HARRIS & HARRIS GROUP INC /NY/
Form POS 8C
August 03, 2005

As filed with the Securities and Exchange Commission on August 3, 2005

Securities Act Registration No. 333-112862
Investment Company Act File Number 814-176

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

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FORM N-2

REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933:

PRE-EFFECTIVE AMENDMENT NO. [_]
POST-EFFECTIVE AMENDMENT NO. 2 [X]

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

111 West 57/th/ 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 57/th/ Street
Suite 1100
New York, New York 10019
(Name and Address of Agent for Service)

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Copies to:

| | |
|---|---|
| Sandra M. Forman, Esq.<br>General Counsel | Richard T. Prins, Esq.<br>Skadden, Arps, Slate,<br>Meagher & Flom LLP |
| Harris & Harris Group, Inc. | Four Times Square |
| 111 West 57/th/ Street, Suite 1100 | New York, New York 10036 |

New York, NY 10019 (212) 735-3000
(212) 582-0900

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Approximate Date of Proposed Public Offering: From time to time after the effective date of this Registration Statement

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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. [X]

It is proposed that this filing will become effective when declared effective pursuant to Section 8(c).

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

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HARRIS & HARRIS GROUP, INC.

CROSS-REFERENCE SHEET

PART A--THE PROSPECTUS

| Items in Part A of Form N-2 | Location in Prospectus |
|---|---|
| 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 | Management's Discussion and Analysis Financial Condition and Results of Operations |
| Item 5. Plan of Distribution | Prospectus Summary; Plan of Distribut |
| 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 Compan |
| Item 9. Management | Management of the Company |
| Item 10. Capital Stock, Long-Term Debt and Other Securities | Prospectus Summary; Capitalization; Dividends and Distributions; Taxati 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 |

Items in Part B of Form N-2/(1)/ Location in Prospectus

PART C--OTHER INFORMATION

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

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(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.

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 August 2, 2005

[LOGO]

HARRIS & HARRIS GROUP, INC./R/

3,550,000 Shares

Common Stock

Harris & Harris Group, Inc.(R), is a venture capital company specializing in tiny technology that operates as a non-diversified 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. On July 7, 2004, we issued and sold 3,450,000 shares of the 7,000,000 shares of our Common Stock registered, resulting in 3,550,000 remaining shares that may be offered pursuant to this Prospectus. 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 less any underwriting commissions or discounts will not be less than the net asset value per share of our Common Stock at the time we make the offering. 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 National Market under the symbol "TINY." On August 1, 2005, the last reported sale price of our Common Stock was $13.16.

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 9.

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 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. Material incorporated by reference and other information about us can be obtained from the Securities and Exchange Commission's ("SEC") 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 crime.

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       , 2005.

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.(R) "Harris & Harris Group, Inc.(R)" is a registered service mark. This Prospectus also includes trademarks owned by other persons.

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TABLE OF CONTENTS

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 9.

Our Business

Harris & Harris Group, Inc.(R), is a venture capital company specializing in tiny technology that operates as a non-diversified 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. 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 is comprised of a patient examination of available early stage opportunities, through due diligence and close involvement with management.

We make initial venture capital investments exclusively in "tiny technology," which we define as microsystems, microelectromechanical systems (which we refer to as MEMS) and nanotechnology. We consider a company to be a tiny technology company if the company employs intellectual property that we consider to be at the microscale or smaller and that is material to its business plan. Our portfolio includes non-tiny technology investments made prior to 2001, and we may make follow-on investments in either tiny or non-tiny technology companies. By making these investments, we seek to provide our shareholders with an increasingly 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.

Tiny technology is multidisciplinary and widely applicable, and it incorporates technology that is significantly smaller than is currently in widespread 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 has significant scientific, engineering, 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 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, Dr. 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



- 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 three 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;

- increase the types of tiny technology companies in our portfolio;

- increase the percentage of our total assets invested in tiny technology;

- lower our expenses as a percentage of assets and otherwise achieve certain economies and advantages of scale in our operations; 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; 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 the present, all 24 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 26 companies, 21 of which we consider to be involved in tiny technology. 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.

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 the founders) while preserving fully our participation in the upside potential of the portfolio company through the conversion feature. In many cases, our portfolio investments 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, and we would expect to continue to invest in convertible securities.

Tiny Technology

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 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 accelerometers used in automobiles to sense impact and deploy airbags, 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 repellant surfaces, fast acting painkillers and certain pharmaceutical therapeutics.

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 9 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 their products.

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



- Our portfolio companies may not currently have the ability to manufacture nanotechnology-enabled products in volume and will not be able to sell products without developing volume manufacturing capabilities.

- Even if our portfolio companies develop commercially acceptable products, they may not be able to manufacture their products in a profitable, cost-effective manner.

- Our portfolio companies may not successfully market their products.

- Our portfolio companies will need to achieve commercial acceptance of their products to obtain product revenue and achieve profitability and may not be able to do so.

- Unfavorable economic conditions 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 to cause health or environmental risks.

- Public perception of ethical and social issues 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 our portfolio companies complete initial public offerings, the returns on our investments may 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 may be obligated to pay substantial amounts under our profit-sharing plan.

- Although we have specialized in tiny technology since 2001, as of June 30, 2005 approximately 50 percent of the net asset value attributable to our venture capital investment portfolio, or 29 percent of our net asset value, is concentrated in one company, NeuroMetrix, Inc. We initially invested in 1996 as a seed investor in NeuroMetrix, Inc., which is not a tiny technology company.



- 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 may exceed the return on the assets the proceeds are used to acquire, in which case the use of leverage will 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.
- If we are unable to remediate a material weakness previously identified in our internal controls, or have other significant deficiencies or material weaknesses, our ability to report our financial results on a timely and accurate basis may be adversely affected.
- We expect that the market price of our Common Stock will be volatile.
- Quarterly results fluctuate and are not indicative of future quarterly performance.
- To the extent that we do not realize income or retain after-tax realized capital gains, we may 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 currently trade at a substantial premium over net asset value that may not be sustainable over the long term.

- Our former independent public accountant, Arthur Andersen LLP, no longer practices, and you may be unable to exercise effective remedies against it in any legal action.

- 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 reports 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 3,550,000 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 government agency securities, which are likely to 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 sales. We may also use the proceeds of this offering for operating expenses, including due diligence expenses on potential investments. Reserves for follow-on investments referred to above in any particular portfolio holding may be no 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. |

Nasdaq National Market symbol TINY

## 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 3,550,000 shares remaining from the 7,000,000 shares originally registered pursuant to the registration statement of which this Prospectus is a part, 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 August 1, 2005 of $13.16.

| | |
|---|---|
| Shareholder Transaction Expenses | |
| Sales Load/(1)/ (as a percentage of offering price) | 0.00% |
| Offering Expenses (as a percentage of offering price) | .73 |
| Annual Expenses (as a percentage of net assets attributable to Common Stock) | |
| Management Fees/(2)/ | N/A |
| Other Expenses/(3)/ | |
| Salaries and Benefits/(4)/ | 2.00% |
| Administration and Operations/(5)/ | 1.50 |
| Professional Fees | .69 |
| Total Annual Expenses | 4.19% |

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(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" excludes a profit-sharing accrual that is calculated pursuant to the 2002 Employee Profit-Sharing Plan. The accrual calculation includes all unrealized gains, and excludes all unrealized losses. This methodology results in a fluctuation in our accrual, but is not reflective of actual payments made under the Plan. Plan payments require the existence of qualifying income and consider only realized gains and losses (unrealized gains are excluded). For the six months ended June 30, 2005, we calculated a profit-sharing accrual of $1,700,871 that primarily relates to an unrealized gain resulting from an increase in the value of our investment in NeuroMetrix of $9,671,705. See "Management of the Company--Incentive Compensation Plan."

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

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.

You would pay the following expenses on a $10,000 investment, assuming a five percent annual return:

| 1 Year | 3 Years | 5 Years | 10 Years |
|---|---|---|---|
| $491 | $1,336 | $2,195 | $4,405 |

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 5 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.

## INCORPORATION BY REFERENCE

The financial statements as of December 31, 2004 and 2003 and for each of the three years in the period ended December 31, 2004, and the financial statements as of June 30, 2005 and for the fiscal periods ended June 30, 2005 and 2004, 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. These financial statements either accompany this Prospectus or have previously been provided to the person to whom this Prospectus is being sent. We will furnish, without charge, a copy of such financial statements upon request by writing to 111 West 57/th/ Street, Suite 1100, New York, New York 10019, Attention: Investor Relations, or calling 877-TINY TECH.



## 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. 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 their products.

The technology of our portfolio companies is new and in many cases unproven. Their potential products require significant and lengthy product development efforts. To date, many of our portfolio companies have not developed any commercially available products. If our portfolio companies are not able to develop 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 begin to emerge, ownership of intellectual property on which these products are based may be contested. Any litigation over the ownership of, or rights to, any of our portfolio companies' technologies or products would have a material adverse effect on those companies' values.



Our portfolio companies may not currently have the ability to manufacture nanotechnology-enabled products in volume and will not be able to sell products without developing volume manufacturing capabilities.

The manufacture of our portfolio companies' potential nanotechnology-enabled products is unproven and will require long lead times to establish adequate facilities. Some of the potential products may require our portfolio companies to manufacture large volumes of materials in order to meet commercial demand that are substantially larger than their current capabilities. Our portfolio companies may not be able to develop commercial scale manufacturing capabilities or produce products cost effectively. If our portfolio companies are unable to manufacture economically or to produce their products in commercial quantities that meet acceptable performance and quality specifications, we could suffer financial losses in our portfolio.

Even if our portfolio companies develop commercially acceptable products, they may not be able to manufacture their products in a profitable, cost effective manner.

Even if the technology and products of our portfolio companies gain commercial acceptance, they may not be able to manufacture their products in a profitable manner. Even if our portfolio companies are able to manufacture their products on a commercial scale, the cost of manufacturing their products may be higher than they expect. If manufacturing costs and royalty obligations are not significantly less than the prices at which they can sell their products, it would lead to financial losses in our portfolio.

Our portfolio companies may not successfully market their products.

Even if our portfolio companies are able to develop commercially viable products, the market for new products and services is highly competitive, rapidly changing and especially sensitive to adverse general economic conditions. Commercial success is difficult to predict, and the marketing efforts of our portfolio companies may not be successful.

Our portfolio companies will need to achieve commercial acceptance of their products to obtain product revenue and achieve profitability and may not be able to do so.

Even if the products of our portfolio companies are technologically feasible, these early-stage companies may not successfully develop commercially viable products on a timely basis, if at all. It could be at least several years before many of our portfolio companies develop initial products that are commercially available and, during this period, superior competitive technologies may be introduced or customer needs may change resulting in some products being unsuitable for commercialization. The revenue growth and achievement of profitability by our portfolio companies will depend substantially on their ability to introduce new products into the marketplace that are widely accepted by customers. If they are unable to achieve commercial acceptance of their products in a cost-effective manner, the value of our portfolio could be significantly adversely affected.

Unfavorable economic conditions 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 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, might have difficulty raising capital or marketing their products.

Public perception of ethical and social issues 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 may 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 may 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 also have an adverse effect on the frequency and prices of acquisitions of privately held companies. The lack of merger and/or acquisition opportunities for privately held companies also has an adverse effect on the ability of these companies to raise capital from private sources. Public equity market response to company offerings of 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 our portfolio companies complete initial public offerings, the returns on our investments may 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 which 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 are listed on the Nasdaq National Market. Recent government reforms of the Nasdaq National 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.

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 the Valuation Committee of our Board of Directors, 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 the underlying portfolio company has 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, which 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. 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 the value of our Common

Stock in the interim. As we continue to make additional tiny technology investments, this J-curve pattern may not be relevant for the 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 may be obligated to pay substantial amounts under our profit-sharing plan.

Our employee profit-sharing plan requires us to distribute to our officers and employees 20 percent of any net after-tax realized income as reflected on our consolidated statements of operations for that year, less any non-qualifying gain. Payments may be made under our profit-sharing plan in a particular year, even if we have incurred losses in previous years. These distributions reduce funds available for investment and may have a significant effect on the amount of direct distributions in the form of cash dividends, or indirect distributions in the form of tax credits, if any, made to our shareholders.

Although we have specialized in tiny technology since 2001, as of June 30, 2005, approximately 50 percent of the net asset value attributable to our venture capital investment portfolio, or 29 percent of our net asset value, is concentrated in one company, NeuroMetrix, Inc. We initially invested in 1996 as a seed investor in NeuroMetrix, Inc., which is not a tiny technology company.

At June 30, 2005, we valued our investment in NeuroMetrix, Inc. ("NeuroMetrix"), which had a historical cost to us of $4,411,373, at $22,785,527, or 50.2 percent of the net asset value attributable to our venture capital investment portfolio, or 28.7 percent of our net asset value. NeuroMetrix, Inc. is a non-tiny technology company. We made our initial investment as a seed investor in NeuroMetrix in 1996, prior to 2001 when we began our focus on tiny technology. It is publicly traded on the Nasdaq National Market and is often thinly traded. Any downturn in the market price of NeuroMetrix's stock or its business outlook, in general, or any failure of its products to receive widespread acceptance in the marketplace, would have a significant effect on our specific investment in NeuroMetrix, Inc., and on the overall value of our portfolio.

All 24 of our initial investments from August 2001 through the present have been in tiny technology companies, and we consider 21 of the companies in our current venture capital investment portfolio to be tiny technology companies. Nevertheless, at June 30, 2005, only 49.6 percent of the net asset value attributable to our venture capital investment portfolio, or 28.3 percent of our net asset value, was invested in tiny technology companies, which may limit our ability to achieve our investment objective.

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

We are dependent for the selection, structuring, closing and monitoring of our investments on the diligence and skill of our senior management and other key advisers. 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 depends on our Chairman and Chief Executive Officer, Charles E. Harris. 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 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 any 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. Recently, "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 otherwise lack sufficient funds to make those investments. We have the discretion to make any follow-on investments, subject to the availability of capital resources. The failure to make follow-on investments may, in some circumstances, jeopardize the continued viability of a portfolio company and our initial investment, or may result in a missed opportunity for us to increase our participation in a successful operation, or may cause us to lose some or all preferred rights pursuant to "pay to play" provisions. 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 may 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 may 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 may, 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 qualify as a RIC for 2004 under the tax 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 2005 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, net of a reduction in the reserve for employee profit sharing, accordingly. To the extent that 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 upon making that decision. 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 National 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 BDCs are not mutual funds, they must comply with several of the new 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.

If we are unable to remediate a material weakness previously identified in our internal controls, or have other significant deficiencies or material weaknesses, our ability to report our financial results on a timely and accurate basis may be adversely affected.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system is designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements. Effective internal controls are necessary for us to provide reliable financial reports.

We have in the past discovered, and may in the future discover, areas of our internal controls that need improvement. As noted in Management's Report on Internal Control Over Financial Reporting included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2004, we determined that we had a material weakness with respect to maintaining effective controls over the accuracy of the Financial Highlights ratios based on an audit adjustment to the line item referred to as "Total return based on: Net asset value" in the Company's Financial Highlights section of the financial statements for the year ended December 31, 2004. Specifically, our procedures for preparing the Financial Highlights ratios were not sufficiently detailed to detect errors in the underlying calculations.

We have implemented the following changes to our internal control over financial reporting during the first and second quarters of 2005:

1. We retained Anne M. Donoho, C.P.A., M.B.A., to serve as a temporary, senior controller and consultant, effective March 14, 2005. Ms. Donoho is currently expected to remain in these roles through August 2005.

2. We hired Patricia N. Egan, C.P.A, to serve as Chief Accounting Officer and Senior Controller, effective June 13, 2005.

3. On March 5, 2005, we engaged an independent accounting and consulting firm with industry experience, Eisner LLP ("Eisner"), to read the financial statements contained in the draft Annual Report and to



provide financial reporting and accounting advisory services to the Company. On April 4, 2005, we engaged Eisner to provide financial reporting and accounting advisory services to the Company on an ongoing basis, including reading and commenting on the Company's quarterly and annual financial statements prior to submission to our external auditors.

4. In March 2005, we revised the worksheet that we use for preparing our Annual and Interim Reports to clarify how ratios in the Financial Highlights section are calculated.

5. In March 2005, we mapped out a detailed sequence of reviews of our Annual and Interim Reports that must occur rather than merely stating that additional reviews should occur as necessary.

In addition, during the preparation and review of the financial statements for the fiscal periods ended June 30, 2005, an error was identified in the spreadsheet used to compute the line item referred to as "Portfolio Turnover" in the Financial Highlights section, which existed at December 31, 2004 and had not yet been addressed in the remediation process. Although the error has been corrected in the financial statements included in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 and did not have a material impact on previously issued financial statements, we have determined that additional reviews of the Financial Highlights spreadsheets are required before the material weakness can be remediated.

We will continue to evaluate the effectiveness of internal controls and procedures on an ongoing basis. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all controls issues within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

If we are unable to remediate the identified material weakness in our internal controls or if we have other significant deficiencies or material weaknesses in our internal controls, our ability to report financial results on a timely and accurate basis may be adversely affected.

We expect that the market price of our Common Stock will 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:

- price and volume fluctuations in the overall stock market from time to time;
- significant volatility in the market price and trading volume of securities of business development companies or other financial services companies;
- volatility resulting from trading in derivative securities related to our Common Stock may include puts, calls, long-term equity anticipation securities, or LEAPs, or short trading positions;
- changes in regulatory policies or tax guidelines with respect to business development companies or regulated investment companies;
- actual or anticipated changes in our net asset value or fluctuations in our operating results or changes in the expectations of securities analysts;
- announcements regarding any of our portfolio companies;
- announcements regarding developments in the nanotechnology field in general;
- 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 retain after-tax realized capital gains, we may 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, although we currently have no investments in foreign securities. If 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.

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 which 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 of 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 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 the existence of a premium or discount than upon portfolio performance. Our Common Stock may not trade at a price higher than or equal to net asset value. On August 1, 2005, our stock closed at $13.16 per share, a premium of $8.55 over our net asset value per share of $4.61 as of June 30, 2005.

Our former independent public accountant, Arthur Andersen LLP, no longer practices, and you may be unable to exercise effective remedies against it in any legal action.

Our former independent public accountant, Arthur Andersen LLP, provided us with auditing services for prior fiscal periods through December 31, 2001, certain information of which is included in the Selected Condensed Consolidated Financial Data section of this Prospectus. On June 15, 2002, a jury in Houston, Texas found Arthur Andersen LLP guilty of a federal obstruction of justice charge arising from the federal government's investigation of Enron Corp. On August 31, 2002, Arthur Andersen LLP ceased practicing before the SEC. On May 31, 2005, the U.S. Supreme Court reversed the 2002 conviction and remanded the case to lower federal courts.

We were unable to obtain Arthur Andersen LLP's consent to use the information in the Selected Condensed Consolidated Financial Data section in this Prospectus. Rule 437(a) under the Securities Act of 1933, or the Securities Act, permits us to dispense with the requirement to file their consent. As a result, you may not have an effective remedy against Arthur Andersen LLP in connection with a material misstatement or omission with respect to the Selected Condensed Consolidated Financial Data section in this Prospectus or any other filing we may make with the SEC, including, with respect to this offering or any other offering registered under the Securities Act, any claim under Section 11 of the Securities Act. In addition, even if you were able to assert a claim, as a result of its conviction and other lawsuits, Arthur Andersen LLP may fail or otherwise have insufficient assets to satisfy claims made by investors or by us that might arise under federal securities laws or



otherwise relating to any alleged material misstatement or omission with respect to our audited consolidated financial statements for the fiscal periods through December 31, 2001.

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," "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 for the remaining 3,550,000 shares to be up to $43,574,920 based on the last reported price for our Common Stock on August 1, 2005 of $13.16 per share and after deducting underwriting discounts and commissions and estimated offering expenses payable by us. However, there can be no assurances as to the amount of proceeds unless and until we effect an offering and determine the offering price and the number of the shares to be sold.

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 referred to above 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. 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 are likely to 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 National Market under the symbol "TINY."

The following table sets forth for the quarters indicated, the high and low sale prices on the Nasdaq National 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 High | Market Price Low | Net Asset Value ("NAV") Per Share at End of Period | Premium or Discount as a % of NAV High | Premium or Discount as a % of NAV Low |
|---|---|---|---|---|---|
| March 31, 2003.......... | 3.99 | 2.36 | 2.26 | 76.5 | 4.4 |
| June 30, 2003........... | 7.95 | 2.71 | 2.22 | 258.1 | 22.1 |
| September 30, 2003...... | 9.49 | 4.47 | 2.11 | 349.8 | 111.8 |
| December 31, 2003....... | 12.29 | 6.18 | 2.95 | 316.6 | 109.5 |
| 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 |
| Third Quarter through August 1, 2005 | 13.85 | 11.74 | -- | -- | -- |

The shares of our Common Stock have historically 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 August 1, 2005 was $13.16 per share. As of August 1, 2005, we had approximately 138 shareholders of record.



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information contained in this section should be read in conjunction with our unaudited June 30, 2005 and our audited December 31, 2004 Consolidated Financial Statements and the Notes thereto. In addition, this Prospectus contains certain forward-looking statements. These statements include the plans and objectives of management for future operations and financial objectives and can be identified by the use of forward-looking terminology such as "believe," "anticipate," "estimate," "expect," "intend," "plan," "will," "may" or "continue" or the negative thereof or other variations thereon or comparable terminology. These forward-looking statements are subject to the inherent uncertainties in predicting future results and conditions.

Information presented for portfolio companies has been obtained from the portfolio companies.

Background and Overview

We incorporated under the laws of the state of New York in August 1981. In 1983, we completed an initial public offering and invested $406,936 in Otisville BioTech, Inc., which also completed an initial public offering later that year. In 1984, Charles E. Harris purchased a controlling interest in us, which resulted in his also becoming the control person in Otisville. We then divested our other assets and became a financial services company, with the investment in Otisville as the initial focus of our business activity. We hired new management for Otisville, and Otisville acquired new technology targeting the development of a human blood substitute.

By 1988, we operated two insurance brokerages and a trust company as wholly-owned subsidiaries. In 1989, Otisville changed its name to Alliance Pharmaceutical Corporation, and by 1990, we had completed selling our $406,936 investment in Alliance for total proceeds of $3,923,559.

In 1992, we sold our insurance brokerage and trust company subsidiaries to their respective managements and registered as an investment company under the 1940 Act, commencing operations as a closed-end, non-diversified investment company. In 1995, we elected to become a business development company subject to the provisions of Sections 55 through 65 of the 1940 Act. Throughout our corporate history, we have made early stage venture capital investments in a variety of industries. We define venture capital investments as investments in start-up firms and small businesses with exceptional growth potential. In 1994, we made our first tiny technology investment. From August 2001 through the present, all 24 of our initial investments have been exclusively in tiny technology.

Since our investment in Otisville in 1983, we have made a total of 66 venture capital investments, including four private placement investments, in securities of publicly traded companies. We have sold 40 of these 66 investments, realizing total proceeds of $108,496,803 on our invested capital of $42,562,069. Seventeen of these 40 investments were profitable. As measured from first dollar in to last dollar out, the average and median holding periods for these 40 investments were 3.5 years and 3.2 years, respectively. As measured by the 131 separate rounds of investment within these 40 investments, the average and median holding periods for the 131 separate rounds of investment were 2.7 years and 2.4 years, respectively. At June 30, 2005, we valued the 26 venture capital investments remaining in our portfolio at $45,421,482, or 57.1 percent of our net assets, including unrealized appreciation of $10,367,462. At June 30, 2005, from first dollar in, the average and median holding periods for these 26 venture capital investments were 2.9 years and 2.0 years, respectively. As measured by the 65 separate rounds of investment within these 26 investments, the average and median holding periods for the 65 separate rounds of investment were 2.6 years and 1.4 years, respectively.

We have invested a substantial portion of our assets in venture capital investments of private, development stage or start-up companies. These private businesses tend to be thinly capitalized, unproven, small companies that lack management depth, have little or no history of operations and are developing unproven technologies. At June 30, 2005, $22,635,955, or 28.5 percent, of our net assets consisted of private venture capital investments at fair value, net of unrealized depreciation of $8,006,691. At December 31, 2004,

$18,508,138, or 24.8 percent, of our net assets at fair value consisted of private venture capital investments, net of unrealized depreciation of $9,577,094.

At June 30, 2005, $22,785,527, or 28.7 percent of our net assets, consisted of common shares of NeuroMetrix, Inc., a publicly traded venture capital investment, valued at market value, of which unrealized appreciation was $18,374,153. Prior to January 18, 2005, our ownership interest in NeuroMetrix, Inc., was not in freely tradable securities, and prior to March 31, 2005 the fair value for our investment in NeuroMetrix, Inc., was determined in good faith by our Valuation Committee within guidelines established by our Board of Directors.

We value our private venture capital investments each quarter at fair value as determined in good faith by our Valuation Committee within guidelines established by our Board of Directors in accordance with the 1940 Act.

We have discretion in the investment of our capital. However, we invest primarily in illiquid equity securities of private companies. Generally, these investments take the form of preferred stock, are subject to restrictions on resale and have no established trading market. Our principal objective is to achieve long-term capital appreciation. Therefore, a significant portion of our investment portfolio provides little or no income in the form of dividends or interest. We earn interest income from fixed-income securities, including U.S. government and government agency securities. The amount of interest income we earn varies with the average balance of our fixed-income portfolio and the average yield on this portfolio and is not expected to be material to our results of operations.

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

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

Net Realized Income / (Loss) on Investments--the difference between the net proceeds of sales of portfolio securities and their stated cost, and income from interests in limited liability companies.

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

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

## SELECTED CONDENSED CONSOLIDATED FINANCIAL DATA

### BALANCE SHEET DATA

Financial Position as of:

| - | December 31, | | | | |
|---|---|---|---|---|---|
| | 2004 | 2003 | 2002 | 2001 | 2000 |
| Total assets...................... | $79,361,451 | $44,115,128 | $35,951,969 | $39,682,367 | $43,343,423 |
| Total liabilities................. | $ 4,616,652 | $ 3,432,390 | $ 8,695,923 | $15,347,597 | $11,509,948 |
| Net assets........................ | $74,744,799 | $40,682,738 | $27,256,046 | $24,334,770 | $31,833,475 |
| Net asset value per outstanding share........................... | $ 4.33 | $ 2.95 | $ 2.37 | $ 2.75 | $ 3.51 |
| Cash dividends paid............... | $ 0.00 | $ 0.00 | $ 0.00 | $ 0.00 | $ 184,817 |
| Cash dividends paid per outstanding share........................... | $ 0.00 | $ 0.00 | $ 0.00 | $ 0.00 | $ 0.02 |
| Shares outstanding, end of year.... | 17,248,845 | 13,798,845 | 11,498,845 | 8,864,231 | 9,064,231 |

### OPERATING DATA

| | For the twelve months ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2004 | 2003 | 2002 | 2001 | |
| Total investment income............. | $ 637,562 | $ 167,785 | $ 253,461 | $ 510,661 | $ |
| Total expenses/(1)/................. | $ 4,046,341 | $ 2,731,527 | $ 2,124,549 | $ 1,035,221 | $ |
| Net operating (loss) income.......... | $(3,408,779) | $(2,563,742) | $(1,871,088) | $ (524,560) | $ |
| Net realized income (loss) from investments....................... | $ 858,503 | $ (984,925) | $ 2,390,302 | $ 1,276,366 | $ |
| Net realized (loss) income........... | $(2,550,276) | $(3,548,667) | $ 519,214 | $ 751,806 | $ |
| Net decrease (increase) in unrealized depreciation on investments........ | $ 484,162 | $ 343,397 | $(3,241,408) | $(7,641,044) | $( |
| Net decrease in net assets resulting from operations................... | $(2,066,114) | $(3,205,270) | $(2,722,194) | $(6,889,238) | $( |
| Decrease in net assets resulting from operations per average outstanding share............................ | $ (0.13) | $ (0.28) | $ (0.27)/(2)/ | $ (0.78) | $ |

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(1) Included in total expenses are the following profit-sharing expenses/(reversals): $311,594 in 2004; ($163,049) in 2002; ($984,021) in 2001; ($4,812,675) in 2000.

SELECTED QUARTERLY DATA (UNAUDITED)

| BALANCE SHEET DATA | 2005 | |
|---|---|---|
| | June 30 | |
| Total assets | $103,994,225 | $7 |
| Total liabilities | $ 24,481,022 | $ |
| Net assets | $ 79,513,203 | $7 |
| Net asset value per outstanding share | $ 4.61 | $ |
| Cash dividends paid | -- | $ |
| Cash dividends paid per outstanding share | -- | $ |
| Shares outstanding, end of quarter | 17,248,845 | 1 |

| OPERATING DATA | 2005 | |
|---|---|---|
| | June 30 | |
| Total investment income | $ 158,717 | $ |
| Net operating loss | $ (3,302,094) | $ |
| Net increase (decrease) in net assets resulting from operations | $ 7,001,847 | $( |
| Net (decrease) increase in net assets resulting from operations per average outstanding share | $ 0.41 | $ |

| | 2004 | | | |
|---|---|---|---|---|
| | December 31 | September 30 | June 30 | |
| Total investment income | $ 248,214 | $ 253,581 | $ 79,231 | $ |
| Net operating loss | $ (905,557) | $ (978,773) | $ (774,584) | $ |
| Net increase (decrease) in net assets resulting from operations | $(1,760,713) | $ 1,111,121 | $ (2,237,037) | $ |
| Net (decrease) increase in net assets resulting from operations per average outstanding share | $ (0.09) | $ 0.06 | $ (0.16) | $ |

| | 2003 | | | |
|---|---|---|---|---|
| | December 31 | September 30 | June 30 | |
| Total investment income | $ 21,933 | $ 30,612 | $ 50,564 | $ |
| Net operating loss | $ (679,947) | $ (572,346) | $ (726,989) | $ |
| Net (decrease) in net assets resulting from operations | $ (175,136) | $(1,270,298) | $ (544,709) | $( |
| Net (decrease) in net assets resulting from operations per average outstanding share | $ (0.01) | $ (0.11) | $ (0.05) | $ |

Results of Operations

Three months ended June 30, 2005, as compared with the three months ended June 30, 2004

We had a net increase in net assets resulting from operations of $7,001,847 in the three months ended June 30, 2005, as compared with a net decrease in net assets resulting from operations of $2,237,037 in the three months ended June 30, 2004.

Investment Income and Expenses:

We had net operating losses of $ 3,302,094 and $774,584 for the three months ended June 30, 2005, and June 30, 2004, respectively.

25

Operating expenses were $3,460,811 and $853,815 for the three months ended June 30, 2005, and June 30, 2004, respectively. The increase in expenses for the three months ended June 30, 2005, as compared with the three months ended June 30, 2004, is primarily a result of the increase to the profit sharing plan provision of $2,012,465 resulting from an increase of $11,921,734 in the valuation of our investment in NeuroMetrix, Inc. during the three months ended June 30, 2005. In addition, professional fees increased by $139,244, or 176.5 percent, primarily as a result of ongoing expenses of compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. An increase in administration and operations expense of $300,368, or 160.8 percent, is primarily owing to the increase in expenses associated with proxy solicitation for non-routine matters and increases in the cost of directors' and officers' liability insurance.

Realized Income and Losses from Investments:

During the three months ended June 30, 2005, we realized net losses of $1,386,741, and during the three months ended June 30, 2004, we realized income of $2,580, before taxes.

Net realized losses for the three months ended June 30, 2005, consisted primarily of the realized loss from the sale of our investment in Nanotechnologies, Inc., of $1,091,209 and the loss on the sale of the assets underlying our investment in Optiva Inc., of $294,245.

Unrealized Appreciation or Depreciation on Investments:

Net unrealized appreciation on total investments increased by $11,691,316, or 710.7 percent, during the three months ended June 30, 2005, from net unrealized depreciation of $1,645,024 at March 31, 2005, to net unrealized appreciation of $10,046,292 at June 30, 2005. Net unrealized depreciation on total investments increased by $1,463,921, or 91.9 percent, during the three months ended June 30, 2004, from $1,592,929 at March 31, 2004, to $3,056,850 at June 30, 2004.

During the three months ended June 30, 2005, net unrealized appreciation on our venture capital investments increased by $11,551,546, from net unrealized depreciation of $1,184,084 at March 31, 2005, to net unrealized appreciation of $10,367,462 at June 30, 2005, primarily owing to an increase in the valuation of our investment in NeuroMetrix, Inc., of $11,921,734, and realization of the losses on the sale of our investment in Nanotechnologies, Inc., of $1,091,209 and the sale of the assets underlying our investment in Optiva, Inc., of $675,000. In addition, decreases in the valuations of Zia Laser, Inc., Nanopharma Corp. and NanoOpto Corporation decreased our unrealized appreciation by $750,000, $563,097, and $571,283, respectively.

During the three months ended June 30, 2004, we recorded a net increase of $1,264,290 in unrealized depreciation of our venture capital investments, primarily owing to increases in unrealized depreciation of Nanotechnologies, Inc., and Optiva, Inc., of $638,840 and $625,000, respectively.

Six months ended June 30, 2005, as compared with the six months ended June 30, 2004

We had a net increase in net assets resulting from operations of $4,768,404 in the six months ended June 30, 2005, as compared with a net decrease in net assets resulting from operations of $1,416,522 for the six months ended June 30, 2004.

Investment Income and Expenses:

We had net operating losses of $ 4,042,681 and $1,524,449, for the six months ended June 30, 2005, and June 30, 2004, respectively.

Operating expenses were $4,466,507 and $1,660,216 for the six months ended June 30, 2005, and June 30, 2004, respectively. The increase in expenses for the six months ended June 30, 2005, as compared with the



six months ended June 30, 2004, is primarily related to an increase of $1,700,871 in the profit sharing expense resulting from an increase of $9,671,705 in the valuation of our investment in NeuroMetrix, Inc. Salaries and benefits increased by $217,118, or 22.5 percent, primarily as a result of the addition of four full-time employees, and secondarily to increases in salary and benefits for existing employees. Administration and operations increased by $463,031, or 133.8 percent, as a result of increased expenses owing to proxy solicitation for non-routine matters and increases in the cost of our directors' and officers' liability insurance. Professional fees increased by $332,648, or 210.6 percent, owing to expenses associated with the implementation of the requirements of Section 404 of the Sarbanes-Oxley Act of 2002.

Realized Income and Losses on Investments:

During the six months ended June 30, 2005, we realized losses of $2,427,785 as compared with realized income of $795,969 for the six months ended June 30, 2004, before taxes.

During the six months ended June 30, 2005, we realized losses on the sale of investments including $1,358,286 for Agile Materials & Technologies, Inc., and $1,091,209 for Nanotechnologies, Inc. We also realized a loss of $294,245 from the sale of the assets underlying our investment in Optiva, Inc. These realized losses were partially offset by the realized gain of $255,486 on the sale of our investment in NanoGram Devices Corporation.

During the six months ended June 30, 2004, our realized net gains of $795,969 consisted primarily of a realized gain of $1,681,259 resulting from the sale of our investment in NanoGram Devices Corporation, offset by a realized loss of $915,108 resulting from the sale of our shares of Series D Convertible Preferred Stock in NeoPhotonics Corporation.

Unrealized Appreciation or Depreciation on Investments:

Net unrealized appreciation on total investments increased by $11,243,721 or 939.0 percent, during the six months ended June 30, 2005, from net unrealized depreciation of $1,197,429 at December 31, 2004, to net unrealized appreciation of $10,046,292 at June 30, 2005. Net unrealized depreciation on investments increased by $680,134, or 28.6 percent, during the six months ended June 30, 2004, from $2,376,716 at December 31, 2003, to $3,056,850 at June 30, 2004.

During the six months ended June 30, 2005, we recorded a net increase of $11,242,108 in unrealized appreciation of our venture capital investments, primarily as a result of an increase in unrealized appreciation of NeuroMetrix, Inc., of $9,671,705. In addition, unrealized appreciation increased as a result of the realization of losses on the sale of our investments in Agile Materials and Technologies, Inc. of $1,364,081, Nanotechnologies, Inc., of $917,410 and the sale of the assets underlying our investment in Optiva, Inc., of $675,000. Changes in valuation resulted in increased appreciation on our investment in Nantero, Inc., of $813,771 and decreased appreciation on our investments in Zia Laser, Inc., of $750,000 and Nanopharma Corporation of $563,097.

During the six months ended June 30, 2004, we recorded a net increase of $452,638 in unrealized depreciation of our venture capital investments, primarily as a result of an increase in unrealized depreciation of Nanotechnologies, Inc., of $638,840 and Optiva, Inc., of $625,000, offset by the realization of the loss of $915,108 on the sale of our shares of Series D Convertible Preferred stock in NeoPhotonics Corporation.

Years Ended December 31, 2004, 2003, and 2002

During the three years ended December 31, 2004, 2003, and 2002, we had net decreases in net assets resulting from operations of $2,066,114, $3,205,270 and $2,722,194, respectively.



Investment Income and Expenses:

During the three years ended December 31, 2004, 2003, and 2002, we had net operating losses of $3,408,779, $2,563,742 and $1,871,088, respectively. The variation in these results is primarily owing to the changes in operating expenses. During the three years ended December 31, 2004, 2003, and 2002, operating expenses were $4,046,341, $2,731,527 and $2,124,549, respectively. The increase during 2004 resulted primarily owing to increases in profit-sharing provision, salaries and benefits, administration and operations and professional fees. In 2004, the profit-sharing provision increased by $311,594, or 100 percent. The profit-sharing provision changes as a result of realized gains and losses and increases and decreases in unrealized appreciation. The increase in the profit-sharing provision is primarily a result of the increase in the value of our investment in NeuroMetrix, Inc., which completed its IPO on July 22, 2004. Salaries and benefits increased by $387,396, or 25.1 percent, primarily as a result of the addition of four employees, partially offset by a decrease in mandatory retirement plan pension expense that was being amortized through December 31, 2004. Administration and operations increased by $272,345, or 61.0 percent, primarily as the result of an increase in travel expenses associated with additional investments in portfolio companies, an increase in expenses related to the preparation and distribution of the annual and quarterly reports and proxy statement owing to the increased number of shareholders, and an increase in director and officer liability insurance. The premium expense for directors' and officers' liability insurance increased by $112,259 to $172,229 in 2004, and the premium expense for 2005 is estimated to be $535,000. Professional fees increased by $363,516, or 119.7 percent, almost entirely owing to the expenses associated with implementation of the Sarbanes-Oxley Act of 2002 and policies under the 1940 Act, which require a comprehensive compliance program. We estimate that our total incremental direct and indirect expenses in 2004 associated with the Sarbanes-Oxley Act of 2002 and compliance policies under the 1940 Act totaled $316,000.

The increase in operating expenses during 2003 was primarily owing to increases in salary and benefits. During 2003, the full-year effect of a new employee who started in September 2002 was realized. In addition, we recorded an expense of $225,000 for the establishment of a Mandatory Retirement Plan.

Realized Income and Losses from Investments:

During the three years ended December 31, 2004, 2003 and 2002, we had realized income (losses) from investments of $813,994, ($971,164) and $3,284,737, respectively.

During 2004, our realized income from investments of $813,994 consisted primarily of a realized gain of $1,681,259 from the sale of our investment in NanoGram Devices Corporation, partially offset by a realized loss of $915,108 from the sale of our shares of Series D Convertible Preferred Stock in NeoPhotonics Corporation.

During 2003, we realized a loss of $1,000,001 on the tax write-off of our investment in Kriton, Inc., which had been previously written-off for book purposes. As a result of the loss realized in 2003 on the tax write-off of Kriton Medical, Inc., unrealized appreciation increased by $1,000,001.

During 2002, we realized a gain of $4,776,360 from the liquidation of our partnership interest in PHZ Capital Partners L.P., and losses of $350,583 and $1,248,825 from the liquidation of Informio, Inc., and the sale of our previously written-off investment in Schwoo, Inc., respectively.

Unrealized Appreciation or Depreciation on Investments:

During the years ended December 31, 2004, 2003 and 2002, net unrealized depreciation on investments decreased (increased) by $1,179,288, $343,397 and ($3,936,534), respectively.

During 2004, net unrealized depreciation on investments decreased owing to the higher valuation of our investment in NeuroMetrix, Inc., of $6,288,405, and the realization of our loss of $915,108 on the sale of our



shares of Series D Convertible Preferred Stock in NeoPhotonics. Decreases in the valuations of the following investments increased our unrealized depreciation by the following amounts: Agile Materials and Technologies, Inc., $614,081, Continuum Photonics, Inc., $1,162,208, Experion Systems, Inc., $630,497, Nanotechnologies, Inc., $1,275,373 and Optiva, Inc., $2,000,000.

During 2003, net unrealized depreciation on investments decreased owing to higher valuation of our investments in Continuum Photonics, Inc., of

$226,046 and Nanotechnologies, Inc., of $357,963, and as a result of the $1,000,000 loss realized in 2003 on the write-off of Kriton Medical, Inc. Decreases in the valuations of the following venture capital investments increased our net unrealized depreciation in the following amounts: Agile Material and Technologies, Inc., $750,000, Experion Systems, Inc., $325,662 and NeoPhotonics Corporation, $345,558.

During the year ended December 31, 2002, net unrealized depreciation increased by $3,936,534 owing to decreases in the valuations of our venture capital investments of $3,933,834, including the decrease in valuation of NeuroMetrix, Inc., of $1,986,081.

Financial Condition

Six Months ended June 30, 2005

Our total assets and net assets were $103,994,225 and $79,513,203, respectively, at June 30, 2005, as compared with $79,361,451 and $74,744,799 at December 31, 2004.

Net asset value per share was $4.61 at June 30, 2005, as compared with $4.33 at December 31, 2004. Our shares outstanding were unchanged during the six months ended June 30, 2005.

Significant developments in the six months ended June 30, 2005, were an increase in the value of our venture capital investments of $13,799,522 and a decrease in the value of our investment in U.S. government and government agency securities of $8,248,104. The increase in the value of our venture capital investments, from $31,621,960 at December 31, 2004, to $45,421,482 at June 30, 2005, resulted primarily from the increase in value of our investment in NeuroMetrix, Inc., from $13,113,822 at December 31, 2004, to $22,785,527 at June 30, 2005, and three new and six follow-on investments. The increase in our assets also reflects temporary timing differences resulting from the purchase of U.S. government and government agency securities prior to the end of the second quarter of $18,297,158, with payment for such purchase due in the third quarter.

The following table is a summary of additions to our portfolio of venture capital investments during the six months ended June 30, 2005:

| New Investment | Amount |
|---|---|
| eLite Optoelectronics, Inc. | $1,000,000 |
| Kereos, Inc................ | $ 800,000 |
| Zia Laser, Inc............. | $1,500,000 |
| **Follow-on Investment** | |
| Cambrios, Inc.............. | $ 511,006 |
| Nanomix, Inc............... | $ 250,000 |
| NanoOpto Corporation....... | $ 411,741 |
| Nanopharma Corp............ | $ 100,000 |
| Nantero, Inc............... | $ 571,329 |
| Starfire Systems, Inc...... | $ 500,000 |
| Total...................... | $5,644,076 |

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The following tables summarize the values of our portfolios of venture capital investments and U.S. government and government agency securities, as compared with their cost, at June 30, 2005, December 31, 2004, and December 31, 2003:

| | June 30, 2005 | December 31, 2004 | December 31, 2003 |
|---|---|---|---|
| Venture capital investments, at cost | $35,054,020 | $32,496,605 | $17,481,879 |
| Unrealized appreciation (depreciation)/(1)/ | 10,367,462 | (874,645) | (2,375,303) |
| Venture capital investments, at fair value | $45,421,482 | $31,621,960 | $15,106,576 |

| | June 30, 2005 | December 31, 2004 | December 31, 2003 |
|---|---|---|---|
| U.S. government and agency obligations, at cost | $36,695,789 | $44,945,505 | $27,121,899 |
| Unrealized depreciation/(1)/ | (321,171) | (322,783) | (1,413) |
| U.S. government and agency obligations, at fair value | $36,374,618 | $44,622,722 | $27,120,486 |

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(1) At June 30, 2005, the accumulated unrealized appreciation on investments, including deferred taxes, was $8,506,248. At December 31, 2004, and December 31, 2003, the accumulated unrealized depreciation on investments, including deferred taxes, was $2,737,473 and $3,221,635, respectively.

The following table summarizes the value composition of our venture capital investment portfolio at June 30, 2005, December 31, 2004, and December 31, 2003. NeuroMetrix, Inc., accounted for 99.5 percent, 97.6 percent and 85.6 percent of the "Other Venture Capital Investments," at June 30, 2005, December 31, 2004, and December 31, 2003, respectively.

| Category | June 30, 2005 | December 31, 2004 | December 31, 2003 |
|---|---|---|---|
| Tiny Technology | 49.6% | 57.5% | 60.7% |
| Other Venture Capital Investments | 50.4% | 42.5% | 39.3% |
| Total Venture Capital Investments | 100.0% | 100.0% | 100.0% |

The following table summarizes the fair value composition of our venture capital investment portfolio that was still privately held at June 30, 2005, December 31, 2004, and December 31, 2003. NeuroMetrix, Inc., became a publicly held company in July 2004.

| Category | June 30, | December 31, |
|---|---|---|