

HARRIS & HARRIS GROUP INC /NY/

Form N-2/A

December 11, 2006

This is a test

The information in this prospectus is not complete and may be changed. The Trust may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

As filed with the Securities and Exchange Commission on December 11, 2006

**Securities Act Registration No. 333-138996
Investment Company Act File Number 814-176**

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM N-2

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933: o

PRE-EFFECTIVE AMENDMENT NO. 1 x

POST-EFFECTIVE AMENDMENT NO. o

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

**111 West 57th Street
Suite 1100
New York, New York 10019**
(Address of Principal Executive Offices)

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

**Charles E. Harris, Chairman, CEO
111 West 57th Street
Suite 1100
New York, New York 10019**
(Name and Address of Agent for Service)

Copies to:

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New York, New York 10036
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Approximate Date of Proposed Public Offering:

From time to time after the effective date of this Registration Statement

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box. T

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that the Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such dates as the Commission, acting pursuant to said Section 8(a), may determine.

This post-effective amendment designates a new effective date for a previously filed registration statement.

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price⁽¹⁾	Amount of Registration Fee
Common Stock, \$0.01 par value	4,000,000	\$ 13.90	\$ 57,440,000	\$ 5,949.20 ⁽²⁾

⁽¹⁾Estimated solely for the purpose of determining the registration fee pursuant to Rule 457(c) under the Securities Act of 1933 and based on the average of the high and low prices as reported on the Nasdaq Global Market of the registrant's Common Stock on December 7, 2006.

⁽²⁾ \$5,949.20 previously paid.

**HARRIS & HARRIS GROUP, INC.
CROSS-REFERENCE SHEET**

PART A-THE PROSPECTUS

<u>Items in Part A of Form N-2</u>	<u>Location in Prospectus</u>	
Item 1.	Outside Front Cover	Front Cover Page
Item 2.	Cover Pages; Other Offering Information	Front Cover Page; Inside Front Cover Page
Item 3.	Fee Table and Synopsis	Prospectus Summary; Table of Fees and Expenses
Item 4.	Financial Highlights	Selected Condensed Consolidated Financial Data; Incorporation by Reference
Item 5.	Plan of Distribution	Prospectus Summary; Plan of Distribution
Item 6.	Selling Shareholders	Not Applicable
Item 7.	Use of Proceeds	Use of Proceeds
Item 8.	General Description of the Registrant	Outside Front Cover; Business; Risk Factors; Investment Policies; Price Range of Common Stock; General Description of our Portfolio Companies
Item 9.	Management	Management of the Company
Item 10.	Capital Stock, Long-Term Debt and Other Securities	Prospectus Summary; Capitalization; Dividends and Distributions; Taxation; Risk Factors
Item 11.	Defaults and Arrears on Senior Securities	Not Applicable
Item 12.	Legal Proceedings	Management of the Company
Item 13.	Table of Contents of the Statement of Additional Information	Not Applicable

<u>Items in Part B of Form N-2⁽¹⁾</u>	<u>Location in Prospectus</u>	
Item 14.	Cover Page	Not Applicable
Item 15.	Table of Contents	Not Applicable
Item 16.	General Information and History	Not Applicable
Item 17.	Investment Objective and Policies	Business; Investment Policies
Item 18.	Management of the Company	Management of the Company
Item 19.	Control Persons and Principal Shareholders	Management of the Company
Item 20.	Investment Advisory and Other Services	Management of the Company; Experts
Item 21.	Portfolio Managers	Not Applicable
Item 22.	Brokerage, Allocation and Other Practices	Brokerage
Item 23.	Tax Status	Taxation
Item 24.	Financial Statements	Incorporation by Reference

PART C-OTHER INFORMATION

Items 25-34 have been answered in Part C of this Registration Statement.

⁽¹⁾Pursuant to General Instructions to Form N-2, all information required by Part B: Statement of Additional Information has been incorporated into Part A: The Prospectus of the Registration Statement.

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The information in this Prospectus is not complete and may be changed. We may not sell securities until the registration statement filed with the Securities and Exchange Commission is effective. This Prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion
Preliminary Prospectus, Dated ,

4,000,000 Shares

Common Stock

Harris & Harris Group, Inc.[®], is a venture capital company specializing in tiny technology that operates as a business development company under the Investment Company Act of 1940. We may offer, from time to time, shares of our common stock, \$0.01 par value per share ("Common Stock"), in one or more offerings. The Common Stock may be offered at prices and on terms to be set forth in one or more supplements to this Prospectus (each a "Prospectus Supplement"). The offering price per share of our Common Stock will not be less than the net asset value per share of our Common Stock at the time we make the offering exclusive of any underwriting commissions or discounts. You should read this Prospectus and the applicable Prospectus Supplement carefully before you invest in our Common Stock.

Our Common Stock may be offered directly to one or more purchasers through agents designated from time to time by us, or to or through underwriters or dealers. The Prospectus Supplement relating to the offering will identify any agents or underwriters involved in the sale of our Common Stock, and will set forth any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters, or among our underwriters, or the basis upon which such amount may be calculated. We may not sell any of our Common Stock through agents, underwriters or dealers without delivery of a Prospectus Supplement describing the method and terms of the particular offering of our Common Stock. Our Common Stock is listed on the Nasdaq Global Market under the symbol "TINY." On November 27, 2006, the last reported sale price of our Common Stock was \$14.04.

An Investment in the Securities Offered in this Prospectus Involves a High Degree of Risk. You Should Consider Investing in Us Only if You Are Capable of Sustaining the Loss of Your Entire Investment. See "Risk Factors" beginning on page 10.

This Prospectus sets forth concisely the information about us that a prospective investor should know before investing. You should read this Prospectus, before deciding whether to invest in our Common Stock, and retain it for future reference. You may obtain our annual reports, request other information about us and make shareholder inquiries by calling toll free 1-877-TINY TECH. Additional information about us has been filed with the Securities and Exchange Commission ("SEC") and is available upon written or oral request and without charge. We also make available our annual reports, free of charge, on our website at www.TinyTechVC.com. Information on our website is not part of this Prospectus and should not be considered as such when making your investment decision. Material incorporated by reference and other information about us can be obtained from the SEC's website (<http://www.sec.gov>).

Neither the SEC nor any state securities commission has approved or disapproved these securities or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

This Prospectus may not be used to consummate sales of Common Stock by us through agents, underwriters or dealers unless accompanied by a Prospectus Supplement.

The date of the Prospectus is _____, _____ ..

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You should rely only on the information contained or incorporated by reference in this Prospectus. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell these securities in any jurisdiction in which the offer or sale is not permitted.

In this Prospectus, unless otherwise indicated, "Harris & Harris," "Company," "us," "our" and "we" refer to Harris & Harris Group, Inc.® "Harris & Harris Group, Inc." is a registered service mark. This Prospectus also includes trademarks owned by other persons.

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PROSPECTUS SUMMARY

This summary highlights information that is described more fully elsewhere in this Prospectus and in the documents to which we have referred. It may not contain all of the information that is important to you. To understand the offering fully, you should read the entire document carefully, including the risk factors beginning on page 10.

Our Business

Harris & Harris Group, Inc., is a venture capital company, specializing in tiny technology, that operates as a business development company under the Investment Company Act of 1940, which we refer to as the 1940 Act. For tax purposes, we operate as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, which we refer to as the Code. We are an internally managed investment company; that is, our officers and employees, rather than an investment adviser, manage our operations under the general supervision of our Board of Directors. Our investment objective is to achieve long-term capital appreciation, rather than current income, by making venture capital investments in early-stage companies. Our approach includes patient examination of available early stage opportunities, thorough due diligence and close involvement with management.

We make initial venture capital investments exclusively in "tiny technology," which we define as nanotechnology, microsystems and microelectromechanical systems (which we refer to as MEMS). We consider a company to be a tiny technology company if a product or products, or intellectual property covering a product or products, that we consider to be at the microscale or smaller is material to its business plan. Most of our current portfolio companies are significantly involved with work on objects or devices with dimensions of 100 nanometers or smaller, which we refer to as the nanoscale. Our portfolio includes insignificant non-tiny technology investments made prior to 2001, and we may make follow-on investments in either tiny or non-tiny technology companies. At September 30, 2006, 45.6 percent of our total assets and 99.9 percent of our venture capital portfolio were invested in tiny technology investments. By making these investments, we seek to provide our shareholders with a specific focus on tiny technology through a portfolio of venture capital investments that addresses a variety of markets and products. We believe that we are the only publicly traded business development company making initial venture capital investments exclusively in tiny technology.

Tiny technology is multidisciplinary and widely applicable, and it incorporates technology that is significantly smaller than is currently in widespread commercial use in most fields. Nanotechnology is measured in nanometers, which are units of measurement in billionths of a meter. Microsystems are measured in micrometers, which are units of measurement in millionths of a meter. Because it is in many respects a new field, tiny technology has significant scientific, engineering, regulation and commercialization risks. See "Business" and "Risk Factors."

As a venture capital company, we make it possible for our investors to participate at an early stage in this emerging field, while our portfolio companies are still private. By making investments in companies that control intellectual property relevant to tiny technology, we are building a portfolio that we believe will be difficult to replicate in the future, as we believe it will likely become increasingly difficult to create new foundational intellectual property in nanotechnology. To the investor, we offer:

- a portfolio consisting of investments that are generally available only to a small, highly specialized group of professional venture capital firms as investors;
- a team of professionals, including five full-time members of management, four of whom are designated as Managing Directors, Charles E. Harris, Douglas W. Jamison, Daniel V. Leff and Alexei A. Andreev, and a Vice President, Daniel B. Wolfe, to evaluate and monitor investments. Two of our directors are also consultants to us, Kelly S. Kirkpatrick and Lori D. Pressman. These seven professionals collectively have expertise in venture capital investing,

intellectual property and tiny technology;

- the opportunity to benefit from our experience in a new field expected to permeate a variety of industries; and

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- through the ownership of our publicly traded shares, a measure of liquidity not typically available in underlying venture capital portfolio investments.

The number of tiny technology investment opportunities available to us has increased over the past five years, through both new opportunities and opportunities for follow-on investments in our existing portfolio companies. We believe that our expertise and record of prior investments in tiny technology are likely to lead us to additional tiny technology investment opportunities in the future. We intend to use the net proceeds of this offering to:

- increase our capital in order to take advantage of these investment opportunities;
- lower our expenses as a percentage of assets and otherwise achieve certain economies and advantages of scale in our operations, as our costs are primarily fixed. As our assets increase by the net proceeds of this offering, our fixed costs will represent a smaller percentage of our assets; and
- pay operating expenses, including due diligence expenses on potential investments.

We identify investment opportunities primarily through four channels:

- our involvement in the field of tiny technology;
- research universities that seek to transfer their scientific discoveries to the private sector;
- other venture capital companies seeking co-investors or referring deals to us; and
- direct calls and business plan submissions by companies, business incubators and individuals seeking venture capital.

Since registering as an investment company in 1992, we have invested in a variety of industries. In 1994, we invested in our first tiny technology company, Nanophase Technologies Corporation. In 1995, we elected to be regulated as a business development company. Recognizing the potential of tiny technology, we continued to monitor developments in the field, and since 2001, we have made tiny technology our exclusive focus for initial investments. From August 2001 through September 2006, all 30 of our initial investments have been in companies involved in the development of products and technologies based on tiny technology. Our portfolio now includes investments in a total of 28 companies, 26 of which we consider to be involved in tiny technology.

As is usual in the venture capital industry, our venture capital investments are generally in convertible preferred stock, which is usually the most senior security in a portfolio company's equity capital structure until the company has substantial revenues, and which gives us seniority over the holders of Common Stock (usually including the founders) while preserving fully our participation in the upside potential of the portfolio company through the conversion feature. Our portfolio investments in some instances include a dividend right payable in kind (which increases our participation in the portfolio company) or potentially in cash. In-kind distributions are primarily made in additional shares of convertible preferred stock. We expect to continue to invest in convertible securities.

Tiny Technology

In our view, tiny technology is neither an industry nor a single technology, but a variety of enabling technologies with critical dimensions below 100 micrometers. Tiny technology manifests itself in tools, materials, systems and devices that address broad markets, including instrumentation, electronics, photonics, computing, medical devices, pharmaceutical manufacturing, drug delivery and drug discovery. The development and commercialization of tiny technology often require the integration of multiple disciplines, including biology, physics, chemistry, materials science, computer science and the engineering sciences.

Examples of tiny technology-enabled products currently on the market are quite diverse. They include sensors, accelerometers used in automobiles to sense impact and deploy airbags, cosmetics with ingredients that block ultraviolet light but are invisible to the human eye, nanoclays used for strength in the running boards of minivans, textiles with liquid-stain repellant surfaces, fast acting painkillers and certain pharmaceutical therapeutics.

Harris & Harris Group currently has 12 companies in its tiny technology portfolio with products on the market offering a range of products including components for optical networking, high-brightness LEDs, carbon nanotube-based sensors, optical switches, silicon carbide brake rotors, chiral columns for the pharmaceutical industry, metabolomic profiling services and decorative tiles.

Within tiny technology, microsystems and MEMS both refer to materials, devices and processes that are on a micrometer size scale. A micrometer, which is also referred to as a micron, is 0.000001 meter, or one millionth of a meter. In practice, any device, or device enabled by components, in a size range from 100 microns down to 0.1 micron may be considered "micro." Nanotechnology refers to materials, devices and processes with critical dimensions below 0.1 micron, equal to 100 nanometers. A nanometer is 0.000000001 meter, or one billionth of a meter. It is at the scale below 100 nanometers, the nanoscale, that quantum effects begin to dominate classical macroscale physics. At the nanoscale, size- and shape-dependent properties of materials allow previously unattainable material and device performance.

Although the practical application of tiny technology requires great expertise to implement in manufacturing processes, we believe that tiny technology's broad applicability presents significant and diverse market opportunities.

Risk Factors

Set forth below is a summary of certain risks that you should carefully consider before investing in our Common Stock. See "Risk Factors" beginning on page 10 for a more detailed discussion of the risks of investing in our Common Stock.

Risks related to the companies in our portfolio.

- Investing in small, private companies involves a high degree of risk and is highly speculative.
- We may invest in companies working with technologies or intellectual property that currently have few or no proven commercial applications.
- Our portfolio companies may not successfully develop, manufacture or market their products.
- Our portfolio companies working with tiny technology may be particularly susceptible to intellectual property litigation.

- Unfavorable general economic conditions, as well as unfavorable conditions specific to the venture capital industry, could result in the inability of our portfolio companies to access additional capital, leading to financial losses in our portfolio.
- The value of our portfolio could be adversely affected if the technologies utilized by our portfolio companies are found or even rumored or feared, to cause health or environmental risks.

- Public perception of ethical and social issues, including health and environmental risks regarding nanotechnology, may limit or discourage the use of nanotechnology-enabled products, which could reduce our portfolio companies' revenues and harm our business.

Risks related to the illiquidity of our investments.

- We invest in illiquid securities and may not be able to dispose of them when it is advantageous to do so, or ever.
- Unfavorable economic conditions and regulatory changes could impair our ability to engage in liquidity events.
- Even if some of our portfolio companies complete initial public offerings, the returns on our investments in those companies would be uncertain.

Risks related to our Company.

- 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.
- Because we are a non-diversified company with a relatively concentrated portfolio, the value of our business is subject to greater volatility than the value of companies with more broadly diversified investments.
 - We are dependent upon key management personnel for future success and may not be able to retain them.
 - We will need to hire additional employees as the size of our portfolio increases.
 - The market for venture capital investments, including tiny technology investments, is highly competitive.
- In addition to the difficulty of finding attractive investment opportunities, our status as a regulated business development company may hinder our ability to participate in investment opportunities or to protect the value of existing investments.
 - Our failure to make follow-on investments in our portfolio companies could impair the value of our portfolio.
- 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. The use of debt would leverage our available common equity capital, magnifying the impact of changes in the value of our investment portfolio on our net asset value. In addition, the cost of debt or preferred stock financing could exceed the return on the assets the proceeds are used to acquire, in which case the use of leverage would have an adverse impact on the holders of our Common Stock.
- We are authorized to issue preferred stock, which would convey special rights and privileges to its owners senior to those of Common Stock shareholders.
 - Loss of status as a RIC would reduce our net asset value and distributable income.
- We operate in a heavily regulated environment and changes to, or non-compliance with, regulations and laws could harm our business.

· Market prices of our Common Stock will continue to be volatile.

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

· To the extent that we do not realize income or choose not to retain after-tax realized capital gains, we will have a greater need for additional capital to fund our investments and operating expenses.

Investment in foreign securities could result in additional risks.

Risks related to this offering.

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

We will have discretion over the use of proceeds of this offering.

Our shares might trade at discounts from net asset value or at premiums that are unsustainable over the long term, and they currently trade at a substantial premium over net asset value that may not be sustainable over the long term.

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

Other Information

Our website is www.TinyTechVC.com and is not incorporated by reference into this Prospectus. We make available free of charge through our website the following materials (which are not incorporated by reference unless specifically stated in this Prospectus) as soon as reasonably practicable after filing or furnishing them to the SEC:

our annual report on Form 10-K;

our quarterly reports on Form 10-Q;

our current reports on Form 8-K; and

amendments to those reports.

The Offering

Common Stock offered

We may offer, from time to time, up to a total of 4,000,000 shares of our Common Stock available under this Prospectus on terms to be determined at the time of the offering. Our Common Stock may be offered at prices and on terms to be set forth in one or more Prospectus Supplements. The offering price per share of our Common Stock net of underwriting commissions or discounts will not be less than the net asset value per share of our Common Stock.

Use of proceeds

Although we will make initial investments exclusively in tiny technology, we can make follow-on investments in non-tiny technology companies currently in our portfolio. Further, while considering venture capital investments, we may invest the proceeds in U.S. government and agency securities, which may yield less than our operating expense ratio. We expect to invest or reserve for potential follow-on investment the net proceeds of any sale of shares under this Prospectus within two years from the completion of such sale. We

may also use the proceeds of this offering for operating expenses, including due diligence expenses on potential investments. For this purpose, we do not expect to reserve for follow-on investments in any particular portfolio holding more than the greater of twice the investment to date in that portfolio holding or five times the initial investment in the case of seed-stage investments, though we may invest more than the amount reserved for this purpose in any particular portfolio holding.

Nasdaq Global Market symbol TINY

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TABLE OF FEES AND EXPENSES

The following tables are intended to assist you in understanding the various costs and expenses directly or indirectly associated with investing in our Common Stock. Amounts are for the current fiscal year after giving effect to anticipated net proceeds of the offering for the 4,000,000 shares registered pursuant to this Prospectus, assuming that we incur the estimated offering expenses. The price per share used in this calculation was the closing price of our Common Stock on November 27, 2006 of \$14.04.

Shareholder Transaction Expenses	
Sales Load ⁽¹⁾ (as a percentage of offering price)	N/A
Offering Expenses (as a percentage of offering price)	0.59%
Annual Expenses (as a percentage of net assets attributable to Common Stock)	
Management Fees ⁽²⁾	N/A
Other Expenses ⁽³⁾	
Salaries and Benefits ⁽⁴⁾	4.65%
Administration and Operations ⁽⁵⁾	1.18%
Professional Fees	.47%
Total Annual Expenses ⁽⁶⁾	6.30%

(1) In the event that the shares of Common Stock to which this Prospectus relates are sold to or through underwriters, a corresponding Prospectus Supplement will disclose the sales load.

(2) The Company has no external management fees because it is internally managed.

(3) "Other Expenses" are based on estimated amounts for the current fiscal year.

(4) "Salaries and Benefits" includes non-cash stock-based compensation expense of \$5,007,340. The Company accounts for stock-based compensation expense pursuant to SFAS No. 123(R) "Share-Based Payment," which requires that we determine the fair value of all share-based payments to employees, including the fair value of grants of employee stock options, and record these amounts as an expense in the Statement of Operations over the vesting period with a corresponding increase to our additional paid-in capital. There is no impact to net asset value from stock-based compensation expense. Excluding the non-cash, stock-based compensation expense, "Salaries and benefits" totals \$2,944,334 or 1.72 percent of net assets attributable to Common Stock.

(5) "Administration and Operations" includes expenses incurred for administration, operations, rent, directors' fees and expenses, depreciation and custodian fees.

(6) "Total Annual Expenses" includes non-cash compensation expense of \$5,007,340. See Footnote (4) above. Cash-based total annual expenses as a percentage of net assets attributable to Common Stock is 3.37%.

Example

The following examples illustrate the dollar amount of cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our Common Stock. These amounts are based upon payment by us of expenses at levels set forth in the above table, including the non-cash, stock-based compensation expenses.

On the basis of the foregoing, including the non-cash, stock-based compensation expense, you would pay the following expenses on a \$10,000 investment, assuming a five percent annual return:⁽¹⁾

1 Year	3 Years	5 Years	10 Years
\$681	\$1,901	\$3,090	\$5,929

⁽¹⁾This example includes non-cash, stock-based compensation. Excluding the non-cash, stock-based compensation, you would pay expenses of \$397 in 1 year, \$1,089 in 3 years, \$1,804 in 5 years and \$3,697 in 10 years, on a \$10,000 investment, assuming a five percent return.

The foregoing table is to assist you in understanding the various costs and expenses that an investor in our Common Stock will bear directly or indirectly. The assumed five percent annual return is not a prediction of, and does not represent, the projected or actual performance of our Common Stock. **The above example should not be considered a representation of future expenses, and actual expenses and annual rates of return may be more or less than those assumed for purposes of the example.**

SELECTED CONDENSED CONSOLIDATED FINANCIAL DATA

The information below should be read in conjunction with the Consolidated Financial Statements and Supplementary Data and the notes thereto. Financial information as of and for the years ended December 31, 2005, 2004, 2003 and 2002, has been derived from our financial statements that were audited by PricewaterhouseCoopers LLP. Financial information as of and for the year ended December 31, 2001, was derived from financial statements audited by Arthur Andersen LLP. For important information about Arthur Andersen LLP, see the section entitled, "Experts." These historical results are not necessarily indicative of the results to be expected in the future.

BALANCE SHEET DATA**Financial Position as of December 31:**

	2005	2004	2003	2002	2001
Total assets	\$ 132,947,623	\$ 79,361,451	\$ 44,115,128	\$ 35,951,969	\$ 39,682,367
Total liabilities	\$ 14,959,881	\$ 4,616,652	\$ 3,432,390	\$ 8,695,923	\$ 15,347,597
Net assets	\$ 117,987,742	\$ 74,744,799	\$ 40,682,738	\$ 27,256,046	\$ 24,334,770
Net asset value per outstanding share	\$ 5.68	\$ 4.33	\$ 2.95	\$ 2.37	\$ 2.75
Cash dividends paid	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

Cash dividends paid per
outstanding share

Shares outstanding, end of year	20,756,345	17,248,845	13,798,845	11,498,845	8,864,231
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Operating Data for year ended December 31:

	2005	2004	2003	2002	2001
Total investment income	\$ 1,540,862	\$ 637,562	\$ 167,785	\$ 253,461	\$ 510,661
Total expenses ¹	\$ 7,006,623	\$ 4,046,341	\$ 2,731,527	\$ 2,124,549	\$ 1,035,221
Net operating (loss) income	\$ (5,465,761)	\$ (3,408,779)	\$ (2,563,742)	\$ (1,871,088)	\$ (524,560)
Total tax expense ² (benefit)	\$ 8,288,778	\$ 650,617	\$ 13,761	\$ 199,309	\$ 299,418
Net realized income (loss) from investments	\$ 14,208,789	\$ 858,503	\$ (984,925)	\$ 2,390,302	\$ 1,004,899
Net realized (loss) income	\$ 8,743,028	\$ (2,550,276)	\$ (3,548,667)	\$ 519,214	\$ 480,339
Net decrease (increase) in unrealized depreciation on investments	\$ (2,026,652)	\$ 484,162	\$ 343,397	\$ (3,241,408)	\$ (7,641,044)
Net increase (decrease) in net assets resulting from operations	\$ 6,716,376	\$ (2,066,114)	\$ (3,205,270)	\$ (2,722,194)	\$ (7,160,705)
Increase (Decrease) in net assets resulting from operations per average outstanding share	\$ 0.36	\$ (0.13)	\$ (0.28)	\$ (0.27)	\$ (0.80)

¹ Included in total expenses are the following profit-sharing expenses/(reversals): \$1,796,264 in 2005; \$311,594 in 2004; (\$163,049) in 2002; and (\$984,021) in 2001.

² Included in total tax expense are the following taxes paid by the Company on behalf of shareholders: \$8,122,367 in 2005, \$0 in each of 2004, 2003 and 2002, and \$271,467 in 2001.

SELECTED QUARTERLY DATA (UNAUDITED)

	2006		
	1 st Quarter	2 nd Quarter	3 rd Quarter
Total investment income	\$ 804,862	\$ 785,265	\$ 719,619
Net operating loss	\$ (767,743)	\$ (693,887)	\$ (2,988,790)
Net increase (decrease) in net assets resulting from operations	\$ (1,653,990)	\$ (1,282,997)	\$ (2,588,092)
Net (decrease) increase in net assets resulting from operations			
Per average outstanding share	\$ (0.08)	\$ (0.06)	\$ (0.12)

	2005			
	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter
Total investment income	\$ 260,108	\$ 158,717	\$ 315,374	\$ 801,662
Net operating loss	\$ (745,590)	\$ (3,302,094)	\$ (3,273,797)	\$ 1,851,274

Net increase (decrease) in net assets resulting from operations	\$	(2,233,447)	\$	7,001,847	\$	7,336,923	\$	(5,388,947)
Net (decrease) increase in net assets resulting from operations								
Per average outstanding share	\$	(0.13)	\$	0.41	\$	0.40	\$	(0.26)

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SELECTED QUARTERLY DATA (UNAUDITED)

(continued)

	2004			
	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter
Total investment income	\$ 56,536	\$ 79,231	\$ 253,581	\$ 248,214
Net operating loss	\$ (749,865)	\$ (774,584)	\$ (978,773)	\$ (905,557)
Net increase (decrease) in net assets resulting from operations	\$ 820,515	\$ (2,237,037)	\$ 1,111,121	\$ (1,760,713)
Net (decrease) increase in net assets resulting from operations				
Per average outstanding share	\$ 0.06	\$ (0.16)	\$ 0.06	\$ (0.09)

INCORPORATION BY REFERENCE

The financial statements as of December 31, 2005, and 2004, and for each of the three years in the period ended December 31, 2005, and the financial statements as of September 30, 2006, and for the fiscal periods ended September 30, 2006, and 2005, have been incorporated by reference into the Prospectus from the Company's Annual Report on Form 10-K and Quarterly Report on Form 10-Q, each of which either accompanies this Prospectus or has previously been provided to the person to whom this Prospectus is being sent.

The information required by Item 4.2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" as of December 31, 2005, and 2004, and for each of the three years in the period ended December 31, 2005, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" as of September 30, 2006, and for the three months and nine months in the fiscal periods ended September 30, 2006, and 2005, have been incorporated by reference into the Prospectus from the Company's Annual Report on Form 10-K and Quarterly Report on Form 10-Q, each of which either accompanies this prospectus or has previously been provided to the person to whom this prospectus is being sent.

We will furnish, without charge, a copy of the financial statements upon request by writing to 111 West 57th Street, Suite 1100, New York, New York 10019, Attention: Investor Relations, or by calling 1-877-TINY-TECH.

AVAILABLE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934. You can inspect any materials we file with the SEC, without charge, at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 202-942-8090 for further information on the Public Reference Room. The SEC maintains a web site that contains reports, proxy statements and other information regarding registrants, including us, that file such information electronically with the SEC. The address of the SEC's web site is www.sec.gov. Information contained on the SEC's web site about us is not incorporated into this Prospectus and you should not consider information contained on the SEC's web site to be part of this Prospectus.

You may obtain our annual reports, request other information about us and make shareholder inquiries by calling toll free 1-877-TINY TECH. We also make available our annual reports, free of charge, on our website at www.TinyTechVC.com. Information on our website is not part of this Prospectus and should not be considered as such when making your investment decision.

RISK FACTORS

Investing in our Common Stock involves significant risks relating to our business and investment objective. You should carefully consider the risks and uncertainties described below before you purchase any 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 the companies in our portfolio.

Investing in small, private companies involves a high degree of risk and is highly speculative.

We have invested a substantial portion of our assets in privately held development stage or start-up companies, the securities of which are inherently illiquid. These businesses tend to lack management depth, to have limited or no history of operations and to have not attained profitability. Tiny technology companies 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 venture capital 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 venture capital and other investments. Neither our investments nor an investment in our Common Stock is intended to constitute a balanced investment program.

We may invest in companies working with technologies or intellectual property that currently have few or no proven commercial applications.

Nanotechnology, in particular, is a developing area of technology, of which much of the future commercial value is unknown, difficult to estimate and subject to widely varying interpretations. There are as of yet relatively few nanotechnology products commercially available. The timing of additional future commercially available nanotechnology products is highly uncertain.

Our portfolio companies may not successfully develop, manufacture or market their products.

The technology of our portfolio companies is new and in many cases unproven. Their potential products require significant and lengthy product development, manufacturing and marketing efforts. To date, many of our portfolio companies have not developed any commercially available products. In addition, our portfolio companies may not be able to manufacture successfully or to market their products in order to achieve commercial success. Further, the products may never gain commercial acceptance. If our portfolio companies are not able to develop, manufacture or market successful tiny technology-enabled products, they will be unable to generate product revenue or build sustainable or profitable businesses.

Our portfolio companies working with tiny technology may be particularly susceptible to intellectual property litigation.

Research and commercialization efforts in tiny technology are being undertaken by a wide variety of government, academic and private corporate entities. As additional commercially viable applications of tiny technology emerge, ownership of intellectual property on which these products are based may be contested. From time to time, our portfolio companies are or have been involved in intellectual property disputes and litigation. Any litigation over the ownership of, or rights to, any of our portfolio companies' technologies or products could have a material adverse

effect on those companies' values.

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Unfavorable general economic conditions, as well as unfavorable conditions specific to the venture capital industry, could result in the inability of our portfolio companies to access additional capital, leading to financial losses in our portfolio.

Most of the companies in which we have made or will make investments are susceptible to economic slowdowns or recessions. An economic slowdown or adverse capital or credit market conditions may affect the ability of a company in our portfolio to raise additional capital from venture capital or other sources or to engage in a liquidity event such as an initial public offering or merger. Adverse economic, capital or credit market conditions may lead to financial losses in our portfolio.

The value of our portfolio could be adversely affected if the technologies utilized by our portfolio companies are found or even rumored or feared, to cause health or environmental risks.

Our portfolio companies work with new technologies, which could have potential environmental and health impacts. Tiny technology in general and nanotechnology in particular are currently the subject of health and environmental impact research. If health or environmental concerns about tiny technology or nanotechnology were to arise, whether or not they had any basis in fact, our portfolio companies might incur additional research, legal and regulatory expenses, and might have difficulty raising capital or marketing their products.

Public perception of ethical and social issues, including health and environment risks regarding nanotechnology, may limit or discourage the use of nanotechnology-enabled products, which could reduce our portfolio companies' revenues and harm our business.

Nanotechnology has received both positive and negative publicity and is the subject increasingly of public discussion and debate. Government authorities could, for social or other purposes, prohibit or regulate the use of nanotechnology. Ethical and emotional concerns about nanotechnology could adversely affect acceptance of the potential products of our portfolio companies or lead to new government regulation of nanotechnology-enabled products. For example, debate regarding the production of materials that could cause harm to the environment or the health of individuals could raise concerns in the public's perception of nanotechnology, not all of which might be rational or scientifically based.

Risks related to the illiquidity of our 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 or equity-linked securities acquired directly from small companies. These equity securities are generally subject to restrictions on resale or otherwise have no established trading market. The illiquidity of most of our portfolio of equity 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.

Unfavorable economic conditions and regulatory changes could impair our ability to engage in liquidity events.

Our business of making private equity investments and positioning our portfolio companies for liquidity events might be adversely affected by current and future capital markets and economic conditions. The public equity markets currently provide less opportunity for liquidity events than at times in the past when there was more robust demand for initial public offerings, even for more mature technology companies than those in which we typically invest. The potential for public market liquidity could further decrease and could lead to an inability to realize potential gains or

could lead to financial losses in our portfolio and a decrease in our revenues, net income and assets. Recent government reforms affecting publicly traded companies, stock markets, investment banks and securities research practices have made it more difficult for privately held companies to complete successful initial public offerings of their equity securities, and such reforms have increased the expense and legal exposure of being a public company. Slowdowns in initial public offerings may also have an adverse effect on the frequency and prices of acquisitions of privately held companies. A lack of merger and/or acquisition opportunities for privately held companies also may have an adverse effect on the ability of these companies to raise capital from private sources. Public equity market response to companies offering nanotechnology-enabled products is uncertain. An inability to engage in liquidity events could negatively affect our liquidity, our reinvestment rate in new and follow-on investments and the value of our portfolio.

Even if some of our portfolio companies complete initial public offerings, the returns on our investments in those companies would be uncertain.

When companies in which we have invested as private entities complete initial public offerings 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 initial public offerings. The market price of securities that we hold may decline substantially before we are able to sell these securities. Most initial public offerings of technology companies in the United States are listed on the Nasdaq Global Market. Recent government reforms of the Nasdaq Global Market have made market-making 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.

Risks related to our Company.

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 equity securities in which we invest. Pursuant to the requirements of the Investment Company Act of 1940, which we refer to as the 1940 Act, we value all of the private equity securities in our portfolio at fair value as determined in good faith by a committee of independent members of our Board of Directors, which we call the Valuation Committee, pursuant to Valuation Procedures established by the Board of Directors. As a result, 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 our securities have appreciated in value. 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 statements of operations as a change in the "Net (decrease) increase in unrealized appreciation on investments." See "Determination of Net Asset Value."

In the venture capital industry, even when a portfolio of early-stage, high-technology venture capital 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 companies 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, absent a substantial investment at a higher valuation by a third-party, knowledgeable, non-strategic investor. Even if our venture capital 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 tiny technology 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.

Because we are a non-diversified company with a relatively concentrated portfolio, the value of our business is subject to greater volatility than the value of companies with more broadly diversified investments.

As a result of our assets being invested in the securities of a small number of issuers, we are classified as a non-diversified company. We may be more vulnerable to events affecting a single issuer or industry and therefore subject to greater volatility than a company whose investments are more broadly diversified. 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.

We are dependent upon the diligence and skill of our senior management and other key advisers for the selection, structuring, closing and monitoring of our investments. We utilize lawyers and outside consultants, including two of our directors, Dr. Kelly S. Kirkpatrick and Lori D. Pressman, 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 advisers 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, and particularly on our Chairman and Chief Executive Officer, Charles E. Harris, who will be subject to mandatory retirement pursuant to the Company's mandatory retirement policy for senior executives on December 31, 2008; on our Chief Operating Officer and Chief Financial Officer, Douglas W. Jamison, who has been designated by our Board of Directors as the successor to Mr. Harris in his positions of Chairman and Chief Executive Officer as of January 1, 2009; and on our General Counsel, Chief Compliance Officer and Director of Human Resources, Sandra M. Forman. The departure of any of our executive officers, key employees or advisers 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.

We will need to hire additional employees as the size of our portfolio increases.

We anticipate that it will be necessary for us to add investment professionals with expertise in venture capital and/or tiny technology and administrative and support staff to accommodate the increasing size of our portfolio. We may need to provide additional scientific, business, accounting, legal or investment training for our hires. There is competition for highly qualified personnel, and we may not be successful in our efforts to recruit and retain highly qualified personnel.

The market for venture capital investments, including tiny technology investments, is highly competitive.

We face substantial competition in our investing activities from many competitors, including but not limited to: private venture capital funds; investment affiliates of large industrial, technology, service and financial companies; small business investment companies; wealthy individuals; and foreign investors. Our most significant competitors typically have significantly greater financial resources than we do. Greater financial resources are particularly advantageous in securing lead investor roles in venture capital syndicates. Lead investors typically negotiate the terms and conditions of such financings. Many sources of funding compete for a small number of attractive investment opportunities. Hence, we face substantial competition in sourcing good investment opportunities on terms of investment that are commercially attractive.

In addition to the difficulty of finding attractive investment opportunities, our status as a regulated business development company may hinder our ability to participate in investment opportunities or to protect the value of existing investments.

We are required to disclose on a quarterly basis the names and business descriptions of our portfolio companies and the value of our portfolio securities. Most of our competitors are not subject to these disclosure requirements. Our obligation to disclose this information could hinder our ability to invest in some portfolio companies. Additionally, other current and future regulations may make us less attractive as a potential investor than a competitor not subject to the same regulations.

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. "Pay-to-play" provisions 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 or even to prevent preferred shares from being converted to common shares.

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 or even substantially all of our equity ownership in it pursuant to "pay-to-play" provisions. 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 business development company 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 business development company 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 1 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, 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 regulated investment company, or RIC, under the Code, which would in most circumstances be materially adverse to the holders of our Common Stock. As of the date hereof, we do not have any debt or preferred stock outstanding.

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 would reduce our net asset value and distributable income.

We currently intend to qualify as a RIC for 2006 under the Code. 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 2006 or beyond, to the extent that we had unrealized gains, we would have to establish reserves for taxes, which would reduce our net asset value, accordingly. In addition, if we, as a RIC, were to decide to make a deemed distribution of net realized capital gains and retain the net realized capital gains, 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. See "Taxation."

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 business development company. 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 and public disclosure, including the Sarbanes-Oxley Act of 2002, new SEC regulations and Nasdaq Global Market rules, are creating additional expense and uncertainty for publicly held companies in general, and for business development companies 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. In particular, our efforts to comply with Section 404 of the Sarbanes-Oxley Act of 2002 and the related regulations regarding our required assessment of our internal controls over financial reporting and our external auditors' audit of that assessment has required the commitment of significant financial and managerial resources.

Moreover, even though business development companies are not mutual funds, they must comply with several of the regulations applicable to mutual funds, such as the requirement for the implementation of a comprehensive compliance program and the appointment of a Chief Compliance Officer. Further, our Board members, Chief Executive Officer and Chief Financial Officer could face an increased risk of personal liability in connection with the

performance of their duties. As a result, we may have difficulty attracting and retaining qualified Board members and executive officers, which could harm our business, and we have significantly increased both our coverage under, and the related expense for, directors' and officers' liability insurance. 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. Also, as business and financial practices continue to evolve, they may render the regulations under which we operate less appropriate and more burdensome than they were when originally imposed. 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:

- announcements regarding any of our portfolio companies;
- announcements regarding developments in the nanotechnology field in general;
- environmental and health concerns regarding nanotechnology, whether real or perceptual;
- announcements regarding government funding and initiatives related to the development of nanotechnology;
- 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.

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.

To the extent that we do not realize income or choose not to retain after-tax realized capital gains, we will have a greater need for additional capital to fund our investments and operating expenses.

As a RIC, we must annually distribute at least 90 percent of our investment company taxable income as a dividend and may either distribute or retain our realized net capital gains from investments. As a result, these earnings may not be available to fund investments. If we fail to generate net realized capital gains or to obtain funds from outside sources, it would have a material adverse effect on our financial condition and results of operations as well as our ability to make follow-on and new investments. Because of the structure and objectives of our business, we generally expect to experience net operating losses and rely on proceeds from sales of investments, rather than on investment income, to defray a significant portion of our operating expenses. These sales are unpredictable and may not occur. In addition, as a business development company, we are generally required to maintain a ratio of at least 200 percent of total assets to total borrowings, which may restrict our ability to borrow to fund these requirements. Lack of capital could curtail our investment activities or impair our working capital.

Investment in foreign securities could result in additional risks.

The Company 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 investments that are denominated in a foreign currency are 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.

Risks related to this offering.

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

Our investment objective 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 portfolio companies 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 generally, 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 small capitalization company ourselves, our stock price is especially likely to be affected by these market conditions. General economic conditions, and general conditions in the Internet and information technology, life sciences, nanotechnology, tiny technology, materials science and other high technology industries, may also affect the price of our Common Stock.

We will have discretion over the use of proceeds of this offering.

We will have flexibility in applying the proceeds of this offering. We may pay operating expenses, including due diligence expenses on potential new investments, from the net proceeds. Our ability to achieve our investment objective may be limited to the extent that the net proceeds of the offering, pending full investment, are used to pay operating expenses.

Our shares might trade at discounts from net asset value or at premiums that are unsustainable over the long term.

Shares of business development companies like us may, during some periods, trade at prices higher than their net asset value and during other periods, as frequently occurs with closed-end investment companies, trade at prices lower than their net asset value. The possibility that our shares will trade at discounts from net asset value or at premiums that are unsustainable over the long term are risks separate and distinct from the risk that our net asset value per share will decrease. The risk of purchasing shares of a business development company that might trade at a discount or

unsustainable premium is more pronounced for investors who wish to sell their shares in a relatively short period of time because, for those investors, realization of a gain or loss on their investments is likely to be more dependent upon changes in premium or discount levels than upon increases or decreases in net asset value per share. Our Common Stock may not trade at a price higher than or equal to net asset value per share. On November 27, 2006, our stock closed at \$14.04 per share, a premium of \$8.50 over our net asset value per share of \$5.54 as of September 30, 2006.

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.

FORWARD-LOOKING INFORMATION

This Prospectus may contain "forward-looking statements" based on our current expectations, assumptions and estimates about us and our industry. These forward-looking statements involve risks and uncertainties. Words such as "believe," "anticipate," "estimate," "expect," "intend," "plan," "will," "may," "might," "could," "continue" and other similar expressions identify forward-looking statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of several factors more fully described in "Risk Factors" and elsewhere in this Prospectus. The forward-looking statements made in this Prospectus relate only to events as of the date on which the statements are made. We undertake no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future. More detailed information regarding the proceeds of a specific offering will be provided in the prospectus supplement related to such offering.

USE OF PROCEEDS

We estimate the total net proceeds of the offering to be up to \$56,160,000 based on the last reported price for our Common Stock on November 27, 2006 of \$14.04.

We expect to invest or reserve for potential follow-on investment the net proceeds of any offering within two years from the completion of such offerings. Reserves for follow-on investments in any particular initial investment may be no more than the greater of twice the investment to date or five times the initial investment in the case of seed-stage investments, though we may invest more than the amount reserved for this purpose in any particular portfolio holding. Although we intend to make our initial investments exclusively in companies that we believe are involved significantly in tiny technology, we may also make follow-on investments in existing portfolio companies involved in other technologies. Pending investment in portfolio companies, we intend to invest the net proceeds of any offering of our Common Stock in time deposits and/or income-producing securities that are issued or guaranteed by the federal government or an agency of the federal government or a government-owned corporation, which may well yield less than our operating expense ratio. We may also use the proceeds of this offering for operating expenses, including due diligence expenses on potential investments. If we pay operating expenses from the proceeds, it will reduce the net proceeds of the offering that we will have available for investment.

PRICE RANGE OF COMMON STOCK

Our Common Stock is traded on the Nasdaq Global Market under the symbol "TINY."

The following table sets forth for the quarters indicated, the high and low sale prices on the Nasdaq Global Market per share of our Common Stock and the net asset value and the premium or discount from net asset value per share at which the shares of Common Stock were trading, expressed as a percentage of net asset value, at each of the high and low sale prices provided.

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, 2004	20.70	11.47	3.01	587.7	281.1
June 30, 2004	23.60	10.77	2.85	728.1	277.9
September 30, 2004	13.90	7.07	4.44	213.1	59.2
December 31, 2004	16.70	10.29	4.33	285.7	137.6
March 31, 2005	16.80	11.30	4.20	300.0	169.0
June 30, 2005	13.38	10.01	4.61	190.2	117.1
September 30, 2005	13.85	10.70	5.94	133.2	80.1
December 31, 2005	14.95	10.15	5.68	163.2	78.7
March 31, 2006	16.10	12.75	5.60	187.5	127.7
June 30, 2006	14.26	9.57	5.54	157.4	72.7
September 30, 2006	12.99	9.38	5.54	134.5	69.3

Historically, the shares of our Common Stock have traded at times at a discount and at other times at a premium to net asset value. Since 2003, our shares of Common Stock have traded at a premium to net asset value. The last reported price for our Common Stock on November 27, 2006 was \$14.04 per share. As of November 24, 2006, we had approximately 131 shareholders of record.

BUSINESS

We are a venture capital company specializing in tiny technology. In 1995, we elected to be regulated as a business development company under the 1940 Act. Our investment objective is to achieve long-term capital appreciation, rather than current income, by making venture capital investments in early-stage companies. Although our portfolio includes insignificant non-tiny technology investments made prior to 2001, we now make our initial investments exclusively in tiny technology companies. By making these investments, we seek to provide our shareholders with a specific focus on tiny technology through a portfolio of venture capital investments that address a variety of markets and products. We believe that we are the only publicly traded business development company making initial venture capital investments exclusively in tiny technology.

Nanotechnology, microsystems and microelectromechanical systems, (MEMS), are often referred to collectively as "tiny technology," or "small technology," by scientists and others in this field. Nanotechnology in particular is multidisciplinary and widely applicable, and it incorporates technology that is significantly smaller than is currently in widespread commercial use. Microsystems are measured in micrometers, which are units of measurement in millionths of a meter. Nanotechnology is measured in nanometers, which are units of measurement in billionths of a meter. Because it is a new field, tiny technology, and particularly nanotechnology, has significant scientific, engineering, regulatory and commercialization risks.

Tiny technology, particularly nanotechnology, is distinguished by its applicability to a wide range of industries. As a venture capital company, we make it possible, through the ownership of our shares, for our shareholders to participate in this emerging field at an earlier stage than would typically be possible for them. By making investments in companies that control intellectual property relevant to tiny technology, we are building a portfolio that we believe will be difficult to replicate, as we believe it will likely become increasingly difficult to create new foundational intellectual property in nanotechnology.

As is usual in the venture capital industry, our venture capital investments are primarily in convertible preferred stock, which is usually the most senior security in a portfolio company's equity capital structure until the company has substantial revenues, and which gives us seniority over the holders of Common Stock (usually including the founders) while preserving fully our participation in the upside potential of the portfolio company through the conversion feature and, in many cases, a dividend right payable in kind (which increases our participation in the portfolio company) or potentially in cash.

We have a long history of investing in venture capital and of business development. Our approach is traditional, including a patient examination of available early stage opportunities, thorough due diligence and close involvement with management. Unlike most private equity and venture capital funds, we will not be subject to any requirement to return capital to investors. Such requirements typically stipulate that these funds can only be invested once and, together with any capital gains on such investment, must be returned to investors, net of fees and carried interest in profits, after a pre-agreed time period. These provisions may cause private equity and venture capital funds to seek investments that are likely to be able to be sold relatively quickly or to seek returns on their investments through mergers, public equity offerings or other liquidity events more quickly than they otherwise might. Because we typically invest as part of a syndicate of venture capital firms, their time horizons often determine ours, though we may provide seed capital before forming a syndicate with other investors, or maintain our investment in an investee company after it goes public, even after our co-investors sell or distribute their shares.

In addition, to the investor, we offer:

- a portfolio consisting of investments that are generally available only to a small, highly specialized group of professional venture capital firms as investors;

- a qualified team of professionals, including five full-time members of management, four of whom are designated as Managing Directors, Charles E. Harris, Douglas W. Jamison, Daniel V. Leff and Alexei A. Andreev, and a Vice President, Daniel B. Wolfe, to evaluate and monitor investments. Two of our directors are also consultants to us, Kelly S. Kirkpatrick and Lori D. Pressman. These seven professionals collectively have expertise in venture capital, intellectual property and tiny technology to evaluate and monitor investments;

- the opportunity to benefit from our experience in a new field expected to permeate a variety of industries; and
- through the ownership of our publicly traded shares, a measure of liquidity not available in typical underlying venture capital portfolio investments.

While we intend to make initial investments exclusively in companies that we believe are involved significantly in tiny technology, we may also make follow-on investments in existing non-tiny technology portfolio companies. The balance of our funds is primarily invested in short-term U.S. government and agency securities. We are an internally managed investment company because our officers and employees, under the general supervision of our Board of Directors, control our operations. We have no investment adviser.

Subject to our compliance with business development company and tax code requirements, there are no limitations on the types of securities or other assets, foreign or domestic, in which we may invest. Investments may include the following:

- equity, equity-related securities (including warrants) and debt with equity features from either private or public issuers, whether in corporate, partnership or other form, including development stage or start-up entities;
- debt obligations of all types having varying terms with respect to security or credit support, subordination, purchase price, interest payments and maturity; and
- to a limited extent, intellectual property, including patents, research and development in technology or product development that may lead to patents or other marketable technology.

Neither our investments nor an investment in our securities constitutes a balanced investment program. We have been and will continue to be risk seeking rather than risk averse in our investment approach. We reserve the fullest possible freedom of action regarding the types of investments we make and our relationship with our portfolio companies, subject to our certificate of incorporation, applicable law and regulations, and policy statements described herein. Our tiny technology investment policy is not a "fundamental policy" under the 1940 Act and, accordingly, may be changed without shareholder approval, although we will give shareholders at least 60 days prior written notice of any change.

Our business is subject to federal regulation under the 1940 Act, under which we have elected to operate as a business development company. As a business development company, we are subject to regulatory requirements, the most significant of which relate to our investments and borrowings. We are required to invest at least 70 percent of our assets in qualifying assets. We must also maintain a coverage ratio of assets to senior securities (such as debt and preferred stock) of at least 200 percent immediately after giving effect to the issuance of any senior securities. We are also required to offer managerial assistance to our portfolio companies, in addition to our investment. For tax purposes, we are a RIC under the Code.

We believe that increasing the size of our assets should lower our expenses as a proportion of average net assets because some of our costs, such as administration and public company expenses, are fixed and can be spread over a larger asset base and will decline as a percentage of assets as our assets increase. In addition, with more assets, we expect the average size of our investments to increase. Each due diligence investigation entails expenses whether or not we complete the transaction, and the cost of due diligence, negotiation and documentation of our investments does not vary proportionately with the size of the investment or intended investment.

Some expenses are expected to increase as new investments are made. We plan to add personnel to enable us to enlarge the scope of our activities and our expertise in tiny technology, and our hiring of new employees will increase with more assets under management. We also believe that a larger number of outstanding shares and a larger number of beneficial owners of shares could increase the level of our visibility and improve the trading liquidity of our shares on the Nasdaq Global Market. We may not realize any of these benefits.

Historical Investment Track Record

We incorporated under the laws of the State of New York in August 1981. In 1983, we invested in Otisville BioTech, Inc. Since our investment in Otisville in 1983 through September 30, 2006, we have made a total of 72 venture capital investments, including four private placement investments in securities of publicly traded companies (PIPES). We have sold 44 of these 72 investments, realizing total proceeds of \$143,614,382 on our invested capital of \$51,229,202. As measured from first dollar in to last dollar out, the average and median holding periods for these 44 investments were 3.63 years and 3.19 years, respectively. As measured by the 149 separate rounds of investment within these 44 investments, the average and median holding periods for the 149 separate rounds of investment were 2.84 years and 2.44 years, respectively. Eighteen of the 44 investments sold were profitable. The average holding period, as measured from first dollar in, of these 18 profitable investments was 3.88 years. Of these 18 profitable investments, seven were profitable sales after initial public offerings (IPOs), seven were profitable mergers and acquisitions transactions and four were profitable sales of PIPES. As measured from first dollar in, the average holding period for profitable exits after IPOs, mergers and acquisitions transactions and PIPES were 4.26 years, 3.70 years and 1.07 years, respectively.

Twenty-six of the 44 investments sold were unprofitable. Twenty-five of these investments were unprofitable non-IPO disposals, and we sold one investment, Princeton Video Image, Inc., that had had an IPO, at a loss. As measured from the first dollar in, the average holding period for the 25 unprofitable non-IPO exits was 3.34 years and the holding period for the unprofitable IPO exit was 6.63 years.

Below is a list of holding periods for our eight historical IPOs. As measured from first dollar in to IPO date, the average and median holding periods were 4.56 years and 3.88 years, respectively.

Historical IPOs	Holding Period to IPO (yrs)
Alliance Pharmaceutical Corporation	6.39
Ag Services of America, Inc.	1.39
Molten Metal Technology, Inc.	3.25
Nanophase Technologies Corporation	3.07
Princeton Video Image, Inc. (formerly Princeton Electronic Billboard)	6.63
SciQuest, Inc. (formerly BioSupplyNet)	3.09
Genomica Corporation	4.52
NeuroMetrix, Inc.	8.14
Mean	4.56
Median	3.88

At September 30, 2006, we valued the 28 venture capital investments remaining in our portfolio at \$52,513,347, or 45.6 percent of our net assets, including net unrealized depreciation of \$5,439,686. At September 30, 2006, from first dollar in, the average and median holding periods for these 28 venture capital investments were 3.06 years and 2.18 years, respectively. As measured by the 74 separate rounds of investment within these 28 investments, the average and median holding periods for the 74 separate rounds of investment were 2.43 years and 1.82 years, respectively.

In 1994, we invested in our first nanotechnology company, Nanophase Technologies Corporation. Recognizing the potential of tiny technology, we continued to monitor developments in the field, and since 2001 we have made tiny technology the exclusive focus of our initial investment activity. From August 2001 through September 2006, all 30 of our initial investments have been in companies involved in the development of products and technologies based on tiny technology.

At September 30, 2006, from first dollar in, the average and median holding period of these 30 investments, which includes the dates from which we exited four investments, were 2.30 years and 1.96 years. We currently have 26 tiny technology companies in our portfolio. At September 30, 2006, from first dollar in, the average and median holding periods for these 26 venture capital investments were 2.64 years and 1.96 years, respectively.

Tiny Technology Companies in Our Portfolio as of 9-30-06	Holding Period (yrs)
BridgeLux, Inc. (formerly eLite Optoelectronics, Inc.)	1.36
Cambrios, Inc.	1.89
Chlorogen, Inc.	3.31
Crystal IS, Inc.	2.02
CSwitch, Inc.	2.35
Dwave Systems, Inc.	0.45
Evolved Nanomaterial Sciences, Inc.	0.72
Innovalight, Inc.	0.45
Kereos, Inc.	1.37
Kovio, Inc.	0.89
Mersana Therapeutics, Inc. (formerly Nanopharma Corporation)	4.63
Metabolon, Inc.	0.72
Molecular Imprints, Inc.	2.50
NanoGram Corporation	3.42
Nanomix, Inc.	1.78
NanoOpto Corporation	4.57
Nanosys, Inc.	3.48
Nantero, Inc.	5.15
NeoPhotonics Corporation 2004	2.82
Nextreme Thermal Solutions, Inc.	1.81
Polatis, Inc. (formerly Continuum Photonics, Inc.)	4.27
Questech Corporation (formerly Intaglio, Ltd.)	12.36
SiOnyx, Inc.	0.39
Solazyme, Inc.	1.85
Starfire Systems, Inc.	2.40
Zia Laser, Inc.	1.60
Mean	2.64
Median	1.96

Tiny Technology

Tiny technology refers to nanotechnology, microsystems and MEMS, a variety of enabling technologies with critical dimensions below 100 micrometers. In our view, tiny technology is neither an industry nor a single technology. Tiny technology manifests itself in tools, materials, systems and devices that address broad markets, including instrumentation, electronics, photonics, computing, medical devices, pharmaceutical manufacturing, drug delivery and drug discovery. The development and commercialization of tiny technology often require the integration of multiple disciplines, including biology, physics, chemistry, materials science, computer science and the engineering sciences.

Examples of tiny technology-enabled products currently on the market are quite diverse. They include sensors, accelerometers used in automobiles to sense impact and deploy airbags, cosmetics with ingredients that block ultraviolet light but are invisible to the human eye, nanoclays used for strength in the running boards of minivans, textiles with liquid-stain repellant surfaces, fast-acting painkillers and pharmaceutical therapeutics.

The following is a summary of the products currently released or under development by our portfolio companies:

Tiny Technology Companies in Our Portfolio as of 9-30-06	Products Released / Available for Purchase	Products in Development
BridgeLux, Inc. (formerly eLite Optoelectronics, Inc.)	Blue and Green HB-LEDs	Additional colors and types of HB-LEDs
Cambrios, Inc.		Transparent conductors
Chlorogen, Inc.		Plant-made drugs and vaccines
Crystal IS, Inc.	Aluminum Nitride Substrates	High-performance UV Devices
CSwitch, Inc.		High-bandwidth Configurable Switches
D-Wave Systems, Inc.		High-speed analog / quantum computing
Evolved Nanomaterial Sciences, Inc.	Normal phase analytical column and solid phase extraction cartridges for chiral separations	Normal, reversed, and polar organic phase analytical, semi-preparative and preparative columns. Additional products for resolving and preparing chiral molecules
Innovalight, Inc.		Thin-film solar cells
Kereos, Inc.		Emulsion-based targeted therapeutics and molecular imaging agents
Kovio, Inc.		Semiconductor products using printed electronics
Mersana Therapeutics, Inc. (formerly Nanopharma Corporation)		Oncology-focused therapeutic products
Metabolon, Inc.		

	Metabolomics profiling services, Mselect and MProve Clinical	Biomarker discovery and diagnostic tools
Molecular Imprints, Inc.	Tools for nanoimprint lithography	Production scale tools for nanoimprint lithography
NanoGram Corporation	Tools and service business for discovery and production of nanoparticles	Application specific nanoparticles
Nanomix, Inc.	Carbon-nanotube based hydrogen sensors	Carbon-nanotube based sensors for breath analysis and biodetection
NanoOpto Corporation	Optical components such as high-extinction IR cut filters, polarizers, and optical isolators	Additional optical components

Tiny Technology Companies in Our Portfolio as of 9-30-06	Products Released / Available for Purchase	Products in Development
Nanosys, Inc.		Flexible electronic devices, non-volatile memory, consumables for life sciences and fuel cells
Nantero, Inc.		Carbon-nanotube based non-volatile memory
NeoPhotonics Corporation	Active and passive optical components for optical networking	Additional products for optical networking
Nextreme Thermal Solutions, Inc.		Thermoelectric devices for thermal management of integrated circuits and for power generation
Polatis, Inc. (formerly Continuum Photonics, Inc.)	Microelectromechanical-enabled optical switches	Additional optical switching products
Questech Corporation (formerly Intaglio, Ltd.)	Decorative tiles made of stone and microscale-metal materials	
SiOnyx, Inc.		Optical detectors for detection and imaging of visible and infrared light
Solazyme, Inc.		Algae-produced products including neutraceuticals, industrial chemicals and energy
Starfire Systems, Inc.	Ceramic brake rotors and pads and silicon-carbide polymers	Ceramic-based parts for applications in electronics, aerospace and automotive industries
Zia Laser, Inc.		Quantum-dot based lasers for optical clocking

Within tiny technology, nanotechnology refers to devices and processes with critical dimensions below 0.1 micron, equal to 100 nanometers. A nanometer is 0.000000001 meter, or one billionth of a meter. It is at the scale below 100 nanometers, the nanoscale, that quantum effects begin to dominate classical macroscale physics. At the nanoscale, size- and shape-dependent properties of materials allow previously unattainable material and device performance. Microsystems and MEMS both refer to materials, devices and processes that are on a micrometer size scale. A micrometer, which is also referred to as a micron, is 0.000001 meter, or one millionth of a meter. In practice, any device, or device enabled by components, in a size range from 100 microns down to 0.1 micron may be considered "micro."

Nanotechnology

There are various definitions of nanotechnology. Regardless of the definition used, the technology being defined qualifies as tiny technology. A commonly used measure of nanotechnology includes all materials, devices and processes with critical dimensions below 100 nanometers. Nanotechnology is defined by the U.S. Government's National Nanotechnology Initiative as research and technology development at the atomic, molecular or macromolecular levels, in the length scale of approximately 1 - 100 nanometer range, to provide a fundamental understanding of phenomena and materials at the nanoscale and to create and use structures, devices and systems that have novel properties and functions because of their small and/or intermediate size.

The nanoscale is the scale at which quantum effects begin to dominate classical macroscale physics. At the nanoscale, size- and shape-dependent properties of materials allow heretofore unattainable material and device performance. Nanotechnology science and its implications are currently the subject of intense research and development efforts in governmental, academic and corporate sectors, in the United States and in other countries.

Government research funding and patenting activity, prerequisites to successful commercialization of nanotechnology, have been growing rapidly in recent years. Currently, researchers in the field are collaborating with entrepreneurs and venture capitalists to form companies around nanotechnology platforms. The first generation of nanotechnology products consists of instrumentation that permits visualization and manipulation of matter at the nanoscale, as well as passive nanostructures such as coatings, nanoparticles and polymers. Examples of commercial instrumentation include nanoimprint lithography equipment, new variations of the atomic force microscope and highly sensitive gene and protein detecting arrays. Examples of commercial nanostructures include cosmetics with ingredients that block ultraviolet light but that are invisible to the human eye, nanoclays used for strength in the running boards of minivans, textiles with liquid-stain repellent surfaces and fast-acting painkillers.

We believe that the next generation of nanotechnology products will likely consist of active nanostructures, including transistors, targeted drugs and chemicals, actuators and adaptive structures. Examples of products being developed include semiconductor nanowires that act as tiny transistors; functionalized, drug-delivering polymers that allow the release of therapeutics to be controlled by temperature, pH or a magnetic field at specified locations within the body; and engineered membrane structures for filtration.

We project that longer-term product opportunities may include integrated nanosystems involving heterogeneous nanocomponents and various assembling techniques. Patent applications explaining the science of these discoveries have recently been filed, and the first commercial entities formed to develop these technologies are emerging from universities, federal government labs and industrial research centers. Future product opportunities may include exponentially denser and faster electronic devices, with individual molecules acting as transistors; tissues and organs engineered from self-assembling polymers that form biomimetic structures; and new forms of computing developed by exploiting the superposition of quantum particles.

Microsystems

Microsystems are similar to MEMS, but without mechanical parts. Microsystems are microscale machines that sense information from the environment and provide a response to it. A microsystem often integrates mechanical, fluidic, optical and pneumatic components into a single system.

Examples of two established microsystem technologies include microarrays and lab-on-a-chip. Microarrays can identify thousands of genes simultaneously and usually perform one type of analysis multiple times. Lab-on-a-chip is a small chip containing microfluidic channels that quickly separate liquids and gases in order to permit microsensors to analyze the properties of the liquids and gases. The following are additional fields in which microsystems are currently being used:

- Military/Aerospace — telemetry, communications, guidance systems, control circuitry and avionics.
- Geophysical Exploration — seismic data acquisition and geophysical measurement equipment.
 - Medical Instrumentation — instrument motor controls and diagnostic devices.
 - Satellite Systems — power monitoring and control circuits.
- Industrial Electronic Systems — measurement and diagnostics on rotating machinery.

- Opto-Electronics — sub-miniature temperature controls and laser diode drivers for data transmission.

MEMS

MEMS often refers to three-dimensional devices with features between one and 100 microns that integrate electrical and mechanical structures. MEMS devices often contain a combination of sensors, actuators, mechanical structures and electronics that detect or respond to thermal, biological, chemical or optical information. To date, most commercial MEMS devices are batch fabricated out of silicon, using techniques based on standard semiconductor processes. Examples of devices incorporating MEMS technology include airbag release systems, smart pens for digital signatures, the Sony AIBO™ entertainment robot and Texas Instruments' Digital Light Processing Cinema™ system.

Although the practical application of tiny technology requires great expertise to implement in manufacturing processes, we believe that tiny technology's broad applicability potentially presents significant and diverse market opportunities. Our strategy is to invest in what we believe to be the best of these tiny technology companies in which we have the opportunity to invest, with emphasis on nanotechnology companies, assuming that we regard the terms of the investment to be acceptable.

GENERAL DESCRIPTION OF OUR PORTFOLIO COMPANIES

The following are brief descriptions of each portfolio company in which we are invested. The portfolio companies are presented in three categories: companies where we directly or indirectly own more than 25 percent of the outstanding voting securities of the portfolio company; companies where we directly or indirectly own five percent to 25 percent of the outstanding voting securities of the portfolio company or where we hold one or more seats on the portfolio company's Board of Directors and, therefore, are deemed to be an affiliated person under the 1940 Act; and companies where we directly or indirectly own less than five percent of the outstanding voting securities of the portfolio company and where we have no other affiliations. The value described below for each portfolio company is its fair value as determined by the Valuation Committee of our Board of Directors. Each portfolio company that we believe is not significantly involved in tiny technology is designated by an asterisk (*).

Controlled Affiliated Companies:

Evolved Nanomaterial Sciences, Inc. (ENS), located at 675 Massachusetts Avenue, Cambridge, Massachusetts 02139, is developing a number of nanotechnology-enabled approaches for the resolution of chiral molecules. As of September 30, 2006, we held 5,870,021 shares of Series A Convertible Preferred Stock (representing 52.10 percent of the total shares of Series A Convertible Preferred Stock Outstanding) of ENS. As of the date above, our Valuation Committee valued the Series A Convertible Preferred Stock held by us at \$2,800,000. The Chief Executive Officer of the company is Robert Pucciariello. Douglas W. Jamison and Daniel B. Wolfe serve as Directors of the company.

SiOnyx, Inc., located at 25-K Olympia Avenue, Woburn, Massachusetts 01801, is developing silicon-based optoelectronic products enabled by its proprietary material, "Black Silicon." As of September 30, 2006, we held 233,499 shares of Series A Convertible Preferred Stock (representing 100 percent of the total shares of Series A Convertible Preferred Stock outstanding) and 2,966,667 shares of Series A-1 Convertible Preferred Stock (representing 78.07 percent of the total shares of Series A-1 Convertible Preferred Stock outstanding) of SiOnyx. As of the date above, our Valuation Committee valued the total amount of shares of SiOnyx held by us at \$960,050. The Chief Executive Officer of the company is Stephen Saylor. Charles E. Harris and Daniel B. Wolfe serve as Directors of the company.

Non-Controlled Affiliated Companies:

BridgeLux, Inc., located at 1225 Bordeaux Drive, Sunnyvale, California 94089, is developing high-power indium gallium nitride light emitting diodes that are used in various solid state lighting, mobile appliance, signage, and

automotive applications. As of September 30, 2006, we held 1,861,504 shares of Series B Convertible Preferred Stock (representing 11.70 percent of the total shares of Series B Convertible Preferred Stock outstanding) of BridgeLux. As of the above date, our Valuation Committee valued the Series B Convertible Preferred Stock of BridgeLux held by us at \$1,000,000. The Chief Executive Officer of the company is Robert C. Walker. Daniel V. Leff serves as an observer to the Board of Directors of the company.

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Cambrios Technology Corporation, located at 2450 Bayshore Parkway, Mountain View, California 94043, is developing methods of synthesizing nanomaterials and assembling them into useful structures for use in applications in electronics, solar energy and solid-state lighting. As of September 30, 2006, we held 1,294,025 shares of Series B Convertible Preferred Stock (representing 10.78 percent of the total shares of Series B Convertible Preferred Stock outstanding) of Cambrios. As of the above date, our Valuation Committee valued the Series B Preferred Stock of Cambrios held by us at \$1,294,025. The Chief Executive Officer of the company is Michael R. Knapp. Daniel V. Leff serves as an observer to the Board of Directors.

Chlorogen, Inc., located at 893 North Warson Road, St. Louis, Missouri 63141, is developing a chloroplast transformation technology for the production of plant-based proteins. As of September 30, 2006, we held 4,478,038 shares of Series A Convertible Preferred Stock (representing 13.57 percent of the total shares of Series A Convertible Preferred Stock outstanding), 2,077,930 shares of Series B Convertible Preferred Stock (representing 18.21% of the total shares of Series B Convertible Preferred Stock outstanding) and \$110,719 in Convertible Bridge Notes (representing 14.76% of the total Convertible Bridge Notes outstanding) of Chlorogen. As of the above date, our Valuation Committee valued the total amount of securities of Chlorogen held by us at \$1,260,781. The Chief Executive Officer of the company is David N. Duncan. Douglas W. Jamison serves as a Director and is on the Scientific Advisory Board of the company.

Crystal IS, Inc., located at 70 Cohotes Avenue, Green Island, New York 12189, is developing methods to produce large, single-crystal substrates of aluminum nitride (AlN) for use in the gallium nitride semiconductor industry. As of September 30, 2006, we held 391,571 shares of Series A Convertible Preferred Stock (representing 5.66 percent of the total shares of Series A Convertible Preferred Stock outstanding) and 1,300,376 shares of Series A-1 Convertible Preferred Stock (representing 9.51 percent of the total shares of Series A-1 Convertible Preferred Stock outstanding) of Crystal IS, as well as warrants to purchase 21,977 shares of Series A-1 Convertible Preferred Stock of the company at \$0.78 per share. As of the date above, our Valuation Committee valued the total amount of shares of Crystal IS held by us at \$1,319,719. The Chief Executive Officer of the company is Ding Day. Douglas W. Jamison serves as an observer to the Board of Directors of the company.

CSwitch, Inc., located at 3101 Jay Street, Santa Clara, California 95054, is developing the next generation of low-power, efficient, and highly-integrated system-on-a-chip (SOC) solutions for a wide range of communications-based platforms. As of September 30, 2006, we held 6,700,000 shares of Series A-1 Convertible Preferred Stock (representing 9.60 percent of the total shares of Series A-1 Convertible Preferred Stock outstanding) of CSwitch. As of the date above, our Valuation Committee valued the Series A Convertible Preferred Stock of CSwitch held by us at \$3,350,000. The Chief Executive Officer of the company is Doug Laird. Daniel V. Leff serves as a Director of the company.

D-Wave Systems, Inc., located at 100-4401 Still Creek Drive, Burnaby, British Columbia, V5C 6G9, Canada, is developing high-performance quantum computing systems for commercial use in logistics, bioinformatics, life and physical sciences, quantitative finance and electronic design automation. As of September 30, 2006, we held 2,000,000 shares of Series B Convertible Preferred Stock (representing 13.55 percent of the total number of shares of Series B Convertible Preferred Stock outstanding) of the Company, as well as warrants to purchase 1,800,000 shares of Series B Convertible Preferred Stock at a price of \$0.85 per share. As of the date above, our Valuation Committee valued the Series B Convertible Preferred Stock of D-Wave Systems held by us at \$1,793,562. The Chief Executive Officer of the company is Herb Martin. Alexei A. Andreev serves as a Director of the company. D-Wave Systems, Inc. is not an eligible portfolio company under the 1940 Act, because it operates primarily outside the United States.

Innovalight, Inc., located at 3303 Octavius Drive, Santa Clara, California 95054, is developing renewable energy products based on silicon nanotechnology. As of September 30, 2006, we held 16,666,666 shares of Series B Convertible Preferred Stock (representing 33.33 percent of the total shares of Series B Convertible Preferred Stock outstanding) of Innovalight. As of the date above, our Valuation Committee valued the Series B Convertible Preferred

Stock held by us at \$2,500,000. The Chief Executive Officer of the company is Conrad Burke. Daniel V. Leff serves as a Director of the company.

Kereos, Inc., located at 4041 Forest Park Ave., Saint Louis, Missouri 63108, is developing molecular imaging agents and targeted therapeutics for the detection and treatment of cancer and cardiovascular disease based on proprietary ligand-targeted emulsion technologies. As of September 30, 2006, we held 349,092 shares of Series B Convertible Preferred Stock (representing 7.34 percent of the total shares of Series B Convertible Preferred Stock outstanding) of Kereos. As of the date above, our Valuation Committee valued the Series B Convertible Preferred Stock held by us at \$960,000. The Chief Executive Officer of the company is Robert A. Beardsley. Douglas W. Jamison serves as an observer to the Board of Directors of the company.

Kovio, Inc., located at 1145 Sonora Court, Sunnyvale, California 94086, is developing semiconductor products using thin film technologies, printed electronics and nanoparticle inks. As of September 30, 2006, we held 2,500,000 shares of Series C Convertible Preferred Stock (representing 20.21 percent of the total shares of Series C Convertible Preferred Stock outstanding) of Kovio. As of the date above, our Valuation Committee valued the Series C Convertible Preferred Stock held by us at \$3,000,000. The Chief Executive Officer of the company is Amir Mashkooni. Alexei A. Andreev serves as an observer to the Board of Directors of the company.

Mersana Therapeutics, Inc., located at 840 Memorial Drive, Cambridge, Massachusetts 02139, is a pharmaceutical company founded to develop advanced drug delivery systems based on proprietary molecular constructs and "biological stealth" materials. As of September 30, 2006, we held 68,452 shares of Series A Convertible Preferred Stock (representing 87.5 percent of the total shares of Series A Convertible Preferred Stock outstanding) and 616,500 shares of Series B Convertible Preferred Stock (representing 11.12% of the total shares of Series B Convertible Preferred Stock outstanding) of Mersana, as well as warrants to purchase 91,625 shares of Series B Convertible Preferred Stock of the company at a price of \$2.00 per share. As of the date above, our Valuation Committee valued the total securities of Mersana held by us at \$1,369,904. The Chief Executive Officer of the company is Julie A. Olson. Charles E. Harris serves as a Director of the company.

Metabolon, Inc., located at 800 Capitola Drive, Durham, North Carolina 27713, is using a proprietary technology platform in metabolomics to map changes in metabolic pathways for the identification of biomarkers and the early diagnosis of disease states. As of September 30, 2006, we held 2,173,913 shares of Series B Convertible Preferred Stock (representing 31.25 percent of the total shares of Series B Preferred Stock outstanding) of Metabolon. As of the date above, our Valuation Committee valued the Series B Convertible Preferred Stock held by us at \$2,500,000. The Chief Executive Officer of the company is John Ryals. Douglas W. Jamison serves as an observer to the Board of Directors of the company.

NanoGram Corporation, located at 165 Topaz Street, Milpitas, California 95035, is developing a broad suite of intellectual property for use in fields including, nanomaterials-based films, discovery of new nanomaterials compositions, and rapid synthesis of nanopowders and films. As of September 30, 2006 we held 63,210 shares of Series I Convertible Preferred Stock (representing 1.99 percent of the total shares of Series I Convertible Preferred Stock outstanding), 1,250,904 shares of Series II Convertible Preferred Stock (representing 12.47 percent of the total shares of Series II Convertible Preferred Stock outstanding) and 1,242,144 shares of Series III Convertible Preferred Stock (representing 6.74% of the total shares of Series III Convertible Preferred Stock outstanding) of NanoGram. As of the date above, our Valuation Committee valued the total amount of shares of NanoGram held by us at \$2,598,693. The Chief Executive Officer of the company is Kieran F. Drain. Alexei A. Andreev serves as an observer to the Board of Directors of the company.

Nanomix, Inc., located at 5980 Horton Street, Emeryville, California 94608, is developing nanoelectronic sensors that integrate carbon nanotube electronics with silicon microstructures. As of September 30, 2006, we held 9,779,181 shares of Series C Convertible Preferred Stock (representing 15.63 percent of the total shares of Series C Convertible Preferred Stock outstanding) of Nanomix. As of the above date, our Valuation Committee valued the total amount of shares of Nanomix held by us at \$2,500,000. The Chief Executive Officer of the company is David L. Macdonald. Daniel V. Leff serves as a Director of the Company.

NanoOpto Corporation, located at 1600 Cottontail Lane, Somerset, New Jersey 08873, is developing and manufacturing discrete, integrated optical communications sub-components on a chip by utilizing nano-manufacturing technology. As of September 30, 2006, we held 267,857 shares of Series A-1 Convertible Preferred Stock (representing 10.39 percent of the total shares of Series A-1 Convertible Preferred Stock outstanding), 3,819,935 shares of Series B Convertible Preferred Stock (representing 14.81 percent of the total shares of Series B Convertible Preferred Stock outstanding), 1,932,789 shares of Series C Convertible Preferred Stock (representing 5.80 percent of the total Series C Convertible Preferred Stock outstanding) and 1,397,218 shares of Series D Convertible Preferred Stock (representing 8.19% of the total Series shares of Series D Convertible Preferred Stock outstanding) of NanoOpto, as well as warrants to purchase 193,279 shares of Series C Convertible Preferred Stock of the company at a price of \$0.4359 per share. As of the above date, our Valuation Committee valued the total amount of shares of NanoOpto held by us at \$2,418,204. The Chief Executive Officer of the company is Barry J. Weinbaum. Douglas W. Jamison serves as a Director of the company.

Nextreme Thermal Solutions, Inc., located at 3040 Cornwallis Road, Research Triangle Park, North Carolina, 27709, is developing next-generation thermoelectrics based on its unique, thin-film technology for applications that require extreme thermal management solutions. As of September 30, 2006, we held 1,000,000 shares of Series A Convertible Preferred Stock (representing 12.38 percent of the total shares of Series A Convertible Preferred Stock outstanding) of Nextreme. As of the above date, our Valuation Committee valued the Series A Convertible Preferred Stock of Nextreme held by us at \$1,000,000. The Chief Executive Officer of the company is Jesko von Windheim. Douglas W. Jamison serves as a Director of the Company.

Questech Corporation, located at 92 Park Street, Rutland, Vermont 05701, manufactures and sells tile and trim products, based on its proprietary technology, with revenue generated from stock products. We originally invested in Questech on May 26, 1994. We did not invest in Questech as a tiny technology company, but Questech's proprietary technology is dependent on tiny technology, micro-scale processes. Thus, Questech may be regarded as a tiny technology holding. As of September 30, 2006, we held 655,454 shares of Common Stock (representing 8.18 percent of the total shares of Common Stock outstanding) of Questech, as well as warrants to purchase 13,750 shares of Common Stock of the company at \$1.50 per share. As of the date above, our Valuation Committee valued the Common Stock of Questech held by us at \$985,147. The Chief Executive Officer of the company is Barry J. Culkin.

Solazyme, Inc., located at 3475-T Edison Way, Menlo Park, California 94025, is harnessing the power of the sun through the directed evolution of selected photosynthetic microbes to provide efficient bioproduction solutions to the energy, pharmaceutical, chemical and nutraceutical industries. As of September 30, 2006, we held 988,204 shares of Series A Convertible Preferred Stock (representing 12.76 percent of the total shares of outstanding of Series A Convertible Preferred Stock) of Solazyme. As of the date above, our Valuation Committee valued the Series A Convertible Preferred Shares of Solazyme held by us at \$385,400. The Chief Executive Officer of the company is Harrison F. Dillon. Douglas W. Jamison serves as an observer to the Board of Directors of the company.

Starfire Systems, Inc., located at 10 Hermes Road, Malta, New York 12020, offers a family of patented silicon carbide forming polymers for the manufacture of advanced ceramic materials applications. As of September 30, 2006, we held 375,000 shares of Common Stock (representing 5.93 percent of the total shares of Common Stock outstanding) and 600,000 shares of Series A-1 Convertible Preferred Stock (representing 12.87 percent of the total shares of Series A-1 Convertible Preferred Stock outstanding) of Starfire. As of the above date, our Valuation Committee valued the total amount of shares of Starfire held by us at \$750,000. The Chief Executive Officer of the company is Richard M. Saburro. Douglas W. Jamison serves as an observer to the Board of Directors of the company.

Zia Laser, Inc., located at 801 University Boulevard SE, Albuquerque, New Mexico 87106, is developing quantum dot-based semiconductor laser technology for application in microprocessors. As of September 30, 2006, we held 1,500,000 shares of Series C Convertible Preferred Shares (representing 18.75 percent of the total shares of Series C Convertible Preferred Shares outstanding) of Zia Laser. As of the above date, our Valuation Committee valued the

Series C Convertible Preferred Shares of Zia Laser held by us at \$0. Daniel V. Leff serves as an observer to the Board of Directors of the company.

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Unaffiliated Companies:

***Alpha Simplex Group, LLC**, located at One Cambridge Center, 9th Floor, Cambridge, Massachusetts 02139, is an investment advisory firm. The company conducts a quantitative-based hedge-fund operation. Alpha was founded by Dr. Andrew W. Lo, the Harris & Harris Group Professor at the MIT Sloan School. As of September 30, 2006, we held 50,000 Limited Partnership Units (representing 0.5 percent of the total Limited Partnership Units outstanding) of Alpha. As of the date above, our Valuation Committee valued the units of Alpha Simplex held by us at \$4,058. The Managing Member of the company is Dr. Andrew W. Lo. Charles E. Harris serves as an advisor to the company.

***Exponential Business Development Company**, located at 460 Oakridge Common, South Salem, New York 10590, is a venture capital partnership that invests in early stage manufacturing, software development and communication technology industries in the Albany area. As of September 30, 2006, we held one Limited Partnership Unit (representing 0.87 percent of the total Limited Partnership Units outstanding) of the company. As of the date above, our Valuation Committee valued the Limited Partnership Unit held by us at \$0. The manager of the portfolio of the company is Jeff Rubin, President of NewTek Capital, Inc.

Molecular Imprints, Inc., located at 1807-C West Braker Lane, Austin, Texas 78758, is developing lithography systems and technology for manufacturing applications in the areas of nanodevices, microstructures, advanced packaging, bio devices, optical components and semiconductor devices. As of September 30, 2006, we held 1,333,333 shares of Series B Convertible Preferred Stock (representing 6.55 percent of the total shares of Series B Preferred Stock outstanding) and 1,250,000 shares of Series C Convertible Preferred Stock (representing 14.75 percent of the total shares of Series C Convertible Preferred Stock outstanding) of Molecular Imprints, as well as warrants to purchase 125,000 shares of Series C Convertible Preferred Stock of the company at a price of \$2.00 per share. As of the date above, our Valuation Committee valued the total amount of shares of Molecular Imprints held by us at \$4,500,000. The Chief Executive Officer of the company is Mark Melliar-Smith. Daniel V. Leff serves as an observer to the Board of Directors of the company.

Nanosys, Inc., located at 2625 Hanover Street, Palo Alto, California 94304, is a company with broad-based intellectual property that is initially commercializing applications in macroelectronics, memory, and fuel cells. These applications incorporate zero and one-dimensional, nanometer-scale materials, such as nanowires and nanodots (quantum dots), as their principal active elements. As of September 30, 2006, we held 803,428 shares of Series C Convertible Preferred Stock (representing 4.00 percent of the total shares of Series C Convertible Preferred Stock outstanding) and 1,016,950 shares of Series D Convertible Preferred Stock (representing 6.28 percent of the total shares of Series D Preferred Stock outstanding) of Nanosys. As of the date above, our Valuation Committee valued the total amount of shares of Nanosys held by us at \$5,370,116. The Chief Executive Officer of the company is Calvin Chow.

Nantero, Inc., located at 25-D Olympia Avenue, Woburn, Massachusetts 01801, is developing non-volatile random access memory based on carbon nanotubes. As of September 30, 2006, we held 345,070 shares of Series A Convertible Preferred Stock (representing 8.17 percent of the total shares of Series A Preferred Stock outstanding), 207,051 shares of Series B Convertible Preferred Stock (representing 3.08 percent of the total shares of Series B Convertible Preferred Stock outstanding) and 188,315 shares of Series C Convertible Preferred Stock (representing 3.75 percent of the total shares of Series C Convertible Preferred Stock outstanding) of Nantero. As of the date above, our Valuation Committee valued the total amount of shares of Nantero held by us at \$2,246,409. The Chief Executive Officer of the company is Greg Schmergel.

NeoPhotonics Corporation, located at 2911 Zanker Road, San Jose, California 95134, is developing functional optical component arrays to offer integrated optical "systems on a chip" to component vendors. As of September 30, 2006, we held 716,195 shares of Common Stock (representing 1.66 percent of the total shares of Common Stock outstanding), 1,831,256 shares of Series 1 Convertible Preferred Stock (representing 4.05 percent of the total Series 1

Convertible Preferred Stock), 741,898 shares of Series 2 Convertible Preferred Stock (representing 3.46 percent of the total shares of Series 2 Convertible Preferred Stock outstanding) and 2,750,000 shares of Series 3 Convertible Preferred Stock (representing 3.38 percent of the total shares of Series 3 Convertible Preferred Stock outstanding) of NeoPhotonics, as well as warrants to purchase 30,427 shares of Common Stock. As of the date above, our Valuation Committee valued the total amount of shares of NeoPhotonics held by us at \$5,456,599. The Chief Executive Officer of the company is Timothy S. Jenks. Daniel V. Leff serves as an observer to the Board of Directors of the company.

Polatis, Inc., located at 5 Fortune Drive, Billerica, Massachusetts 01821, is developing a family of MEMS switches for optical network applications, based on Polatis's proprietary piezoelectric ceramic substrates. As of September 30, 2006, we held 16,775 shares of the Series A-1 Convertible Preferred Stock (representing 6.17 percent of the total shares of Series A-1 Convertible Preferred Stock outstanding), 71,611 shares of Series A-2 Convertible Preferred Stock (representing 4.65 percent of the total Series A-2 Convertible Preferred Stock outstanding) and 4,774 shares of Series A-4 Convertible Preferred Stock (representing 4.65 percent of the total shares of Series A-4 Convertible Preferred Stock outstanding) of Polatis. As of the date above, our Valuation Committee valued the total amount of shares of Polatis held by us at \$190,680. The Chief Executive Officer of the company is David Lewis. Lori D. Pressman serves as an observer to the Board of Directors of the company.

Although Alpha Simplex, BridgeLux, Crystal IS, Evolved Nanomaterial Sciences, Metabolon, Molecular Imprints, NanoGram, Nanomix, NanoOpto, NeoPhotonics, Polatis, Questech and Starfire Systems are all generating revenues ranging from nominal to significant from commercial sales of products and/or services, they are all still relatively early-stage companies with the attendant risks. Additionally, with the exceptions of Alpha Simplex, BridgeLux, Exponential, Molecular Imprints, Neophotonics and Questech, we consider all of the foregoing portfolio companies to be development-stage companies. This term is used to describe a company that devotes substantially all of its efforts to establishing a new business, and either has not yet commenced its planned principal operations, or it has commenced such operations but has not realized significant revenue from them. Any of the private companies may require additional funding that may not be obtainable at all or on the terms of their most recent fundings, which would result in partial or complete write-downs in the value of our investment. In general, private equity is difficult to obtain, especially in the current capital markets environment. Each company is dependent upon a single or small number of customers and/or key operating personnel. All of the foregoing companies rely heavily upon the technology associated with their respective business or, in the case of Exponential, with the companies in which it invests. Therefore, each company places great importance on its relevant patents, trademarks, licenses, algorithms, trade secrets, franchises or concessions. Lastly, each company is particularly vulnerable to general economic, private equity and capital markets conditions and to changes in government regulation, interest rates or technology.

As a participant in the venture capital business, we invest primarily in private companies for which there is generally no publicly available information. Because of the private nature of these businesses, there is a need to maintain the confidentiality of the financial and other information that we have for the private companies in our portfolio. We believe that maintaining this confidence is important, as disclosure of such information could disadvantage our portfolio companies and could put us at a disadvantage in attracting new investments. Therefore, we do not intend to disclose financial or other information about our portfolio companies, unless required, because we believe doing so may put them at an economic or competitive disadvantage, regardless of our level of ownership or control.

DETERMINATION OF NET ASSET VALUE

Our investments can be classified into five broad categories for valuation purposes:

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

The 1940 Act requires periodic valuation of each investment in our portfolio to determine 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.

Our Board of Directors is responsible for (1) determining overall valuation guidelines and (2) ensuring the valuation of investments within the prescribed guidelines.

Our Valuation Committee, comprised of three or more independent Board members, is responsible for reviewing and approving the valuation of our assets within the guidelines established by the Board of Directors.

Fair value is generally defined as the amount that an investment could be sold for in an orderly disposition over a reasonable time. Generally, to increase objectivity in valuing our assets, external measures of value, such as public markets or third-party transactions, are utilized whenever possible. Valuation is not based on long-term work-out value, nor immediate liquidation value, nor incremental value for potential changes that may take place in the future.

The values assigned to these investments 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 reasonably be determined until the individual investments are actually liquidated or become marketable.

Our valuation policy with respect to the five broad investment categories is as follows:

Equity-Related Securities

Equity-related securities are valued using one or more of the following basic methods of valuation:

Cost. The cost method is based on our original cost. This method is generally used in the early stages of a company's development until significant positive or negative events occur subsequent to the date of the original investment that dictate a change to another valuation method. Some examples of these events are: (1) a major recapitalization; (2) a major refinancing; (3) a significant third-party transaction; (4) the development of a meaningful public market for the company's Common Stock; and (5) significant positive or negative changes in a company's business.

Analytical Method. The analytical method is generally used to value an investment position when there is no established public or private market in the company's securities or when the factual information available to us dictates that an investment should no longer be valued under either the cost or private market method. This valuation method is inherently imprecise and ultimately the result of reconciling the judgments of our Valuation Committee members,

based on the data available to them. The resulting valuation, although stated as a precise number, is necessarily within a range of values that vary depending upon the significance attributed to the various factors being considered. Some of the factors considered may include the financial condition and operating results of the company, the long-term potential of the business of the company, the values of similar securities issued by companies 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.

Private Market. The private market method uses actual, executed, historical transactions in a company's securities by responsible third parties as a basis for valuation. The private market method may also use, where applicable, unconditional firm offers by responsible third parties as a basis for valuation.

Public Market. The public market method is used when there is an established public market for the class of the company's securities held by us or into which our securities are convertible. We discount market value for securities that are subject to significant legal and contractual restrictions. Other securities, for which market quotations are readily available, are carried at market value as of the time of valuation. Market value for securities traded on securities exchanges or on the Nasdaq Global Market is the last reported sales price on the day of valuation. For other securities traded in the over-the-counter market and listed securities for which no sale was reported on that day, market value is the mean of the closing bid price and asked price on that day. This method is the preferred method of valuation when there is an established public market for a company's securities, as that market provides the most objective basis for valuation.

Investments in Intellectual Property or Patents or Research and Development in Technology or Product Development

These investments are carried at fair value using the following basic methods of valuation:

Cost. The cost method is based on our original cost. This method is generally used in the early stages of commercializing or developing intellectual property or patents or research and development in technology or product development until significant positive or adverse events occur subsequent to the date of the original investment that dictate a change to another valuation method.

Analytical Method. The analytical method is used to value an investment after analysis of the best available outside information where the factual information available to us dictates that an investment should no longer be valued under either the cost or private market method. This valuation method is inherently imprecise and ultimately the result of reconciling the judgments of our Valuation Committee members. The resulting valuation, although stated as a precise number, is necessarily within a range of values that vary depending upon the significance attributed to the various factors being considered. Some of the factors considered may include the results of research and development, product development progress, commercial prospects, term of patent and projected markets.

Private Market. The private market method uses actual third-party investments in intellectual property or patents or research and development in technology or product development as a basis for valuation, using actual executed historical transactions by responsible third parties. The private market method may also use, where applicable, unconditional firm offers by responsible third parties as a basis for valuation.

As of September 30, 2006, we do not have any investments in intellectual property or patents or research and development in technologies or products.

Long-Term Fixed-Income Securities

Fixed-income securities for which market quotations are readily available are carried at market value as of the time of valuation using the most recent bid quotations when available. Securities for which market quotations are not readily available are carried at fair value using one or more of the following basic methods of valuation:

- Fixed-income securities are valued by independent pricing services that provide market quotations based primarily on quotations from dealers and brokers, market transactions, and other sources.
- Other fixed-income securities that are not readily marketable are valued at fair value by our Valuation Committee.

Short-Term Fixed-Income Investments

Short-term fixed-income investments are valued at market value at the time of valuation. We value short-term debt with remaining maturity of 60 days or less at amortized cost.

All Other Investments

All other investments are reported at fair value as determined in good faith by the Valuation Committee. As of September 30, 2006, we do not have any of these investments.

The reported values of securities for which market quotations are not readily available and for other assets reflect the Valuation Committee's judgment of fair values as of the valuation date using the outlined basic methods of valuation. They do not necessarily represent an amount of money that would be realized if we had to sell the securities 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.

Determinations of Net Asset Value in Connection with Offerings

In connection with each offering of shares of our Common Stock, our Board of Directors or a committee thereof is required to make the determination that we are not selling shares of our Common Stock at a price below the then current net asset value of our Common Stock at the time at which the sale is made. Our Board of Directors considers the following factors, among others, in making such determination:

- the net asset value of our Common Stock disclosed in the most recent periodic report we filed with the SEC;
- our Management's assessment of whether any material change in the net asset value of our Common Stock has occurred (including through the realization of gains on the sale of our portfolio securities) from the period beginning on the date of the most recently disclosed net asset value of our common stock to the period ending two days prior to the date of the sale of our Common Stock; and
- the magnitude of the difference between the net asset value of our Common Stock disclosed in the most recent periodic report we filed with the SEC and our Management's assessment of any material change in the net asset value of our Common Stock since the date of the most recently disclosed net asset value of our Common Stock, and the offering price of the shares of our Common Stock in the proposed offering.

Moreover, to the extent that there is even a remote possibility that we may (i) issue shares of our Common Stock at a price below the then current net asset value of our Common Stock at the time at which the sale is made or (ii) trigger the undertaking (which we provided to the SEC in our registration statements) to suspend the offering of shares of our Common stock if the net asset value of our Common Stock fluctuates by certain amounts in certain circumstances until the prospectus is amended, the Board of Directors will elect, in the case of clause (i) above, either to postpone the offering until such time that there is no longer the possibility of the occurrence of such event or to undertake to determine the net asset value of our Common Stock within two days prior to any such sale to ensure that such sale will not be below our then current net asset value, and, in the case of clause (ii) above, to comply with such undertaking or to undertake to determine the net asset value of our Common Stock to ensure that such undertaking has not been triggered.

INVESTMENT POLICIES

Investments and Strategies

The following is a summary description of the types of assets in which we may invest, the investment strategies we may utilize and the attendant risks associated with our investments and strategies. For a full description of our investments and strategies, please refer to our Annual Report on Form 10-K.

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, preferred stock, debt instruments convertible into common or preferred stock, limited partnership interests, other beneficial ownership interests and warrants, options or other rights to acquire any of the foregoing.

We may make 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 turn around potential 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.

We may also invest in publicly traded securities of whatever nature, including relatively small, emerging growth companies that management believes have long-term growth possibilities. Pursuant to a rule adopted by the SEC, our investments in U.S. non-financial public companies whose securities are not listed on a securities exchange will generally be treated as qualifying assets for purposes of maintaining our business development company status if we acquire such investments in private placements or secondary market transactions.

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.

Our investments in equity securities usually involve securities of private companies 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 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, we are typically subject to a lock-up agreement, and the stock price may decline substantially before we are free to sell. Even if we have registration rights to make our investments 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 or negative conditions affecting the issuer during the intervening time.

Venture Capital Investments

We expect to invest in development stage or start-up businesses. Substantially all of our long-term investments are in thinly capitalized, unproven, small companies focused on risky technologies. These businesses also 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 venture capital investments are likely to be complete losses or unprofitable and some will never realize their potential.

We may own 100 percent of the securities of a start-up investment for a period of time and may control the company for a substantial period. Start-up companies are more vulnerable than better capitalized companies to adverse business or economic developments. Start-up businesses generally have limited product lines, service niches, markets and/or financial resources. Start-up companies are not well-known to the investing public and are subject to potential bankruptcy, general movements in markets and perceptions of potential growth.

In connection with our venture capital investments, we may participate in providing a variety of services to our portfolio companies, including the following:

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

We may assist in raising additional capital for these companies from other potential investors and may subordinate our own investment to that of other investors. We may also find it necessary or appropriate to provide additional capital of our own. 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 with mergers and acquisitions. We do not derive income from these companies for the performance of any of the above services.

We may control, be represented on or have observer rights on the Board of Directors of a portfolio company by 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 in effect be involved in the conduct of the operations of the portfolio company. As a venture company emerges from the developmental stage with greater management depth and experience, we expect that our role in the portfolio company's operations will diminish. Our goal is to assist each company in establishing its own independent capitalization, management and Board of Directors. We expect to be able to reduce our interest in those start-up companies which become successful.

Debt Obligations

We may hold debt securities 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 payments and 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 entities. In addition, we may participate in the acquisition or divestiture of companies or divisions of companies through issuance or receipt of debt obligations.

It is likely that our investments in debt obligations will be of varying quality, including non-rated, highly speculative debt investments with limited marketability. Investments in lower-rated and non-rated securities, commonly referred to as "junk bonds," are subject to special risks, including a greater risk of loss of principal and non-payment of interest. Generally, lower-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 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. The occurrence of adverse conditions and uncertainties to issuers of lower-rated securities would likely reduce the value of lower-rated securities held by us, with a commensurate effect on the value of our shares.

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. Any economic downturn could adversely affect the ability of issuers' lower-rated securities to repay principal and pay interest thereon. 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. In addition, lower-rated securities and comparable non-rated securities generally present a higher degree of credit risk. 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, so that 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.

The market value of investments in debt securities that carry no equity participation usually reflects 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 maintain our status as a business development company, our investments in the stocks of companies organized outside the U.S. would be limited to 30 percent of our assets, because we must invest at least 70 percent of our assets in "qualifying assets" and foreign companies are not "qualifying assets."

Compared to 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, 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 further commercialize 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. 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 development stage or start-up company as discussed under "Venture Capital Investments" above.

Other Strategies

In pursuit of our investment strategy, we may employ one or more of the following strategies in order to enhance investment results.

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 closed-end investment companies under the 1940 Act. The 1940 Act currently prohibits us from borrowing any money or issuing any other senior securities (other than preferred stock and other than temporary borrowings of up to five percent of our assets), if in giving effect to the borrowing or issuance, the value of our total assets would be less than 200 percent of our total liabilities (other than liabilities not constituting senior securities). We may pledge assets to secure any borrowings. We currently have no leverage and have no current intention to issue preferred stock.

A primary purpose of our borrowing power is for leverage, to increase our ability to acquire investments both by acquiring larger positions and by acquiring more positions. Borrowings for leverage accentuate any increase or decrease in the market value of our investments and thus our net asset value. Since 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 the 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 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 would be required to sell securities to remain in compliance with the margin rules. These sales might be at disadvantageous times or prices.

Repurchase of Shares

Our shareholders do not have the right to compel us to redeem our shares. We may, however, purchase outstanding shares of our Common Stock from time to time, subject to approval of our Board of Directors and compliance with applicable corporate and securities laws. The Board of Directors may authorize purchases from time to time when they are deemed to be in the best interests of our shareholders, but could do so only a