined below) desires to retain the Custodian to act as custodian for the Company in compliance with Section 17(f) of the 1940 Act;

WHEREAS, the Company desires that the Company's cash assets be held by the Custodian pursuant to this Agreement; and

WHEREAS, for the avoidance of doubt, it is understood by the Custodian and the Company that this Agreement does not apply to the custody of any other assets of the Company other than cash, and thus, cash equivalents and similar investments, including but not limited to, repurchase agreements and similar short-term securities, cannot be held in custody pursuant to this Agreement,

NOW THEREFORE, in consideration of the mutual covenants and agreements contained herein, the parties hereto agree as follows:

#### 1. DEFINITIONS

1.1 Defined Terms. In addition to terms expressly defined elsewhere herein, the following words shall have the following meanings as used in this Agreement:

"Account" means the account(s) to be established at the Custodian to which the Custodian shall deposit and hold any cash received by it from time to time, which shall be subject to the terms of this Agreement.

"Agreement" means this Custody Agreement (as the same may be amended from time to time in accordance with the terms hereof).

"Authorized Person" has the meaning set forth in Section 7.4.

"Bank Account Agreement" means, collectively the Business Deposit Account Agreement attached hereto as Exhibit A and the Cash Management Master Agreement attached hereto as Exhibit B, each of which is incorporated herein by reference.

“Business Day” means a day on which the Custodian is open for business in the market or country in which a transaction is to take place.

“Company” means Harris & Harris Group, Inc., its successors or permitted assigns.

“Confidential Information” means any databases, computer programs, screen formats, screen designs, report formats, interactive design techniques, and other similar or related information that may be furnished to the Company by the Custodian from time to time pursuant to this Agreement.

“Custodian” has the meaning set forth in the first paragraph of this Agreement.

“Person” means any individual, corporation, partnership, limited liability company, joint venture, association, joint stock company, trust (including any beneficiary thereof) unincorporated organization, or any government or agency or political subdivision thereof.

“Proper Instructions” means instructions received by the Custodian in form acceptable to it, from the Company, or any Person duly authorized by the Company in any of the following forms acceptable to the Custodian:

- (a) in writing signed by the Authorized Person (and delivered by hand, by mail, by overnight courier or by telecopier);
- (b) by electronic mail from an Authorized Person;
- (c) such other means as may be agreed upon in writing from time to time by the Custodian and the party giving such instructions.

“Revolving Loan” means the revolving loan from the Custodian to the Company in the aggregate principal amount of \$10,000,000.

“Revolving Loan Agreement” means the Revolving Loan Agreement, dated as of February 24, 2011, between the Company and the Custodian, as such Revolving Loan Agreement may be amended, modified or supplemented from time to time in accordance with its terms.

“Shares” means the shares of common stock issued by the Company.

“Subsidiary Account” shall have the meaning set forth in Section 3.13(b).

“Subsidiary” means, collectively, any wholly owned subsidiary of the Company, except for those wholly-owned subsidiaries whose assets are held in custody by a custodian other than the Custodian.

1.2 Construction. In this Agreement unless the contrary intention appears:



- (a) any reference to this Agreement or another agreement or instrument refers to such agreement or instrument as the same may be amended, modified or otherwise rewritten from time to time;
- (b) a reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;
- (c) any term defined in the singular form may be used in, and shall include, the plural with the same meaning, and vice versa;
- (d) a reference to a Person includes a reference to the Person's executors, Custodian, successors and permitted assigns;
- (e) an agreement, representation or warranty in favor of two or more Persons is for the benefit of them jointly and severally;
- (f) an agreement, representation or warranty on the part of two or more Persons binds them jointly and severally;
- (g) a reference to the term "including" means "including, without limitation," and
- (h) a reference to any accounting term is to be interpreted in accordance with generally accepted principles and practices in the United States, consistently applied, unless otherwise instructed by the Company.

1.3 Headings. Headings are inserted for convenience and do not affect the interpretation of this Agreement.

## 2. **APPOINTMENT OF CUSTODIAN**

2.1 Appointment and Acceptance. The Company hereby appoints the Custodian as custodian of all cash owned by the Company and the Subsidiaries (as applicable) and delivered to the Custodian by or for the Company or the Subsidiaries (as applicable) at any time during the period of this Agreement, on the terms and conditions set forth in this Agreement (which shall include any addendum hereto which is hereby incorporated herein and made a part of this Agreement), and the Custodian hereby accepts such appointment and agrees to perform the services and duties set forth in this Agreement with respect to it subject to and in accordance with the provisions hereof.

2.2 Instructions. The Company agrees that it shall from time to time provide, or cause to be provided, to the Custodian all necessary instructions and information, and shall respond promptly to all inquiries and requests of the Custodian, as may reasonably be necessary to enable the Custodian to perform its duties hereunder.

2.3 Company Responsible For Directions. The Company is solely responsible for directing the Custodian with respect to deposits to, withdrawals from and transfers to or from the Account. The Company shall be solely responsible for properly instructing all applicable payors to make all appropriate payments to the Custodian for deposit to the Account, and for properly instructing the Custodian with respect to the allocation or application of all such deposits.

2.4 Appointment of Sub-Custodian. With prior written notice to the Company, the Custodian may from time to time employ one or more sub-custodians located in the United States, but only in accordance with the approval of the board of directors of the Company. The Custodian shall not appoint a sub-custodian unless the agreement between the Custodian and such sub-custodian requires the sub-custodian to: (i) at a minimum, exercise due care in accordance with reasonable commercial standards in discharging its duty as a sub-custodian to obtain and thereafter maintain such financial assets; (ii) provide, promptly upon request by the Company, such reports as are available concerning the internal accounting controls and financial strength of the sub-custodian; and (iii) at a minimum, exercise due care in accordance with reasonable commercial standards in discharging its duty as a sub-custodian to obtain and thereafter maintain financial assets corresponding to the security entitlements of its entitlement holders.

3. **DUTIES OF CUSTODIAN**

3.1 [Reserved]

3.2 Cash Custody Account. The Custodian shall open and maintain one or more segregated accounts in the name of the Company, subject only to order of the Custodian, in which the Custodian shall enter and carry the cash of the Company which is delivered to it in accordance with this Agreement.

3.3 Delivery of Cash to Custodian.

(a) The Company shall from time to time deliver, or cause to be delivered, to the Custodian cash to be held in the Account, which may include (a) payments of income, payments of principal and capital distributions received by the Company, cash owned by the Company at any time during the period of this Agreement, or (b) cash received by the Company for the issuance, at any time during such period, of Shares or other securities or in connection with a borrowing by the Company. The Custodian shall not be responsible for such cash until actually delivered to, and received by it.

(b) [Reserved]

3.4 [Reserved]

3.5 [Reserved]

3.6 Bank Accounts, and Management of Cash

- (a) Proceeds received by the Custodian from time to time shall be credited to the Account.
- (b) [Reserved]
- (c) [Reserved]
- (d) The Company acknowledges that cash deposited or invested with any bank (including the bank acting as Custodian) may make a margin or generate banking income for which such bank shall not be required to account to the Company.

3.7 [Reserved]

3.8 [Reserved]

3.9 [Reserved]

3.10 [Reserved]

3.11 [Reserved]

3.12 Records. The Custodian shall create and maintain complete and accurate records relating to its activities under this Agreement with respect to the cash held for the Company under this Agreement, with particular attention to Section 31 of the 1940 Act, and Rules 31a-1 and 32a-2 thereunder. To the extent that the Custodian, in its sole opinion, is able to do so, the Custodian shall provide assistance to the Company (at the Company's reasonable request made from time to time) by providing sub-certifications regarding certain of its services performed hereunder to the Company in connection with the Company's certification requirements pursuant to the Sarbanes-Oxley Act of 2002, as amended. All such records shall be the property of the Company and shall at all times during the regular business hours of the Custodian be open for inspection by duly authorized officers, employees or agents of the Company or its affiliates and employees and agents of the Securities and Exchange Commission, upon reasonable request and prior notice and at the Company's expense.

3.13 Custody of Subsidiary Cash.

- (a) [Reserved]
- (b) With respect to each Subsidiary identified to the Custodian by the Company, there shall be established at the Custodian a segregated account to which the Custodian shall deposit and hold any cash proceeds received by it from time to time, which account shall be designated the "[INSERT NAME OF SUBSIDIARY] Cash Proceeds Account" (the "Subsidiary Account").
- (c) To the maximum extent possible, the provisions of this Agreement regarding the Account shall be applicable to any Subsidiary Account. The parties hereto agree that the Company shall notify the Custodian in writing as to the establishment of any Subsidiary as to which the Custodian is to serve as custodian pursuant to the terms of this Agreement; and identify in writing any accounts the Custodian shall be required to establish for such Subsidiary as herein provided.

4. **REPORTING**

(a) [Reserved]

(b) For each Business Day, the Custodian shall render to the Company a daily report of all deposits to and withdrawals from the Account for such Business Day and the outstanding balance as of the end of such Business Day. The Company and the Custodian hereby agree that the Company's ability to access account information electronically in accordance with the Bank Account Agreement shall satisfy the daily reporting requirement.

(c) [Reserved]

(d) [Reserved]

5. **RESERVED.**

6. **RESERVED.**

7. **CERTAIN GENERAL TERMS**

7.1 [Reserved]

7.2 Resolution of Discrepancies. In the event of any discrepancy between the information set forth in any report provided by the Custodian to the Company and any information contained in the books or records of the Company, the Company shall promptly notify the Custodian thereof and the parties shall cooperate to diligently resolve the discrepancy.

7.3 Improper Instructions. Notwithstanding anything herein to the contrary, the Custodian shall not be obligated to take any action (or forebear from taking any action), which it reasonably determines (at its sole option) to be contrary to the terms of this Agreement or applicable law. In no instance shall the Custodian be obligated to provide services on any day that is not a Business Day.

7.4 Proper Instructions.

(a) The Company will give a notice to the Custodian, in form acceptable to the Custodian, specifying the names and specimen signatures of persons authorized to give Proper Instructions (collectively, "Authorized Persons" and each is an "Authorized Person") which notice shall be signed by any two Authorized Persons previously certified to the Custodian. The Custodian shall be entitled to rely upon the identity and authority of such persons until it receives written notice from an Authorized Person of the Company to the contrary. The initial Authorized Persons are set forth on Schedule A attached hereto and made a part hereof (as such Schedule A may be modified from time to time by written notice from the Company to the Custodian).

- (b) The Custodian shall not have an obligation to act in accordance with purported instructions to the extent that they conflict with applicable law or regulations, local market practice or the Custodian's operating policies and practices. The Custodian shall not be liable for any loss resulting from a delay while it obtains clarification of any Proper Instructions.

7.5 Actions Permitted Without Express Authority. The Custodian may, at its discretion, without express authority from the Company:

- (a) [reserved];
- (b) endorse for collection cheques, drafts and other negotiable instruments; and
- (c) [reserved].

7.6 Evidence of Authority. The Custodian shall be protected in acting upon any instructions, notice, request, consent, certificate instrument or paper reasonably believed by it to be genuine and to have been properly executed or otherwise given by or on behalf of the Company by an Authorized Officer. The Custodian may receive and accept a certificate signed by any Authorized Officer as conclusive evidence of:

- (a) the authority of any person to act in accordance with such certificate; or
- (b) any determination or of any action by the Company as described in such certificate,

and such certificate may be considered as in full force and effect until receipt by the Custodian of written notice to the contrary from an Authorized Officer of the Company.

7.7 Receipt of Communications. Any communication received by the Custodian on a day which is not a Business Day or after 3:30 p.m., Eastern time (or such other time as is agreed by the Company and the Custodian from time to time), on a Business Day will be deemed to have been received on the next Business Day (but in the case of communications so received after 3:30 p.m., Eastern time, on a Business Day the Custodian will use its best efforts to process such communications as soon as possible after receipt).

8. **RESERVED**

9. **RESPONSIBILITY OF CUSTODIAN**

9.1 General Duties. The Custodian shall have no duties, obligations or responsibilities under this Agreement or with respect to cash except for such duties as are expressly and specifically set forth in this Agreement, and the duties and obligations of the Custodian shall be determined solely by the express provisions of this Agreement. No implied duties, obligations or responsibilities shall be read into this Agreement against, or on the part of, the Custodian.

9.2 Instructions.

- (a) The Custodian shall be entitled to refrain from taking any action unless it has such instruction (in the form of Proper Instructions) from the Company as it reasonably deems necessary, and shall be entitled to require, upon notice to the Company, that Proper Instructions to it be in writing. The Custodian shall have no liability for any action (or forbearance from action) taken pursuant to the Proper Instruction of the Company.
- (b) Whenever the Custodian is entitled or required to receive or obtain any communications or information pursuant to or as contemplated by this Agreement, it shall be entitled to receive the same in writing, in form, content and medium reasonably acceptable to it and otherwise in accordance with any applicable terms of this Agreement; and whenever any report or other information is required to be produced or distributed by the Custodian it shall be in form, content and medium reasonably acceptable to it and the Company, and otherwise in accordance with any applicable terms of this Agreement.

9.3 General Standards of Care. Notwithstanding any terms herein contained to the contrary, the acceptance by the Custodian of its appointment hereunder is expressly subject to the following terms, which shall govern and apply to each of the terms and provisions of this Agreement (whether or not so stated therein):

- (a) The Custodian may rely on and shall be protected in acting or refraining from acting upon any written notice, instruction, statement, certificate, request, waiver, consent, opinion, report, receipt or other paper or document furnished to it (including any of the foregoing provided to it by telecopier or electronic means), not only as to its due execution and validity, but also as to the truth and accuracy of any information therein contained, which it in good faith believes to be genuine and signed or presented by the proper person (which in the case of any instruction from or on behalf of the Company shall be an Authorized Person); and the Custodian shall be entitled to presume the genuineness and due authority of any signature appearing thereon. The Custodian shall not be bound to make any independent investigation into the facts or matters stated in any such notice, instruction, statement, certificate, request, waiver, consent, opinion, report, receipt or other paper or document, provided, however, that if the form thereof is specifically prescribed by the terms of this Agreement, the Custodian shall examine the same to determine whether it substantially conforms on its face to such requirements hereof.

- (b) Neither the Custodian nor any of its directors, officers or employees shall be liable to anyone for any error of judgment, or for any act done or step taken or omitted to be taken by it (or any of its directors, officers or employees), or for any mistake of fact or law, or for anything which it may do or refrain from doing in connection herewith, unless such action constitutes gross negligence, willful misconduct or bad faith on its part and in breach of the terms of this Agreement. The Custodian shall not be liable for any action taken by it in good faith and reasonably believed by it to be within powers conferred upon it, or taken by it pursuant to any direction or instruction by which it is governed hereunder, or omitted to be taken by it by reason of the lack of direction or instruction required hereby for such action. The Custodian shall not be under any obligation at any time to ascertain whether the Company is in compliance with the 1940 Act, the regulations thereunder, or the Company's investment objectives and policies then in effect.
- (c) In no event shall the Custodian be liable for any indirect, special or consequential damages (including lost profits) whether or not it has been advised of the likelihood of such damages.
- (d) The Custodian may consult with, and obtain advice from, legal counsel selected in good faith with respect to any question as to any of the provisions hereof or its duties hereunder, or any matter relating hereto, and the advice of such counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by the Custodian in good faith in accordance with the advice of such counsel.
- (e) The Custodian shall not be deemed to have notice of any fact, claim or demand with respect hereto unless actually known by an officer working in its banking group and charged with responsibility for administering this Agreement or unless (and then only to the extent received) in writing by the Custodian at the applicable address(es) as set forth in Section 15 and specifically referencing this Agreement.
- (f) No provision of this Agreement shall require the Custodian to expend or risk its own funds, or to take any action (or forbear from action) hereunder which might in its judgment involve any expense or any financial or other liability unless it shall be furnished with acceptable indemnification. Nothing herein shall obligate the Custodian to commence, prosecute or defend legal proceedings in any instance, whether on behalf of the Company or on its own behalf or otherwise, with respect to any matter arising hereunder, or relating to this Agreement or the services contemplated hereby.

- (g) The permissive right of the Custodian to take any action hereunder shall not be construed as duty.
- (h) All indemnifications contained in this Agreement in favor of the Custodian shall survive the termination of this Agreement.

#### 9.4 Indemnification; Custodian's Lien.

- (a) The Company shall and does hereby indemnify and hold harmless the Custodian for and from any and all costs and expenses (including reasonable attorney's fees and expenses), and any and all losses, damages, claims and liabilities, that may arise, be brought against or incurred by the Custodian, and any advances or disbursements made by the Custodian (including in respect of any Account overdraft, returned deposit item, chargeback, provisional credit, settlement or assumed settlement, reclaimed payment, claw-back or the like), as a result of, relating to, or arising out of this Agreement, or the administration or performance of the Custodian's duties hereunder, or the relationship between the Company (including, for the avoidance of doubt, any Subsidiary) and the Custodian created hereby, other than such liabilities, losses, damages, claims, costs and expenses as are directly caused by the Custodian's own actions constituting gross negligence or willful misconduct.
- (b) If the Company requires the Custodian, its affiliates, subsidiaries or agents, to advance cash for any purpose, or in the event that the Custodian or its nominee shall incur or be assessed any taxes, charges, expenses, assessments, claims or liabilities in connection with the performance of this Agreement, except such as may arise from its or its nominee's own negligent action, negligent failure to act or willful misconduct, or if the Company fails to compensate the Custodian pursuant to Section 8 hereof, any cash at any time held for the account of the Company shall be security therefor and should the Company fail to repay the Custodian promptly, the Custodian shall be entitled to utilize available cash to the extent necessary to obtain reimbursement.
- (c) The foregoing notwithstanding, if the Custodian advances cash under the Revolving Loan, the cash held in the Collateral Account (as defined in the Revolving Loan Agreement) shall be security therefor and should the Company fail to repay the Custodian in accordance with the terms of the Revolving Loan Agreement, the Custodian shall be entitled to utilize cash available in the Collateral Account to the extent necessary to obtain reimbursement.

9.5 Force Majeure. Without prejudice to the generality of the foregoing, the Custodian shall be without liability to the Company for any damage or loss resulting from or caused by events or circumstances beyond the Custodian's reasonable control including (a) nationalization, expropriation, currency restrictions, the interruption, disruption or suspension of the normal procedures and practices of any securities market, power, mechanical, communications or other technological failures or interruptions, computer viruses or the like, fires, floods, earthquakes or other natural disasters, civil and military disturbance, acts of war or terrorism, riots, revolution, acts of God, work stoppages, strikes, national disasters of any kind, or other similar events or acts; (b) errors by the Company (including any Authorized Person) in its instructions to the Custodian; or (c) changes in applicable law, regulation or orders.



10. **SECURITY CODES**

If the Custodian issues to the Company, security codes, passwords or test keys in order that it may verify that certain transmissions of information, including Proper Instructions, have been originated by the Company, the Company shall safeguard any security codes, passwords, test keys or other security devices which the Custodian shall make available.

11. **TAX LAW**

11.1 Domestic Tax Law. The Custodian shall have no responsibility or liability for any obligations now or hereafter imposed on the Company or the Custodian as custodian of the Account, by the tax law of the United States or any state or political subdivision thereof. The Custodian shall be kept indemnified by and be without liability to the Company for such obligations including taxes (but excluding any income taxes assessable in respect of compensation paid to the Custodian pursuant to this agreement), withholding, certification and reporting requirements, claims for exemption or refund, additions for late payment interest, penalties and other expenses (including legal expenses) that may be assessed against the Company, or the Custodian as custodian of the Account.

11.2 [Reserved]

12. **EFFECTIVE PERIOD, TERMINATION AND AMENDMENT**

12.1 Effective Date. This Agreement shall become effective as of its due execution and delivery by each of the parties. This Agreement shall continue in full force and effect until terminated as hereinafter provided. This Agreement may only be amended by mutual written agreement of the parties hereto. This Agreement may be terminated by the Custodian or the Company pursuant to Section 12.2.

12.2 Termination. This Agreement shall terminate upon the earliest of (a) the effective date of termination specified in any written notice of termination given by either party to the other which effective date shall be not less than ninety (90) days from the date that such notice is given in accordance with Section 15, and (b) such other date of termination as may be mutually agreed upon by the parties in writing.

12.3 Resignation. The Custodian may at any time resign under this Agreement by giving not less than ninety (90) days advance written notice thereof to the Company.

12.4 Successor. Prior to the effective date of termination of this Agreement, or the effective date of the resignation of the Custodian, as the case may be, the Company shall give Proper Instruction to the Custodian designating a successor Custodian, if applicable.

12.5 [Reserved]

12.6 Final Report. In the event of any resignation or removal of the Custodian, the Custodian shall provide to the Company a complete final written report or data file transfer of any Confidential Information as of the date of such resignation or removal.

13. **REPRESENTATIONS AND WARRANTIES**

13.1 Representations of the Company. The Company represents and warrants to the Custodian that:

- (a) it has the power and authority to enter into and perform its obligations under this Agreement, and it has duly authorized and executed this Agreement so as to constitute its valid and binding obligation; and
- (b) in giving any instructions which purport to be “Proper Instructions” under this Agreement, the Company will act in accordance with the provisions of its certificate of incorporation and bylaws and any applicable laws and regulations.

13.2 Representations of the Custodian. The Custodian hereby represents and warrants to the Company that:

- (a) it is qualified to act as a custodian pursuant to Section 26(a)(1) of the 1940 Act;
- (b) it has the power and authority to enter into and perform its obligations under this Agreement;
- (c) it has duly authorized and executed this Agreement so as to constitute its valid and binding obligation; and
- (d) that it maintains business continuity policies and standards that include data file backup and recovery procedures that comply with all applicable regulatory requirements.

14. **PARTIES IN INTEREST; NO THIRD PARTY BENEFIT**

This Agreement is not intended for, and shall not be construed to be intended for, the benefit of any third parties and may not be relied upon or enforced by any third parties (other than successors and permitted assigns pursuant to Section 19).

15. **NOTICES**

Any Proper Instructions shall be given to the following address (or such other address as either party may designate by written notice to the other party), and otherwise any notices, approvals and other communications hereunder shall be sufficient if made in writing and given to the parties at the following address (or such other address as either of them may subsequently designate by notice to the other), given by (i) certified or registered mail, postage prepaid, (ii) recognized courier or delivery service, or (iii) confirmed telecopier or telex, with a duplicate sent on the same day by first class mail, postage prepaid:

(a) if to the Company, to

Harris & Harris Group, Inc.  
1450 Broadway, 24<sup>th</sup> Floor  
New York, N.Y. 10018

(b) if to the Custodian, to

TD Bank, N.A.  
324 South Service Road  
Melville, New York 11747  
Attention: John Topolovec  
Vice President

16. **CHOICE OF LAW AND JURISDICTION**

This Agreement shall be construed, and the provisions thereof interpreted under and in accordance with and governed by the laws of New York for all purposes (without regard to its choice of law provisions); except to the extent such laws are inconsistent with federal securities laws, including the 1940 Act.

17. **ENTIRE AGREEMENT; COUNTERPARTS**

17.1 Complete Agreement. This Agreement constitutes the complete and exclusive agreement of the parties with regard to the matters addressed herein and supersedes and terminates as of the date hereof, all prior agreements, agreements or understandings, oral or written between the parties to this Agreement relating to such matters.

17.2 Counterparts. This Agreement may be executed in any number of counterparts and all counterparts taken together shall constitute one and the same instrument.

17.3 Facsimile Signatures. The exchange of copies of this Agreement and of signature pages by facsimile transmission shall constitute effective execution and delivery of this Agreement as to the parties and may be used in lieu of the original Agreement for all purposes. Signatures of the parties transmitted by facsimile shall be deemed to be their original signatures for all purposes.

18. **AMENDMENT; WAIVER**

18.1 Amendment. This Agreement may not be amended except by an express written instrument duly executed by each of the Company and the Custodian.

18.2 Waiver. In no instance shall any delay or failure to act be deemed to be or effective as a waiver of any right, power or term hereunder, unless and except to the extent such waiver is set forth in an expressly written instrument signed by the party against whom it is to be charged.

19. **SUCCESSOR AND ASSIGNS**

19.1 Successors Bound. The covenants and agreements set forth herein shall be binding upon and inure to the benefit of each of the parties and their respective successors and permitted assigns. Neither party shall be permitted to assign their rights under this Agreement without the written consent of the other party; provided, however, that the foregoing shall not limit the ability of the Custodian to delegate certain duties or services to or perform them through agents or attorneys appointed with due care as expressly provided in this Agreement.

19.2 Merger and Consolidation. Any corporation or association into which the Custodian may be merged or converted or with which it may be consolidated, or any corporation or association resulting from any merger, conversion or consolidation to which the Custodian shall be a party, or any corporation or association to which the Custodian transfers all or substantially all of its business, shall be the successor of the Custodian hereunder, and shall succeed to all of the rights, powers and duties of the Custodian hereunder, without the execution or filing of any paper or any further act on the part of any of the parties hereto.

20. **SEVERABILITY**

The terms of this Agreement are hereby declared to be severable, such that if any term hereof is determined to be invalid or unenforceable, such determination shall not affect the remaining terms.

21. **INSTRUMENT UNDER SEAL: HEADINGS**

This Agreement is intended to take effect as, and shall be deemed to be, an instrument under seal.

22. **REQUEST FOR INSTRUCTIONS**

If, in performing its duties under this Agreement, the Custodian is required to decide between alternative courses of action, the Custodian may (but shall not be obliged to) request written instructions from the Company as to the course of action desired by it. If the Custodian does not receive such instructions within two (2) days after it has requested them, the Custodian may, but shall be under no duty to, take or refrain from taking any such courses of action. The Custodian shall act in accordance with instructions received from the Company in response to such request after such two-day period except to the extent it has already taken, or committed itself to take, action inconsistent with such instructions.

23. **OTHER BUSINESS**

Nothing herein shall prevent the Custodian or any of its affiliates from engaging in other business, or from entering into any other transaction or financial or other relationship with, or receiving fees from or from rendering services of any kind to the Company or any other Person. Nothing contained in this Agreement shall constitute the Company and/or the Custodian (and/or any other Person) as members of any partnership, joint venture, association, syndicate, unincorporated business or similar assignment as a result of or by virtue of the engagement or relationship established by this Agreement.

24. **REPRODUCTION OF DOCUMENTS**

This Agreement and all schedules, exhibits, attachments and amendment hereto may be reproduced by any photographic, photostatic, microfilm, micro-card, miniature photographic or other similar process. The parties hereto each agree that any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding, whether or not the original is in existence and whether or not such reproduction was made by a party in the regular course of business, and that any enlargement, facsimile or further production shall likewise be admissible in evidence.

*[PAGE INTENTIONALLY ENDS HERE. SIGNATURES APPEAR ON NEXT PAGE.]*

IN WITNESS WHEREOF, each of the parties has caused this Agreement to be executed and delivered by a duly authorized officer, intending the same to take effect as of the 24<sup>th</sup> day of February, 2011.

Witness:

**Harris & Harris Group, Inc.**

/s/ Douglas W. Jamison

By: /s/ Daniel B. Wolfe

Name: Douglas W. Jamison

Name: Daniel B. Wolfe

Title: Chairman & CEO

Title: President

Witness:

**TD Bank, N.A.**

/s/ Robert Ehrlich

By: /s/ John Topolovec

Name: Robert Ehrlich

Name: John Topolovec

Title: Vice President

Title: Vice President

**SCHEDULE A**

Any of the following persons (each acting singly) shall be an Authorized Person (as this list may subsequently be modified by the Company from time to time by written notice to the Custodian):

<b><u>NAME</u></b>	<b><u>TITLE</u></b>
Douglas W. Jamison	Chief Executive Officer
Daniel B. Wolfe	President, Chief Financial Officer
Patricia N. Egan	Vice President and Chief Accounting Officer
Mary P. Brady	Vice President and Controller
Sandra M. Forman	General Counsel, Chief Compliance Officer and Corporate Secretary

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EXHIBIT A

Business Deposit Account Agreement

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**BUSINESS DEPOSIT  
ACCOUNT AGREEMENT**

General Information

1-888-751-9000

[www.tdbank.com](http://www.tdbank.com)



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62-7350 (09/09) RET

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This is an important document. It contains the contract governing your deposit relationship with the Bank and required legal disclosures. Please have it translated.

Éste es un documento importante. Contiene el contrato que gobierna su relación de depósitos con el Banco y declaraciones requeridas por ley. Por favor, mande a hacer la traducción de este documento.

Ce document est important. Il contient le contrat exécutant votre rapport de versement avec la Banque et les publications légales. Veuillez le faire traduire s'il-vous-plaît.

Este é um documento importante. Ele contém o contrato que governa a sua relação de depósitos com o banco e declarações requeridas por lei. Por favor traduza.

هذه وثيقة هامة تحتوي على عقد يحكم علاقتكم الإيداعية مع البنك والكشوفات المطلوبة قانونياً. الرجاء ترجمتها.

這是一份重要文件。其中包含有關您與銀行之間存款關係的合約，以及所需的法律披露事宜。請翻譯此文件。

"នេះជាឯកសារមួយសំខាន់ណាស់ ។ ឯកសារនេះមានព័ត៌មានស្តីពីកិច្ចសន្យាគ្រប់គ្រងលើ  
ទំនាក់ទំនងនៃការកប់ប្រាក់របស់អ្នកជាមួយធនាគារ ហើយផ្សំឱ្យមានការបញ្ជាក់ព័ត៌មាន  
ស្របច្បាប់ ។ សូមឱ្យគេបកប្រែឯកសារនេះ ។"

Ini adalah dokumen penting. Dokumen ini berisi kontrak yang mengatur hubungan simpanan Anda dengan Bank dan ketentuan dan persyaratan yang dibutuhkan. Silakan diterjemahkan.

본 문서는 중요합니다. 여기에는 은행과의 예금관계 계약과 법적으로 요구되는 공시가 실려있습니다. 본 문서를 번역 하시기 바랍니다.

Это важный документ. Он включает в себя контракт, регулирующий внесение депозитных вкладов на счета, содержащиеся в нашем банке, а также юридический порядок предоставления информации о счетах. Пожалуйста, попросите, чтобы этот документ перевели для вас.

" Đây là tài liệu quan trọng. Tài liệu này bao gồm hợp đồng chi phối tương quan giữa việc ký thác tiền bạc của quý vị với Ngân Hàng và sự tiết lộ nội dung hoạt động theo đòi hỏi của pháp luật. Vui lòng nhờ dịch tài liệu này sang tiếng Việt để hiểu rõ."

**WELCOME TO ID BANK, AMERICA'S MOST CONVENIENT BANK®**

We are pleased to offer you this Business Deposit Account Agreement ("Agreement") that governs the terms and conditions of your business deposit account(s) with us. This Agreement consists of Parts I-IV below, as well as the Rate Sheet(s), Fee Schedule(s), and Schedule of Charges published by the Bank from time to time. This Agreement provides you with information you will want to know about your business deposit account(s). If you have any questions, or would like to learn more about our business deposit account products and services, please contact any of our Stores or call us at **1-888-751-9000**. We will be happy to assist you.

<b>TOPIC</b>	<b>STARTS AT PAGE #</b>
<b>PART I:</b> Business Deposit Account Terms and Conditions	4
<b>PART II:</b> Account Maintenance Information	28
<b>PART III:</b> Funds Availability Policy	29
<b>PART IV:</b> Electronic Funds Transfers	32

**DEFINITIONS:**

Throughout this Agreement, unless otherwise indicated, the following words have the meanings given to them below.

- a) "Account" means your Business Checking Account, Savings Account, Money Market Account and/or CD Account with us, as applicable, unless limited by the heading under which it appears.
- b) "Business Day" means every day, except Saturdays, Sundays, and federal holidays.
- c) "Calendar Day" means every day, including Saturdays, Sundays, and federal holidays.
- d) "Bank," "we," "us," "our" and "TD Bank" refer to TD Bank, N.A.
- e) "You" and "your" mean each depositor who opens an Account, and any joint owner of each Account.
- f) "Store" means a branch office.

**PART I: BUSINESS DEPOSIT ACCOUNT TERMS AND CONDITIONS**

By opening and maintaining an Account with the Bank, you agree to the provisions of this Agreement, so you should read this Agreement thoroughly and keep it with other important records. From time to time, we may offer new types of Accounts and may cease offering some types of Accounts. This Agreement governs all of these new types of Accounts, and continues to govern any Accounts you may have that we no longer offer. If and to the extent the provisions of this Agreement vary from the provisions of the Uniform Commercial Code as adopted in the jurisdiction where your Account was opened, the provisions of this Agreement shall control. This Agreement includes your promise to pay the charges listed on the Fee Schedule and Schedule of Charges and your permission for us to deduct these charges, as earned, directly from your Account.

You also agree to pay any additional reasonable charges we may impose for services you request which are not contemplated by this Agreement but are disclosed in our Fee Schedule(s) which may be amended from time to time. Each of you agrees to be jointly and severally liable for any Account deficit resulting from charges or overdrafts, whether caused by you or another authorized to withdraw from your Account, together with the costs we incur to collect the deficit, including, to the extent permitted by law, our reasonable attorneys' fees.

You agree to use the Account only for lawful purposes. You agree that you will not use the Account for any unlawful or illegal purposes. This includes transactions on the Internet that involve unlawful gambling of any sort. Such transactions include, but are not limited to, online gambling, and any betting transaction including the unlawful purchase of lottery tickets, casino chips, or off-track betting and wagering. We reserve the right to block all such transactions. However, in the event that a charge or transaction described in this disclosure is approved and processed, you will still be liable for the charge.

## **IMPORTANT INFORMATION ABOUT PROCEDURES FOR OPENING A NEW ACCOUNT**

To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify and record information that identifies each person who opens an account. When you open an Account, we will ask for your name, legal address, date of birth, social security or tax identification number, and other information that will allow us to identify you. We may also ask to see your driver's license or any other identifying documents.

## **INTEREST BEARING CHECKING ACCOUNTS**

Interest bearing Checking Accounts may be opened and maintained only by individuals and certain eligible associations and business entities, such as non-profit corporations, associations, and sole proprietors. We may close your Checking Account or convert it to a non-interest bearing Checking Account if you are not an eligible association or business entity.

## **AUTHORIZED SIGNERS**

You agree to give us certified copies of resolutions from your board of directors or other governing body, if any, or other certificate or evidence of authority satisfactory to us which specifically authorizes certain persons to take certain actions with respect to any of your Accounts, including, without limitation, signing, accepting, or endorsing checks, notes, bills, drafts, or other instruments drawn or deposited to your Accounts, or otherwise transferring funds to or from your Accounts ("Authorized Signers"). Such resolutions or other certificates of evidence of authority must set forth the name and title of each Authorized Signer, and must be in a form and substance satisfactory to us. Until properly notified in writing of any change in such authorization and we have had a reasonable period of time to act upon such notice, we may pay, apply, or otherwise honor and charge your Account, without inquiry, without limit as to amount, and without regard to the application of the proceeds thereof (even if drawn or endorsed to the order of any Authorized Signer or other person signing the same, and/or tendered by such person for cashing, in payment of the individual obligation of such person, and/or for deposit to such person's personal account), for all instruments or orders for payment or transfer of money for whatever purpose.

To the fullest extent permitted by applicable law, you hereby waive demand, presentment protest, notice of protest or dishonor, and all other notices relating to any instrument made, drawn, or endorsed in your name, when such instrument is signed, accepted or endorsed by an Authorized Signer. You must notify us immediately and in writing of any change in the status of any Authorized Signers. We may ask you to give us additional documentation. No action taken by us before we receive proper notification in writing of any such change shall be affected by any such notice. You agree to send any such written notice to the Store where you opened your Account.

#### **NO TWO-SIGNER ACCOUNTS**

We do not offer accounts on which two or more signatures are required for a check or other withdrawal. Notwithstanding any provisions to the contrary on any signature card or other agreement you have with us, you agree that if any Account purports to require two or more signers on items drawn on or withdrawals from the Account, such provision is solely for your internal control purposes and is not binding on us. If more than one person is authorized to write checks or draw items on your Account, you agree that we can honor checks signed by any Authorized Signer, even if there are two or more lines on the items for your signature and two signatures are required.

#### **JOINT ACCOUNTS**

- a) **Each of You Can Control the Account.** If more than one of you opens an Account and signs a signature card or other documentation as an owner of the Account (other than persons signing as Authorized Signers for the same principal), the Account will be a joint Account. All of you are considered "joint tenants" of your Account, This means that each of you can control your Account as if you were the only Account owner, including the right to withdraw all the funds and close your Account.
- b) **Joint and Several Liability.** Your liability as an owner of a joint Account is joint and several. This means that we can enforce this Agreement against any one of you, some of you, or all of you. This also means that we can look for repayment of any amount owed us as a result of any withdrawal, transfer or any other transaction made in connection with your joint Account from any one of you, some of you, or all of you.
- c) **Signatures and Endorsements.** Each of you, as an owner of a joint Account, guarantees that the signatures of (i) all other Account owners, and/or (ii) the Authorized Signers for the other Account owners are genuine. Each of you agrees to give us any missing endorsement(s) of any other Account owner(s) or the Authorized Signer(s) for the other Account owner(s) when we ask you.
- d) **Deposits to Your Account.** All deposits to your joint Account will become the property of each of you. Each of you agrees that we may credit to the joint Account any check or other item that is payable to the order of any one or more of you, even if the check or other item is endorsed by less than all or by none of you. When this credit is final, it will be considered by you and by us to be full payment of the check or other item to each Account owner named as payee.

- e) **Withdrawals from Your Account.** Subject to the terms of this Agreement, we will pay checks and other items drawn, and honor withdrawal requests made, by any of you. We may also follow instructions about your Account from any one of you. We may do any of these things without liability to the other Account owners. We may be required by service of legal process to hold or remit funds held in a joint Account to satisfy an attachment or judgment entered against, or other valid debt incurred by, any owner of the Account
- f) **Right of Survivorship.** Except as otherwise provided by applicable law, if an Account owner is a natural person and dies, or is an entity and ceases to exist, (i) the Account will belong to each surviving Account owner, and (ii) we may pay checks and honor withdrawal requests from any surviving Account owner.
- g) **You May Ask Us to Restrict Your Account.** If any one of you does not want us to pay checks or otherwise release funds from your Account, we may ask that Account owner to give us documentation before we comply with that request We may ask all joint Account owners to give us a written authorization before we resume paying checks or releasing funds from your Account.

#### **IOLTA, IOTA AND IOLA ACCOUNTS**

Interest earned on IOLTA, IOTA and IOLA Accounts (or similar lawyer trust accounts) is directed to the designated IOLTA, IOTA or IOLA Committee or bar foundation, as applicable. If you establish one of these types of Accounts, you agree to comply with all of the applicable laws for such Accounts.

#### **IOREBTA ACCOUNTS**

Interest earned on IOREBTA Accounts (or similar realtor trust accounts) is directed to the Realtors Affordable Housing Fund, as applicable, to support grants to provide housing to under-privileged individuals and families. The interest from this Account will aid housing and shelter programs within a particular jurisdiction. If you establish these types of Accounts, you agree to comply with all of the applicable laws for such Accounts.

#### **DEPOSIT POLICY**

We will usually give you provisional credit for items deposited into your Account. However, we may delay or refuse to give you provisional credit if we believe in our discretion that your item will not be paid. We will reverse any provisional credit we have given for an item deposited into your Account if we do not receive final credit for that item and charge you a fee (see Fee Schedule). If the reversal of a provisional credit creates an overdraft in your Account, you will owe us the amount of the overdraft, plus any overdraft fees (see Fee Schedule). We will determine when final credit is received for any item. Please read the Funds Availability Policy for a detailed discussion of how and when we make funds available to you.

We will accept certain items like foreign checks and bond coupons for collection only. You may also ask us to accept certain other items for collection only. You will not receive credit for (provisional or otherwise), and may not withdraw funds against, any of these items until we receive final credit from the person responsible for paying them. Items sent for collection will be credited to your Account in U.S. dollars, with the amount of U.S. dollars credited calculated using our applicable exchange rate that is in effect on the date when we credit the funds to your Account and not when the deposit is made. The Funds Availability Policy does not apply to items we have accepted for collection only. If and when we receive final credit for an item we have accepted for collection only, you agree that we may subtract our collection fee (see Fee Schedule) from the amount finally credited to us, before we credit your Account for the remaining amount.

#### **RETURNED CHECKS/WAIVER OF RIGHTS**

If you deposit a check or item in your Account that the drawee bank returns unpaid for any reason (called "dishonor"), we may put the check or item through for collection again. This means that you are waiving your right to receive immediate notice of dishonor. If the check or item is dishonored for any reason, the amount of the dishonored check or item will be deducted from your Account. You agree to pay the Bank a fee for any such check or item that is dishonored (see Fee Schedule). The Bank may also collect any amounts due to the Bank because of returned checks, through the right of set-off, from any other of your Accounts at the Bank, or collect the funds directly from you.

#### **CASHING OF CHECKS**

Typically, the Bank will cash checks drawn on other banks for its customers who have adequate available funds in their Account(s). If any such check should be returned by the paying bank for any reason, the Bank will charge you a fee (see Fee Schedule). In addition, the Bank will debit the amount of the returned check from your Account(s). If the debit creates an overdraft in your Account, you will owe us the amount of the overdraft plus any overdraft fees (see Fee Schedule).



## **WITHDRAWAL POLICY**

Business Passbook Account (if available in your jurisdiction) withdrawals can be made by an authorized signer only upon presentation of the passbook either in person or accompanied by a written order of withdrawal. If you lose the passbook, we require that a Lost Passbook Affidavit be signed by ALL persons named on the Account before a notary public. Statement Savings Account withdrawals can be made per written order of withdrawal in accordance with the information contained on the signature card, corporate resolution or other relevant document accepted by the Bank, and may also be made with an ATM or Visa<sup>®</sup> Debit Card, as applicable. The Bank may refuse a request if any document or identification required by the Bank or law in connection with the withdrawal has not been presented.

The Bank reserves the right to require seven (7) Calendar Days written notice prior to withdrawal or transfer of funds from all Savings or Money Market Accounts offered by the Bank.

For any Statement Savings Account(s) (including Money Market Accounts), you may make as many in-person withdrawals at a teller window or any ATM as you wish. However, federal regulations permit the depositor to make no more than a combined total of six (6) pre-authorized, automatic, electronic (including computer initiated), telephone withdrawals or transfers, or by check, draft, debit card, or similar order payable to third parties in any statement cycle. Repeated violations will result in the Account being closed or changed from a savings type Account to a transaction Account.

## **DEMAND DEPOSIT ACCOUNTS AND SUB-ACCOUNTS**

All Checking Accounts consist of two separate sub-accounts: a transaction sub-account and a non-transaction sub-account. Whenever your transaction sub-account balance exceeds a certain level (which we may set and change at our discretion without notice to you), funds above that level may be transferred from the transaction sub-account to the non-transaction sub-account at the Bank's discretion, as often as once each day. All of your Checking Account transactions are posted to the transaction sub-account. Balances transferred to the non-transaction sub-account are transferred back to the transaction sub-account to meet these transactional needs, so there is no adverse impact on the availability of the balances held in your Checking Account. In accordance with federal limitations, no more than six (6) transfers from the non-transaction sub-account can occur during any statement cycle. Therefore, if a sixth transfer is needed, we will return all balances to the transaction sub-account for the remainder of the statement cycle.

These sub-accounts are treated as a single Checking Account for purposes of deposits and withdrawals, access and information, statement reporting, and any fees or charges. There are no separate or additional balance requirements, fees, or charges associated with the creation of these sub-accounts. If your Checking Account is a non-interest bearing Account, neither the transaction sub-account nor the non-transaction sub-account receives any interest. If your Checking Account is an interest-bearing Checking Account, both the transaction sub-account and the non-transaction sub-account receive the same interest rate at all times, and your periodic statement will reflect a single blended Annual Percentage Yield ("APY") and APY Earned.

In accordance with federal regulations, we reserve the right to require seven (7) Calendar Days' advance notice of withdrawals from interest-bearing transaction sub-accounts and all non-transaction sub-accounts. While the Bank is required to reserve this right the Bank does not presently exercise this right.

## **STOP PAYMENTS**

At your request and risk, the Bank will accept a stop payment request for a check drawn on your Account for a fee (see Fee Schedule). To be effective, a stop payment request must be received in such timely manner so as to give the Bank a reasonable opportunity to act on it, and must precisely identify the Account number, check number, date and amount of the item, and the payee.

Your stop payment request will be effective after the request has been received by the Bank and the Bank has had a reasonable opportunity to act on it. Regardless of whether your stop payment request has been made orally or in writing, it will remain in effect for one (1) year from the date it was given. If your stop payment request has been made orally, the Bank will send you a written confirmation. If your stop payment request is made in writing, you must use a form that is supplied by the Bank; this form will constitute written confirmation of your request. In either case, it is your responsibility to ensure that all of the information applied on your written confirmation is correct and to promptly inform the Bank of any inaccuracies.

To maintain the validity of the stop payment request for more than one (1) year, you must furnish a new stop payment request that is confirmed in writing as described in the preceding paragraph before the expiration of the one (1) year period. If a new stop payment request is not received, the check may be paid.

We are not liable for failing to stop payment if you have not given us sufficient information or if your stop payment request comes too late for us to act on it. We are entitled to a reasonable period of time after we receive your stop payment request to notify our employees and take other action needed to stop payment.

You agree that "reasonable time" depends on the circumstances, but that we will have acted within a reasonable amount of time if we make your stop payment request effective by the end of the next Business Day following the Business Day on which we receive your stop payment request. If we stop payment, you agree to defend and pay any claims raised against us as a result of our refusal to pay the check or other item on which you stopped payment.

If we recredit your Account after we have paid a check or other item over a valid and timely stop order, you agree to sign a statement describing the dispute you have with the person to whom the check or item was made payable. You also agree to transfer to us all of your rights against the payee and any other holder, endorser or prior transferee of the check or item and to cooperate with us in any legal action taken to collect against the other person(s). If we are liable for inadvertently paying your check over a stop payment order, you must establish the amount of your loss caused by our payment of the check. We will pay you only the amount of the loss, up to the face amount of the check. You agree that we shall not be liable for any punitive, exemplary or consequential damages.

The Bank has no duty to stop payment on a cashier's check, teller's check or other similar item because items of this type are not drawn on your Account. The Bank may, in its sole discretion, attempt to stop payment on a cashier's check, teller's check or other similar item if you certify to our satisfaction that the item has been lost, stolen or destroyed. You must also furnish any other documents or information we may require, which may include your affidavit attesting to the facts and your indemnification of the Bank. Even if the Bank agrees to attempt to stop payment on a cashier's check, teller's check or other similar item, if the item is presented for payment, the Bank may pay it and you will be liable to us for that item, unless otherwise required by applicable law.

#### **INTERNATIONAL ACH TRANSACTIONS**

If your Account receives incoming ACH transactions (either credits or debits) or wire transfers initiated from outside of the United States, both you and we are subject to the Operating Rules and Guidelines of the National Automated Clearing House Association ("NACHA") or the rules of any wire transfer system involved, and the laws enforced by the Office of Foreign Assets Control ("OFAC"). Under such rules and laws, we may temporarily suspend processing of a transaction for greater scrutiny or verification against the OFAC list of blocked parties, which may result in delayed settlement, posting and/or availability of funds. If we determine there is a violation, or if we cannot satisfactorily resolve a suspected or potential violation, the subject funds will be blocked as required by law. If you believe you have adequate grounds to seek the return of any blocked funds, it is your sole responsibility to pursue the matter with the appropriate governmental authorities. Please see the OFAC website for procedures and form required to seek a release of blocked funds.

## **CREDIT VERIFICATION AND OBTAINING FINANCIAL INFORMATION**

You agree that we may verify credit information about you, as well as credit and employment history about any individual (such as your principals, owners or guarantors) who is liable for your obligations under this Agreement, through third parties, including but not limited to consumer reporting agencies, or verify any of your or their previous banking relationships for any Accounts you have with the Bank now or in the future. By signing the signature card for your Account, or other written authorization, each such individual authorizes the Bank to obtain such credit and employment information about him or her.

## **CERTIFIED TAXPAYER IDENTIFICATION NUMBER ("TIN")**

Federal law requires you to provide to the Bank a valid and certified Taxpayer Identification Number ("TIN"). We may be required by federal or state law to withhold a portion of the interest credited to your Account in the following circumstances:

- a) you do not give us a correct TIN;
- b) the IRS tells us that you gave us an incorrect TIN;
- c) the IRS tells you that you are subject to backup withholding because you have under-reported your interest or other income;
- d) you fail to certify to us that you are not subject to backup withholding;
- e) you do not certify your TIN to us; or
- f) there may be other reasons why we may be required to do so under applicable law.

If we do this, the amount we withhold will be reported to you and the IRS and applied by the IRS to the payment of any federal income tax you may owe for that year.

## **ACCOUNT STATEMENTS; LIMITATION ON TIME TO REPORT FORGERIES AND ERRORS**

If your Account is not a Passbook or CD Account, the Bank will provide you with a periodic statement Unless you tell us of a change of address, we will continue to mail statements or any other notices to your address as it appears on our records, and you will be considered to have received those statements and any other notices sent to you at that address. We do not have to send you a statement or notice if (i) you do not claim your statement (ii) we cannot deliver your statement or notice because of your instructions or your failure to tell us that you have changed your address, or (iii) we determine that your Account has been inactive for a reasonable period of time.

You should review your statements and balance your Account promptly after you receive them or, if we are holding them for you, promptly after we make them available to you. If you don't receive an Account statement by the date when you usually receive it, call us at once. You must review your statements to make sure that there are no errors in the Account information.

On Accounts with check-writing privileges, you must review your statement and imaged copies of paid checks, if any, we send you and report forgeries, alterations, missing signatures, amounts differing from your records, or other information that might lead you to conclude that the check was forged or that, when we paid the check, the proper amount was not paid to the proper person. You have this duty even if we do not return checks to you or we return only an image of the check. You should notify us as soon as possible if you think there is a problem.

Applicable law and this Agreement require you to discover and report any error in payment of a check within specified time periods. You agree that statements and any images of paid checks accompanying the statement shall be deemed to be "available" to you as of the statement mailing date. If we are holding your Account statements for you at your request, the statements become "available" on the day they are available for you to pick up. This means for example, that the period in which you must report any problem with an Account begins on the day we make the statement available, even if you do not pick up the statement until later.

If you assert against us a claim that an item was not properly payable because, for example, the item was forged, you must cooperate with us and assist us in seeking criminal and civil penalties against the person responsible. You must file reports and complaints with the appropriate law enforcement authorities. If we ask, you also must give us a statement, under oath, about the facts and circumstances relating to your claim. If you fail or refuse to do these things, we will consider that you have ratified the defect in the item and agree that we may charge the full amount of the item to your Account.

**You must notify us as soon as possible if you believe there is an error, forgery or other problem with the information shown on your Account statement. You agree that fourteen (14) Calendar Days after we mailed a statement (or otherwise made it available to you) is a reasonable amount of time for you to review your Account statement and report any errors, forgeries or other problems. In addition, you agree not to assert a claim against us concerning any error, forgery or other problem relating to a matter shown on an Account statement unless you notified us of the error, forgery or other problem within thirty (30) Calendar Days after we mailed you the statement (or otherwise made it available to you). This means, for example, that you cannot bring a lawsuit against us, even if we are at fault, for paying checks bearing a forgery of your signature unless you reported the forgery within thirty (30) Calendar Days after we mailed you the statement (or otherwise made it available to you) listing the check we paid.**

We may destroy original checks not less than thirty (30) Calendar Days after the statement mailing date. We will retain copies of the front and back of the checks on microfilm or other media for a period of seven (7) years. During that period, we will provide you an imaged copy of any paid check on request, but we need not do so thereafter. You agree not to make any claim against us arising out of the authorized destruction of your original checks or the clarity or legibility of any copy we provide.

## **CHECKS**

All negotiable paper (called "checks") presented for payment must be in a form supplied by or previously approved by the Bank. The Bank may refuse to accept any check that does not meet this requirement or which is incompletely or defectively drawn. Once an outstanding check is six (6) months old, we may elect not to pay it. But if there is no stop payment order on file when we receive the check for payment, we may elect to pay it in good faith without consulting you.

You agree that you will use care in safeguarding your unsigned checks against loss or theft. You will tell us immediately if any checks are missing. You agree to assume all losses that could have been prevented if you had safeguarded unsigned checks, or had told us they were missing.

## **OVERDRAFTS**

An overdraft is an advance of funds greater than the amount that has become available in accordance with the Bank's Funds Availability Policy, made by us to you, at our sole discretion. Overdrafts include advances to cover a check, in-person withdrawal, ATM withdrawal, or a withdrawal by other electronic means from your Account. We may demand immediate repayment of any overdraft and charge you an overdraft fee (see Fee Schedule).

You agree to pay us, when we ask you, all of our costs of collecting an overdraft to the fullest extent permitted by law. These costs include, but are not limited to, our legal fees and expenses. If more than one of you owns an Account each of you will be responsible for paying us the entire amount of all overdrafts and obligations resulting from the overdrafts.

We do not have to allow you to make an overdraft. Intentionally withdrawing funds from an Account when there are not enough funds in the Account to cover the withdrawal or when the funds are not yet available for withdrawal may be a crime.

## **SUSTAINED FEE FOR OVERDRAWN ACCOUNTS**

We may charge you a fee, as disclosed in the Fee Schedule, for any Checking Account that remains in overdrawn status for ten (10) consecutive Business Days. We will notify you if your Checking Account is in overdrawn status. If your Checking Account is in overdrawn status because of an overdraft, check returned for insufficient funds or for any other reason and the Account remains in overdrawn status for ten (10) consecutive Business Days, we may charge the fee. If you have overdraft protection and you have exceeded your limit and the Checking Account remains in overdrawn status for ten (10) consecutive Business Days, we may charge the fee.

If the Checking Account remains in overdrawn status for sixty (60) Calendar Days, or such earlier time that we determine that the overdraft balance is uncollectible, the Bank will close and place the Checking Account in collection status.

## **PAYMENT OF CHECKS AND ITEM PROCESSING ORDERS**

We may accept, pay, or charge to the appropriate Account checks and other items in any order we choose. An "item" includes a check, substitute check, purported substitute check, electronic item or transaction, draft, demand draft, remotely created item, image replacement document, indemnified copy, ATM withdrawal or transfer, point-of-sale transaction, pre-authorized payment, automatic transfer, telephone-initiated transfer, ACH transactions, online banking transfer or bill payment instruction, withdrawal slip, in-person transfer or withdrawal, cash ticket, deposit adjustment, any other instruction or order for the payment, transfer or withdrawal of funds and an image or photocopy of any of the foregoing.

We may establish different processing orders for checks and other items. We may establish categories for checks and other items. We may establish a processing priority for each category. For example, we may treat ATM withdrawals and loan payments as one category and checks as another category and then process ATM withdrawals and loan payments before checks. Within each category, we may process checks and other items in any order we choose. Methods available to the Bank for processing checks and other items for payment include, but are not limited to, by dollar amount from highest to lowest, by number or by date. We may in our sole discretion change our priorities, categories, or orders at any time without notice to you. Even if we provisionally post checks and other items to your Account during any Business Day, we may treat them as if we received all of them at the end of that Business Day and process them in any order we choose.

When you use a debit card, Automated Teller Machine (ATM) card, or other electronic means to make deposits or withdrawals, we may receive notice of the transaction before it is actually presented to us for payment, collection, or deposit. That notice may be in the form of a merchant authorization request or other electronic inquiry. Upon receipt of such notice, we may treat the transaction as pending at the time we receive notice. We may consider such pending transactions for the purpose of determining the amount of funds in your account to be used to pay other items presented against your account. We may conclusively rely on that notice even if the notice incorrectly describes the transaction. If the transaction is not settled within our established time period after reviewing the notice (3 Business Days), we will release the pending transaction.

When you do not have enough funds in your account to cover all of the checks and other items presented that Business Day, some processing orders may result in more insufficient funds items and more fees than others. We may choose our processing orders in our sole discretion and without notice to you, regardless of whether additional fees may result.

We may refuse, in our discretion, to pay a check or other item which:

- a) is illegible;
- b) is drawn in an amount greater than the amount of funds then available for withdrawal in your Account (see the Funds Availability Policy) or which would, if paid, create an overdraft;
- c) bears a duplicate check number;
- d) we believe has been altered;
- e) we believe is otherwise not properly payable, or;
- f) we believe does not bear an authorized signature.

We are not required to honor any restrictive legend on checks you write unless we have agreed in writing to the restriction. Examples of restrictive legends are "Not Valid For More Than \$1,000," "Void If Not Negotiated Within 30 Days of Issuance," and the like.

#### **POSTDATED ITEMS**

You agree that when you write a check you will not date the check in the future. If you do and the check is presented for payment before the date of the check, we may either pay it or return it unpaid. You agree that if we pay the check, the check will be posted to your Account on the day we pay the check. You further agree that we are not responsible for any loss to you in doing so.

#### **PRE-AUTHORIZED DRAFTS**

If you voluntarily give information about your Account (such as our routing number and your Account number) to a party who is seeking to sell you goods or services, and you do not physically deliver a check to the party, any debit to your Account initiated by the party to whom you gave the information is deemed authorized by you.



## **POWER OF ATTORNEY**

We may, in our sole discretion (unless we are required by law to recognize a statutory form of power of attorney), recognize the authority of a person to whom you have given a power of attorney to enter into transactions relating to your Account, until and unless we receive written notice or we have actual notice of the revocation of such power of attorney. However, you must show us an original copy or certified copy of the power of attorney, properly notarized, and any other documentation we may ask for from time to time. The power of attorney and all other documents must be in a form satisfactory to the Bank. We will not be liable for damages or penalty by reason of any payment made to or at the direction of a person holding a power of attorney.

## **ADVERSE CLAIMS; INTERPLEADER; LEGAL PROCESS**

We need not honor any claim against or involving an Account unless we are required to do so by order of a court or government agency that has jurisdiction over us, or pursuant to applicable law. This rule applies to any person asserting any rights or interest regarding an Account, including you and other persons who are authorized to make withdrawals or write checks or who present a power of attorney signed by you.

If we receive notice of any claim or dispute or of any legal proceeding we reasonably believe involves you or any of your Accounts, in our discretion we may suspend transactions on any Account which we believe to be affected until final determination of the claim or proceeding. We may place a hold on any funds in the Account and suspend transactions whether the affected Account is in your name alone or is a joint Account. An Account may be suspended even though the suspension may have been due to inadvertence, error because of similarity of the names of depositors, or other mistake.

You agree that we may comply with any state or federal legal process, including, without limitation, any writ of attachment, adverse claim, execution, garnishment, tax levy, restraining order, subpoena or warrant relating to you or your Account which we believe to be valid, without any liability from us to you. You agree that if we are served with legal process at any of our Stores or offices, we may comply with it, even if it is served at a location other than where your Account was opened. Further, you agree that we may comply with such process as we deem appropriate under the circumstances even if the legal process or document appears to affect the interest of only one owner of a joint Account. In such case, we may refuse to permit withdrawals or transfers from your Account until such legal process is satisfied or dismissed even if such action results in insufficient funds to pay a check you have written or otherwise satisfy an obligation you may have incurred.

You agree that we are entitled to a processing fee, for which you are liable to us, upon receipt of any legal process. We may deduct such fee, as well as any expenses, including without limitation attorneys' fees, in connection with any such document or legal process, from your Account or any other Account you may have with us without prior notice to you, or we may bill you directly for such expenses and fees. Any garnishment, attachment or other levy against your Account shall be subject to our right of set-off and security interest.

You agree that we will not pay and you shall not be entitled to receive interest on any funds we hold or set aside in connection with or in response to legal process. Finally, you agree that we may accept and comply with legal process, irrespective of how and/or where it was received even if the law requires any particular method of service.

You agree to indemnify us against all losses, costs, attorneys' fees, and any other liabilities that we incur by reason of responding to or initiating any legal action, including any interpleader action we commence involving you or your Account. As part of that indemnity, in the event we incur liability to a creditor of yours as a result of our response or failure to respond to a legal action, you agree to pay us on demand the amount of our liability to your creditor and to reimburse us for any expense, attorneys' fees, or other costs we may incur in collecting the amount from you.

We may, in our sole discretion and without any liability to you, initiate an action in interpleader to determine the rights of the persons making adverse claims to your Account. We may exercise this right regardless of whether the persons making the adverse claims have complied with all statutory requirements pertaining to adverse claims, such as posting a bond or giving other surety. Upon initiation of an interpleader action, we will be relieved and discharged of all further duties and obligations.

#### **LIMITED LIABILITY**

UNLESS EXPRESSLY PROHIBITED OR OTHERWISE RESTRICTED BY APPLICABLE LAW, THIS AGREEMENT, OR THE ELECTRONIC FUNDS TRANSFERS DISCLOSURE, THE BANK'S LIABILITY IS LIMITED AS FOLLOWS: THE BANK WILL NOT BE LIABLE TO YOU FOR PERFORMING OR FAILING TO PERFORM OUR SERVICES UNDER OR IN CONNECTION WITH THIS AGREEMENT UNLESS WE HAVE ACTED IN BAD FAITH. WITHOUT LIMITING THE ABOVE, THE BANK WILL NOT BE LIABLE FOR DELAYS OR MISTAKES WHICH HAPPEN BECAUSE OF REASONS BEYOND OUR CONTROL, INCLUDING, BUT NOT LIMITED TO, ACTS OF BANKING AUTHORITIES, NATIONAL EMERGENCIES, ACTS OF GOD, FAILURE OF TRANSPORTATION, COMMUNICATION OR POWER SUPPLY, OR MALFUNCTION OF OR UNAVOIDABLE

DIFFICULTIES WITH THE BANK'S EQUIPMENT. SHOULD A COURT ESTABLISH THE BANK'S LIABILITY TO YOU PURSUANT TO WHAT WAS DONE OR NOT DONE UNDER THIS AGREEMENT, YOU MAY RECOVER FROM THE BANK ONLY YOUR ACTUAL DAMAGES, IN AN AMOUNT NOT TO EXCEED THE TOTAL FEES AND CHARGES PAID BY YOU TO THE BANK PURSUANT TO THIS AGREEMENT DURING THE THREE (3) MONTH PERIOD IMMEDIATELY PRECEDING THE EVENT GIVING RISE TO THE LIABILITY. IN NO EVENT WILL YOU BE ABLE TO RECOVER FROM THE BANK INDIRECT, SPECIAL, CONSEQUENTIAL, EXEMPLARY DAMAGES OR LOST PROFITS WHETHER OR NOT IT HAS NOTICE THEREOF.

This Agreement and the deposit relationship do not create a fiduciary, quasi-fiduciary or special relationship between you and us. Our deposit relationship with you is that of debtor and creditor. The Bank's internal policies and procedures are solely for our own purposes and do not impose on us a higher standard of care than otherwise would apply by law without such policies or procedures.

If you are a licensed attorney or a law firm, you agree that we may report information about overdrafts and/or returned checks drawn on Accounts which you maintain as trustee for the benefit of another person or in any fiduciary capacity, to the extent and in the manner required by applicable laws, rules, or regulations. You agree that we have no liability to you for reporting any information to applicable authorities regarding any Account which we believe in good faith is subject to such laws, rules, or regulations.

#### **FACSIMILE SIGNATURES**

If we allow you to use a facsimile signature, you understand and acknowledge that we will not be able to determine whether the facsimile signature on any item is authentic or has been authorized by you. If your items are signed using a facsimile signature, you acknowledge that it is solely for your benefit and convenience. You authorize us to accept the facsimile signature of any Authorized Signer which you designate in writing from time to time (by corporate resolution or otherwise) on any check, draft, or other order drawn on us, or any other document and we may debit any of your Accounts in the amount of each payment which we make in reliance upon any such facsimile signature and/or reproduction thereof. We will not be liable, and you will assume all liability, for any losses, liabilities, penalties, claims, damages, costs, expenses, or other harm or injury which you may incur or that may be asserted against you or us in connection with the authorized or unauthorized use or reproduction by any person or entity, including, but not limited to, attorneys' fees and court costs, relating to or arising out of (i) any use, misuse and/or reproduction, whether or not authorized, by any person of any actual or purported facsimile signature of any Authorized Signer on any check, draft or other such order drawn on us or any other document, and (ii) any payment which we make in reliance upon any such facsimile signature and/or reproduction thereof. You will indemnify us and hold us harmless from and against any and all losses, liabilities, penalties, claims, damages, costs, expenses or other harm or injury which we may incur or suffer or which may be asserted by any person with respect to any use or misuse of an actual or purported facsimile signature of any Authorized Signer on any check, draft or other order drawn on us or on any other document, or any payment which we make in reliance upon any such facsimile signature and/or reproduction thereof. You shall be solely responsible for maintaining security over any device used to affix or apply facsimile signatures.

## INDEMNITY

- a) In General.** You agree to indemnify us and hold us harmless from and against any and all losses, liabilities, penalties, claims, damages, costs, expenses or other harm or injury that we may incur or that may be asserted by any person or entity against us, including, but not limited to, attorneys' fees and court costs arising out of any action at any time taken or omitted to be taken by (i) you under or in connection with this Agreement, including, but not limited to, your failure to observe and perform properly each and every obligation in accordance with this Agreement and any other commercial or business purpose agreement which you enter into with us; or (ii) us in reliance upon any resolution, certification, evidence of authority, or other document or notice given or purporting to have been given by you to us, or any information or order which you provide to us.
- b) Your Instructions to Us.** Without limiting the above, if you give us instructions which we believe may expose us to potential liability, we may refuse to follow your instructions. If we decide to follow your instructions, you agree to indemnify us against all losses, costs, attorneys' fees and any other liabilities we incur. In addition, we may ask you for certain protections, such as a surety bond or your indemnity in a form satisfactory to us.

## IF YOU OWE US MONEY

If you withdraw funds from your Account which you do not have a right to withdraw, including the amount of a check or other item which we later charge back to your Account or any amounts that may be credited to your Account in error, you will have to pay us back. If you do not, we can bring a lawsuit against you to get the money back. We can also do this if you owe us any fees or charges in connection with your Account and you do not pay us. If we bring a lawsuit against you, you agree to pay our court costs and reasonable attorneys' fees as awarded by the court and as permitted by law.

## **SECURITY INTEREST**

To the fullest extent allowed by applicable law, you grant to us a security interest in any property of yours which may at any time be in our possession or control for any purpose including, but not limited to, any Account. Such property shall constitute collateral for any and all of your commercial or business purpose obligations to us. These obligations include, but are not limited to, any amount by which any of your Accounts may from time to time be overdrawn, interest accrued thereon, and any collection costs or other costs due in connection therewith.

## **RIGHT OF SET-OFF**

We reserve the right to withdraw at any time some or all of the funds that may now or later be on deposit in any or all of your Accounts and apply them to the payment of any debts (other than amounts you may owe us on a personal credit card account with us) you may now or later owe us. We have this right even if the Account(s) we withdraw money from is a joint Account and the debt we apply it to is owed by only one of you. Likewise, we could withdraw money from an Account owned by only one person and apply it to reduce the joint debt of that person and another person. Our rights under this section are in addition to any right of set-off we may have under applicable law. You agree that our right of set-off is not conditioned on, or limited by, the complete mutuality of the parties obligated on the debt and owners on your Account, the maturity of the debt, the giving of notice to you, or the availability of any collateral securing the debt.

We also have the right to place a hold on funds in your Account if we have a claim against you or pending exercise of our right of set-off. If we place a hold on your Account, you may not withdraw funds from the Account and we can refuse to pay checks or other items drawn on the Account

In addition to any right of set-off, you hereby grant to the Bank a security interest in your deposit Accounts to secure all of your commercial or business purpose loans or either extensions of credit, now or in the future.

## **ACCOUNTS WITH ZERO BALANCE**

We may consider any Account (excluding CDs) having a zero balance for forty-five (45) Calendar Days to be closed by you.

## **ABANDONED ACCOUNTS**

If your Account is considered to be abandoned under applicable law because you have not used or acknowledged your Account for a time period directed by law, we must turn over the funds in your Account to the appropriate governmental authority. We may give notices as required by law before we do this. You may try to reclaim funds turned over to the governmental authority to the extent permitted by applicable law.

## **BANKING PRACTICES**

In the absence of a specific provision in this Agreement to the contrary, your Account will be subject to our usual banking practices and, to the extent not inconsistent therewith, the general commercial banking practices in the area we serve.

## **SEVERABILITY**

if any provision of this Agreement is invalid, changed by applicable law or declared invalid by order of a court, the remaining terms of this Agreement will not be affected, and the invalid provision shall be reformed in order to preserve the original intent of this Agreement to the fullest extent feasible. However, if such reformation is not feasible, this Agreement will be interpreted as if the invalid provision had not been placed in this Agreement.

## **JURY TRIAL WAIVER**

YOU AND WE EACH AGREE THAT NEITHER YOU NOR WE SHALL (A) SEEK A JURY TRIAL IN ANY LAWSUIT, PROCEEDING, COUNTERCLAIM, OR ANY OTHER ACTION BASED UPON, OR ARISING OUT OF, THIS AGREEMENT OR ANY ACCOUNT OR THE DEALINGS OF THE RELATIONSHIP BETWEEN YOU OR US, OR (B) SEEK TO CONSOLIDATE ANY SUCH ACTION IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED. THE PROVISIONS OF THIS SECTION SHALL BE SUBJECT TO NO EXCEPTIONS. NEITHER YOU NOR WE HAVE AGREED WITH OR REPRESENTED TO THE OTHER THAT THE PROVISIONS OF THIS SECTION WILL NOT BE FULLY ENFORCED IN ALL INSTANCES. YOU AND WE EACH ACKNOWLEDGE THAT THIS WAIVER HAS BEEN KNOWINGLY AND VOLUNTARILY MADE.

## **DEFAULTS**

Your Account will be in default if any of the following events occur:

- Any of your loans with us is past due or otherwise in default.
- You overdraw your Account repeatedly.
- You do not repay immediately any overdraft, or you fail to pay or perform any other obligation in connection with any of your deposit or credit relationships with us.
- You do not comply fully with any term or condition of this Agreement or of any other deposit or credit agreement you may have with us.
- You provide to us any false or misleading information in connection with any of your deposit or credit relationships with us.
- An assignment has been made for the benefit of your creditors or an entry of judgment has been made against you.

- We, in our sole discretion, are not satisfied with your condition or affairs, financial or otherwise, or have determined that your financial condition has suffered an adverse change.

If your Account is in default, we may refuse to advance funds on any commitment or line of credit you have with us, demand immediate repayment of any and all of your outstanding obligations to us, and/or terminate your deposit Accounts and we may exercise all available rights under law or equity. A default also may affect your funds availability, as described in the Funds Availability Policy.

#### MISCELLANEOUS

- a) Our Right to Refuse/Close Accounts:** The Bank reserves the right to refuse to open any Account and to terminate any Account at any time, and for any reason or no reason, without notice to you (unless notice is required under applicable law). This Agreement survives the closing of your Account.
- b) Our Right to Delay Enforcement:** We can choose to not enforce or delay in enforcing any provisions of this Agreement without losing the right to enforce them in the future.
- c) Items in the Mail:** We are not responsible for any items you mail to us that are lost in transit. Therefore, you may not wish to place currency or coupons in the mail.
- d) Direct Deposit:** If you have direct deposit, you agree that if a direct deposit must be returned for any reason, you authorize us to deduct the amount from this Account or any other Account you may have with us, without prior notice and at any time.
- e) Notice of Address Changes:** You must notify us in writing, by phone or at any of our banking offices, of any change of address. Any communication we send to you at the last address as shown on our records will be binding on you for all purposes. You agree we may change your address on our records based on information provided by the United States Postal Service without notice to you.
- f) Assignment:** You will not transfer, assign or pledge your Account(s) to any third party, and we will not recognize any such attempted assignment or pledge, without our prior written consent to be given or refused at our sole discretion.
- g) Account Mailings:** From time to time, the Bank may enclose advertising or promotional materials with any periodic statement that is mailed or otherwise made available to you with respect to your Account(s). These materials may include, without limitation, information regarding new, modified or discontinued products or services, as well as sweepstakes or other contests sponsored by the Bank. By opening and maintaining an Account with the Bank, you consent to the mailing and receipt of these advertising or promotional materials with your periodic statement.

- h) Representations and Warranties:** By establishing and maintaining an Account with us, you represent and warrant to us as follows for the duration of your Account relationship: This Agreement represents your valid and binding obligation and is enforceable in accordance with its terms. This Agreement represents the entire Agreement between you and us regarding your Account(s) and supersedes any and all prior discussions or agreements between you and us regarding your Account(s). Your performance of this Agreement does not violate your corporate or other governing documents, or any agreement or instrument to which you are a party, or any law or regulation applicable to you.
- i) Amendments:** We reserve the right to change the terms of this Agreement or change the terms of your Account at any time. We will give you such notice of the change as we determine is appropriate, such as by statement message or enclosure, letter, or as posted in the Store, and as required under applicable law. Where applicable law permits, we can notify you of the changes by posting a new version of this Agreement online, or by making the new version available in our Stores. Your continued use of the Account following the effective date of any such change indicates your consent to be bound by this Agreement, as amended. If you would like a copy of a current Agreement or have questions, please ask any Bank representative or call us at **1-888-751-9000**.
- j) Governing Law:** This Agreement is governed by the laws of the jurisdiction in which the Store where you opened your Account is located, except where applicable federal law is controlling.

#### **FUNDS TRANSFERS**

- a) Applicability; Authorization:** If you intend to make a Funds Transfer via phone, fax or using the Bank's cash management services and related software, you agree to complete and execute separate agreements governing the use of such services and software, and all such Fund Transfers will be subject to and governed by such agreements. All other Funds Transfers will be subject to (i) our procedures and fees, as may be amended from time to time, and (ii) the following terms of this Funds Transfer Section of this Agreement. Nothing in this Agreement shall be considered to require us to make any Funds Transfers requested by you.
- b) Definitions:** The following words have the meanings given to them below for purposes of this Funds Transfers Section.
- **"Article 4A"** means Article 4A of the Uniform Commercial Code as in effect from time to time in the jurisdiction in which the Store where you opened your Account is located.



- **"Authorized Representative"** means a person designated by you as your authorized representative, or otherwise authorized by you to act on your behalf in connection with a Payment Order, as defined below.
- **"Beneficiary"** means (i) the person to whom you ask us to make a Funds Transfer, as defined below, or (ii) you, if instructions relating to a Funds Transfer name you as the beneficiary.
- **"Beneficiary's Bank"** means the bank at which the Beneficiary maintains an account to which a Funds Transfer will be made.
- **"Callback"** means a telephone call initiated by us to an Authorized Representative for the purpose of verifying that you actually issued a Payment Order, a cancellation of a Payment Order or a change to a Payment Order.
- **"Funds Transfer"** means a transfer to or from your Account which is (i) governed by Article 4A, and (ii) made by telephone, wire, automated clearing house transfer, computer instructions or written instructions other than a check.
- **"Non-Repetitive Payment Order"** means a Payment Order that is not a Repetitive Payment Order, as defined below.
- **"Payment Order"** means your instructions to us to pay or cause to be paid a fixed or determined amount of money to a Beneficiary.
- **"Repetitive Payment Order"** means a Payment Order issued on a regular basis by using a confidential code number and relating to the same Beneficiary and the same account maintained by or for the benefit of such Beneficiary at the Beneficiary's Bank.
- **"Sending Bank"** means the bank that sends a Funds Transfer to another bank.
- **"Test Key"** means a confidential algorithm provided by us to you for the purpose of verifying the authenticity of a Repetitive or a Non-Repetitive Payment Order.

**c) Describing the Beneficiary's Bank and the Intermediary Bank:**

If you ask us to make a Funds Transfer from your Account to the Beneficiary's account, you must identify the Beneficiary, the Beneficiary's Bank, and the intermediary bank, if any, to which you want the Funds Transfer to be sent, by name and by an identification number. If you fail to provide us with an intermediary bank, you hereby direct us on your behalf, to select an intermediary bank. We are entitled to rely upon each identification number which you provide to us, as the proper identification of each person and bank, as applicable, even if it identifies a person or bank different from the named person or bank. In addition, the Beneficiary's Bank may make payment to the Beneficiary based on the identification number, even if it identifies a person different from the named Beneficiary. If we are named as a Beneficiary's Bank, we will pay a Funds Transfer to the person identified by an identification number, even if it identifies a person different from the named Beneficiary.

**d) Payments Are Provisional:** If a Funds Transfer is subject to the rules of an automated clearing house such as the National Automated Clearing House Association or the New England Automated Clearing House Association, or other funds transfer system rules which provide that payment to a Beneficiary is provisional until the Beneficiary's Bank receives final payment:

- Our payment of a Funds Transfer to your Account will be provisional until the Sending Bank gives us final payment, and you agree that we may reverse our provisional credit if the Sending Bank does not give us final payment; and
- A payment by the Beneficiary's Bank of a Funds Transfer to the Beneficiary will be provisional until the Sending Bank gives the Beneficiary's Bank final payment, and you agree that the Beneficiary's Bank may reverse its provisional credit if the Sending Bank does not give the Beneficiary's Bank final payment.

You agree to be bound by such rules.

**e) Authorized Account:** If you make a Funds Transfer, you agree to tell us which of your Accounts will be used to pay the Funds Transfer. If you do not do so, we may pay your Funds Transfer from any of your Accounts.

**f) No Special Notice of Receipt of Funds:** If you are the Beneficiary of a Funds Transfer, you agree that we do not have to give you any notice that we have received the Funds Transfer. However, if you normally receive a periodic statement for the Account to which we credited the Funds Transfer, the Funds Transfer will be reflected on the periodic statement that includes the date on which we credited the Funds Transfer to your Account.

**g) You Must Tell Us About Errors:** You must use ordinary care to determine whether each Funds Transfer has been authorized properly by you, and to discover any errors relating to Funds Transfers executed by us. You must tell us about an unauthorized Funds Transfer or any errors relating to a Funds Transfer no later than ten (10) Business Days after the earlier of the date we tell you that your Funds Transfer has been executed or the date we tell you that your Account has been debited to pay for such Funds Transfer.

You can do this by calling **1-888-751-9000** or writing us at:

Wire Transfer Department  
Mail Stop 02-206-02-77  
6000 Atrium Way  
Mt. Laurel, NJ 08054

If you fail to notify us within such time period, and we are required by law to refund to you all or part of the payment which you made, we will not pay interest to you on the amount refunded unless we are required to do so by applicable law.

**h) Security Procedures:** The following Security Procedures are available to you. We have established these Security Procedures to verify whether you were the person who actually asked us to make a Funds Transfer or to change or cancel a Funds Transfer. The Security Procedures are as follows:

- Callbacks. Outgoing transfers initiated via phone or fax can be verified using a call back procedure to the individual(s) authorized by you at designated telephone numbers.
- Test Keys. We may issue test keys to you for the purpose of validating outgoing transfer requests initiated via phone or fax
- Recorded Telephone Call to Our Money and Wire Transfer Department This Security Procedure includes a recorded telephone call from you to our Money and Wire Transfer Department and is available for both Repetitive Payment Orders and Non-Repetitive Payment Orders.

You acknowledge and agree that the security procedures described above are a commercially reasonable method for the purpose of verifying whether any Fund Transfer was initiated by you. You agree that any election you may make to change or waive security procedures are at your risk and that any loss resulting in whole or in part from such change or waiver will be for your account. You acknowledge that the Bank has given you the option to choose from a number of security procedures. You further acknowledge and agree that the security procedures described above are not intended, and that it is commercially reasonable that the security procedures are not intended, to detect any errors relating to or arising out of a Fund Transfer.

You agree to be bound by any Funds Transfer, whether or not authorized, which is issued in your name and accepted by us in compliance with the security procedure chosen by you. Therefore, you should exercise special care when choosing a security procedure. You must keep the security procedure chosen by you confidential, and must not reveal the security procedure to any person, other than to an Authorized Representative.

i) **Funds Transfers Made Without a Security Procedure:** If we agree to make a Funds Transfer for you without a security procedure, you will be bound by such Funds Transfer to the fullest extent allowed by applicable law.

## PART II: ACCOUNT MAINTENANCE INFORMATION

### CERTIFICATES OF DEPOSIT

Maturity: Our Standard Business CDs and our Business "No Catch" CDs will automatically renew to the same term at maturity.

At maturity, you will have ten (10) Calendar Days from the maturity date to withdraw the funds without being charged a penalty. After the Account is opened, you may not deposit into or withdraw from this Account before the maturity date except during promotional periods of which you will be notified. Deposits may only be withdrawn without penalty prior to maturity when the depositor has died or been judicially declared mentally incompetent. If you withdraw funds before maturity, a penalty, as shown below, will be imposed.

<u>CD TERM</u>	<u>PENALTY</u>
Less than 90 Days	All interest with a minimum of 7 Days' interest
90 Days to Less than 1 Year	3 Months' interest
1 Year to Less than 2 Years	6 Months' interest
2 Years and Over	9 Months' interest

No Catch CD: The minimum balance required to open a No Catch CD is \$25,000. The customer has the option of making one withdrawal during the term without penalty. Additional withdrawals will be subject to an early withdrawal penalty as described above.

Interest Computation: The interest rate will be effective until the maturity date. The daily balance method is used to calculate the interest on your Account. This method applies a daily periodic rate to the principal in the Account each day. Interest is credited and compounded monthly for all CDs.

Jumbo and Trust CDs: The minimum balance required to open a Jumbo CD is \$50,000; there is no minimum requirement for a Trust CD. Interest rates are available in the Stores upon request Rates are determined daily by our Investment Department. Interest is accrued using the simple interest method and does not compound. Depending on the term, interest is either paid at maturity or paid monthly to a TD Bank account with the same legal title. Jumbo and Trust CDs do not automatically renew at maturity. After the maturity date, the deposited funds will no longer earn interest The Bank will not pay interest for Jumbo and Trust CDs once the CD has reached its maturity date, regardless of the circumstances.

### **PART III: FUNDS AVAILABILITY POLICY**

Your ability to withdraw funds you have deposited at the Bank will be determined according to this policy.

This disclosure applies to all transaction accounts such as Checking and Interest bearing Checking Accounts, and to Money Market, Savings, and Time Accounts.

The Bank's general policy is to make funds from your deposits available to you no later than the first (1st) Business Day after the day we receive your deposit. Electronic direct deposits and wire transfers will be available on the day we receive the deposit. Once they are available, you can withdraw the funds in cash and we will use the funds to pay checks that you have written.

#### **DETERMINING THE AVAILABILITY OF A DEPOSIT**

To determine the availability of your deposits, every day is a Business Day, except Saturdays, Sundays and federal holidays. On Business Days that we are open, the earliest time that we stop accepting deposits in our Stores for same day credit is 6:00 p.m. Thus, if you make a deposit with a bank teller before 6:00 p.m. on a Business Day that we are open, we will consider that day to be the day of your deposit. However, if you make a deposit after 6:00 p.m. or on a day we are not open, we will consider that the deposit was made on the next Business Day we are open.

If you mail funds to us, the funds are considered deposited on the Business Day we receive them. Funds deposited in a night depository or lockbox are considered deposited on the next Business Day the Bank or lockbox is open.

If you make a deposit at a Bank ATM before 8:00 p.m. on a Business Day that we are open, we will consider that day to be the day of your deposit. However, if you make a deposit at a Bank ATM after 8:00 p.m. or on a day we are not open, we will consider that the deposit was made on the next Business Day we are open.

The length of the delay varies depending on the type of deposit and is explained below:

#### **SAME DAY AVAILABILITY**

Funds from the following deposits are available on the same day they are deposited:

- Cash deposits made at the Bank's teller station;
- Funds received for deposit by an electronic payment (including ACH credits and transfers);

- Wire transfers;
- \$100.00 from non-cash deposits made at the Bank's teller station;
- \$100.00 from deposits made at the Bank's ATM (for accounts opened longer than 90 days).

**LONGER DELAYS MAY APPLY**

In some cases, we will not make all the funds that you deposit by check available at the times shown in this Policy.

Depending on the type of check you deposit, funds may not be available until the fifth (5th) Business Day after the day of your deposit. The first \$100 of your deposit, however, will be available no later than the first (1st) Business Day after the day of your deposit. If we are not going to make all of the funds from your deposit available on the first (1st) Business Day, we will notify you at the time you make your deposit. We will also tell you when the funds will be available. If your deposit is not made directly to one of our employees, or if we decide to take this action after you have left the premises, we will mail you the notice by the day after we receive your deposit. If you will need the funds from a deposit right away, you should ask us when the funds will be available.

In addition, funds deposited by check may be delayed for a longer period under the following circumstances:

- You deposit checks totaling more than \$5,000 on any one day (Note: the first \$100 will be available no later than the first (1st) Business Day after the day of your deposit);
- We believe a check you deposited will not be paid;
- You re-deposit a check that has been returned unpaid;
- You have overdrawn your Account repeatedly, or would have overdrawn your account if checks had been honored in the last six (6) months;
- There is an emergency, such as failure of communications or computer equipment. (Note: the first \$100 will be available no later than the first (1st) Business Day after the day of your deposit).

We will notify you if we delay your ability to withdraw funds for any of these reasons, and we will tell you when the funds will be available. They will generally be available no later than the eleventh (11th) Business Day after the day of your deposit.

**SPECIAL RULES FOR NEW ACCOUNTS**

If you are a new customer, the following special rules may apply during the first thirty (30) days your account is open.

Funds from electronic direct deposits and wire transfers to your account will be available on the day we receive the deposit. Funds from deposits of cash and the first \$5,000 of a day's total deposits of cashier's, certified, teller's, traveler's, and federal, state and local government checks will be available on the first (1st) Business Day after the day of your deposit. The excess over \$5,000 will be available no later than the ninth (9th) Business Day after the day of your deposit.

Funds from all other check deposits will be available no later than the eleventh (11th) Business Day after the day of your deposit.

#### **HOLDS ON OTHER FUNDS**

If we accept for deposit or we cash a check that is drawn on another bank, we may make funds from the deposit available for withdrawal immediately, but delay your availability to withdraw a corresponding amount of funds that you have on deposit in another Account with us. The funds in the other Account would then not be available for withdrawal in accordance with the time periods that are described in this policy.

#### **NON-U.S. FINANCIAL INSTITUTIONS**

We reserve the right to send any checks drawn on a foreign financial institution (including Canadian financial institutions) for collection. For each item sent, we will assess a collection charge plus any collection fees charged to us by other financial institutions which process the item as listed in our most recent Fee Schedule. While the funds represented by checks that are sent for collection are generally available within ten to fifteen (10 to 15) Business Days, items sent for collection will be credited to your Account in U.S. dollars, with the amount of U.S. dollars credited calculated using our applicable exchange rate that is in effect on the date when we credit the funds to your Account and not when the deposit is made. If we do not enter any item (Canadian only) for collection, the funds will be available no later than the third (3rd) Business Day after the day of deposit.

#### **CHECKS OR OTHER ITEMS RETURNED SUBSEQUENT TO FUNDS BEING MADE AVAILABLE**

If a check or other item you deposited to your Account is returned to us unpaid after the funds have been made available to you, the amount of the check or other item will be deducted from your Account. If there are insufficient funds in your Account, we reserve the right to demand payment directly from you and to charge you for the overdraft as posted in our most recent Fee Schedule.

#### **ENDORSEMENTS**

Endorsements on items deposited to your Account are restricted, under federal law, to the first 1.5 inches of the back of the check. The remaining portion of the check is reserved for endorsements by banks. Your endorsement should contain your signature, the words "For Deposit Only," and your Account number. Improper endorsements may delay the check collection process and the subsequent crediting and availability of funds. While we may accept non-conforming endorsements, you agree to be responsible for any losses.

#### **PART IV: ELECTRONIC FUNDS TRANSFERS**

The Electronic Funds Transfers ("EFT") we are capable of handling are indicated below. Some of these may not apply to your Account. Please read this disclosure carefully because it tells you your rights and your obligations for these transactions. You should keep this notice for future reference.

For security purposes, your card may be cancelled after 13 months of inactivity.

Use of your Visa Debit Card may be restricted in certain countries due to security risks.

#### **DIRECT DEPOSITS**

You may make arrangements for certain direct deposits to be accepted into your Checking, Savings, or Money Market Deposit Accounts.

#### **PRE-AUTHORIZED WITHDRAWALS**

You may make arrangements to pay certain recurring bills from your Checking, Statement Savings, or Statement Money Market Deposit Accounts.

#### **TELEPHONE TRANSFERS**

You may make arrangements to have telephone transfers between eligible Checking, Statement Savings, or Statement Money Market Deposit Accounts through our telephone banking system.

#### **ELECTRONIC CHECK CONVERSION**

Some Point-of-Purchase terminals may provide you the option of initiating a one-time automatic debit from your Account by authorizing the merchant to obtain the necessary information from a check drawn on your deposit Account. A check used in this way is treated as an EFT and is not a negotiable instrument in its own right. The check cannot be subsequently used and should be voided.

You may authorize a Merchant or other payee to make a one-time electronic payment from your checking account using information from your check to:

- (i) Pay for purchases
- (ii) Pay bills



## **ATM AND POS TRANSACTION TYPES**

You may access your Account(s) by ATM or Point of Sale (POS) using your Visa Debit Card and Personal Identification Number ("PIN") to:

- make deposits to Checking, Statement Savings, and Statement Money Market accounts at TD Bank ATMs;
- get cash withdrawals and/or transfer funds from and between Checking, Statement Savings, and Statement Money Market Accounts linked to your card;
- make payments on a TD Bank loan at many TD Bank ATMs;
- get information about the Account balance(s) in the Checking, Statement Savings, and/or Statement Money Market Account(s) linked to your card;
- make Visa Debit Card purchases from your Checking Account.

**Note:** Some of these services may not be available at all terminals.

## **VISA DEBIT TRANSACTION TYPES**

You may access your Checking Account at any location that accepts Visa Debit Cards to:

- purchase goods or pay for services, if the merchant permits;
- get cash from a merchant, if the merchant permits or from a participating financial institution.

## **VISA DEBIT CARD LIMITS**

The standard daily limits (per card) are:

- ATM cash withdrawals – \$750;
- POS (PIN) transactions – \$2,000;
- Visa signature transactions and Visa cash advances – \$5,000 each.

## **DISCLAIMER**

We disclaim all liability for losses and/or damages incurred by you for failure to complete a transfer on the correct date or in the right amount under any circumstances; provided, however, that upon notice of such failure we will take reasonable steps to correct the transaction.

## **CHARGES FOR ELECTRONIC FUNDS TRANSFERS**

We will not impose a fee for transactions you conduct at an ATM that we do not own or operate. Such transactions are referred to as "non-TD Bank" ATM transactions.

Please note: For non-TD Bank ATM transactions, the institution that owns the ATM (or the network) may assess a fee (surcharge) at the time of your transaction, including balance inquiries.

International ATM Card or Visa Debit Card Transactions: The exchange rate between the transaction currency and the billing currency used for processing international ATM Card or Visa Debit Card transactions is a rate selected by Visa from the range of rates available in wholesale currency markets for the applicable central processing date, which rate may vary from the rate Visa itself receives, or the government mandated rate in effect for the applicable central processing date.

## **RIGHT TO DOCUMENTATION**

**Terminal Transactions:** You can get a receipt at the time you conduct a transaction using automated teller machines or point-of-sale terminals, unless your transaction totals \$15.00 or less.

**Direct Deposits:** If you have arranged to have direct deposits made to your Account at least once every sixty (60) Calendar Days from the same person or company, you can call **1-888-751-9000** to find out whether the deposit has been made.

**Right to Stop Payment and Procedures for Doing so:** Pre-authorized transfers from your Account(s) can be discontinued by calling us at **1-888-751-9000** or by writing to:

Transaction Services Department  
P.O. Box 1377  
Lewiston, ME 04243-1377

To be effective a stop payment request must be received at least three (3) Business Days prior to the regularly scheduled payment date, and must precisely identify the account number, date and amount of the payment, and the payee.

Your stop payment request will be effective after the request has been received by the Bank and the Bank has had a reasonable opportunity to act on it. If your stop payment request has been made orally, the Bank will send you a written confirmation. If your stop payment request is made in writing, you must use a form that is supplied by the Bank; this form will constitute written confirmation of your request. In either case, it is your responsibility to ensure that all of the information supplied on your written confirmation is correct and to promptly inform the Bank of any inaccuracies.

Unlike checks, you cannot place stop payments for purchases made by telephone, on the Internet, or with your Visa Debit Card.

EXHIBIT B

Cash Management Master Agreement

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## CASH MANAGEMENT MASTER AGREEMENT

**Customer:** HARRIS & HARRIS GROUP, INC.

**Date of Agreement:**

TD Bank, N.A. ("Bank") provides a broad range of non-consumer cash management products and services to its customers. The customer identified above ("Customer") wishes to obtain from Bank, and Bank desires to provide to Customer, those services that have been checked below:

1. TD TreasuryDirect Services (Appendix I)
2. TD ACH Origination Services (Appendix II)
3. TD Wire Transfer Services (Appendix III)
4. TD Sweep Services (Appendix IV)
5. TD Positive Pay Services (Appendix V)

**AFTER REVIEW OF SECTION 10 HEREIN,  
CUSTOMER DECLINES POSITIVE PAY SERVICES**

**\*\*\* [Customer must accept or decline the Positive Pay Services]**

6. TD Controlled Disbursement Services (Appendix VI)
7. TD Lockbox Services (Appendix VII)
8. TD Digital Express Services (Appendix VIII)
9. TD Account Reconciliation Services – Full (Appendix IX)
10. TD Account Reconciliation Services – Partial (Appendix X)
11. TD Deposit Reconciliation Services (Appendix XI)
12. TD Check Imaging Services (Appendix XII)
13. TD Zero Balance Account Services (Appendix XIII)
14. TD Currency Services (Appendix XIV)
15. TD EscrowDirect Services (Appendix XV)
16. TD BAI2 File Transmission Services (Appendix XVI)
17. TD Data Exchange Services (Appendix XVII)
18. TD ACH Third Party Sender Services (Appendix XVIII)
19. TD Image Cash Letter Services (Appendix XIX)
20. TD Healthcare Remittance Management Services (Appendix XX)
21. TD Data Transmission Services (Appendix XXI)
22. *Reserved* (Appendix XXII)
23. *Reserved* (Appendix XXIII)
24. TD RapidDeposit Services (Appendix XXIV)



The “Cash Management Service(s)” or “Service(s)” shall hereafter mean the cash management service(s) identified above and provided by Bank (and/or Bank’s third-party service providers) to Customer pursuant to this Agreement, the Appendices, including Amended Appendices, as defined below, exhibits, Setup Form(s), and any service guides or manuals made available to Customer by Bank.

## **Agreement**

This Cash Management Master Agreement (this “Agreement”) is by and between Bank and Customer. Bank agrees to provide to Customer and Customer agrees to purchase certain Cash Management Services (as defined above) offered by Bank. Bank and Customer agree that the Cash Management Services will be governed by the terms of this Agreement and the rules and procedures applicable to each of the Services (collectively, the “Rules”). The Rules are contained in the Appendices to this Agreement, and are hereby incorporated in and made a part of this Agreement. This Agreement shall be effective when signed by both parties.

The following terms and conditions are applicable to all Cash Management Services provided to Customer hereunder.

**1 . Definitions.** Capitalized terms used in this Agreement and in any Appendix, unless otherwise defined herein or therein, shall have the meanings set forth below:

“Access Devices” means collectively all security, identification and authentication mechanisms, including, without limitation, security codes or tokens, PINs, electronic identities or signatures, encryption keys and/or individual passwords associated with or necessary for Customer’s access to and use of any Cash Management Services.

“Account” means an Account, as such term is defined in the Account Agreement, used in connection with any Cash Management Services.

“Account Agreement” means the Business Deposit Account Agreement issued by Bank and governing Customer’s deposit relationship with Bank, as the same may be amended from time to time.

“Affiliate(s)” means, with respect to any party, any company controlled by, under the control of, or under common control with such party.

“Amended Appendix” means an amendment to an Appendix that supplements or revises, but does not revoke in its entirety, a prior Appendix for a particular Service.

“Appendix” means a description of the rules and procedures applicable to a particular Service to be provided by Bank to Customer. Each such Appendix, including any Amended Appendix, is incorporated herein by reference and made a part hereof. If there is any conflict between the provisions of this Agreement and any Appendix or Amended Appendix, the Appendix or Amended Appendix shall govern, but only to the extent reasonably necessary to resolve such conflict.

“Authorized Representative” means a person designated by Customer as an individual authorized to act on behalf of Customer and/or authorized to access and use the Services, as evidenced by certified copies of resolutions from Customer’s board of directors or other governing body, if any, or other certificate or evidence of authority satisfactory to Bank, including, without limitation, any Customer enrollment or Setup Form(s) completed by Customer.

“Bank Internet System” means Bank’s Internet-based electronic information delivery and transaction initiation system, as may be offered by Bank from time to time, including but not limited to Bank’s TreasuryDirect Services and WebExpress Services.

“Bank Internet System Agreement” means the agreement issued by Bank and governing Customer’s use of the Bank Internet System.

“Business Day” has the meaning given to it in the Account Agreement.

“Calendar Day” has the meaning given to it in the Account Agreement.

“*Primary Account*” means the Account designated by Customer to which any direct Service fees due Bank may be charged in accordance with this Agreement. Unless otherwise agreed upon in writing by Bank, the address for Customer associated with the Primary Account shall be the address to which all notices and other communications concerning the Services may be sent by Bank.

“*Substitute Check*” has the meaning given to it in Section 3(16) of the *Check Clearing for the 21st Century Act* (“Check 21”), P.L. 108-100, 12 U.S.C. § 5001(16).

## **2. The Services.**

2.1 Bank shall provide to Customer, subject to this Agreement and the applicable Appendix, all Cash Management Services that Customer may request from time to time. Bank shall not be required to provide any Services specified in an Appendix unless Customer also provides all information reasonably required by Bank to provide to Customer the Service(s) specified therein.

2.2 Customer, through its Authorized Representative, may use the Services solely in accordance with the terms and conditions of this Agreement and the related Appendices.

2.3 With the exception of scheduled off-peak downtime periods, Bank shall make all reasonable efforts to make the Services available to Customer each Business Day.

2.4 Access to on-line Services will be denied if invalid Access Devices are used or if the user exceeds the number of invalid attempts allowed by Bank.

2.5 Customer is authorized to use the Services only for the purposes and in the manner contemplated by this Agreement.

2.6 Customer agrees to cooperate with Bank, as Bank may reasonably request, in conjunction with the performance of the Services.

2.7 Customer agrees to comply with the Rules, as they may be amended from time to time by Bank.

2.8 A number of Bank’s Services are subject to processing cut-off times on a Business Day. Customer can obtain information on Bank’s current cut-off time(s) for Service(s) by reviewing the relevant Service’s Setup Form(s), as applicable, or by calling Cash Management Customer Care at 1-866-475-7262, or by contacting Customer’s Cash Management Sales Representative. Instructions received after a cut-off time or on a day other than a Business Day may be deemed received as of the next Business Day.

2.9 Bank may make changes to this Agreement and any Appendix at any time by providing notice to Customer in accordance with the terms of this Agreement or as may be required by applicable law. Notwithstanding anything to the contrary herein, any Appendix that provides for an alternative form and method for making changes to such Appendix and for providing notice of the same shall govern for that Service. Further, notwithstanding anything to the contrary in this Agreement or in any Appendix, if Bank believes immediate action is required for security of Bank or Customer funds, Bank may immediately initiate changes to any procedures and provide prompt subsequent notice thereof to Customer.

2.10 In connection with this Agreement and the Services, Customer agrees that it shall present, and Bank shall have a duty to process, only Substitute Checks that are created by financial institutions; provided, however, that this limitation shall not apply to Substitute Checks created with data from Customer pursuant to any Appendix for Services involving the creation of electronic check images using check conversion technology.

## **3. Covenants, Representations and Warranties.**

3.1 Customer represents and warrants that the individual(s) executing this Agreement has/have been authorized by all necessary Customer action to sign such agreements and to issue such instructions as may be necessary to carry out the purposes and intent of this Agreement and to enable Customer to receive each selected Service. Each Authorized Representative whom Customer permits to access and use the Services is duly authorized by all necessary action on the part of Customer to (i) access the Account(s) and use the Services; (ii) access any information related to any Account(s) to which the Authorized Representative has access and (iii) engage in any transaction relating to any Account(s) to which the Authorized Representative has access.

3.2 Bank may unconditionally rely on the validity and accuracy of any communication or transaction made, or purported to be made, by an Authorized Representative.

3.3 Customer shall take all reasonable measures and exercise all reasonable precautions to prevent the unauthorized disclosure or use of all Access Devices associated with or necessary for Customer’s use of the Services.

3.4 Customer is not a “consumer” as such term is defined in the regulations promulgated pursuant to the Gramm-Leach-Bliley Act, 15 U.S.C. § 6801 et seq., nor a legal representative of a “consumer.”

3.5 Customer shall use the Services only for its own lawful business purposes. Customer shall not use the Services for or on behalf of any third party. Customer shall take all reasonable measures and exercise reasonable precautions to ensure that Customer officers, employees and Authorized Representatives do not use the Services for personal, family or household purposes, or any other purpose not contemplated by this Agreement.





3.6 Customer and Bank shall comply with (i) all applicable laws, regulations, rules and orders; (ii) the Account Agreement; (iii) all applicable National Automated Clearing House Association (“NACHA”) rules, regulations, and policies; (iv) the Uniform Commercial Code; (v) Office of Foreign Asset Control (“OFAC”) sanctions; and (vi) all applicable laws, regulations and orders administered by FinCEN (collectively (i) through (vi), “Compliance Laws”).

#### **4. Account Agreement; Service Fees,**

4.1 Bank and Customer agree that any Account established by Customer in connection with Services offered by Bank shall be governed by the Account Agreement, including one or more fee schedules issued by Bank for the Account. If there is any conflict between the terms and provisions of this Agreement and the Account Agreement, the terms and provisions of this Agreement shall govern, but only to the extent reasonably necessary to resolve such conflict.

4.2 Customer agrees to compensate Bank for all Accounts and Services that Bank provides pursuant to this Agreement, including any Appendices, in accordance with the applicable fee schedules or agreements between Bank and Customer in effect from time to time that apply to the Services (the “Service Fees”). By signing below, Customer acknowledges receipt of the Account Agreement and acceptance of the Service Fees, and agrees to be bound by their terms, as those terms may be amended from time to time.

4.3 Customer authorizes Bank to charge the Primary Account for all applicable charges and fees to the extent that such charges and fees are not offset by earnings credits or other allowances for Customer’s Account(s). If the balance of available funds in the Primary Account is not sufficient to cover such fees, Bank may charge such fees to any other deposit Account maintained by Customer with Bank. Customer also agrees to pay all sales, use or other taxes (other than taxes based upon Bank’s net income) that may be applicable to the Services provided by Bank hereunder. Bank may charge a service charge for Account research requested by Customer in accordance with the published schedule of charges for such research.

4.4 Bank may amend Service Fee(s), in aggregate or individually, at any time. To the extent that such changes adversely affect Customer, Bank will use commercially reasonable efforts to give notice to Customer of such changes, in accordance with applicable law, or as may otherwise be agreed to by the parties.

**5 . Customer Identification Program.** Customer agrees to provide to Bank, before Bank begins providing any Services to Customer, any and all information required to comply with applicable law and Bank’s policies and procedures relating to customer identification. Such information may include, without limitation, official certificates of customer existence, copies of Customer formation agreements, business resolutions or equivalent documents, in a form acceptable to Bank authorizing Customer to enter into this Agreement and to receive Services from Bank pursuant hereto, and designating certain individuals as Customer’s Authorized Representatives.

#### **6. Software.**

6.1 Bank may supply Customer with certain software owned by or licensed to Bank to be used by Customer in connection with the Services. Customer agrees that all such software is and shall remain the sole property of Bank and/or the vendor of such software. Customer agrees to comply with all of the terms and conditions of all such license agreements and other documents to which Customer agrees to be bound. Unless otherwise agreed in writing between Bank and Customer, Customer shall be responsible for the payment of all costs of software, installation of any software provided to Customer in connection with the Services, as well as for selection, installation, maintenance and repair of all hardware required on Customer’s premises for the successful operation of the software.

6.2 Customer shall indemnify, defend and hold harmless Bank, its successors and assigns, from and against any loss, damage or other claim or liability attributable to Customer’s unauthorized distribution or disclosure of any software provided with the Services or any other breach by Customer of any software license. The provisions of this paragraph shall survive termination of this Agreement.

6.3 Any breach or threatened breach of this Section will cause immediate irreparable injury to Bank, and Customer agrees that injunctive relief, including preliminary injunctive relief and specific performance, should be awarded as appropriate to remedy such breach, without limiting Bank’s right to other remedies available in the case of such a breach. Bank may apply to a court for preliminary injunctive relief, permanent injunctive relief and specific performance, but such application shall not abrogate Bank’s right to proceed with an action in a court of competent jurisdiction in order to resolve the underlying dispute.

**7. Computer Requirements.** For certain Cash Management Services, Customer will need to provide at Customer’s own expense, a computer, all software and necessary telephone lines, Internet or other connections and equipment as needed to access the Services (collectively, the “Computer”). Customer’s Internet or other web browser software must support a minimum 128-bit SSL encryption or other security measures as Bank may specify from time to time. Customer’s browser must be one that is certified and supported by Bank for optimal performance. Customer is responsible for the installation, maintenance and operation of the Computer and all related charges. Customer is responsible for installing and maintaining appropriate virus protection software on Customer’s Computer. Bank is not responsible for any errors or failures caused by any malfunction of the Computer or any Computer virus or related problems that may be associated with access to or use of the Services or the Computer. Bank also is not responsible for any losses or delays in transmission of information Customer provides to Bank or otherwise arising out of or incurred in connection with the use of any Internet or other service provider providing Customer’s connection to the Internet or any browser software.

## **8. Bank Third Parties.**

8.1 Customer acknowledges that certain third parties, agents or independent service providers (hereinafter "Third Parties") may, from time to time, provide services ("Third Party Services") to Bank in connection with Bank's provision of the Services to Customer and that accordingly, Bank's ability to provide the Services hereunder may be contingent upon the continuing availability of certain services from such Third Parties. Third Party Services may involve the processing and/or transmission of Customer's data, instructions (oral or written) and funds. In addition, Customer agrees that Bank may disclose Customer's financial information to such Third Parties (i) where it is necessary to provide the Services requested; (ii) in order to comply with laws, government agency rules or orders, court orders, subpoenas or other legal process or in order to give information to any government agency or official having legal authority to request such information; or (iii) when Customer gives its written permission.

8.2 Bank will be responsible for the acts and omissions of its Third Parties in the same manner as if Bank had performed that portion of the Services itself, and no claim may be brought by Customer against such Third Parties. Notwithstanding the foregoing, any claims against Bank (with respect to the acts or omissions of its Third Parties) or its Third Parties shall be subject to the limitations of liability set forth herein to the same extent as if Bank had performed that portion of the Services itself. However, Bank will not be deemed to be the agent of, or responsible for, the acts or omissions of any person (other than its Third Parties), and no such person shall be deemed Bank's agent.

## **9. Customer Information; Security Procedures.**

9.1 In providing the Services, Bank shall be entitled to rely upon the accuracy of all information and authorizations received from Customer or an Authorized Representative and the authenticity of any signatures purporting to be of Customer or an Authorized Representative. Customer agrees promptly to notify Bank of any changes to any information or authorizations provided to Bank in connection with the Services, and further agrees to promptly execute any new or additional documentation Bank reasonably deems necessary from time to time in order to continue to provide the Services to Customer.

9.2 Customer agrees that it shall be solely responsible for ensuring compliance with any security procedures established by Bank in connection with the Services, as such may be amended from time to time, and that Bank shall have no liability for any losses sustained by Customer as a result of a breach of security procedures if Bank has substantially complied with the security procedures.

9.3 Bank shall be entitled to rely on any written list of Authorized Representatives provided to Bank by Customer until revoked or modified by Customer in writing. Customer agrees that Bank may refuse to comply with requests from any individual until Bank receives documentation reasonably satisfactory to it confirming the individual's authority. Bank shall be entitled to rely on any notice or other writing believed by it in good faith to be genuine and correct and to have been signed by the individual purporting to have signed such notice or other writing. Bank may also accept verbal instructions from persons identifying themselves as an Authorized Representative, and Bank's only obligation to verify the identity of such person as an Authorized Representative shall be to call back such person at a telephone number(s) provided to Bank by Customer. Bank may, but shall have no obligation to, call back an Authorized Representative other than the Authorized Representative from whom Bank purportedly received an instruction. Bank may, but shall have no obligation to, request additional confirmation, written or verbal, of an instruction received via telephone at any time or for any reason whatsoever prior to executing the instruction. Bank may also in its discretion require the use of security codes for Authorized Representatives and/or for receiving instructions or items from Customer. Customer understands and agrees, and Customer shall advise each Authorized Representative that, Bank may, at Bank's option, record telephone conversations regarding instructions received from an Authorized Representative.

9.4 Any security procedures maintained by Bank are not intended to detect errors in the content of an instruction received from Customer or Customer's agent or vendor. Any errors in an instruction from Customer, Customer's Authorized Representative, agent or vendor shall be Customer's sole responsibility. Customer agrees that all security procedures described in this Agreement and applicable Appendix are commercially reasonable and that Bank may charge Customer's Account for any instruction that Bank executed in good faith and in conformity with the security procedures, whether or not the transfer is in fact authorized.

9.5 Customer agrees to adopt and implement commercially reasonable policies, procedures and systems to provide security to information being transmitted and to receive, store, transmit and destroy data or information in a secure manner to prevent loss, theft or unauthorized access to data or information ("Data Breaches"). Customer also agrees that it will promptly investigate any suspected Data Breaches and monitor its systems regularly for unauthorized intrusions. Customer will provide timely and accurate notification to Bank of any Data Breaches when known or reasonably suspected by Customer and will take all reasonable measures, including, without limitation, retaining competent forensic experts, to determine the scope of and data or transactions affected by any Data Breaches, and immediately providing all such information to Bank.

9.6 BANK'S SECURITY PROCEDURES ARE STRICTLY CONFIDENTIAL AND SHOULD BE DISCLOSED ONLY TO THOSE INDIVIDUALS WHO ARE REQUIRED TO KNOW THEM. IF A SECURITY PROCEDURE INVOLVES THE USE OF ACCESS DEVICES, THE CUSTOMER SHALL BE RESPONSIBLE TO SAFEGUARD THESE ACCESS DEVICES AND MAKE THEM AVAILABLE ONLY TO DESIGNATED INDIVIDUALS. CUSTOMER HAS THE SOLE RESPONSIBILITY TO INSTRUCT THOSE INDIVIDUALS THAT THEY MUST NOT DISCLOSE OR OTHERWISE MAKE AVAILABLE TO UNAUTHORIZED PERSONS THE SECURITY PROCEDURE OR ACCESS DEVICES TO ANYONE. CUSTOMER HAS THE SOLE RESPONSIBILITY TO ESTABLISH AND MAINTAIN PROCEDURES TO ASSURE THE CONFIDENTIALITY OF ANY PROTECTED ACCESS TO THE SECURITY PROCEDURE.

#### **10. Fraud Detection / Deterrence; Positive Pay.**

10.1 **General.** From time to time, Bank may make certain products and services that are designed to detect and/or deter check or other fraud available to Customer. While no product or service will be completely effective, Bank believes that the products and services it may offer will reduce the likelihood that certain types of fraudulent items will be paid against Customer's Account. Customer agrees that if it fails to implement any of these products or services, or fails to follow these and other precautions reasonable for Customer's particular circumstances, Customer will be precluded from asserting any claims against Bank for paying any unauthorized, altered, counterfeit or other fraudulent item that such product, service, or precaution was designed to detect or deter, and Bank will not be required to re-credit Customer's Account or otherwise have any liability for paying such items.

10.2 **Positive Pay.** Positive Pay has, in particular, been identified as a Service that will reduce the likelihood that certain types of fraudulent checks will be paid against Customer's Account. Customer acknowledges that Positive Pay is a Service that has been identified by Bank as reducing the risk of fraudulent items being paid against Customer's Account when such Service is adopted and fully utilized by Customer. **Failure of Customer to adopt and utilize this Service is a failure to exercise ordinary care, and, accordingly, Customer will be precluded from asserting any claims against Bank for paying any unauthorized, altered, counterfeit or other fraudulent item, and Bank will not be required to re-credit Customer's Account or otherwise have liability for paying such items.**

11. **Duty to Inspect.** Customer is responsible for monitoring all Services provided by Bank, including each individual transaction processed by Bank, and notifying Bank of any errors or other problems within ten (10) Calendar Days (or such longer period as may be required by applicable law) after Bank has made available to Customer any report, statement or other material containing or reflecting the error, including an Account analysis statement or on-line Account access. Except to the extent required by law, failure to notify Bank of an error or problem within such time will relieve Bank of any and all liability for interest upon correction of the error or problem (and for any loss from any subsequent transaction involving the same error or problem). In the event Customer fails to report such error or problem within thirty (30) Calendar Days after Bank made available such report, statement or on-line Account access, the transaction shall be deemed to have been properly authorized and executed, and Bank shall have no liability with respect to any error or problem. Customer agrees that its sole remedy in the event of an error in implementing any selection with the Services shall be to have Bank correct the error within a reasonable period of time after discovering or receiving notice of the error from Customer.

12. **Overdrafts; Set-off.** Bank may, but shall not be obligated to, complete any transaction in connection with providing the Services if there are insufficient available funds in Customer's Account(s) to complete the transaction. In the event any actions by Customer result in an overdraft in any of Customer's Accounts, including but not limited to Customer's failure to maintain sufficient balances in any of Customer's Accounts, Customer shall be responsible for repaying the overdraft immediately, without notice or demand. Bank has the right, in addition to all other rights and remedies available to it, to set off the unpaid balance of any amount owed it in connection with the Services against any debt owing to Customer by Bank, including, without limitation, any obligation under a repurchase agreement or any funds held at any time by Bank, whether collected or in the process of collection, or in any other Account maintained by Customer at, or evidenced by any certificate of deposit issued by, Bank. If any of Customer's Accounts become overdrawn, underfunded or for any reason contain a negative balance, then Bank shall have the right of set-off against all of Customer's Accounts and other property or deposit Accounts maintained at Bank, and Bank shall have the right to enforce its interests in collateral held by it to secure debts of Customer to Bank arising from notes or other indebtedness now or hereafter owing or existing under this Agreement, whether or not matured or liquidated.

#### **13. Transaction Limits.**

13.1 In the event that providing the Services to Customer results in unacceptable credit exposure or other risk to Bank, or will cause Bank to violate any law, regulation, rule or order to which it is subject, Bank may, in Bank's sole and exclusive discretion, without prior notice, limit Customer's transaction volume or dollar amount and refuse to execute transactions that exceed any such limit, or Bank may terminate any Service then being provided to Customer.

13.2 Customer shall, upon request by Bank from time to time, provide Bank with such financial information and statements and such other documentation as Bank reasonably determines to be necessary or appropriate showing Customer's financial condition, assets, liabilities, stockholder's equity, current income and surplus, and such other information regarding the financial condition of Customer as Bank may reasonably request to enable Bank to evaluate its exposure or risk. Any limits established by Bank hereunder shall be made in Bank's sole discretion and shall be communicated promptly to Customer.

#### **14. Term and Termination.**

14.1 This Agreement shall be effective when (i) signed by an Authorized Representative of Customer and accepted by Bank, and (ii) Customer delivers to Bank all documents and information, including any Setup Form(s) and electronic data, reasonably required by Bank prior to commencing to provide the Services. Bank will determine the adequacy of such documentation and information in its sole discretion and may refuse to provide the Services to Customer until adequate documentation and information are provided.

14.2 This Agreement shall continue in effect until terminated by either party with ten (10) Calendar Days' prior written notice to the other, provided that Customer may terminate this Agreement or any Appendix immediately upon its receipt of notice from Bank of a change in or amendment of the provisions of this Agreement, the Services or any Appendix that is not acceptable to Customer, in accordance with Section 21 of this Agreement. Either party may terminate an Appendix in accordance with the provisions of this Section without terminating either this Agreement or any other Appendix. Upon termination of this Agreement or any Appendix, Customer shall, at its expense, return to Bank, in the same condition as when delivered to Customer, normal wear and tear excepted, all property belonging to Bank and all proprietary material delivered to Customer in connection with the terminated Service(s).

14.3 If an Appendix is terminated in accordance with this Agreement, Customer must contact Cash Management Customer Care for instructions regarding the cancellation of all future dated payments and transfers. Bank may continue to make payments and transfers and to perform other Services that Customer has previously authorized or may subsequently authorize; however, Bank is not under any obligation to do so. Bank will not be liable if it chooses to make any payment or transfer or to perform any other Services that Customer has previously authorized or subsequently authorizes after an Appendix had terminated.

14.4 Notwithstanding the foregoing, Bank may, without prior notice, terminate this Agreement and terminate or suspend any Service(s) provided to Customer pursuant hereto (i) if Customer or Bank closes any Account established in connection with the Service, (ii) if Bank determines that Customer has failed to maintain a financial condition deemed reasonably satisfactory to Bank to minimize any credit or other risks to Bank in providing Services to Customer, including the commencement of a voluntary or involuntary proceeding under the United States Bankruptcy Code or other statute or regulation relating to bankruptcy or relief of debtors, (iii) in the event of a material breach, default in the performance or observance of any term, or breach of any representation or warranty by Customer, (iv) in the event of default by Customer in the payment of any sum owed by Customer to Bank hereunder or under any note or other agreement, (v) if there has been a seizure, attachment, or garnishment of Customer's Accounts, assets or properties, (vi) if Bank believes immediate action is required for the security of Bank or Customer funds or (vii) if Bank reasonably believes that the continued provision of Services in accordance with the terms of this Agreement or any Appendix would violate federal, state or local laws or regulations, or would subject Bank to unacceptable risk of loss. In the event of any termination hereunder, all fees due Bank under this Agreement as of the time of termination shall become immediately due and payable. Notwithstanding any termination, this Agreement shall remain in full force and effect with respect to all transactions initiated prior to such termination.

#### **15. Limitation of Liability; Disclaimer of Warranties.**

15.1 Except to the extent required by law, the liability of Bank in connection with the Services will be limited to actual damages sustained by Customer and only to the extent such damages are a direct result of Bank's gross negligence, willful misconduct, or bad faith. In no event shall Bank be liable for any consequential, special, or indirect loss or damage that Customer may suffer or incur in connection with the Services, including, without limitation, attorneys' fees, lost earnings or profits and loss or damage from subsequent wrongful dishonor resulting from Bank's acts, regardless of whether the likelihood of such loss or damage was known by Bank and regardless of the basis, theory or nature of the action on which a claim is asserted. Except to the extent otherwise provided by law, Bank's aggregate liability to Customer for all losses, damages, and expenses incurred in connection with any single claim shall not exceed an amount equal to the monthly billing paid by, charged to or otherwise assessed against Customer for Services over the three (3) month-period immediately preceding the date on which the damage or injury giving rise to such claim is alleged to have occurred or such fewer number of preceding months as this Agreement has been in effect. This Agreement is only between Bank and Customer, and Bank shall have no liability hereunder to any third party.

15.2 Except as otherwise expressly provided in Section 8 of this Agreement, Bank shall not be liable for any loss, damage or injury caused by any act or omission of any third party; for any charges imposed by any third party; or for any loss, damage or injury caused by any failure of the hardware or software utilized by a third party to provide Services to Customer.

15.3 Bank shall not be liable or responsible for damages incurred as a result of data supplied by Customer that is inaccurate, incomplete, not current, or lost in transmission. It is understood that Bank assumes no liability or responsibility for the inaccuracy, incompleteness or incorrectness of data as a result of such data having been supplied to Customer through data transmission.

15.4 Bank is not liable for failing to act sooner than required by any Appendix or applicable law. Bank also has no liability for failing to take action if Bank had discretion not to act.

15.5 Bank shall not be responsible for Customer's acts or omissions (including, without limitation, the amount, accuracy, timeliness of transmittal or due authorization of any entry, funds transfer order, or other instruction received from Customer) or the acts or omissions of any other person, including, without limitation, any Automated Clearing House processor, any Federal Reserve Bank, any financial institution or bank, any transmission or communication facility, any receiver or receiving depository financial institution, including, without limitation, the return of an entry or rejection of a funds transfer order by such receiver or receiving depository financial institutions, and no such person shall be deemed Bank's agent. Bank shall be excused from failing to transmit or delay in transmitting an entry or funds transfer order if such transmittal would result in Bank's having exceeded any limitation upon its intra-day net funds position established pursuant to Federal Reserve guidelines or otherwise violating any provision of any risk control program of the Federal Reserve or any rule or regulation of any other U.S. governmental regulatory authority. In no event shall Bank be liable for any damages resulting from Bank's action or inaction which is consistent with regulations issued by the Board of Governors of the Federal Reserve System, operating circulars issued by a Federal Reserve Bank or general banking customs and usage. To the extent required by applicable laws, Bank will compensate Customer for loss of interest on funds as a direct result of Bank's failure to comply with such laws in executing electronic transfers of funds, if such failure was within Bank's control. Bank shall not be liable for Customer's attorney's fees in connection with any such claim.

15.6 CUSTOMER EXPRESSLY AGREES THAT USE OF THE SERVICES IS AT CUSTOMER'S SOLE RISK, AND THE SERVICE IS PROVIDED "AS IS," AND BANK AND ITS SERVICE PROVIDERS AND AGENTS DO NOT MAKE, AND EXPRESSLY DISCLAIM ANY WARRANTIES, EITHER EXPRESSED OR IMPLIED, WITH RESPECT TO THE SERVICES, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, TITLE, OR NON-INFRINGEMENT OF INTELLECTUAL PROPERTY RIGHTS, OR THAT THE SERVICES WILL BE UNINTERRUPTED OR ERROR FREE, WITHOUT BREACHES OF SECURITY OR WITHOUT DELAYS. IN THOSE STATES THAT DO NOT ALLOW THE EXCLUSION OR LIMITATION OF LIABILITY, THE LIABILITY OF BANK AND ITS SERVICE PROVIDERS AND AGENTS IS LIMITED TO THE FULLEST POSSIBLE EXTENT PERMITTED BY LAW.

15.7 The provisions of this Section 15 shall survive termination of this Agreement.

## **16. Indemnification.**

16.1 Except as otherwise expressly prohibited or limited by law, Customer shall indemnify and hold Bank harmless from any and all liabilities, losses, damages, costs, and expenses of any kind (including, without limitation, the reasonable fees and disbursements of counsel in connection with any investigative, administrative or judicial proceedings, whether or not Bank shall be designated a party thereto) which may be incurred by Bank relating to or arising out of:

(i) any claim of any person that (a) Bank is responsible for any act or omission of Customer or (b) a Customer payment order contravenes or compromises the rights, title or interest of any third party, or contravenes any law, rule, regulation, ordinance, court order or other mandate or prohibition with the force or effect of law;

(ii) any failure by Customer to observe and perform properly all of its obligations hereunder or any wrongful act of Customer or any of its Affiliates;

(iii) any breach by Customer of any of its warranties, representations or agreements;

(iv) any action taken by Bank in reasonable reliance upon information provided to Bank by Customer or any Affiliate or subsidiary of Customer; and

(v) any legal action that Bank responds to or initiates, including any interpleader action Bank commences, involving Customer or Customer's Account(s), including without limitation, any state or federal legal process, writ of attachment, execution, garnishment, tax levy or subpoena.

16.2 Notwithstanding the foregoing, Bank shall have no right to be indemnified hereunder for losses resulting from its own gross negligence or willful misconduct as finally determined by a court of competent jurisdiction.

16.3 The provisions of this Section 16 shall survive termination of this Agreement.

**17. Lawyer Trust Accounts.** This Section 17 applies to law firms that have established lawyer trust accounts, including but not limited to IOLTA, IOTA and IOLA Accounts (collectively, "Lawyer Trust Accounts"), in the State of New Jersey and as may be applicable under other States' laws. In the event that Customer is a law firm in the State of New Jersey or such other State(s) as may be applicable, and Customer's clients' funds are held in Lawyer Trust Account(s), Customer agrees and shall ensure that only lawyers that are Authorized Representatives of Customer may initiate debits from such Lawyer Trust Account(s). Such debit transfers may include, but are not limited to, wire, ACH and book transfers through the Bank Internet System or through such other Services as may be made available by Bank from time to time.

**18. Force Majeure.** Neither party shall bear responsibility for non-performance of this Agreement to the extent that such non-performance is caused by an event beyond that party's control, including, but not necessarily limited to, fire, casualty, breakdown in equipment or failure of telecommunications or data processing services, lockout, strike, unavoidable accident, act of God, riot, war or the enactment, issuance or operation of any adverse governmental law, ruling, regulation, order or decree, or an emergency that prevents Bank or Customer from operating normally.

**19. Documentation.** The parties acknowledge and agree that all documents evidencing, relating to or arising from the parties' relationship may be scanned or otherwise imaged and electronically stored and the originals (including manually signed originals) destroyed. The parties agree to treat such imaged documents as original documents and further agree that such reproductions and copies may be used and introduced as evidence at any legal proceedings including, without limitation, trials and arbitrations, relating to or arising under this Agreement.

**20. Entire Agreement.** Bank and Customer acknowledge and agree that this Agreement and any amendments hereto, all other documents incorporated by reference therein, and Appendices constitute the complete and exclusive statement of the agreement between them with respect to the Services, and supersede any prior oral or written understandings, representations, and agreements between the parties relating to the Services.

**21. Amendments.** Bank may, at any time, amend this Agreement, the Services or Appendices in its sole discretion and from time to time. Except as expressly provided otherwise in this Agreement, any such changes generally will be effective immediately upon notice to Customer as described below. Customer will be deemed to accept any such changes if Customer accesses or uses any of the Services after the date on which the change becomes effective. Customer will remain obligated under this Agreement and any Appendices, including without limitation, being obligated to pay all amounts owing thereunder, even if Bank amends this Agreement or any Appendices. Notwithstanding anything to the contrary in this Agreement or in any Appendix, if Bank believes immediate action is required for security of Bank or Customer funds, Bank may immediately initiate changes to any security procedures and provide prompt subsequent notice thereof to Customer.

**22. Severability.** If any provision of this Agreement shall be determined by a court of competent jurisdiction to be unenforceable as written, that provision shall be interpreted so as to achieve, to the extent permitted by applicable law, the purposes intended by the original provision, and the remaining provisions of this Agreement shall continue intact. In the event that any statute, regulation or government policy to which Bank is subject and that governs or affects the transactions contemplated by this Agreement, would invalidate or modify any portion of this Agreement, then this Agreement or any part thereof shall be deemed amended to the extent necessary to comply with such statute, regulation or policy, and Bank shall incur no liability to Customer as a result of Bank's compliance with such statute, regulation or policy.

**23. Assignment and Delegation.** Bank may assign any of its rights or delegate any of its responsibilities in whole or in part without notice to or consent from Customer. Customer may not assign, delegate or otherwise transfer its rights or responsibilities under this Agreement without Bank's prior written consent, which consent Bank may grant or withhold in its sole discretion.

**24. Successors.** This Agreement shall be binding upon and inure to the benefit of the parties and their successors and permitted assigns.

**25. Non-Waiver.** No deviation from any of the terms and conditions set forth or incorporated in this Agreement shall constitute a waiver of any right or duty of either party, and the failure of either party to exercise any of its rights hereunder on any occasion shall not be deemed to be a waiver of such rights on any future occasion.

**26. Governing Law.** Any claim, controversy or dispute arising under or related to this Agreement shall be governed by and interpreted in accordance with federal law and, to the extent not preempted or inconsistent therewith, by the laws of the State of New Jersey.

**27. Notices.**

27.1 Except as otherwise expressly provided in this Agreement, all notices that are required or permitted to be given by Customer (including all documents incorporated herein by reference) shall be sent by first class mail, postage prepaid, and addressed to Bank at the address provided to Customer in writing for that purpose. All such notices shall be effective upon receipt.

27.2 Customer authorizes Bank to, and Customer agrees that Bank may, send any notice or communication that Bank is required or permitted to give to Customer under this Agreement, including but not limited to notice of any change to the Services, this Agreement or any Appendix, to Customer's business mailing address or Customer's business e-mail address as it appears on Bank's records, or electronically by posting the notice on Bank's website, on an Account statement or via facsimile, and that any such notice or communication will be effective and deemed delivered when provided to Customer in such a manner. Customer agrees to notify Bank promptly about any change in Customer's business mailing or Customer's business e-mail address and acknowledges and agrees that no such change will be effective until Bank has had a reasonable opportunity to act upon such notice. Customer agrees that Bank may consider any such notice or communication as being given to all Account owners when such notice or communication is given to any one Account owner.

**28. Jury Trial Waiver.** BANK AND CUSTOMER EACH AGREE THAT NEITHER BANK NOR CUSTOMER SHALL (I) SEEK A JURY TRIAL IN ANY LAWSUIT, PROCEEDING, COUNTERCLAIM, OR ANY OTHER ACTION BASED UPON, OR ARISING OUT OF, THIS AGREEMENT OR ANY ACCOUNT OR THE DEALINGS OF THE RELATIONSHIP BETWEEN BANK AND CUSTOMER, OR (II) SEEK TO CONSOLIDATE ANY SUCH ACTION WITH ANOTHER IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED. THE PROVISIONS OF THIS SECTION SHALL BE SUBJECT TO NO EXCEPTIONS. NEITHER BANK NOR CUSTOMER HAS AGREED WITH OR REPRESENTED TO THE OTHER THAT THE PROVISIONS OF THIS SECTION WILL NOT BE FULLY ENFORCED IN ALL INSTANCES. BANK AND CUSTOMER EACH ACKNOWLEDGE THAT THIS WAIVER HAS BEEN KNOWINGLY AND VOLUNTARILY MADE. The provisions of this Section 28 shall survive termination of this Agreement.

**29. Beneficiaries.** This Agreement is for the benefit only of the undersigned parties hereto and is not intended to and shall not be construed as granting any rights to or otherwise benefiting any other person.

**30. Recording of Communications.** Customer and Bank agree that all telephone conversations or data transmissions between them or their agents made in connection with this Agreement may be recorded and retained by either party by use of any reasonable means.

**31. Facsimile Signature.** The parties acknowledge and agree that this Agreement and any Appendix or Amended Appendices may be executed and delivered by facsimile, and that a facsimile signature shall be treated as and have the same force and effect as an original signature. Notwithstanding the foregoing, Bank may, in its sole and exclusive discretion, also require Customer to deliver this Agreement and any Appendix or Amended Appendices with an original signature for its records.

**32. Relationship.** Customer and Bank are not, and Customer and Bank's licensors are not, partners, joint venturers or agents of each other as a result of this Agreement.

**33. Section Headings.** The section headings used in this Agreement are only meant to organize this Agreement, and do not in any way limit or define Customer's or Bank's rights or obligations.

**IN WITNESS WHEREOF,** Customer and Bank have duly caused this Agreement, including all applicable Appendices, to be executed by an Authorized Representative.

**HARRIS & HARRIS GROUP, INC.**  
(Customer)

**TD BANK, N.A.**

1450 Broadway, 24<sup>th</sup> Floor  
New York, NY 10018  
(Address)

By: \_\_\_\_\_  
(Signature of Authorized Representative)

By: \_\_\_\_\_  
(Signature)

Print Name: \_\_\_\_\_

Print Name: Teresa M. Breen

Title: \_\_\_\_\_

Title: Vice President, Cash Management Officer



## APPENDIX I

### TD TREASURYDIRECT SERVICES

This Appendix is incorporated by reference into the parties' Cash Management Master Agreement and governs Customer's use of the Bank Internet System (or "TreasuryDirect"). All capitalized terms used herein without definition shall have the meanings given to them in the parties' Cash Management Master Agreement. Except as otherwise expressly provided in this Appendix, to the extent that this Appendix is inconsistent with the provisions of the Cash Management Master Agreement, this Appendix and any amendment hereto from time to time shall control, but only to the extent necessary to resolve such conflict.

#### TERMS AND CONDITIONS

##### 1. Definitions.

"*Account(s)*" means a checking, regular statement savings, money market deposit, certificate of deposit, investment or commercial loan account(s) Customer maintains with Bank for business or non-consumer purposes that is designated by Customer for use with the Services, as described below.

"*Account Agreement*" means any and all agreements between Customer and Bank which govern Customer Accounts (as defined above) and which were provided to Customer when Customer opened its Account(s), or any other documents governing Customer's Account(s), each as may be amended from time to time.

"*Administrator*" or "*Account Administrator*" means Customer's employee(s) or other person(s) that Customer (or any Administrator designated by Customer) designates on the Services' Setup Form(s) (or by on-line changes to such designations as described below) as being its Authorized Representative, or as authorized to act on Customer's behalf, with respect to the Services.

"*Appendix*" means this TreasuryDirect Services Appendix, including all procedures, Setup Form(s), exhibits, schedules, documents and agreements referenced herein, each as may be amended from time to time.

"*Authorized User*" means any person Customer's Administrator designates as being authorized to access or use any of the Services on Customer's behalf.

"*Payment*" means a transfer of funds to or from Account(s).

"*User ID*" means the electronic identification, in letters and numerals, assigned to Customer by Bank or to any additional Authorized Users designated by Customer's Account Administrator.

##### 2. Services.

2.1 This Appendix describes the terms and conditions under which Bank will provide Customer with access to and use of any of the electronic information delivery and transaction initiation services that Bank makes available using the Bank Internet System.

2.2 By accessing the Services with the Access Devices, Customer may perform any or all of the Services described in this Appendix and selected for use in the Services' Setup Form(s) and that Bank has approved for Customer's use. Bank reserves the right to reject Customer's Services' Setup Form(s), schedules and other required documents and to refuse Customer access to or use of the Services for any reason and in Bank's sole discretion. Bank may, in its sole and exclusive discretion, introduce new features of the Services from time to time but is not required to notify Customer of the availability of any such new features.

2.3 By subscribing to the Services, Customer will have access to the Services' basic features, which include but may not be limited to, in Bank's sole and exclusive discretion, the following:

2.3.1 **Previous-Day Balance Reporting.** Previous-Day Balance Reporting allows Customer to review the balances and transaction history in Customer's checking, savings and loan Account(s) for three hundred sixty-five (365) Calendar Days. Customer may also view images of deposit tickets, deposit items, paid checks, and return deposited items through this feature. The period over which this information may be viewed commences only as of the implementation of the Services, and transactional history and check images may not be viewed for pre-implementation time periods.

2.3.2 **Same-Day Balance Reporting.** Same-Day Balance Reporting allows Customer to review same-day wire transfer activity, and selected ACH activity, as applicable.



2.3.3 **Book Transfers.** Book Transfers allows Customer to make intra-bank fund transfers between Customer's checking and savings Accounts, Customer may initiate book transfers up to thirty-three (33) days in advance. All such transfers are subject to the Account Agreement. Transfer amounts are limited to the available balance in the Account(s) on the effective date of the transfer. The number of transfers from interest bearing checking and savings Accounts are subject to the terms of the Account Agreement and federal regulation. Transfers performed by Bank's cut-off time as set forth in the Services' Setup Form(s) on a Business Day will be posted to the Account as of that Business Day. Customer is solely responsible for the review of the previous day's transaction report to ensure that the transaction was processed. Only Book Transfers initiated through the Services will be displayed on the Services' Book Transfer reports tab.

2.3.3.1 **Future-Dated Book Transfer.** In conjunction with Book Transfers, a request to transfer funds between Customer's Accounts may be initiated and approved for a future date. Future-dated transfers will be initiated on the Business Day requested by Customer, not on the date Customer entered the transaction using the Services. A funds transfer request (whether it is a same-day funds transfer or a future-dated transfer) may not result in an immediate transfer of funds or immediate availability because of the time required to process the transaction. A future-dated transfer may be cancelled through the Services at any time prior to the Business Day on which the transfer is scheduled to occur.

2.3.4 **Stop Payment.** Stop payments of checks drawn on Customer's Account(s) are subject to the terms and conditions of the Account Agreement. Notwithstanding anything in the Account Agreement to the contrary, Customer may use the Services to initiate stop payment orders for an individual check or a range of checks. Bank shall have no responsibility for losses resulting from any delay in Bank's receipt of stop payment orders transmitted by means of the Bank Internet System or for Customer not taking additional actions when a response message from the Bank Internet System indicates a response other than "Stop Payment was Accepted." Customer must provide Bank with the **EXACT CHECK NUMBER OR RANGE OF CHECK NUMBERS**. When known, Customer should provide the **EXACT AMOUNT OF THE CHECK**, the **NAME OF THE PAYEE(S)** and the **ISSUE DATE OF THE CHECK(S)**. If the check number is incorrect in any way or the amount of the check is inaccurate by one cent or more in the stop payment order, payment will not be stopped and Bank will not be responsible for resulting losses. All other information must be reasonably accurate. Requests entered on the current day may not be effective until one (1) Business Day after receipt, and after Bank has had a reasonable time to act on the request. Requests made on a non-Business Day or on Saturday, Sunday or federal holidays are entered on the next Business Day but may not be effective until the second (2<sup>nd</sup>) Business Day after receipt. Stop payments using the Bank Internet System are effective for three hundred sixty-five (365) Calendar Days unless renewed before the end of the 365-day period. Except as otherwise provided by Compliance Laws, Customer shall not have the right to stop payment on or recall any payment order or transfer request given hereunder after it has been transmitted to Bank. Only stop payment orders initiated or recalled through the Bank Internet System will be displayed on the Bank Internet System's Stop Payment Reports tab. Stop payment orders that are not initiated through the Bank Internet System may not be recalled through the Bank Internet System.

2.4 In addition to the Services as described in this Appendix and/or in the Services' Setup Form(s), additional features or modules related to the Services may be offered from time to time by Bank, in its sole and exclusive discretion, including but not limited to the following:

2.4.1 **Wire Transfers.** Wire transfers are subject to the terms and conditions of the Wire Transfer Services Appendix. This Service allows Customer to transfer funds electronically, typically from Customer's Account(s) to other account(s) with Bank or to account(s) at other banks. Except for future-dated transfers, domestic or foreign wire transfers entered through the Services will be processed on the Business Day they are received, provided that they are received in accordance with Bank's cut-off time(s) for foreign wires and for domestic wires, as set forth in the Wire Transfer Services Appendix.

2.4.2 **ACH Originations.** ACH originations are subject to the terms and conditions of the Automated Clearing House (ACH) Origination Appendix or the Third-Party Sender Services Appendix, as applicable. This Service allows Customer to initiate and approve (with pre-authorization) ACH transactions that Customer desires Bank to enter into the ACH network on Customer's behalf. Except for future-dated transactions, ACH transactions entered through the Services will be processed (but not settled) on the Business Day they are received, provided that they are received in accordance with Bank's cut-off time, as set forth in the Automated Clearing House (ACH) Origination Appendix or the Third-Party Sender Services Appendix, as applicable.

**3. Hours of Access.** Customer generally may access the Services 24 hours a day, seven (7) days a week. Customer may not be able to access the Services, however, during any special or other scheduled maintenance periods or interruption or delay due to causes beyond Bank's control. These hours of access are subject to change without notice.

#### **4. Account Designation.**

4.1 Customer may designate any of Customer's Accounts maintained with Bank for business or non-consumer purposes for use with the Services. The taxpayer identification number for each Account must be the same, and each Account is subject to the other conditions set forth in this Appendix, except as Bank, in its sole discretion, may otherwise permit. Bank reserves the right to deny any Account designation for use with the Services in its sole discretion.

4.2 Customer may at any time add or delete any Account that Customer has designated for use with any of the Services, or change the Services associated with any Account, by notifying Bank in writing.

## **5. Administrator(s) and Authorized Users.**

5.1 Customer shall designate Administrator(s) with Bank as set forth in the Services' Setup Form(s). Customer is solely responsible for designating its Administrator(s).

5.2 The Administrator(s) may designate other Administrators and/or Authorized Users. Customer accepts as its sole responsibility the Administrator's designation of other Administrators and Authorized Users. Customer understands that the Administrator(s) will control, and Customer authorizes the Administrator(s) to control, access by other Administrators and Authorized Users of the Services through the issuance of Access Devices. The Administrator(s) may add, change or terminate Customer's Authorized User(s) from time to time and in his/her sole discretion. Bank does not control access by any of Customer's Authorized Users to any of the Services. Bank recommends that Customer manage its use of the Services and its Administrators by requiring dual control to set up new Authorized Users.

5.3 Customer will require each Administrator and each Authorized User to comply with all provisions of this Appendix and all other applicable agreements. Customer acknowledges and agrees that it is fully responsible for the failure of any Administrator or any Authorized User to so comply. Customer is responsible for any Payment, transfer and other Services and charges incurred by any Administrator and any Authorized User, even if such Administrator or Authorized User exceeds his/her authorization.

5.4 Whenever any Authorized User leaves Customer's employ or Customer otherwise revokes the authority of any Authorized User to access or use the Services, the Administrator(s) are solely responsible for deactivating such Authorized User's Access Devices. Customer shall notify Bank in writing whenever a sole Customer Administrator leaves Customer's employ or Customer otherwise revokes a sole Administrator's authority to access or use the Services.

## **6. Access Devices; Security Procedures.**

6.1 Upon successful enrollment, Customer can access the Services from Bank's designated website, using the Services' security procedures as described from time to time. Bank will provide the Administrator(s) initially designated by Customer with an initial individual password to gain access to the Services. The Administrator(s) and Authorized User(s) must change his or her individual password from time to time for security purposes, as prompted by the Bank Internet System or more frequently.

6.2 Customer acknowledges that the Administrator(s) will, and Customer authorizes the Administrator(s) to, select other Administrators and Authorized Users by issuing to any person a unique User ID and password. Customer further acknowledges that the Administrator(s) may, and Customer authorizes the Administrator(s) to, change or de-activate the unique User ID and/or password from time to time and in his or her sole discretion.

6.3 Customer acknowledges that, in addition to the above individual passwords, access to the Services includes, as part of the Access Devices, a multi-factor authentication security procedure for Customer, including Customer's Administrator and Authorized Users. This additional security procedure incorporates use of a physical security device or token ("Token") for Customer authentication. A Token will be issued to the Administrator(s) for administrative and transactional functionality, as well as to any Authorized User(s) authorized to initiate and/or approve ACH transactions and wire transfers. Physical security of each Token is Customer's sole responsibility. With the Token, each Authorized User will receive a PIN number that the Authorized User must keep in a secure place. When an Authorized User leaves Customer's employ, his or her User ID must be deleted and, if a Token had been issued to such Authorized User, Bank must be promptly notified so that Bank may deactivate such Authorized User's Token. Any additional Authorized User requiring a Token must be authorized, in writing by Customer to Bank, for Token creation or re-creation and deployment. If applicable, fees may be assessed for additional Tokens.

6.4 Customer further acknowledges and agrees that all wire transfers and ACH transactions initiated through the Services incorporate "dual control" or separation of duties. With this additional security feature, one Authorized User will be permitted to create, edit, cancel, delete and restore ACH batches or wire transfer orders under his/her unique User ID, password and Token; a second *different* Authorized User with his/her own unique User ID, password and Token will be required to approve, release or delete ACH batches or wire transfer orders.

6.5 Customer accepts as its sole responsibility the selection, use, protection and maintenance of confidentiality of, and access to, the Access Devices. Customer agrees to take reasonable precautions to safeguard the Access Devices and keep them confidential. Customer agrees not to reveal the Access Devices to any unauthorized person. Customer further agrees to notify Bank immediately if Customer believes that the confidentiality of the Access Devices has been compromised in any manner.

6.6 The Access Devices identify and authenticate Customer (including the Administrator and Authorized Users) to Bank when Customer accesses or uses the Services. Customer authorizes Bank to rely on the Access Devices to identify Customer when Customer accesses or uses any of the Services, and as signature authorization for any Payment, transfer or other use of the Services. Customer acknowledges and agrees that Bank is authorized to act on any and all communications or instructions received using the Access Devices, regardless of whether the communications or instructions are authorized. Bank owns the Access Devices, and Customer may not transfer them to any other person or entity.

6.7 Customer acknowledges and agrees that the Access Devices and other security procedures applicable to Customer's use of the Services and set forth in this Appendix are a commercially reasonable method for the purpose of verifying whether any Payment, transfer or other use of the Services was initiated by Customer. Customer also agrees that any election Customer may make to change or waive any optional security procedures recommended by Bank is at Customer's risk and that any loss resulting in whole or in part from such change or waiver will be Customer's responsibility. Customer further acknowledges and agrees that the Access Devices are not intended, and that it is commercially reasonable that the Access Devices are not intended, to detect any errors relating to or arising out of a Payment, transfer or any other use of the Services.

6.8 If Customer has reason to believe that any Access Devices have been lost, stolen or used (or may be used) or that a Payment or other use of the Services has been or may be made with any Access Devices without Customer's permission, Customer must contact its Administrator and Bank. In no event will Bank be liable for any unauthorized transaction(s) that occurs with any Access Devices.

**7 . Debiting Customer's Account(s).** Customer authorizes Bank to charge and automatically deduct the amount of any Payment from Customer's Account(s) (or any other Account Customer maintains with Bank, if necessary), in accordance with the Cash Management Master Agreement and the Account Agreement.

**8. Use of Financial Management (FM) Software.** Use of the Services may be supplemented by use of certain FM software. Compatibility and functionality of the FM software with the Services may vary depending upon the FM software Customer is using, and Bank makes no representations or guarantees regarding use of the Services with Customer's FM software. Bank will provide Customer with reasonable assistance, when requested, to enable Customer's use of the Services with FM software. Bank is not responsible for any problems related to the FM software itself, Customer's Computer or Customer's ability to connect using the FM software as described in this Appendix.

**9 . Security.** Customer agrees not to disclose any proprietary information regarding the Services to any third party (except to Customer's Administrator(s) and Authorized User(s)). Customer also agrees to comply with any operating, security and recognition procedures Bank may establish from time to time with respect to the Services. Customer will be denied access to the Services if Customer fails to comply with any of these procedures. Customer acknowledges that there can be no guarantee of secure transmissions over the Internet and that the Services' security procedures are reasonable. Customer is responsible for reviewing the transaction reports Bank provides on-line and in Customer's monthly statements to detect unauthorized or suspicious transactions. In addition to any other provision hereof regarding authorization of transactions using the Services, all transactions will be deemed to be authorized by Customer and to be correctly executed thirty (30) Calendar Days after Bank first provides Customer with a statement or online transaction report showing that transaction, unless Customer has provided written notice that the transaction was unauthorized or erroneously executed within that period. In order to minimize risk of loss, Customer agrees to cause its Administrator or designated Authorized User(s) to review the transaction audit log available with the Services to detect unauthorized or erroneous transactions not less than once every five (5) Calendar Days.

**10. Terminating this Appendix; Liability.**

10.1 This Appendix may be terminated in accordance with the terms and conditions of the Cash Management Master Agreement.

10.2 The provisions of this Appendix relating to Customer's and Bank's liability and the disclaimer of warranties set forth in the Cash Management Master Agreement and incorporated herein by reference shall survive the termination of this Appendix.

**11. Changes to the Services and this Appendix.**

Bank may change the Services and this Appendix (including any amendments hereto) in accordance with the terms and conditions of the Cash Management Master Agreement.

**1 2 . Notices.** Notices required by this Appendix shall be provided in accordance with the terms and conditions of the Cash Management Master Agreement.

**13. Effectiveness.** Customer agrees to all the terms and conditions of this Appendix. The liability of Bank under this Appendix shall in all cases be subject to the provisions of the Cash Management Master Agreement, including, without limitation, any provisions thereof that exclude or limit warranties made by, damages payable by or remedies available from Bank. This Appendix replaces and supersedes all prior agreements on file with respect to the Services and shall remain in full force and effect until termination or such time as a different or amended Appendix is accepted in writing by Bank or the Cash Management Master Agreement is terminated.



## APPENDIX III

### TD WIRE TRANSFER SERVICES

This Appendix is incorporated by reference into the parties' Cash Management Master Agreement, and the parties' Bank Internet System Agreement, and applies to all TD Wire Transfer Services ("Services") made available to Customer by Bank via the Bank Internet System. All capitalized terms used herein without definition shall have the meanings given to them in the Cash Management Master Agreement or the Bank Internet System Agreement, as applicable. To the extent that this Appendix is inconsistent with the provisions of the Cash Management Master Agreement, or with the terms and conditions of the Bank Internet System Agreement, this Appendix and any amendment hereto from time to time shall control, but only to the extent necessary to resolve such conflict.

#### TERMS AND CONDITIONS

##### 1. Description of the Services.

1.1 The Services described in this Appendix provide Customer with the capability to transfer funds from specific Account(s) to other accounts (the "Recipient Account(s)") as directed via the Bank Internet System. The Recipient Account(s) may be Customer accounts or third-party accounts, and may be with Bank or with domestic or foreign third-party financial institutions. Customer may use the Services to initiate one-time wire transfers, or to create templates for wire transfers made on a repetitive basis which involve the same Customer Account and Recipient Account ("Repetitive Transfers"). All wire transfers must be initiated by an Authorized Representative of Customer.

1.2 Prior to Customer's use of the Services, Customer must first agree to and transmit all instructions in accordance with all of the terms, conditions and security procedures of the Bank Internet System Agreement, as may be amended by Bank from time to time.

##### 2. Execution of Wire Transfers.

2.1 By submitting a wire transfer, Customer authorizes Bank to withdraw the amount of any requested wire transfer which Customer may authorize and instruct via the Bank Internet System, plus any applicable fees and charges, from Customer's designated Account. Subject to the terms of this Appendix, Bank will accept and execute a wire transfer received from Customer that has been authenticated by Bank and that is in conformity with the Security Procedure (as further described below), cut-off times and other requirements as described in this Appendix and associated Bank setup form(s) and other documentation.

2.2 All wire transfers to accounts at other depository institutions are transmitted using the Fedwire funds transfer system owned and operated by the Federal Reserve Bank, or a similar wire transfer system used primarily for funds transfers between financial institutions.

2.3 Each wire transfer must include the following information in addition to any information which Bank may require for proper identification and security purposes: (i) account number from which the funds are to be withdrawn, (ii) amount to be transferred, (iii) name and ABA routing number of the payee's bank, and (iv) account name, address and account number of the payee. In the event a wire transfer describes an account number for the payee that is in a name other than the designated payee, Bank may execute the wire transfer to the account number so designated notwithstanding such inconsistency.

2.4 Templates created by Customer for Repetitive Transfers are the sole and exclusive responsibility of Customer. Customer agrees to release and hold Bank harmless from any loss or liability which Customer may incur after Bank has executed a Repetitive Transfer, including without limitation, any loss due to Customer error in creating the Repetitive Transfer template.

##### 3. Time of Execution.

3.1 Bank will execute each authenticated wire transfer that is in conformity with all security procedures, cut-off times and other requirements set forth herein, on the Business Day received, or on the Business Day requested by Customer if the wire transfer is future-dated. Bank may require additional authentication of any wire transfer request. Bank reserves the right to reject a wire transfer request that cannot be properly authenticated. Cut-off times may be established and changed by Bank from time to time. Instructions for wire transfers received after such cut-off times may be treated by Bank for all purposes as having been received on the following Business Day.

3.2 Except for future-dated wire transfers, domestic wire transfers (U.S.-based receivers) initiated and approved by Bank's cut-off time on a Business Day will be processed that same day if that day is also a Business Day for Bank's correspondent facility and the recipient bank; wire transfers initiated and approved after Bank's cut-off time for domestic wire transfers will be processed the next Business Day if that day is also a Business Day for Bank's correspondent facility and the recipient bank. Future-dated domestic wire transfers will be initiated on the effective date requested by Customer, not on the date Customer entered the transaction using the Services.

3.3 Bank may handle wire transfers received from Customer in any order convenient to Bank, regardless of the order in which they are received.

#### **4. International Wires.**

4.1 International wire transfers (non-U.S. receivers) of foreign currency initiated and approved by Bank's cut-off time for international wire transfers of foreign currency on a Business Day, and an international wire transfer of U.S. currency initiated and approved by Bank's cut-off time for international wire transfers of U.S. currency on a Business Day will be processed within the industry standard delivery time (in most, but not all cases, two (2) Business Days). Foreign wire transfers may be subject to delays based on time-zone issues; the remote location of the recipient bank; cultural differences with respect to holidays and times of observation, etc.; and incorrect or incomplete information being supplied by Customer.

4.2 Bank shall send Customer's authorized and authenticated wire transfers to foreign banks through any bank which is a member of Bank's correspondent network. Neither Bank nor any of Bank's correspondents shall be liable for any errors, delays or defaults in the transfer of any messages in connection with such a foreign wire transfer by any means of transmission. If the wire transfer is of currency other than that of the country to which it is being transferred, it shall be payable in the currency of the country of the recipient financial institution, unless the payee arranges otherwise. If the wire transfer is received by Bank prior to any cut-off time established from time to time, the currency exchange shall be made at the rate quoted by Bank at the time of the wire transfer.

4.3 Bank makes no guarantee or representation as to the availability of funds at the foreign destination. Bank makes no express or implied warranty as to the time or date the wire transfer will arrive at the receiving bank, the amount of any fees to be charged by the receiving bank or the time or date the beneficiary will receive credit for funds.

4.4 Customer understands and acknowledges that if the named beneficiary does not match the account at the receiving bank, there is a risk the beneficiary may not receive the wired funds. If the transfer is not received or credited in a timely manner, Bank will follow normal and customary procedures to complete the wire transfer, determine the location of the wired funds and/or return the funds to Customer. If Bank is unable to determine that the funds have been credited to the beneficiary's account or have the funds returned, Customer assumes all financial liability or risk of loss for the amount of the wire transfer.

4.5 International wire transfers are subject to any and all applicable regulations and restrictions of U.S. and foreign governments relating to foreign exchange transactions. Bank has no obligation to accept any international wire transfer(s) directed to or through persons, entities or countries restricted by government regulation or prior Bank experience with particular countries. To the extent not otherwise prohibited by law, in connection with any international wire transfer(s) involving a transfer to or from any country' outside of the U.S., Customer agrees to release and hold Bank harmless from any loss or liability which Customer may incur after Bank has executed the international wire transfer(s), including without limitation, any loss due to failure of a foreign bank or intermediary to deliver the funds to a beneficiary.

**5. Cancellation and Amendment of a Wire.** An Authorized Representative may request that Bank attempt to cancel or amend a wire transfer previously received from Customer. If a cancellation or amendment request is received by Bank before the wire transfer is executed and with sufficient time to afford Bank an opportunity to act upon Customer's request, Bank may, on its own initiative but without obligation, make a good faith effort to act upon such request. In the event Customer's cancellation or amendment request is received after execution of Customer's wire transfer request, Bank will attempt to have the wire transfer returned. Notwithstanding the foregoing, Bank shall have no liability for the failure to effect a cancellation or amendment, and Bank makes no representation or warranty regarding Bank's ability to amend or cancel a wire transfer. Customer agrees to indemnify Bank against any loss, liability or expense which Bank incurs as a result of the request to cancel or amend a wire transfer and the actions Bank takes pursuant to such request.

**6 . Notice of Rejection or Return.** Bank shall have no liability for wire transfers sent by Bank as directed by Customer which cannot be completed or which are returned due to incorrect information furnished by Customer. Customer is required to fully complete beneficiary name, and address, as beneficiary bank may elect to return an otherwise valid wire transfer for incomplete beneficiary information. Bank may reject or impose conditions that must be satisfied before it will accept Customer's instructions for any wire transfer, in its sole discretion, including without limitation Customer's violation of this Appendix, Customer's failure to maintain a sufficient Account balance, or Bank's belief that the wire transfer may not have in fact been authorized. A wire transfer may also be rejected by an intermediary or beneficiary bank other than Bank, or by operation of law. If a wire transfer is rejected, Bank will endeavor to notify Customer promptly. Upon rejection or return, Bank shall have no further obligation to act upon a wire transfer, nor shall Bank have any liability to Customer due to rejection by another person in the wire transfer process, or the fact that notice was not given or was not given at an earlier time, or within any specified time of receipt, acceptance, execution or payment of any wire transfer.

#### **7. Security Procedure.**

7.1 Customer agrees that the security procedures used by Customer and set forth or incorporated by reference in this Appendix and/or associated documents, including but not limited to the Bank Internet System Appendix, are a commercially reasonable method of providing security against unauthorized wire transfers and for all other instructions from Customer to Bank (hereinafter the "Security Procedure"). Any wire transfer by Customer shall bind Customer, whether or not authorized, if transmitted in Customer's name and accepted by Bank in compliance with the Security Procedure. Customer also agrees that any election Customer may make to change or refuse the Security Procedure is at Customer's risk and that any loss resulting in whole or in part from such change or refusal will be Customer's responsibility.

7.2 Bank may, from time to time, modify the Security Procedure. Except as expressly provided otherwise in this Appendix or in the parties' Cash Management Master Agreement, any such changes generally will be effective immediately upon notice to Customer as described in the parties' Cash Management Master Agreement. Customer will be deemed to accept any such changes if Customer accesses or uses any of the Services after the date on which the change becomes effective.

7.3 Bank may, from time to time, propose additional or enhanced security procedures to Customer. Customer understands and agrees that if it declines to use any such enhanced procedures, it will be liable for any losses that would have been prevented by such procedures. Notwithstanding anything else contained in this Appendix, if Bank believes immediate action is required for security of Bank or Customer funds, Bank may initiate additional security procedures immediately and provide prompt subsequent notice thereof to Customer.

7.4 Customer hereby acknowledges that the Security Procedure is neither designed nor intended to detect errors in the content or verify the contents of a wire transfer by Customer. Accordingly, any errors contained in wire transfers from Customer shall be Customer's responsibility, and Customer shall be obligated to pay or repay (as the case may be) the amount of any such wire transfer. No security procedure for the detection of any such Customer error has been agreed upon between Bank and Customer.

7.5 Customer is strictly responsible for establishing and maintaining procedures to safeguard against unauthorized wire transfers. Customer covenants that no employee or other individual will be allowed to initiate wire transfers in the absence of proper authority, supervision and safeguards, and agrees to take reasonable steps to maintain the confidentiality of the Security Procedure and any Access Devices and related instructions provided by Bank in connection with any Security Procedure utilized by Bank and/or Customer. If Customer believes or suspects that any such Access Devices, Security Procedure, information or instructions have been disclosed to or accessed by unauthorized persons, Customer agrees to notify Bank immediately by calling 1-866-475-7262, followed by written confirmation to TD Bank, N.A., Attn: Cash Management Customer Care, 6000 Atrium Way, Mt. Laurel, New Jersey, 08054. The occurrence of unauthorized access will not affect any transfers made in good faith by Bank prior to receipt of such notification and within a reasonable time period thereafter.

**8. Inconsistency of Receiving Beneficiary Name and Account Number.** Customer acknowledges and agrees that, in accordance with Article 4A of the Uniform Commercial Code, Bank shall be entitled to rely upon the numbers supplied by Customer to identify banks, beneficiaries and other parties to the wire transfer, even if those numbers disagree or are inconsistent with the names of those parties as provided by Customer.

**9. Payment; Authorization to Charge Account.** Customer agrees to pay Bank the amount of each wire transfer received from Customer on the Business Day Bank executes said wire transfer or at such other time as Bank may determine. Bank will validate that such sufficient funds are available prior to a wire transfer being executed. Bank may, however, in its sole discretion, execute the wire transfer even if such execution should result in the creation of an overdraft in Customer's Account. Customer shall be liable to Bank for such overdraft. If sufficient funds are not available in Customer's Account, the wire transfer will not be executed. Bank may, without prior notice or demand, obtain payment of the amount of each wire transfer by debiting the Account designated. In the event there are not sufficient funds available in the Account, Bank reserves the right to debit any other Account that Customer maintains with Bank.

**10. Wire Confirmation; Account Reconciliation.** Customer may confirm the execution of a wire transfer via the Bank Internet System. Bank will mail, fax or email to Customer advices of each completed wire transfer. Completed wire transfers will also be reflected in Customer's periodic Account statement.

**11. Service Providers.** Bank may use a service provider to perform, as Bank's agent, all or any portion of Bank's obligations under this Appendix. Customer may be required to direct wire transfers and other requests to said provider.

**12. Bank Reliance; Authentication.**

12.1 Bank shall be entitled to rely in good faith on communications it receives as being given or sent by an Authorized Representative and as being genuine and correct. Bank shall not be liable to Customer for the consequences of such reliance.

12.2 **BANK MAY TAKE SUCH ADDITIONAL STEPS AND IMPLEMENT SUCH PROCEDURES AS IT MAY DEEM APPROPRIATE TO VERIFY THE AUTHENTICITY OF ANY WIRE TRANSFER. BANK MAY DELAY THE EXECUTION OF ANY WIRE TRANSFER PENDING COMPLETION OF A CALL-BACK, OR RECEIPT OF ANOTHER FORM OF VERIFICATION WHICH IS SATISFACTORY TO BANK. IF BANK IS UNABLE TO OBTAIN SATISFACTORY VERIFICATION, BANK, IN ITS SOLE DISCRETION, MAY REFUSE TO EXECUTE ANY WIRE TRANSFER.** In no event shall Bank be liable for any delay in executing a wire transfer or for failure to execute a wire transfer due to the absence of satisfactory verification.

12.3 Bank may electronically record any telephone conversations between Bank personnel and Customer.

12.4 Wire transfer transactions are subject to all the foregoing and all regulations governing electronic transactions, including but not limited to Article 4A of the Uniform Commercial Code.

**13. Effectiveness.** Customer agrees to all the terms and conditions of this Appendix. The liability of Bank under this Appendix shall in all cases be subject to the provisions of the Cash Management Master Agreement, including, without limitation, any provisions thereof that exclude or limit warranties made by, damages payable by or remedies available from Bank. This Appendix replaces and supersedes all prior agreements on file with respect to the Services and shall remain in full force and effect until termination or such time as a different or amended Appendix is accepted in writing by Bank or the Cash Management Master Agreement is terminated.

**Certification of Chief Executive Officer  
Pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a)**

I, Douglas W. Jamison, certify that:

1. I have reviewed this Annual Report on Form 10-K of Harris & Harris Group, Inc.;
  2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
  3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
  4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
    - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
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5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Douglas W. Jamison

Name: Douglas W. Jamison

Title: Chief Executive Officer

Date: March 15, 2016

**Certification of Chief Financial Officer  
Pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a)**

I, Patricia N. Egan, certify that:

1. I have reviewed this Annual Report on Form 10-K of Harris & Harris Group, Inc.;
  2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
  3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
  4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
    - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
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5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Patricia N. Egan

Name: Patricia N. Egan

Title: Chief Financial Officer

Date: March 15, 2016

**Certification of CEO and CFO Pursuant to  
18 U.S.C. Section 1350,  
as Adopted Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report on Form 10-K of Harris & Harris Group, Inc. (the "Company") for the year ended December 31, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Douglas W. Jamison, as Chief Executive Officer of the Company, and Patricia N. Egan, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his or her knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
  - (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.
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/s/ Douglas W. Jamison

Name: Douglas W. Jamison  
Title: Chief Executive Officer  
Date: March 15, 2016

/s/ Patricia N. Egan

Name: Patricia N. Egan  
Title: Chief Financial Officer  
Date: March 15, 2016