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

Form 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934

For quarterly period ended June 30, 2001

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to _____________

Commission File Number: 0-11576

HARRIS & HARRIS GROUP, INC.
- --
(Exact name of registrant as specified in its charter)

New York 13-3119827
- --
(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

One Rockefeller Plaza, Rockefeller Center, New York, New York 10020
- --
(Address of Principal Executive Offices) (Zip Code)

(212) 332-3600
- --
(Registrant's telephone number, including area code)

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

Yes [X] No [ ]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at August 9, 2001
Common Stock, $0.01 par value per share	9,064,231 shares

Harris & Harris Group, Inc.
Form 10-Q, June 30, 2001

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Harris & Harris Group, Inc.
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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

The information furnished in the accompanying consolidated financial statements reflects all adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim period presented.

On June 30, 1994, the Company's shareholders approved a proposal to allow the Company to make an election to become a Business Development Company ("BDC") under the amended Investment Company Act of 1940. The Company made such election on July 26, 1995. Certain information and disclosures normally included in the consolidated financial statements in accordance with Generally Accepted Accounting Principles have been condensed or omitted as permitted by Regulation S-X and Regulation S-K. It is suggested that the accompanying consolidated financial statements be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2000 contained in the Company's 2000 Annual Report.

On September 25, 1997, the Company's Board of Directors approved a proposal to seek qualification of the Company as a Regulated Investment Company ("RIC") under Sub-Chapter M of the Internal Revenue Code (the "Code"). At that time, the Company was taxable under Sub-Chapter C of the Code (a "C Corporation"). In order to qualify as a RIC, the Company must, in general (1) annually derive at least 90 percent of its gross income from dividends, interest, gains from the sale of securities and similar sources; (2) quarterly meet certain investment diversification requirements; and (3) annually distribute at least 90 percent of its investment company taxable income as a dividend. In addition to the requirement that the Company must annually distribute at least 90 percent of its investment company taxable income, the Company may either distribute or retain its taxable net capital gains from investments, but any net capital gains not distributed could be subject to corporate level tax. Further, the Company could be subject to a four percent excise tax if it fails to distribute 98 percent of its annual taxable income and would be subject to income tax if it fails to distribute 100 percent of its taxable income.

Because of the specialized nature of its investment portfolio, the Company could satisfy the diversification requirements under Sub-Chapter M of the Code only if it received a certification from the SEC that it is "principally engaged in the furnishing of capital to other corporations which are principally engaged in the development or exploitation of inventions, technological improvements, new processes, or products not previously generally available."

On March 8, 2001, the Company received SEC certification and qualified for RIC treatment for 2000 (as it had for 1999). Although the SEC certification for 2000 was issued, there can be no assurance that the Company will receive such certification for subsequent years (to the extent it needs additional certification as a result of changes in its portfolio) or that it will actually qualify for Sub-Chapter M treatment in subsequent years. In addition, under certain circumstances, even if the Company qualified for Sub-Chapter M treatment in a given year, the Company might take action in a subsequent year to ensure that it would be taxed in that subsequent year as a C Corporation, rather than as a RIC.

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

ASSETS

	June 30, 2001 (Unaudited)	December 31, 2000 (Audited)
Investments, at value (See accompanying schedule of investments and notes)	$ 32,695,185	$ 42,568,559
Cash and cash equivalents	130,069	253,324
Restricted funds (Note 5)	373,942	265,183
Interest receivable	1,848	30,082
Note receivable	10,888	10,888
Prepaid expenses	40,662	82,615
Other assets	122,440	132,772
Total assets	$ 33,375,034	$ 43,343,423

LIABILITIES & NET ASSETS

Accounts payable and accrued liabilities	$ 856,458	$ 771,763
Payable to broker for unsettled trade	0	115,005
Accrued profit sharing (Note 3)	1,257,369	3,483,241
Deferred rent	19,276	23,903
Current income tax liability (Note 6)	16,667	5,751,566
Deferred income tax liability (Note 6)	1,364,470	1,364,470
Total liabilities	3,514,240	11,509,948
Commitments and contingencies (Note 7)		
Net assets	$ 29,860,794	$ 31,833,475

Net assets are comprised of:
Preferred stock, $0.10 par

	6/30/01	12/31/00
value, 2,000,000 shares authorized; none issued	$ 0	$ 0
Common stock, $0.01 par value, 25,000,000 shares authorized; 10,692,971 issued at 6/30/01 and 12/31/00	106,930	106,930
Additional paid in capital (Note 4)	26,724,595	26,724,595
Additional paid in capital -- common stock warrants	109,641	109,641
Accumulated net realized (loss) gain	(1,003,290)	642,418
Accumulated unrealized appreciation of investments, net of deferred tax liability of $1,630,506 at 6/30/01 and $1,630,506 at 12/31/00	6,990,449	7,317,422
Treasury stock at cost (1,628,740 shares at 6/30/01 and at 12/31/00)	(3,067,531)	(3,067,531)
Net assets	$ 29,860,794	$ 31,833,475
Shares outstanding	9,064,231	9,064,231
Net asset value per outstanding share	$ 3.29	$ 3.51

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

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30, 2001	Three Months Ended June 30, 2000	Six Months Ended June 30, 2001	Six Months Ended June 30, 2000
Investment income:				
Interest from:				
Fixed-income securities	$ 117,846	$ 60,861	$ 270,376	$ 144,815
Affiliated companies	1,765	12,376	11,382	34,058
Other income	17,350	19,252	47,162	35,064
Total investment income	136,961	92,489	328,920	213,937
Expenses:				
Profit-sharing accrual (reversal)(Note 3)	712,982	(2,465,091)	(133,308)	(4,116,427)
Salaries and benefits	256,212	244,740	555,916	522,286
Administration and operations	123,680	152,525	216,937	245,099
Professional fees	32,616	120,707	91,819	206,014
Rent	48,393	41,634	90,465	83,109
Directors' fees and expenses	23,366	34,278	46,356	55,410
Depreciation	7,500	10,000	15,000	20,000
Bank custody fees	2,779	1,064	6,425	4,600
Interest expense (Note 4)	0	0	0	146,141
Total expenses	1,207,528	(1,860,143)	889,610	(2,833,768)
Operating (loss) income before income taxes	(1,070,567)	1,952,632	(560,690)	3,047,705
Income tax provision (Note 6)	0	0	0	0
Net operating (loss)				

income	(1,070,567)	1,952,632	(560,690)	3,047,705
Net realized gain (loss) on investments:				
Realized gain (loss) on sale of investments	161,909	4,332,410	(1,032,743)	8,095,682
Total realized gain (loss)	161,909	4,332,410	(1,032,743)	8,095,682
Income tax provision (Note 6)	(22,641)	(1,457,455)	(52,275)	(2,641,073)
Net realized gain (loss) on investments	139,268	2,874,955	(1,085,018)	5,454,609
Net realized (loss) income	(931,299)	4,827,587	(1,645,708)	8,502,314
Net increase (decrease) in unrealized appreciation on investments:				
Increase (decrease) as a result of investment sales	36,881	(9,247,287)	1,564,963	(12,452,277)
Increase on investments held	3,216,789	1,094,989	3,216,789	15,433,562
Decrease on investments held	(497,712)	(7,783,785)	(5,108,725)	(29,517,624)
Net change in unrealized appreciation on investments	2,755,958	(15,936,083)	(326,973)	(26,536,339)
Income tax benefit (Note 6)	0	0	0	153,304
Net increase (decrease) in unrealized appreciation on investments	2,755,958	(15,936,083)	(326,973)	(26,383,035)
Net increase (decrease) in net assets resulting from operations:				
Total	$1,824,659	$(11,108,496)	$(1,972,681)	$(17,880,721)
Per outstanding share	$ 0.20	$ (1.20)	$ (0.22)	$ (1.92)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30, 2001	Six Months Ended June 30, 2000
Cash flows from operating activities:		
Net decrease in net assets resulting from operations	$ (1,972,681)	$ (17,880,721)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash used in operating activities:		
Net realized and unrealized gain on investments	1,359,716	18,440,657
Deferred income taxes	0	(153,304)
Depreciation	15,000	20,000
Other	0	83,007
Changes in assets and liabilities:		
Restricted funds	(108,759)	(147,656)
Interest receivable	28,234	43,971
Prepaid expenses	41,953	38,647
Funds in escrow	0	1,327,748

Other assets	(1,113)	18,489
Accounts payable and accrued liabilities	84,695	(107,752)
Payable to broker for unsettled trade	(115,005)	0
Accrued profit sharing	(2,225,872)	(5,141,123)
Current income tax liability	(5,734,899)	2,672,413
Deferred rent	(4,627)	(4,627)
Collection on notes receivable	0	10,887
Net cash used in operating activities	(8,633,358)	(779,364)
Cash flows from investing activities:		
Net purchase (sale) of short-term investments and marketable securities	7,579,689	(4,277,993)
Proceeds from sale or liquidation of investments	2,112,796	9,580,519
Investment in private placements and loans	(1,178,827)	(4,417,500)
Purchase of fixed assets	(3,555)	(6,974)
Net cash provided by investing activities	8,510,103	878,052
Cash flows from financing activities:		
Proceeds from note payable	0	3,000,000
Payment of note payable	0	(3,000,000)
Net cash used in financing activities	0	0
Net (decrease) increase in cash and cash equivalents:		
Cash and cash equivalents at beginning of the period	253,324	133,256
Cash and cash equivalents at end of the period	130,069	231,944
Net (decrease) increase in cash and cash equivalents	$ (123,255)	$ 98,688
Supplemental disclosures of cash flow information:		
Income taxes paid	$ 5,787,174	$ 600
Interest paid	$ 0	$ 36,500

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

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
(Unaudited)

	Three Months Ended June 30, 2001	Three Months Ended June 30, 2000	Six Months Ended June 30, 2001	Six Months Ended June 30, 2000
Changes in net assets from operations:				
Net operating (loss) income	$(1,070,567)	$ 1,952,632	$ (560,690)	$ 3,047,705
Net realized gain (loss) on investments	139,268	2,874,955	(1,085,018)	5,454,609
Net increase (decrease) in unrealized appreciation on investments as a result of sales	36,881	(9,247,287)	1,564,963	(12,298,973)
Net increase (decrease) in unrealized appreciation on investments held	2,719,077	(6,688,796)	(1,891,936)	(14,084,062)
Net increase (decrease)				

in net assets resulting from operations.	1,824,659	(11,108,496)	(1,972,681)	(17,880,721)

Changes in net assets from capital stock transactions:

Additional paid in capital on Common Stock Warrants issued . . .	0	0	0	109,641
Net increase in net assets resulting from capital stock transactions.	0	0	0	109,641
Net increase (decrease) in net assets.	1,824,659	(11,108,496)	(1,972,681)	(17,771,080)
Net assets:				
Beginning of the period	28,036,135	46,972,221	31,833,475	53,634,805
End of the period	$29,860,794	$35,863,725	$29,860,794	$35,863,725

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

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2001
(Unaudited)

	Method of Valuation (3)	Shares/ Principal	Value
Investments in Unaffiliated Companies (13)(14)(15) -- 14.3% of total investments			
Publicly Traded Portfolio (Common stock unless noted otherwise) -- 9.6% of total investments			
Genomica Corporation (1)(6)(7) -- Develops software that enables the study of complex genetic diseases -- 2.94% of fully diluted equity			
Common Stock.	(C)	731,111	$3,143,777
Total Publicly Traded Portfolio (cost: $1,500,304).			$3,143,777
Private Placement Portfolio (Illiquid) (13)(14)(15) -- 4.7% of total investments			
AlphaSimplex Group, LLC (1)(2) -- Investment advisory firm.	(D)	--	$ 641
Essential.com, Inc. (1)(2)(8) -- Online energy and communications marketplace -- 0.97% of fully diluted equity			
Common stock.	(D)	253,271	--
Exponential Business Development Company (2)(5) -- Venture capital partnership focused on early stage companies			
Limited partnership interest.	(A)	--	25,000
Informio, Inc. (1)(2)(5)(6)(9) -- Developing audio web portal			

technology -- 0.80% of fully diluted
equity
Series A Voting Convertible
Preferred Stock . . . . (A) 229,364 504,601

Kriton Medical, Inc. (1)(2)(5)(6) --
Research and development of
medical devices -- 1.86% of fully
diluted equity
Series B Convertible Preferred Stock. . . (A) 476,191 1,000,001

MedLogic Global Corporation (1)(2)(5)(6) --
Medical cyanoacrylate adhesive --
0.23% of fully diluted equity
Series B Convertible Preferred Stock. . . (D) 54,287
Common Stock. . . . . (D) 25,798 --

Total Private Placement Portfolio (cost: $3,912,910). $1,530,243

Total Investments in Unaffiliated Companies (cost: $5,413,214). . . $4,674,020

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

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2001
(Unaudited)

	Method of Valuation (3)	Shares/ Principal	Value

Investments in Non-Controlled Affiliated Companies (13)(15) -- 60.2%
of total investments

Publicly Traded Portfolio -- 23.9% of total investments

Nanophase Technologies Corporation (1)(10) --
Manufactures and markets inorganic
crystals of nanometric dimensions --
4.67% of fully diluted equity. . . . . . (C) 705,916 $7,800,372

Total Publicly Traded Portfolio (cost: $1,500,418). $7,800,372

Private Placement Portfolio (Illiquid) (13)(15) -- 36.3% of total
investments

Experion Systems, Inc. (1)(2)(6)(11) --
Provides e-business software selling
platforms based on trust-based
marketing -- 13.42% of fully diluted
equity
Convertible Preferred Stock . . . . . . (D) 197,500 $1,100,000

NeuroMetrix, Inc. (1)(2)(5)(6) --
Medical devices for monitoring
neuromuscular disorders -- 13.51% of
fully diluted equity
Series A Convertible Preferred Stock. . (D) 875,000
Series B Convertible Preferred Stock. . (D) 625,000
Series C-2 Convertible Preferred Stock. (D) 1,148,100
Series E Convertible Preferred Stock. . (D) 266,665 6,708,225

PHZ Capital Partners Limited Partnership (2)(12) --
Organizes and manages investment
partnerships -- 20.0% of fully
diluted equity
Limited partnership interest. . . . . . (D) -- 1,988,791

Questech Corporation (1)(2)(5)(6) --
Manufactures and markets proprietary
decorative tiles and signs -- 9.36% of

	Method of Valuation (3)	Shares/ Principal	Value
fully diluted equity			
Common Stock.	(B)	646,954	
Warrants at $5.00 expiring 11/15/04 . .	(B)	1,965	
Warrants at $4.00 expiring 11/28/01 . .	(B)	152,422	
Warrants at $1.50 expiring 11/16/05 . .	(B)	1,250	970,598
Schwoo, Inc. (1)(2)(4) -- Developing software that automatically manages e-commerce security infrastructure -- 11.9% of fully diluted equity			
Series B Convertible Preferred Stock. .	(A)	2,306,194	
Convertible Bridge Loans.	(A)	$ 210,250	
Warrants at $0.3853	(A)	81,851	1,098,827

Total Private Placement Portfolio (cost: $8,803,890).			$11,866,441

Total Investments in Non-Controlled Affiliated Companies (cost: $10,304,308)			$19,666,813

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

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2001
(Unaudited)

	Method of Valuation (3)	Shares/ Principal	Value
U.S. Government and Agency Obligations -- 25.5% of total investments			
Federal Home Loan Bank Discount Notes -- due date 7/11/01.	(K)	$1,200,000	$1,198,512
Federal Home Loan Bank Discount Notes -- due date 8/6/01	(K)	$1,600,000	1,593,776
Federal Farm Credit Bank Discount Notes -- due date 8/20/01.	(K)	$1,700,000	1,690,956
Federal Home Loan Bank Discount Notes -- due date 9/5/01	(K)	$2,000,000	1,986,080
Federal Home Loan Bank Discount Notes -- due date 9/14/01.	(K)	$1,900,000	1,885,028

Total Investments in U.S. Government and Agency Obligations (cost: $8,356,708)			$ 8,354,352

Total Investments -- 100% (cost: $24,074,230).			$32,695,185
			===========

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

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2001
(Unaudited)

Notes to Consolidated Schedule of Investments

(1) Represents a non-income producing security. Equity investments that have not paid dividends within the last 12 months are considered to be non-income producing.

(2) Legal restrictions on sale of investment.

(3) See Footnote to Schedule of Investments for a description of the Methods of Valuation A to L.

(4) These investments were made during 2001. Accordingly, the amounts shown on the schedule represent the gross additions in 2001.

(5) No changes in valuation occurred in these investments during the six months ended June 30, 2001.

(6) These investments are development stage companies. A development stage company is defined as a company that is devoting substantially all of its efforts to establishing a new business, and either it has not yet commenced its planned principal operations or it has commenced such operations but has not realized significant revenue from them.

(7) In 1996, Genomica Corporation was cofounded by the Company, Cold Spring Harbor Laboratory ("CSHL"), a not-for-profit institution, and Falcon Technology Partners, LP. Mr. G. Morgan Browne serves on the Board of Directors of the Company and is Chief Financial Officer of CSHL. In late 1998, Charles E. Harris, Chairman and CEO of Harris & Harris Group, became a trustee of CSHL. On September 29, 2000, Genomica Corporation (National Market Symbol: GNOM) commenced trading on Nasdaq. During July and August 2001, the Company sold its position in Genomica Corporation for total net proceeds of approximately $2,523,274 or $3.45 per share.

(8) On June 29, 2000, Sundial Marketplace Corporation was acquired in a tax-free merger by Essential.com, Inc. Essential.com has filed for bankruptcy.

(9) Previously named iPacer Corporation.

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

(10) During July and August 2001, the Company sold its position in Nanophase Technologies Corporation (National Market Symbol: NANX) for total net proceeds of approximately $4,263,242 or $6.04.

(11) Previously named MyPersonalAdvocate.com, Inc.

(12) Harris Partners I L.P. owns a 20 percent limited partnership interest in PHZ Capital Partners L.P. The partners of Harris Partners I L.P. are Harris & Harris Enterprises, Inc. (sole general partner) and Harris & Harris Group, Inc. (sole limited partner). Harris & Harris Enterprises, Inc. is a 100 percent owned subsidiary of Harris & Harris Group, Inc.

(13) Investments in unaffiliated companies consist of investments in which the Company owns less than five percent of the investee company. Investments in non-controlled affiliated companies consist of investments in which the Company owns more than five percent but less than 25 percent of the investee company. Investments in controlled affiliated companies consist of investments in which the Company owns more than 25 percent of the investee company.

(14) The aggregate cost for federal income tax purposes of investments in unaffiliated companies is $5,413,214. The gross unrealized appreciation based on the tax cost for these securities is $2,383,308. The gross unrealized depreciation based on the tax cost for these securities is $1,644,114.

(15) The percentage ownership of each investee company disclosed in the Consolidated Schedule of Investments expresses the potential common equity interest in each such investee. The calculated percentage represents the amount of the issuer's common stock the Company owns or can acquire as a percentage of the issuer's total outstanding common stock plus common shares reserved for issued and outstanding warrants, convertible securities and stock options.

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

FOOTNOTE TO CONSOLIDATED SCHEDULE OF INVESTMENTS

ASSET VALUATION POLICY GUIDELINES

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

1) EQUITY-RELATED SECURITIES

2) INVESTMENTS IN INTELLECTUAL PROPERTY OR PATENTS OR RESEARCH AND DEVELOPMENT IN TECHNOLOGY OR PRODUCT DEVELOPMENT

3) LONG-TERM FIXED-INCOME SECURITIES
4) SHORT-TERM FIXED-INCOME INVESTMENTS
5) ALL OTHER INVESTMENTS

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

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

The Company's Investment and Valuation Committee, comprised of at least three or more Board members, is responsible for reviewing and approving the valuation of the Company's assets within the guidelines established by the Board of Directors.

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

Valuation assumes that, in the ordinary course of its business, the Company will eventually sell its investment.

The Company's valuation policy with respect to the five broad investment categories is as follows:

EQUITY-RELATED SECURITIES

Equity-related securities are carried at fair value using one or more of the following basic methods of valuation:

A. Cost: The cost method is based on the original cost to the Company. This method is generally used in the early stages of a company's development until significant positive or negative events occur subsequent to the date of the original investment that dictate a change to another valuation method. Some examples of such events are: (1) a major recapitalization; (2) a major refinancing; (3) a significant third-party transaction; (4) the

development of a meaningful public market for the company's common stock; and (5) significant positive or negative changes in the company's business.

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

C. Public Market: The public market method is used when there is an established public market for the class of the company's securities held by the Company. The Company discounts market value for securities that are subject to significant legal and contractual restrictions. Other securities, for which market quotations are readily available, are carried at market value as of the time of valuation. In accordance with recently published SEC guidelines, the Company changed its policy, effective March 31, 2001, and no longer discounts the market value of securities for liquidity considerations.

Market value for securities traded on securities exchanges or on the Nasdaq National Market is the last reported sales price on the day of valuation. For other securities traded in the over-the-counter market and listed securities for which no sale was reported on that day, market value is the mean of the closing bid price and asked price on that day.

This method is the preferred method of valuation when there is an established public market for a company's securities, as that market provides the most objective basis for valuation.

D. Analytical Method: The analytical method is generally used to value an investment position when there is no established public or private market in the company's securities or when the factual information available to the Company dictates that an investment should no longer be valued under either the cost or private market method. This valuation method is inherently imprecise and ultimately the result of reconciling the judgments of the Company's Investment and Valuation Committee members, based on the data available to them. The resulting valuation, although stated as a precise number, is necessarily within a range of values that vary depending upon the significance attributed to the various factors being considered. Some of the factors considered may include the financial condition and operating results of the company, the long-term potential of the business of the company, the values of similar securities issued by companies in similar businesses, the proportion of the company's securities owned by the Company and the nature of any rights to require the company to register restricted securities under applicable securities laws.

INVESTMENTS IN INTELLECTUAL PROPERTY OR PATENTS OR RESEARCH AND DEVELOPMENT IN TECHNOLOGY OR PRODUCT DEVELOPMENT

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

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

F. Private Market: The private market method uses actual third-party investments in intellectual property or patents or research and development in technology or product development as a basis for valuation, using actual executed historical transactions by responsible third parties.

The private market method may also use, where applicable, unconditional firm offers by responsible third parties as a basis for valuation.

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

LONG-TERM FIXED-INCOME SECURITIES

H. Fixed-Income Securities for which market quotations are readily available are carried at market value as of the time of valuation using the most recent bid quotations when available.

Securities for which market quotations are not readily available are carried at fair value using one or more of the following basic methods of valuation:

I. Fixed-Income Securities are valued by independent pricing services that provide market quotations based primarily on quotations from dealers and brokers, market transactions, and other sources.

J. Other Fixed-Income Securities that are not readily marketable are valued at fair value by the Investment and Valuation Committee.

SHORT-TERM FIXED-INCOME INVESTMENTS

K. Short-Term Fixed-Income Investments are valued at market value at the time of valuation. Short-term debt with remaining maturity of 60 days or less is valued at amortized cost.

ALL OTHER INVESTMENTS

L. All Other Investments are reported at fair value as determined in good faith by the Investment and Valuation Committee.

The reported values of securities for which market quotations are not readily available and for other assets reflect the Investment and Valuation Committee's judgment of fair values as of the valuation date using the outlined basic methods of valuation. They do not necessarily represent an amount of money that would be realized if the securities had to be sold in an immediate liquidation. The Company makes many of its portfolio investments with the view of holding them for a number of years, and the reported value of such investments may be considered in terms of disposition over a period of time. Thus valuations as of any particular date are not necessarily indicative of amounts that may ultimately be realized as a result of future sales or other dispositions of investments held.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. THE COMPANY

Harris & Harris Group, Inc. (the "Company") is a venture capital investment company operating as a business development company ("BDC") under the Investment Company Act of 1940 ("1940 Act"). A BDC is a specialized type of investment company under the 1940 Act. The Company operates as an internally managed investment company whereby its officers and employees, under the general supervision of its Board of Directors, conduct its operations.

The Company elected to become a BDC on July 26, 1995, after receiving the necessary approvals. From September 30, 1992 until the election of BDC status, the Company operated as a closed-end, non-diversified, investment company under the 1940 Act. Upon commencement of operations as an investment company, the Company revalued all of its assets and liabilities at fair value as defined in the 1940 Act. Prior to such time, the Company was registered and filed under the reporting requirements of the Securities and Exchange Act of 1934 as an operating company and, while an operating company, operated directly and through subsidiaries.

Harris & Harris Enterprises, Inc. ("Enterprises") is a 100 percent wholly owned subsidiary of the Company. Enterprises holds the lease for the office space, which it subleases to the Company and an unaffiliated party; operates a financial relations and consulting firm; is a partner in Harris Partners I, L.P. and is taxed as a C corporation. Harris Partners I L.P. is a limited partnership and owns a 20 percent limited partnership interest in PHZ Capital Partners, L.P. The partners of Harris Partners I L.P. are Enterprises (sole general partner) and the Company (sole limited partner).

The Company qualified for 2000 as a Regulated Investment Company ("RIC") under Sub-Chapter M of the Internal Revenue Code of 1986 (the "Code"). There can be no assurance that the Company will qualify as a RIC in 2001 or that, if it does qualify, it will continue to qualify for subsequent years. In addition, even if the Company were to qualify as a RIC for a given year, the Company might take action in a subsequent year to ensure that it would be taxed in that subsequent year as a C Corporation, rather than a RIC. As a RIC, the Company must, among other things, distribute at least 90 percent of its taxable net income and may either distribute or retain its taxable net realized capital gains on investments.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Principles of Consolidation. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for investment companies and include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents. Cash and cash equivalents include money market instruments with maturities of less than three months.

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

Securities Transactions. Securities transactions are accounted for on the date the securities are purchased or sold (trade date); dividend income is recorded on the ex-dividend date; and interest income is accrued as earned. Realized gains and losses on investment transactions are determined on the specific identification basis for financial reporting and tax reporting.

Income Taxes. Prior to January 1, 1999, the Company recorded income taxes using the liability method in accordance with the provision of Statement of Financial Accounting Standards No. 109. Accordingly, deferred tax liabilities had been established to reflect temporary differences between the recognition of income and expenses for financial reporting and tax purposes, the most significant difference of which related to the Company's unrealized appreciation on investments.

The June 30, 2001 consolidated financial statements include a liability for deferred taxes on the remaining net built-in gains as of December 31, 1998, net of the unutilized operating and capital loss carryforwards incurred by the Company through December 31, 1998.

The June 30, 2000 and December 31, 2000 consolidated financial statements also reflect a tax provision on net realized long-term capital gains which the Company retained for liquidity and to fund investment opportunities, rather than distribute to shareholders as a cash distribution. Accordingly, the Company declared a designated undistributed capital gain dividend for the year. (See "Note 6. Income Taxes" and Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operation -- Sub-Chapter M Status -- Recent Developments.")

The Company pays federal, state and local income taxes on behalf of its wholly owned subsidiary, Harris & Harris Enterprises, which is a C corporation. (See Note 6. Income Taxes.)

Reclassifications. Certain reclassifications have been made to the June 30, 2000 financial statements to conform to the June 30, 2001 presentation.

Estimates by Management. The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of June 30, 2001 and December 31, 2000, and the reported amounts of revenues and expenses for the three months ended June 30, 2001 and June 30, 2000. Actual results could differ from these estimates.

NOTE 3. EMPLOYEE PROFIT-SHARING PLAN

On August 3, 1989, the shareholders of the Company approved the 1988 Long Term Incentive Compensation Plan (the "1988 Plan"). The Company's 1988 Plan was cancelled as of December 31, 1997, canceling all outstanding stock options and eliminating all potential stock option grants. As a substitution for the 1988 Plan, the Company adopted an employee profit-sharing plan.

As of January 1, 1998, the Company began implementing the Harris & Harris Group, Inc. Employee Profit Sharing Plan (the "1998 Plan") that provides for profit sharing equal to 20 percent of the net realized income of the Company as reflected on the Consolidated Statement of Operations for such year, less the nonqualifying gain, if any. The 1998 Plan was terminated by the Company as of December 31, 1999. All the amounts owed on the 1999 realized gains were paid during 2000. In March 2000, the Company paid out 90 percent of the profit sharing in the amount of $1,024,696 on the 1999 realized gains; the remaining 10 percent or $113,855 was paid out in September 2000, upon the completion and filing of the Company's 1999 federal tax return.

As of January 1, 2000, the Company implemented the Harris & Harris Group, Inc. Employee Profit Sharing Plan (the "Plan") that provides for profit sharing equal to 20 percent of the net realized income of the Company as reflected on the Consolidated Statement of Operations of the Company for such year, less the nonqualifying gain, if any.

Under the Plan, net realized income of the Company includes investment income, realized gains and losses, and operating expenses (including taxes paid or payable by the Company), but is calculated without regard to dividends paid or distributions made to shareholders, payments under the Plan, unrealized gains and losses, and loss carryovers from other years ("Qualifying Income"). The portion of net after-tax realized gains attributable to asset values as of September 30, 1997 is considered nonqualifying gain, which reduces Qualifying Income.

As soon as practicable following the year-end audit, the Board of Directors will determine whether, and if so how much, Qualifying Income exists for a plan year, and 90 percent of the Qualifying Income will be paid out to Plan participants pursuant to the distribution percentages set forth in the Plan. The remaining 10 percent will be paid out after the Company has filed its federal tax return for that year in which Qualifying Income exists. Currently, the distribution amounts for each officer and employee are as follows: Charles E. Harris, 13.790 percent; Mel P. Melsheimer, 4.233 percent; Rachel M. Pernia, 1.524 percent; and Jacqueline M. Matthews, 0.453 percent. If a participant leaves the Company for other than cause, the amount earned will be accrued and may subsequently be paid to such participant.

Notwithstanding any provisions of the Plan, in no event may the aggregate amount of all awards payable for any Plan year during which the Company remains a "business development company" within the meaning of 1940 Act be greater than 20 percent of the Company's "net income after taxes" within the meaning of Section 57(n)(1)(B) of the 1940 Act. In the event the awards exceed such amount, the awards will be reduced pro rata.

The Plan may be modified, amended or terminated by the Company's Board of Directors at any time with the stipulation that no such modification, amendment or termination may adversely affect any participant that has not consented to such modification, amendment or termination. Nothing in this Plan shall preclude the Board of Directors from, for any Plan Year subsequent to the current Plan Year, naming additional Participants in the Plan or changing the Award Percentage of any Full Participant or New Participant (subject to the overall percentage limitations contained herein).

The Company calculates the Plan accrual at each quarter end based on the realized and unrealized gains at that date, net of operating expenses for the year. Any adjustments to the Plan accrual are then reflected in the Consolidated Statements of Operations for the quarter. The Plan accrual is not paid out until the gains are realized. During the first six months of 2001, the Company paid out 90 percent of the 2000 profit sharing in the amount of $2,092,565 and reduced the profit-sharing accrual by $133,308 as a result of the realized losses and a decrease in the net unrealized appreciation. Accordingly, the cumulative accrual under the Plan decreased to $1,257,369 at June

30, 2001. The remaining 10 percent of the 2000 profit sharing, approximately $228,374, was paid out in July 2001 upon the completion and filing of the Company's 2000 federal tax return.

NOTE 4. CAPITAL TRANSACTIONS

In 1998, the Board of Directors voted that, effective

January 1, 1998, 50 percent of all directors' fees be used to purchase Company common stock from the Company. Subsequently, the directors approved purchases of the Company's common stock in the market, rather than from the Company, effective March 1, 1999.

On April 15, 1998, the Company announced that the Board of Directors had approved the purchase of up to 700,000 shares of Company stock in the open market. The Company purchased a total of 401,878 shares in the open market for a total of $795,506. On July 14, 1999, the Board of Directors announced a tender offer to purchase up to 1,100,000 shares of its common stock for cash at a price equal to $1.63 per share. A total of 1,080,569 shares were tendered for a total cost, including related expenses of approximately $71,500, of $1,832,831. Of these shares, 1,075,269 were tendered by one shareholder, which tendered all of its holdings.

On January 27, 2000, the Company placed privately, with an unaffiliated investor, for $3 million in cash, a one-year 12 percent note with one-year warrants to purchase 25,263 shares of the Company's common stock at $11.8750 per share. During March 2000, with part of the proceeds from the sale of SciQuest.com stock, the Company prepaid the Note. The Company incurred total interest costs of $146,141; $36,500 in cash interest paid on the note and $109,641 in non-cash interest attributed to the warrants, which expired unexercised on January 26, 2001.

On October 12, 2000, the Company announced that the Board of Directors had authorized a repurchase program in the open market of up to $2 million of the Company's stock, at the discretion of management. As of December 31, 2000, the Company had repurchased a total of 176,600 shares in the open market at approximately $3.00 per share for a total of $530,051. The Company did not purchase any additional shares in the first quarter of 2001.

Since 1998, Company has repurchased a total of 1,659,047 shares for a total of $3,158,388, including commissions and expenses, at an average price of $1.90 per share. These treasury shares were reduced by the purchases made by the Directors.

On December 14, 2000, the Company declared a deemed dividend of $1.78 per share for a total of $16,253,987 and in 2001 paid federal income taxes on behalf of shareholders of $0.62 per share for a total of $5,688,896. The Company paid the tax at the corporate rate on the distribution, and the shareholders received a tax credit equal to their proportionate share of the tax paid. The net of the total deemed dividend declared ($16,253,987) and the taxes paid on behalf of shareholders ($5,688,896) is considered to be reinvested by the shareholders; therefore, during 2000 additional paid in capital increased by $10,565,091.

NOTE 5. EMPLOYEE BENEFITS

On October 19, 1999, Charles E. Harris signed an Employment Agreement with the Company (disclosed in a Form 8-K filed on October 27, 1999) (the "Employment Agreement"), which superseded an employment agreement that was about to expire on December 31, 1999. The Employment Agreement would terminate on December 31, 2004 ("Term") absent to either an earlier termination or an extension in accordance with the terms; on January 1, 2000 and on each

day thereafter, the Term extends automatically by one day unless at any time the Company or Mr. Harris, by written notice, decides not to extend the Term, in which case the Term will expire five years from the date of the written notice.

During the period of employment, Mr. Harris shall serve as the Chairman and Chief Executive Officer of the Company. He shall be responsible for the general management of the affairs of the Company and all its subsidiaries, reporting directly to the Board of Directors of the Company. He shall serve as a member of the Board for the period of which he is elected and shall from time to time be reelected. If elected, he shall serve as President of the Company and as an officer and director of any subsidiary or affiliate of the Company.

Mr. Harris is to receive compensation under his Employment Agreement in the form of base salary of $215,508 for 2001, with automatic yearly adjustments to reflect inflation. In addition, the Board may increase such salary, and consequently decrease it, but not below the level provided for by the automatic adjustments described above. Mr. Harris is also entitled to participate in the Company's Profit-Sharing Plan as well as in all compensation or employee benefit plans or programs, and to receive all benefits, perquisites, and emoluments for which salaried employees are eligible. Under the Employment Agreement, the Company is to furnish Mr. Harris with certain perquisites which include a company car, membership in certain clubs and up to a $5,000 annual reimbursement for personal, financial or tax advice.

The Employment Agreement provides Mr. Harris with life insurance for the benefit of his designated beneficiaries in the amount of $2,000,000; provides reimbursement for uninsured medical expenses (not to exceed $10,000 per annum, adjusted for inflation, over the period of the contract); disability insurance in the amount of 100 percent of his base salary; and provides Mr. Harris and his spouse with long-term care insurance. These benefits are for the term of the Employment Agreement.

The Employment Agreement provides for the Company to adopt a supplemental executive retirement plan (the "SERP") for the benefit of Mr. Harris. Under the SERP, the Company will cause an amount equal to one-twelfth of the Mr. Harris's current base salary to be credited each month (a "Monthly Credit") to a special account maintained for this purpose on the books of the Company for the benefit of Mr. Harris (the "SERP Account"). The amounts credited to the SERP Account will be deemed invested or reinvested in such mutual funds or U.S. Government securities as determined by Mr. Harris. The SERP Account will be credited and debited to reflect the deemed investment returns, losses and expenses attributed to such deemed investments and reinvestments. Mr. Harris' benefit under the SERP will equal the balance in the SERP Account and such benefit will always be 100 percent vested (i.e., not forfeitable). Mr. Harris will determine the form and timing of the distribution of the balance in the SERP Account; provided, however, in the event of the termination, the balance in the SERP Account will be distributed to Mr. Harris or his beneficiary, as the case may be, in a lump-sum payment within 30 days of such termination. The Company established a rabbi trust for the purpose of accumulating funds to satisfy the obligations incurred by the Company under the SERP. The restricted funds for the SERP Plan total $373,942 as of June 30, 2001. Mr. Harris' rights to benefits pursuant to this SERP will be no greater than those of a general creditor of the Company.

The Employment Agreement provides severance pay in the event of termination without cause or by constructive discharge and also provides for certain death benefits payable to the surviving spouse equal to the executive's base salary for a period of two years.

In addition, Mr. Harris is entitled to receive severance pay pursuant to the severance compensation agreement that he entered into with the Company, effective August 15, 1990. The severance compensation agreement provides that if, following a change in control of the Company, as defined in the agreement, such individual's employment is terminated by the Company without cause or by the executive within one year of such change in control, the individual shall be entitled to receive compensation in a lump sum payment equal to 2.99 times the individual's average annualized compensation and payment of other welfare benefits. If Mr. Harris's termination is without cause or is a constructive discharge, the amount payable under the Employment Agreement will be reduced by the amounts paid pursuant to the severance compensation agreement.

As of January 1, 1989, the Company adopted an employee benefits program covering substantially all employees of the Company under a 401(k) Plan and Trust Agreement. As of January 1, 1999, the Company adopted the Harris & Harris Pension Plan and Trust, a money purchase plan which would allow the Company to stay compliant with the 401(k) top-heavy regulations and deduction limitation regulations. Contributions to the plan are at the discretion of the Company.

On June 30, 1994, the Company adopted a plan to provide medical and health insurance for retirees, their spouses and dependents who, at the time of their retirement, have ten years of service with the Company and have attained 50 years of age or have attained 45 years of age and have 15 years of service with the Company. On February 10, 1997, the Company amended this plan to include employees who "have seven full years of service and have attained 58 years of age." The coverage is secondary to any government provided or subsequent employer provided health insurance plans. Based upon actuarial estimates, as of June 30, 2001, the Company had a reserve of $354,840 for the plan.

NOTE 6. INCOME TAXES

On September 25, 1997, the Company's Board of Directors approved a proposal to seek qualification as a RIC under Sub-Chapter M of the Code. As a RIC, the Company annually must distribute at least 90 percent of its investment company taxable income as a dividend and may either distribute or retain its taxable net capital gains from investments. The Company qualified as a RIC under Sub-Chapter M of the Code for the year ended December 31, 2000.

As a RIC, to the extent that the Company retains capital gains, and declares a deemed dividend of those gains to shareholders, the dividend is taxable to the shareholders as capital gains. The Company would pay tax, at the corporate rate, on the distribution, and the shareholders would receive a tax credit equal to their proportionate share of the tax paid. The Company took advantage of this rule for 2000. During the six months ended June 30, 2000, the Company accrued a net tax provision of $2,487,769. The Company's December 31, 2000 financial statements include a tax liability of $5,709,884. The taxes paid by the Company as a result of its deemed dividend declaration ($5,688,896) are reflected as a deduction to the additional paid in capital in the Company's Consolidated Statement of Assets and Liabilities rather than as an expense in the Consolidated Statement of Operations.

A corporation that qualifies and elects treatment as a RIC continues to be taxable as a C Corporation on any gains realized within 10 years of its election from sales of assets that were held by the corporation on the effective date of the election ("C Corporation Assets") to the extent of any gain built into the assets on such date ("Built-In Gain"). In 1999, the Company received a ruling from the IRS concluding that the Company can carry forward its C Corporation losses to offset any Built-In Gains resulting from sales of its C Corporation Assets. That ruling may enable the Company to retain some or all of the proceeds from such sales without disqualifying itself as a RIC or

incurring corporate level income tax, depending on whether the Company's sale of C Corporation Assets with Built-In Gains will generate C Corporation E&P. In general, a RIC is not permitted to have, as of the close of any RIC taxable year, E&P accumulated during any C Corporation taxable year. However, because the realization of Built-In Gains will occur while the Company is a RIC, the Company believes that, under current law and IRS pronouncements, the sale of C Corporation Assets with Built-In Gains during RIC taxable years will not generate C Corporation E&P. The Company had accumulated net ordinary and capital losses of approximately $7.0 million (resulting in a potential tax credit of approximately $2.5 million) during its C Corporation taxable years, of which $0.8 million still remains available for use. The Company intends to use the remaining $0.8 million loss carryforward (resulting in a potential tax credit of approximately $0.3 million) to reduce its taxes that are the result of Built-In Gains.

Continued qualification as a RIC requires that the Company continue to satisfy certain portfolio diversification requirements. The Company's ability to satisfy those requirements may not be controllable by the Company. There can be no assurance that the Company will qualify, or will not take action to disqualify itself, as a RIC for 2001 or subsequent years.

During the six months ended June 30, 2001, the Company accrued a net tax provision of $52,275. The Company pays federal, state and local taxes on behalf of its wholly owned subsidiary, Harris & Harris Enterprises, Inc., which is taxed as a C Corporation.

For the three and six months ended June 30, 2001 and 2000, the Company's income tax provision was allocated as follows:

	Three Months Ended June 30, 2001	Three Months Ended June 30, 2000	Six Months Ended June 30, 2001	Six Months Ended June 30,2000
Net operating (loss) income. . . .	$ 0	$ 0	$ 0	$ 0
Net realized gain (loss) on investments . . .	22,641	1,457,455	52,275	2,641,073
Net increase (decrease) in unrealized appreciation on investments . . .	0	0	0	(153,304)
Total income tax provision.	$ 22,641	$1,457,455	$ 52,275	$2,487,769

The above tax provision (benefit) consists of the following:

Current.	$ 22,641	$1,457,455	$ 52,275	$2,641,073
Deferred --Federal .	0	0	0	(153,304)
Total income tax provision.	$ 22,641	$1,457,455	$ 52,275	$2,487,769

The Company's net deferred tax liability at June 30, 2001 and December 31, 2000 consists of the following:

	June 30, 2001	December 31, 2000
Tax on unrealized appreciation on investments	$ 1,630,506	$ 1,630,506
Net operating loss and capital carryforward	(266,036)	(266,036)

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Net deferred income tax liability. . . .	$ 1,364,470	$ 1,364,470
	===========	===========

NOTE 7. COMMITMENTS AND CONTINGENCIES

During 1993, the Company signed a ten-year lease with sublet provisions for office space. In 1995, this lease was amended to include additional office space. During 1999, the Company sublet this space to an unaffiliated party. Rent expense under this lease was $48,393 and $41,634 for the three months ended June 30, 2001 and June 30, 2000 and $90,465 and $83,109 for the six months ended June 30, 2001 and June 30, 2000, respectively. Future minimum lease payments in each of the following years are: 2002 - -- $178,561; 2003 -- $101,946.

NOTE 8. SUBSEQUENT EVENTS

During July and August 2001, the Company (1) sold its position in Nanophase Technologies Corporation for total net proceeds of approximately $4,263,242 or $6.04 per share; (2) sold its position in Genomica Corporation for total net proceeds of approximately $2,523,274 or $3.45 per share; and (3) invested an additional $62,500 in Schwoo, Inc.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The Company accounts for its operations utilizing accounting principles generally accepted in the United States for investment companies. On this basis, the principal measure of its financial performance is captioned "Net increase (decrease) in net assets resulting from operations," which is the sum of three elements. The first element is "Net operating income (loss)," which is the difference between the Company's income from interest, dividends, and fees and its operating expenses. The second element is "Net realized (loss) gain on investments," which is the difference between the proceeds received from dispositions of portfolio securities and their stated cost, net of applicable income tax provisions (benefits). These two elements are combined in the Company's financial statements and reported as "Net realized (loss) income." The third element, "Net increase (decrease) in unrealized appreciation on investments," is the net change in the fair value of the Company's investment portfolio.

"Net realized (loss) gain on investments" and "Net increase (decrease) in unrealized appreciation on investments" are directly related. When a security is sold to realize a (loss) gain, net unrealized appreciation (increases) decreases and net realized (loss) gain increases (decreases).

Financial Condition

The Company's total assets and net assets were, respectively, $33,375,034 and $29,860,794 at June 30, 2001, compared with $43,343,423 and $31,833,475 at December 31, 2000.

Among the significant changes in the six month ended June 30, 2001 were: (1) the payment of $5,709,884 in federal income taxes as a result of the Company's deemed dividend distribution; (2) decline in the value of the Company's holdings in Essential.com and Experion Systems, Inc. of $2,204,000 and $480,000, respectively; (3) the increase in the valuation of the Company's holdings in Nanophase Technologies Corporation of 800,290; and (4) the payment of the 2000 realized gain profit sharing of $2,092,565.

In accordance with recently published SEC guidelines as of March 31, 2001, the Company changed its valuation policy by no longer discounting publicly held securities for liquidity considerations. (See "Asset Valuation Policy Guidelines" in the

"Footnote to Consolidated Schedule of Investments" contained in "Item 1. Consolidated Financial Statements.")

Net asset value per share ("NAV") was $3.29 at June 30, 2001, versus $3.51 at December 31, 2000.

The Company's shares outstanding remained unchanged during the six months ended June 30, 2001.

The Company's financial condition is dependent on the success of its investments. The Company has invested a substantial portion of its assets in private development stage or start-up companies. These private businesses tend to be thinly capitalized, unproven, small companies that lack management depth and have little or no history of operations. At June 30, 2001, $10,944,149 or 32.8 percent of the Company's total assets consisted of investments in publicly traded securities (these investments were private equities at the time the Company made the investments), of which net unrealized appreciation was $7,943,427; $13,396,684 or 40.1 percent of the Company's total assets consisted of non-publicly traded securities at fair value in private businesses, of which net unrealized depreciation was $679,884.

At December 31, 2000, $10,240,018 or 23.6 percent of the Company's total assets consisted of investments in four publicly traded securities (three of which were private businesses at the time the Company made the investments), of which net unrealized appreciation was $5,539,997; $16,782,438 or 38.7 percent of the Company's total assets consisted of non-publicly traded securities at fair value in private businesses, of which net unrealized appreciation was $3,406,915.

The increase in the value of publicly traded securities from $10,240,018 at December 31, 2000 to $10,944,149 at June 30, 2001 is primarily owing to the increase in the value of Nanophase Technologies Corporation offset by the sale of shares of SciQuest.com. The value of the Company's investments may vary significantly on a quarterly basis (see "Risk Factors").

The decrease in the value of the non-publicly traded securities from $16,782,438 at December 31, 2000 to $13,396,685 at June 30, 2001 resulted primarily from the decreases in the Company's valuation of its holdings in Essential.com and Experion Systems of $2,204,000 and $480,000, respectively, as well as the dissolution and liquidation of Harris Newco for approximately $2,000,000 at no material gain or loss. This decrease was partially offset by the Company's new investment in Schwoo, Inc.

The changes in the values of SciQuest.com, Nanophase Technologies and Essential.com reflect the extreme volatility of private and publicly traded, small capitalization, high technology stocks in the past 24 month period.

A summary of the Company's investment portfolio is as follows:

	June 30, 2001	December 31, 2000
Investments, at cost.	$ 24,074,230	$ 33,620,631
Unrealized appreciation	8,620,955	8,947,928
Investments, at fair value. . .	$ 32,695,185	$ 42,568,559

The accumulated unrealized appreciation on investments net of deferred taxes is $6,990,449 at June 30, 2001, versus $7,317,422 at December 31, 2000.

Following an initial investment in a private company, the Company may make additional investments in such investee in order to: (1) increase its ownership percentage; (2) exercise warrants, options or convertible securities that were acquired in the original or subsequent financing; (3) preserve the Company's proportionate ownership in a subsequent financing; or (4) attempt to preserve or enhance the value of the Company's investment. There can be no assurance that the Company will make follow-on investments or have sufficient funds to make additional investments. The Company has the discretion to make follow-on investments as it determines, subject to the availability of capital resources. The failure to make such follow-on investments may, in certain circumstances, jeopardize the continued viability of the investee company and the Company's initial investment or may result in a missed opportunity for the Company to increase its participation in a successful operation. Even if the Company has sufficient capital to make a desired follow-on investment, it may elect not to make a follow-on investment either because it does not want to increase its concentration of risk, because it prefers other opportunities, or because it is inhibited by compliance with BDC or RIC requirements, even though the follow-on investment opportunity appears attractive.

The following table is a summary of the cash investments made by the Company in its private placement portfolio during the six months ended June 30, 2001:

	Amount
New Investments:	
Schwoo, Inc..	$ 750,000
Additional Investments:	
Experion Systems, Inc..	80,000
Exercise of Warrants Held:	
Schwoo, Inc..	138,577
Loans:	
Schwoo, Inc..	210,250
Total	$1,178,827

Results of Operations

Investment Income and Expenses:

The Company realized a net operating (loss) income of ($560,690) and $3,047,705 for the six months ended June 30, 2001 and June 30, 2000, respectively. The Company's net operating income in the six months ended June 30, 2001 and June 30, 2000 reflected decreases in the employee profit-sharing accrual that resulted in credits to expenses of $133,308 and $4,116,427, respectively. When unrealized appreciation as of a certain date subsequently decreases the profit-sharing accrual will be decreased accordingly, resulting in a credit to expenses.

The Company's principal objective is to achieve capital appreciation. Therefore, a significant portion of the investment portfolio is structured to maximize the potential for capital appreciation and provides little or no current yield in the form of dividends or interest. The Company does earn interest income from fixed-income securities, including U.S. Government and Agency Obligations. The amount of interest income earned varies with the average balance of the Company's fixed-income portfolio and the average yield on this portfolio.

The Company had interest income from fixed-income securities of $270,376 and $144,815 for the six months ended June 30, 2001 and June 30, 2000, respectively. The increase of

$125,561 or 86.7 percent reflects an increase in the balance of the Company's fixed income portfolio during the six months ended June 30, 2001 versus the six months ended June 30, 2000.

The Company had interest income from affiliated companies of $11,382 and $34,058 for the six months ended June 30, 2001 and June 30, 2000, respectively. The decrease of $22,676 or 66.6 percent is owing to a decrease in the outstanding loans to investee companies. Therefore, the amount of outstanding loans to investee companies varies on a quarterly basis.

The Company had other income of $47,162 and $35,064 for the six months ended June 30, 2001 and June 30, 2000, respectively. Other income represents rental income from subletting office space to an unaffiliated party and, in 2001, a gain on the sale of Company property.

Operating expenses were $889,610 and ($2,833,768) for the six months ended June 30, 2001 and June 30, 2000, respectively. The operating expenses of the six months ended June 30, 2001 and 2000 reflect decreases in the employee profit-sharing accrual of $133,308 and $4,116,427, respectively, owing to decreases in unrealized appreciation of investments for the respective six month periods. Salaries and benefits increased $33,630 or 6.4 percent. Administration and operations decreased $28,162 or 11.49 percent and professional fees decreased $114,195 or 55.4 percent. The remaining expenses are related to office and rent expenses and director compensation.

The Company had interest income from fixed-income securities of $117,846 and $60,861 for the three months ended June 30, 2001 and June 30, 2000, respectively, reflecting net changes in the Company's investments in short-term fixed income securities and prevailing interest rate levels.

The Company had interest income from affiliated companies of $1,765 and $12,376 for the three months ended June 30, 2001 and June 30, 2000, respectively. The amount of outstanding loans to investee companies varies; typically, loans made to investee companies are bridge loans and are converted into equity at the next round of equity financing.

The Company had other income of $17,350 and $19,252 for the three months ended June 30, 2001 and June 30, 2000, respectively. This other income represents rental income; in December of 1999, the Company started subleasing office space to an unaffiliated party.

Operating expenses were $1,207,528 and ($1,860,143) for the three months ended June 30, 2001 and June 30, 2000, respectively. The operating expenses of the second quarter of 2000 reflect a decrease in the employee profit-sharing accrual, owing to a decrease in unrealized appreciation of investments for the three months ended June 30, 2000, resulting in a credit to expenses of $2,465,091. The operating expenses of the second quarter of 2001 reflect an increase in the employee profit-sharing accrual, of $712,982 owing to an increase in unrealized appreciation of investments for the three months ended June 30, 2001. Salaries and benefits increased $11,472 or 4.7 percent. Administration and operation decreased $28,845 or 18.91 percent and professional fees decreased $88,091 or 73 percent. The remaining expenses are related to rent expenses and director compensation.

The Company has in the past relied, and continues to rely to a large extent, upon proceeds from sales of investments, rather than investment income, to defray a significant portion of its operating expenses. Because such sales cannot be predicted, the Company attempts to maintain adequate working capital to provide for fiscal periods when there are no such sales.

Realized Gains and Losses on Sales of Portfolio Securities:

During the six months ended June 30, 2001 and 2000, the Company realized (losses) gains of ($1,032,743) and $8,095,682, respectively. The 2001 losses of $1,032,743 consist primarily of a loss on the sale of 350,000 shares of SciQuest.com common stock offset by a gain of $277,177 from the Company's partnership interest in PHZ Capital Partners L.P.

During the six months ended June 30, 2000, the Company realized a total gain of $8,095,682 consisting primarily of a gain of $7,407,377 on the sale of its position in SciQuest.com; $241,025 on the sale of Nanophase Technologies shares and $147,528 on the realization of a reserve for an escrow for part of the Company's share of the proceeds of the NBX/3Com transaction (the Company received in full the escrowed funds on March 31, 2000).

During the three months ended June 30, 2001 and June 30, 2000, the Company realized gains of $161,909 and $4,332,410, respectively. During the three months ended June 30, 2001, the Company realized a net gain of $161,909 consisting primarily of a gain of $204,744 from its partnership interest in PHZ Capital Partners L.P. and a loss of $38,890 on the sale of its position in Kana Communications. During the three months ended June 30, 2000, the Company realized a total gain of $4,332,410, consisting primarily of a net gain of $4,142,388 on the sale of 417,639 shares of SciQuest.com.

Unrealized Appreciation and Depreciation of Portfolio Securities:

The Board of Directors values the portfolio securities on a quarterly basis pursuant to the Company's Asset Valuation guidelines in accordance with the 1940 Act. (See "Footnote to Consolidated Schedule of Investments" contained in "Item 1. Consolidated Financial Statements.")

Net unrealized appreciation on investments decreased by $326,973 or 3.6 percent during the six months ended June 30, 2001, from $8,947,928 to $8,620,955, primarily as a result of the decline in the value of the Company's holdings of Essential.com and Experion Systems, Inc. of $2,204,000 and $480,000, respectively. This decrease was offset by an increase in the value of Nanophase Technologies Corporation of $800,290 and an increase in unrealized appreciation of $1,528,082 as a result of the realization of the loss on the sale of the Company's position in SciQuest.com.

Net unrealized appreciation on investments decreased by $26,536,339 or 56.6 percent during the six months ended June 30, 2000, from $46,882,521 to $20,346,182, primarily as a result of declines in the value of SciQuest.com, Kana Communications and Questech of $31,981,750, $1,622,027 and $1,165,879, respectively, offset by increases in the value of Nanophase Technologies, Alliance Pharmaceutical, Genomica and Essential.com of $3,368,786, $3,019,000, $1,330,520 and $854,467, respectively.

Net unrealized appreciation increased by $2,755,958 or 47.0 percent during the three months ended June 30, 2001, from $5,864,997 to $8,620,955, owing primarily to the increase in the value of the Company's position in Nanophase Technologies Corporation of $3,088,204, offset by a decline in the value of the Company's investment in Experion Systems, Inc. of $480,000.

Net unrealized appreciation on investments decreased by $15,936,083 or 43.9 percent during the three months ended June 30, 2000, from $36,282,265 to $20,346,182, owing primarily to declines in the value of SciQuest.com, Nanophase Technologies, Alliance Pharmaceutical and Questech of $9,247,287, $3,823,004, $2,794,900 and $1,165,879, respectively, offset by an increase in Essential.com and Kana Communications of $854,467 and $239,472, respectively.

The changes in the values of SciQuest.com, Silknet Software, Nanophase Technologies, Essential.com and Alliance Pharmaceutical reflected the extreme volatility of private and publicly traded, small capitalization, high technology stocks in the past 18 month period.

Liquidity and Capital Resources

The Company's primary sources of liquidity are cash, receivables and freely tradable marketable securities. The Company's secondary sources of liquidity are restricted securities of companies that are publicly traded. At June 30, 2001 and December 31, 2000, respectively, the Company's total primary liquidity was $19,441,306 and $23,039,736. On the corresponding dates, the Company's total secondary liquidity was $0 and $3,040,679, respectively. The Company's tertiary source of liquidity is its holding of PHZ Capital Partners, L.P., from which the Company received net after-tax distributions in the six months ended June 30, 2001 of $62,500.

The decrease in the Company's primary source of liquidity from December 31, 2000 to June 30, 2001 is primarily owing to the (1) payment of income taxes, primarily federal, of $5,787,174; (2) payment of the 2000 employee profit sharing of approximately $2,092,565; (3) investment of $1,098,827 in Schwoo, Inc. and $80,000 in Experion Systems, Inc.; and (4) the use of funds for operating expenses. These decreases were offset by (1) the receipt of approximately $2,000,000 of the funds from the liquidation of Harris Newco, Inc. and (2) an increase in value in the Company's investment in Nanophase Technologies Corporation of $800,290.

The decrease in the Company's secondary source of liquidity from December 31, 2000 to June 30, 2001 is owing to the expiration of the lock-up period on Genomica Corporation, which increased the Company's primary liquidity corresponding.

From December 31, 2000 to June 30, 2001, the Company's liabilities for accrued employee profit sharing and deferred income tax liability decreased significantly. Accrued profit sharing decreased by $2,225,872 or 63.9 percent to $1,257,369 as a result of payment of $2,092,565 of the 2000 profit sharing. The remaining 2000 profit sharing accrual, approximately $228,374, was paid in July 2001 upon the completion and filing of the Company's 2000 federal tax return.

The Company's total income tax liability decreased by $5,734,899 or 80.6 percent to $1,381,137 primarily as a result of the payment of taxes in connection with the deemed dividend distribution.

Sub-Chapter M Status -- Recent Developments

On March 8, 2001, the Company received SEC certification and qualified for RIC treatment for 2000 (as it had for 1999). Although the SEC certification for 2000 was issued, there can be no assurance that the Company will receive such certification for subsequent years (to the extent it needs additional certification as a result of changes in its portfolio) or that it will actually qualify as a RIC for subsequent years. In addition, under certain circumstances, even if the Company qualified for Sub-Chapter M treatment in a given year, the Company might take action in a subsequent year to ensure that it would be taxed in that subsequent year as a C Corporation, rather than as a RIC.

On December 14, 2000, the Company announced that its Board of Directors, in accordance with rules governing a RIC under Sub-Chapter M of the Code, declared a designated undistributed capital gain dividend (also known as a deemed dividend) of $1.78 per share, for a total of $16,253,987 and paid corporate taxes on behalf of shareholders of $0.62 per share, for a total of $5,688,896.

Risk Factors

Investing in the Company's Stock is Highly Speculative and the Investor Could Lose Some or All of the Amount Invested

The value of the Company's 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 the Company's shares. 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 the Company's focus on the technology and very small capitalization sectors, its stock price is likely to be impacted by these market conditions. General economic conditions, and general conditions in the Internet and information technology, life sciences, material sciences and other high technology industries, will also affect the Company's stock price. The recent decimalization of the stock exchanges, particularly Nasdaq, is a new risk factor that may decrease liquidity of smaller capitalization issues such as the Company's own common stock and that of its publicly traded holdings.

Investing in the Company's Shares May be Inappropriate for the Investor's Risk Tolerance

The Company's investments, in accordance with its investment objective and principal strategies, result in a far above average amount of risk and volatility and may well result in loss of principal. The Company's investments in portfolio companies are highly speculative and aggressive and, therefore, an investment in its shares may not be suitable for investors for whom such risk is inappropriate.

The Market for Venture Capital Investments is Highly Competitive. In Some Cases, the Company's Status as a Regulated Business Development Company May Hinder its Ability to Participate in Investment Opportunities.

The Company faces substantial competition in its investing activities from private venture capital funds, investment affiliates of large industrial, technology, service and financial companies, small business investment companies, wealthy individuals and foreign investors. As a regulated business development company, the Company is required to disclose quarterly the name and business description of portfolio companies and value of any portfolio securities. Most of the Company's competitors are not subject to this disclosure requirement. The Company's obligation to disclose this information could hinder its ability to invest in certain portfolio companies. Additionally, other regulations, current and future, may make the Company less attractive as a potential investor to a given portfolio company than a private venture capital fund not subject to the same regulations.

The Company Operates in a Regulated Environment

The Company is subject to substantive SEC regulations as a BDC. Securities and tax laws and regulations governing the Company's activities may change in ways adverse to the Company's and its shareholders' interests and interpretations of such laws and regulations may change with unpredictable consequences. Any change in the laws or regulations that govern the Company's business could have an adverse impact on the Company or its operations.

The Company is Dependent Upon Key Management Personnel for

Future Success

The Company is dependent for the selection, structuring, closing and monitoring of its investments on the diligence and skill of its senior management and other management members. The future success of the Company depends to a significant extent on the continued service and coordination of its senior management team, and particularly on the Chairman and Chief Executive Officer. The departure of any of the executive officers or key employees could materially adversely affect the Company's ability to implement its business strategy. The Company does not maintain key man life insurance on any of its officers or employees.

Investment in Small, Private Companies

There are significant risks inherent in the Company's venture capital business. The Company has invested a substantial portion of its assets in private development stage or start-up companies. These private businesses tend to be thinly capitalized, unproven, small companies with risky technologies that lack management depth and have not attained profitability or have no history of operations. Because of the speculative nature and the lack of a public market for these investments, there is significantly greater risk of loss than is the case with traditional investment securities. The Company expects that some of its venture capital investments will be a complete loss or will be unprofitable and that some will appear to be likely to become successful but never realize their potential. The Company has been risk seeking rather than risk averse in its approach to venture capital and other investments. Neither the Company's investments nor an investment in the Company is intended to constitute a balanced investment program. The Company has in the past relied, and continues to rely to a large extent, upon proceeds from sales of investments rather than investment income to defray a significant portion of its operating expenses. Such sales are unpredictable and may not occur.

Illiquidity of Portfolio Investments

Most of the investments of the Company are or will be equity securities acquired directly from small companies. The Company's portfolio of equity securities are and will usually be subject to restrictions on resale or otherwise have no established trading market. The illiquidity of most of the Company's portfolio of equity securities may adversely affect the ability of the Company to dispose of such securities at times when it may be advantageous for the Company to liquidate such investments. In addition, the imposition of decimalization on the stock exchanges, particularly Nasdaq, may reduce liquidity and increase volatility and riskiness of small, thinly traded public companies because it may create a disincentive for dealers to market smaller issues.

Volatility and Illiquidity of Publicly Traded Holdings

When companies in which the Company has invested as private entities complete initial public offerings, they are by definition unseasoned issues. Typically, they have relatively small capitalizations. Thus, they can be expected to be highly volatile and of uncertain liquidity. If they are perceived as suffering from adverse news or developments and/or the capital markets are in a negative phase, not only their market prices, but also their liquidity can be expected to be impacted negatively. Historically, the Company has also invested in unseasoned publicly traded companies with similar characteristics and thus with similar exposure to potential negative volatility and illiquidity. The decimalization of the stock markets, particularly Nasdaq, may decrease liquidity of stocks in general and smaller capitalization issues in particular.

The Inability of the Company's Portfolio Companies to Successfully Market Their Products Would Have a Negative Impact on its Investment Returns

Even if the Company's portfolio companies are able to develop commercially viable products, the market for new products and services is highly competitive and rapidly changing. Commercial success is difficult to predict and the marketing efforts of the Company's portfolio companies may not be successful.

Valuation of Portfolio Investments

There is typically no public market of equity securities of the small privately held companies in which the Company invests. As a result, the valuation of the equity securities in the Company's portfolio is subject to the good faith estimate of the Company's Board of Directors. (See "Asset Valuation Policy Guidelines" in "Footnote to Consolidated Schedule of Investments.") In the absence of a readily ascertainable market value, the estimated value of the Company's portfolio of equity securities may differ significantly from the values that would be placed on the portfolio if a ready market for the equity securities existed. Any changes in estimated net asset value are recorded in the Company's statement of operations as "Change in unrealized appreciation on investments." (See "Management's Discussion and Analysis of Financial Condition and Results of Operations.")

Fluctuations of Quarterly Results

The Company's quarterly operating results could 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 the Company encounters competition in its markets and general economic 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. (See "Management's Discussion and Analysis of Financial Condition and Results of Operations.")

Risk of Loss of Pass Through Tax Treatment

If the Company meets certain diversification and distribution requirements under the Code, it may qualify as a RIC under the Code for pass-through tax treatment. The Company would cease to qualify for pass-through tax treatment if it were unable to comply with these requirements, or if it ceased to qualify as a BDC under the 1940 Act. The Company also could be subject to a four percent excise tax (and, in certain cases, corporate level income tax) if it failed to make certain gain on income distributions. The lack of Sub-Chapter M tax treatment could have a material adverse effect on the total return, if any, obtainable from an investment in the Company. If the Company fails to qualify as a RIC, the Company would become subject to federal income tax as if it were an ordinary C Corporation, which tax would result in a corresponding reduction in the Company's net assets and the amount of income available for distribution to the Company's stockholders.

Because the Company Must Distribute Income, the Company Will Continue to Need Additional Capital

The Company will continue to need capital to fund investments and to pay for operating expenses. The Company must distribute at least 90 percent of its net operating income other than net realized long-term capital gains to its stockholders to maintain its RIC status. As a result, such earnings will not be available to fund investments. If the Company fails to generate net realized long-term capital gains or to obtain funds from outside sources, it could have a material adverse effect on the Company's financial condition and results. The Company does not normally establish reserves for taxes on unrealized capital gains. To the extent that the Company retains capital gains,

either as a C corporation or as a Sub-Chapter M corporation, it will have to make provisions for federal taxes and possibly state and local taxes. In addition, as a BDC, the Company is generally required to maintain a ratio of at least 200 percent of total assets to total borrowings, which may restrict its ability to borrow in certain circumstances.

Reserves for Taxes

As a Sub-Chapter M corporation, the Company does not have to pay federal income taxes on realized capital gains to the extent that such gains are distributed to shareholders. Accordingly, it does not establish reserves for taxes on its unrealized capital gains. If the Company were not to qualify for Sub- Chapter M tax status, it would have to establish such reserves for taxes, which would reduce its net asset value, net of a reduction in the reserve for employee profit sharing, accordingly. To the extent that the Company as a Sub-Chapter M corporation were to decide to make a deemed distribution of net realized capital gains and were to retain such net realized capital gains, it would have to establish appropriate reserves for taxes upon making such a decision.

Forward-Looking Statements

The information contained herein contains certain forward-looking statements. These statements include the plans and objectives of management for future operations and financial objectives, portfolio growth and availability of funds. These forward-looking statements are subject to the inherent uncertainties in predicting future results and conditions. Certain factors that could cause actual results and conditions to differ materially from those projected in these forward-looking statements are set forth herein. Other factors that could cause actual results to differ materially include the uncertainties of economic, competitive and market conditions, and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Company. Although the Company believes that the assumptions underlying the forward-looking statements included herein are reasonable, any of the assumptions could be inaccurate and therefore there can be no assurance that the forward-looking statements included or incorporated by reference herein will prove to be accurate. Therefore, the inclusion of such information should not be regarded as a representation by the Company or any other person that the objectives and plans of the Company will be achieved.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Neither the Company's investments nor an investment in the Company is intended to constitute a balanced investment program. The Company has exposure to public-market price fluctuations to the extent of its publicly traded portfolio, which portfolio may be composed primarily or entirely of highly risky, volatile securities.

The Company has invested a substantial portion of its assets in private development stage or start-up companies. These private businesses tend to be thinly capitalized, unproven, small companies that lack management depth and have not attained profitability or have no history of operations. Because of the speculative nature and the lack of a public market for these

investments, there is significantly greater risk of loss than is the case with traditional investment securities. The Company expects that some of its venture capital investments will be a complete loss or will be unprofitable and that some will appear to be likely to become successful but never realize their potential.

Because there is typically no public market for the equity interests of the small privately held companies in which the Company invests, the valuation of the equity interests in the Company's portfolio is subject to the estimate of the Company's Board of Directors in accordance with the Company's Asset Valuation Policy Guidelines. In the absence of a readily ascertainable market value, the estimated value of the Company's portfolio of equity interests may differ significantly from the values that would be placed on the portfolio if a ready market for the equity interests existed. Any changes in valuation are recorded in the Company's consolidated statements of operations as "Net increase (decrease) in unrealized appreciation on investments."

PART II. OTHER INFORMATION

Item 1. Legal Proceedings
Not Applicable

Item 2. Changes in Securities and Use of Proceeds
Not Applicable

Item 3. Defaults Upon Senior Securities
Not Applicable

Item 4. Submission of Matters to a Vote of Security Holders
None.

Item 5. Other Information
Recent Sales of Unregistered Securities
None

Item 6. Exhibits and Reports on Form 8-K

3.1(a) Restated Certificate of Incorporation of the Company, as amended, incorporated by reference to Exhibit 3.1(a) to the Company's Form 10-K for the year ended December 31, 1995.

3.1(b) Restated By-laws of the Company, incorporated by reference to Exhibit 3.1(b) to the Company's Form 10K for the year ended December 31, 1995.

4.1 Specimen Certificate of Common Stock, incorporated by reference to Exhibit 4 to Company's Registration Statement on Form N-2 filed October 29, 1992.

10.22 Harris & Harris Group, Inc. Employee Profit-Sharing Plan, incorporated by reference as Exhibit 10.22 to the Company's Form 10K for the year ended December 31, 1999.

11.0* Computation of per share earnings. See Consolidated Statements of Operations.

(b) The Company did not file any reports on Form 8-K during the six months ended June 30, 2001.

EXHIBIT INDEX

Item Number (of Item 601 of Regulation S-K)

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Harris & Harris Group, Inc.

/s/ Mel P. Melsheimer

By: Mel P. Melsheimer, President,
Chief Operating Officer, Chief
Financial Officer and Chief
Compliance Officer

Date: August 9, 2001